February 26, 2007

**Attorney General's Office Averts Closing of Paradise Valley Hospital and Gives Conditional Approval to Hospital Sale**

(SACRAMENTO): Facing imminent closure of Paradise Valley Hospital ("PVH"), owned by Adventist Health ("Adventist"), the Attorney General's Office today approved the sale of PVH to Prime Healthcare ("Prime"), with 15 conditions.

Among the key conditions are the following:

- Prime must operate the hospital until at least 2012;
- Prime must continue all essential services, including:
  - behavioral health services and clinics;
  - full participation in Medi-Cal and Medicare programs;
  - provision of services under the San Diego County contracts;
  - provision of charity care and community benefit services at historical levels;
- Prime commits to $5 million in capital expenditures.
- Adventist must deposit $3 million into a restricted fund administered by the San Diego Foundation for the purpose of supporting healthcare services to patients in PVH's service area.

The decision to approve the sale follows an in-depth review, including an independent Health Impact Report, a lengthy community meeting, extensive consultations with an independent expert and all concerned parties. Finally, detailed examination of the proposed transaction and the alternative offer was undertaken by multiple levels of the Attorney General's office.

In the face of mounting losses, estimated by Adventist at almost $8 million for the last 3 months, the PVH Hospital Board of Directors passed a binding resolution to close the hospital if the sale is not completed by March 1, 2007.

(More)
Given this deadline and the hospital's financial hemorrhaging, the only viable alternative is the sale to Prime. If this sale falls through, Adventist has vowed to follow through on the board resolution, resulting in the elimination of critical medical services and the loss of hundreds of jobs.

The one competing offer, by a group called Paradise Preservation Group (PPG), cannot be executed by March 1. Indeed, it is uncertain when or if this proposal can be consummated at all. In addition, like the Prime deal, this proposed transaction would not preserve the hospital's land as a charitable asset.
Exhibit A
Timeline of the proposed sale of PVH

- **2000-mid 2006:** In 2000, Adventist determines that the cost of seismic renovations for Paradise Valley hospital, which are required to be completed by 2013, is estimated at $61 million. For the years 2001-2005, PVH reported annual losses ranging from $2 to $7 million per year. In mid-2006, Adventist decides to sell or close the hospital within 5 years.

- **September 19, 2006:** the Boards of Directors of PVH and Adventist vote in favor of a transaction to sell the hospital to Prime for $30 million. Prime also will provide $5 million in capital expenditures for equipment and facility upgrades. The deal is scheduled to close on March 1, 2007.

- **November 7, 2006:** PVH submits written notice of the sale to the Attorney General. California law requires the Attorney General to conclude his review of the transaction within 60 days, unless special circumstances exist. The first deadline is January 6, 2007.

- Near the conclusion of this 60-day review period, the Attorney General extends the deadline an additional 45 days until February 19, 2007.

- During the review process, the Attorney General hires an independent healthcare evaluator to study the deal and prepare a Report on whether the sale meets statutory requirements. The report, issued on January 12, 2007, determines that the sale meets the requirements if certain conditions are imposed.

- **January 12, 2007:** a group called PPG (composed of a former PVH CEO, Fred Harder, and a group of PVH physicians) makes a competing offer to purchase PVH's assets.

- **January 25, 2007:** the Attorney General's Office holds a 9-hour public meeting to receive oral and written comments concerning the proposed sale.

- **February 6, 2007:** The PVH board of directors meets and passes a unanimous and binding resolution that directs management to close the hospital if it is not transferred on or before March 1, 2007. The Board notes that the hospital is now losing millions of dollars and the shortfall is being made up by other nonprofit hospitals in the Adventist system.

- **February 7, 2007:** PPG submits a second offer. The Attorney General's Office grants a special 7-day emergency extension and requires Adventist to meet with PPG. The due date for the Attorney General's decision is extended to February 26.
February 20, 2007: The Attorney General's office facilitates a meeting between PPG and Adventist to review in detail the PPG offer. This offer proposes the sale of PVH to a yet to be formed nonprofit, which will sell the real property (the primary asset of PVH) to a for-profit (and yet-to be-formed) LLC, which will in turn lease the hospital back to the nonprofit. No date certain is given for the close of the transaction.
February 26, 2007

Sent by Facsimile and U.S. Mail
Jerry Peters, Esq.
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505 Montgomery Street, Suite 2000
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RE: Proposed Sale of Paradise Valley Hospital

Dear Mr. Peters:

The Attorney General hereby conditionally consents, pursuant to Corporations Code section 5914, to the sale of Paradise Valley Hospital to Prime Healthcare Services Inc., a Delaware for-profit corporation, and Prime A Investments, Inc., a Delaware for-profit limited liability company, as set forth in the Notice filed on November 7, 2006. Corporations Code section 5914 and section 999.5, subdivision (f), of title 11 of the California Code of Regulations set forth factors that the Attorney General must consider in determining whether to consent to a proposed transaction between a nonprofit corporation and a for-profit corporation or entity. The Attorney General has considered such factors and consents to the proposed transaction subject to the attached conditions, which are incorporated by reference herein.

Thank you for your cooperation and that of your client and the purchaser throughout the review process.

Sincerely,

WENDI A. HORWITZ
Deputy Attorney General

For EDMUND G. BROWN JR.
Attorney General

attachment
Conditions for Approval of Sale of Paradise Valley Hospital

I.

For the purposes of these conditions, and unless the context indicates otherwise, the term “Buyer” shall mean Prime Healthcare Services, Inc., a Delaware for-profit corporation, Prime A Investments, L.L.C., a Delaware for-profit limited liability company, and Prime Healthcare Paradise Valley, L.L.C., a Delaware for-profit limited liability company, Medical Properties Trust, Inc., a Delaware for-profit corporation, MPT Operating Partnership, L.P., a Delaware limited partnership, the proposed acquirers of Paradise Valley Hospital,1, any other subsidiary, parent, or affiliate of Prime Healthcare Services, Inc., Prime Healthcare Paradise Valley, L.L.C., Prime A Investments, L.L.C., Medical Properties Trust, Inc., MPT Operating Partnership, L.P., any entity owned by the Buyer that subsequently becomes the owner or licensed operator of Paradise Valley Hospital, any entity that owns the Buyer that subsequently becomes the owner or licensed operator of Paradise Valley Hospital, any future entity that purchases Paradise Valley Hospital from the Buyer, and any entity owned by a future purchaser that subsequently becomes the owner or licensed operator of Paradise Valley Hospital. These conditions shall be legally binding on any and all future owners or operators of Paradise Valley Hospital.

II.

The transaction approved by the Attorney General, between Buyer and Paradise Valley Hospital, a California nonprofit religious corporation, consists of the Acquisition Agreement, dated on or about October 27, 2006, IT Transition Services Agreement, dated November 1, 2006, as filed with the Attorney General on November 7, 2006, First Amendment to the Acquisition Agreement, dated on or about February 6, 2007, as filed with the Attorney General on February 7, 2007, and Management Agreement, dated on or about February 21, 2007, as filed with the Attorney General on February 21, 2007. Buyer and Paradise Valley Hospital shall fulfill the terms and conditions of the transaction. Buyer and Paradise Valley Hospital shall notify the Attorney General in writing of any proposed modification of the transaction, including a proposed modification or rescission of any of the agreements. Such notification shall be provided at least 30 days prior to such modification taking effect to allow the Attorney General to consider whether the proposed modification affects the factors set forth in Corporations Code section 5917.

1. Throughout this document, the term Paradise Valley Hospital shall mean the general acute care hospital currently called Paradise Valley Hospital, Paradise Valley Hospital D/P APH Bayview Behavioral Health (Bayview Behavioral Health), Paradise Family Health Center Outpatient Primary Care Clinic, Outpatient Senior Health Center, Outpatient Hyperbaric Wound Treatment, and any other clinics, laboratories, units, services, or beds on its license with the Department of Health Services as of July 1, 2006, unless otherwise indicated.
III.

The Buyer and all future owners or operators of Paradise Valley Hospital shall be required to provide written notice to the Attorney General sixty days prior to entering into any agreement or transaction to do either of the following:

(A) Sell, transfer, lease, exchange, option, convey, or otherwise dispose of Paradise Valley Hospital.

(B) Transfer control, responsibility, or governance of Paradise Valley Hospital. The substitution of a new corporate member of the Buyer or members that transfers the control of, responsibility for, or governance of the Buyer shall be deemed a transfer for purposes of this condition. The substitution of one or more members of the governing body of the Buyer, or any arrangement, written or oral, that would transfer voting control of the members of the governing body of the Buyer, shall also be deemed a transfer for purposes of this condition.

IV.

Until March 1, 2012, the Buyer shall operate and maintain Paradise Valley Hospital as a licensed general acute care hospital (as defined in California Health and Safety Code Section 1250) and shall maintain the following services: 1) Obstetrics as currently licensed (23 beds) and at current types and levels of service; 2) Adult intensive care as currently licensed (10 beds) and at current types and levels of service; 3) Coronary care units as currently licensed (5 beds) and at current types and levels of service; 4) Rehabilitation as currently licensed (22 beds) and at current types and levels of service; 5) Center for Wound Care and Hyperbaric Chamber at current levels of service; 6) Twenty-four hour emergency medical services as currently licensed (20 emergency stations/beds) and at current types and levels of service; 7) Behavioral health services as currently licensed at Paradise Valley Hospital (39 Acute Psychiatric beds) and Bayview Behavioral Health (46 Acute Psychiatric beds and 18 Chemical Dependency Recovery) and at current types and levels of service; and 8) Partial-Hospitalization Program at current types and levels of service. Buyer shall not place all or any portion of its above-listed licensed bed capacity in voluntary suspension or surrender its license for any of these beds.

V.

Until March 1, 2012, the Buyer shall continue to operate the Outpatient Senior Health Center (Senior Center) and the Paradise Family Health Center Outpatient Primary Care Clinic (Family Center) (collectively, “the Centers”) as currently licensed and at current types and levels of services unless: 1) ownership of the Senior Center and/or Family Center is transferred to the physicians who practice in the Center(s) either before or after March 1, 2007; and 2) if transferred to the physicians, the physicians operate the transferred Center(s) until March 1, 2012. If the physicians do not operate the transferred Center(s) until March 1, 2012, the Buyer will operate the Center(s) until March 1, 2012. If the Buyer operates the Senior Center and/or the

2. Throughout this document, the term “current” or “currently” means as of July 1, 2006.
Family Center for any amount of time until March 1, 2012, there will be no closure, voluntary suspension, or change in the current license or types or levels of services.

VI.

For as long as the Buyer operates Paradise Valley Hospital, the Buyer shall participate in the Medicare and Medi-Cal programs and provide the same types and levels of services as required in these Conditions to Medicare and Medi-Cal patients at Paradise Valley Hospital.

VII.

The Buyer shall continue to provide services under the following contracts with the County of San Diego Health and Human Services Agency, without interruption of service or quality, through the expiration period of each contract: 44813- Early and Periodic Screening Diagnosis and Treatment for Children’s Mental Health; 45955- Acute Inpatient Back Up Mental Health Beds for Children and Adolescent for as long as an adolescent program is maintained at Bayview Behavioral Health; 502572-Mental Health Inpatient Services for Adults and Children, with the Children portion only being required for as long as an adolescent program is maintained at Bayview Behavioral Health; 507930- Hospital Bioterrorism Preparedness Activities; 514826-Mental Health Services Act Clubhouse Employment Services; and Contract Agreement - County Medical Services Hospital Agreement.

VIII.

The Buyer shall comply with the five-year lease extension renewal of Paradise Valley Health Center that allows for its current operation of the skilled nursing and assisted living facility on the campus of Paradise Valley Hospital. The Buyer shall comply with the Bayview Behavioral Health “Assignment and Assumption Agreement (Lease)” and the “Third Amendment to the Lease” at Bayview Behavioral Health that extends the lease term to November 30, 2012.

IX.

Until March 1, 2012, the Buyer shall provide community benefit services at Paradise Valley Hospital at an annual cost of $1.2 million. These community benefits shall include, but are not limited to, continued support for patient transportation, operation of the Center for Health Promotion, and provision of free health education classes in English and Spanish. Community benefit commitments shall be decided upon in conjunction with input from the Local Governing Board as described in Section 5.19 in the Acquisition Agreement.

X.

With respect to each of Buyer's five fiscal years after March 1, 2007, Buyer shall provide an annual amount of Charity Care (as defined below) at Paradise Valley Hospital equal to or greater than $2,532,839 (the “Minimum Charity Care Amount”). For purposes hereof, the term “Charity Care” shall mean the amount of charity care costs (not charges) incurred by Buyer in connection
with the operations and provision of services at Paradise Valley Hospital. The definition and methodology for calculating “charity care” and the methodology for calculating “cost” shall be the same as that used by the California Office of Statewide Health Planning and Development for annual hospital reporting purposes. The Buyer shall use substantially the same charity care policies that are in effect at its other hospitals, effective January 1, 2007, which shall include procedures to advise patients of the availability of charity care services and to qualify them to receive such services. Buyer’s obligation under this condition for the period from the transaction closing date through the end of Buyer’s first fiscal year following the transaction closing date shall be prorated on a daily basis if the transaction closing date is a date other than the first day of Buyer’s fiscal year.

As of the end of Buyer’s second fiscal year following the transaction closing date and the end of each of Buyer’s fiscal years thereafter, the Minimum Charity Care Amount shall be increased (but not decreased) by an amount equal to the percentage increase, if any, from the beginning through the end of such fiscal year in the Consumer Price Index, All Items - All Urban Consumers, Los Angeles-Riverside-Orange County Consolidated Metropolitan Statistical Area (1982-84=100), as published by the U.S. Department of Labor, Bureau of Labor Statistics.

If the actual amount of Charity Care provided by Buyer at Paradise Valley Hospital for any fiscal year is less than the Minimum Charity Care Amount (as adjusted pursuant to the above-referenced Consumer Price Index) for such fiscal year, Buyer shall pay an amount equal to the deficiency to the San Diego Foundation for deposit in its “Paradise Valley Hospital Community Health Fund.” Buyer shall pay the deficiency described in the preceding sentence not more than nine (9) months following the end of such fiscal year.

XI.

Until March 1, 2017, the Buyer shall satisfy the “Capital Contribution” requirement set forth in paragraph 35 of the First Amendment to the Acquisition Agreement.

XII.

Paradise Valley Hospital shall transfer $3 million to the non-endowed fund called “The Paradise Valley Hospital Community Health Fund” held at the San Diego Foundation to support healthcare services to patients in the Paradise Valley Hospital’s service area, with 40% specifically designated for behavioral health services. The fund shall, for a period of five years, be made available to tax-exempt charitable organizations that provide health care to patients in the service area. Paradise Valley Hospital shall seek court approval for this transfer.

3 OSHPD defines charity care by contrasting charity care and bad debt. According to OSHPD, “the determination of what is classified as …charity care can be made by establishing whether or not the patient has the ability to pay. The patient’s accounts receivable must be written off as bad debt if the patient has the ability but is unwilling to pay off the account.”
XIII.

For the years 2008 through and including 2012, Buyer shall submit to the Attorney General, no later than July 1 of each year, a report describing in detail its compliance with each condition set forth herein including, but not limited to, an itemization of the costs and descriptions for the capital contributions. The chief executive officer of the Buyer shall certify that the report is true and correct.

XIV.

At the request of the Attorney General, Buyer and Paradise Valley Hospital shall provide such information as is reasonably necessary for the Attorney General to monitor compliance with the terms and conditions of the transaction as set forth herein. The Attorney General shall, at the request of a party and to the extent provided by law, keep confidential any information so produced to the extent that such information is a trade secret, or is privileged under state or federal law, or if the public interest in maintaining confidentiality clearly outweighs the public interest in disclosure.

XV.

The Attorney General reserves the right to enforce each and every condition set forth herein to the fullest extent provided by law.