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December 9, 2010

Mark Horton, MD, MSPH
Director
California Department of Public Health
1615 Capitol Avenue, MS 0512
Sacramento, California 95814

Via Federal Express

Re: Alvarado Hospital

Dear Dr. Horton:

I am in receipt of correspondence to your office from Assemblyman Block and attorneys for the Services Employees International Union, United Healthcare Workers West ("SEIU") in which they claim that Prime Healthcare Services is operating Alvarado Hospital without a license and that Prime Healthcare Services has otherwise violated or circumvented the law with respect to the licensing of acute care hospitals. These allegations have no merit and are nothing more than SEIU's ongoing campaign to extort concessions from Prime Healthcare Services in contract negotiations. First, a "change of ownership" as defined by the Department of Public Health and CMS has not occurred with respect to Alvarado Hospital. Rather, there was a "change of information" as a result of the transfer of the membership interests in Alvarado Hospital LLC from Plymouth Health LLC to Prime Healthcare Services, Inc., on November 17, 2010. *See* 22 CCR § 70127(a).¹ Indeed, Alvarado Hospital LLC, the licensee before November 17, 2010, remains the licensee today and is operating Alvarado Hospital in accordance with all applicable laws and regulations. Since the transaction resulted in a "change of information", Alvarado Hospital was required to provide notice to the Department of the change within ten (10) days of the change. *See* 22 CCR § 70127(a). Alvarado Hospital, LLC complied with these requirements by personally delivering a HS 200 (along with HS 215As), which advised the Department about the transfer of the membership interest, to the Department's San Diego District Office on November 17, 2010. Second, Prime Healthcare Services structured the transaction as a membership interest purchase rather than an asset purchase for a number of legitimate business reasons, not to circumvent the licensing process. Finally, I am pleased to report that three of Prime Healthcare's

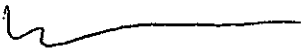
¹ The Department's Form HS 200 refers to a "stock transfer" as an "Other Change" rather than a "Change of Ownership." *See* §§ A.1 and A.4 of Form HS 200. Not surprisingly, Ms. Billingsley confirmed the same in statements to the San Diego Union Tribune. Medicare regulations also provide that a transfer of corporate stock does not constitute a change of ownership. *See* 42 CFR § 489.18(a)(2).

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hospitals have undergone independent surveys concerning the allegations raised by SEIU and each of these surveys, which included a review of randomly selected medical records, resulted in a finding that there was no evidence to support the SEIU's allegations.

Prime Healthcare Services' hospitals look forward to continuing to provide excellent care to their patients and working with the Department to address any concerns it may have. Please feel free to contact me at (909) 235-4307 should you have any questions.

Sincerely,



Michael J. Sarrao
Vice-President & General Counsel