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HEALTHCARE

Brotman Medical Center is cool to suitor Prime Healthcare

The Culver City hospital says it worries about the chain's business practices.

By Daniel Costello, Los Angeles Times Staff Writer
April 17, 2008

There is no For Sale sign on the front lawn of Brotman Medical Center in Culver City. But a behind-the-scenes drama is unfolding that could determine the financially troubled hospital's future and what kind of care may be offered to patients on the Westside.

Brotman filed for bankruptcy protection in the fall, and its financial condition continues to look bleak. It has been searching for buyers willing to help pay off its large debt and invest in its aging buildings and equipment.

Leading the list of potential suitors is a fast-growing hospital chain, Victorville, Calif.-based Prime Healthcare Services Inc. The company calls itself a rescuer of troubled hospitals and says state and federal data show that its nine medical centers provide high-quality medical care and more charity care than many of its competitors.

Nonetheless, Brotman executives say they spurned Prime's overtures because they are worried about some of its business practices, which include cutting hospital services and canceling private insurance contracts.

Because of such practices, patients at Prime hospitals seek care elsewhere at a time when more hospitals in the region are closing or cutting back services.

Stan Otake, Brotman's chief executive, said the hospital had trimmed costs and services in recent months and now makes money on daily operations. "We're starting to turn things around," he said.

It may not be soon enough. Early this month, Prime bought \$18 million of Brotman's loans from its primary lender. The hospital owes millions of dollars to creditors, medical suppliers and food service providers.

Brotman executives say another party is interested in buying the hospital and wants to keep the current management team in place. They hope the deal can close in the next few weeks.

If that doesn't occur and the hospital can't pay its debts, however, the Bankruptcy Court could decide that it should be sold through a public auction, and that could come within the next several weeks, hospital executives said.

Although anyone could bid, Prime would be in a strong position to acquire the facility because the loan the company recently purchased has most of the hospital's assets attached as collateral, according to bankruptcy attorneys.

J. Scott Bovitz, a Los Angeles bankruptcy attorney who is not involved in the deal, believes that Prime is doing "what we like to call a loan-to-own play. They have only two options: They happily make a big return or they get the assets."

Prime denies that it bought Brotman's loan to eventually acquire the hospital.

In a statement, Prime's lawyer, Michael Sarrao, said the chain bought the loan to ensure that Brotman remains in business rather than become "a real estate development opportunity as rumored."

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Brotman recently hired a broker to consider a sale of part of the campus, which sits on lucrative real estate near Sony Pictures' studios. How much of the land could be converted to another use has not been determined because Culver City officials recently passed an ordinance requiring that at least part of the land be used for emergency health services.

Brotman opened more than 80 years ago as an eight-bed clinic and has grown into one of the largest hospitals in the region, with 420 beds.

Its losses soared, however, from \$268,000 in 2001 to nearly \$12 million in fiscal 2007, state data show, as it lost business to nearby hospitals such as UCLA Medical Center and as reimbursements from private insurers continued to fall.

Should Prime acquire Brotman, it would be the company's 10th hospital in Southern California and its seventh purchase in recent years. Its other facilities include Sherman Oaks Hospital, Huntington Beach Hospital and Centinela Hospital Medical Center in Inglewood. The company said all its properties were at risk of closing when Prime acquired them.

Brotman executives say the working relationship between the hospital and Prime has become tense in recent days.

Under the lending deal established when it filed for bankruptcy protection, Brotman has submitted weekly funding requests for up to \$2 million from its credit line to pay for ongoing operations, hospital executives said.

When the funding didn't arrive days after Prime bought the loan this month, Brotman filed an emergency motion in court to compel Prime to provide financing.

In court documents, Brotman said that "without immediate access to cash [the hospital] will be required to cease operations and transfer its patients to other medical facilities . . . causing irreparable harm."

In a response filed in the motion, Prime said, "Contrary to [Brotman's] much touted but entirely baseless claim, Prime does not want to see Brotman Medical Center close its doors."

Sarrao, Prime's attorney, said the company delayed providing funds to Brotman for a few days after acquiring the loan only to verify the hospital's current budget.

He said the company had since agreed to provide the hospital with credit through April to meet payroll obligations and buy medical supplies. Prime "is committed to ensuring that quality patient care remains available at Brotman," Sarrao said.

On April 8, the judge ordered the parties to immediately address the issue. That day, the two agreed that Prime would continue funding Brotman until the next court hearing, on April 24, when the judge is expected to review Brotman's financial viability.

As Prime has grown, its chairman, Dr. Prem Reddy, and his business activities have come under increased scrutiny by state officials, healthcare advocates and patients.

Critics contend that Reddy-owned hospitals routinely turn away uninsured patients. Several former employees have sued Reddy and his companies, alleging they were fired after raising concerns about improper practices and patient safety issues.

In 2005, a jury awarded \$883,456 in compensatory damages to two nurses at Prime's Desert Valley Hospital in Victorville who claimed they were improperly fired for accusing managers of turning away uninsured patients. Reddy and Prime Healthcare denied the charges.

That verdict was set aside after a judge, citing jury misconduct, declared a mistrial. The case was later settled.

A separate lawsuit brought by a former chief financial officer against Reddy and one of his companies, Desert Valley Medical Group, was settled in 2003 for \$1.4 million. In the case, the former employee alleged he was fired after sending a memo to executives and outside auditors detailing financial misdeeds.

The employee also contended that Reddy asked him to falsify the company's financial records. Neither Reddy nor any of the companies admitted wrongdoing or liability.

In July, the state attorney general's office declined to approve a \$55-million sale of 223-bed Anaheim Memorial Medical Center to Prime, saying that it had concerns about the propriety of the sale process and that the agreement was not in the best interest of the



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city of Anaheim. The hospital was later sold to another buyer.

The attorney general must approve the sale of all nonprofit hospitals to for-profit companies. Because Brotman is a for-profit hospital, its sale would not require such approval.

Sarrao said that by acquiring and turning around troubled hospitals, Prime has "prevented communities from being deprived of valuable and necessary medical services." He added that the company invests heavily in reducing waits in its emergency rooms and that its emergency rooms remain open longer than those of competitors.

The Brotman situation is being watched carefully by patients, doctors and public officials, who emphasized Brotman's importance to the community.

Culver City Councilman Scott Malsin said he worried about the fate of the hospital. "I'm deeply concerned by the possibility of Brotman collapsing and what that means for access to healthcare throughout the region."

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