

## Shasta Regional's 2 possible suitors specialize in saving hospitals

Expert questions whether firms have enough money to avoid parent company's fate

By Ryan Sabalow

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Two firms being courted as buyers of Shasta Regional Medical Center bill themselves as hospital saviors.

"PHS purchases and salvages failing hospitals, providing critical patient care access and services to the communities these hospitals serve," according to a flier on Victorville-based Prime Healthcare System's Web site.

The same goes for Chicago-based Transition Healthcare Company:

"We are looking for hospitals that are located in or around urban areas which have been distressed financially but which continue to be needed to provide quality health care to their community," reads the company's sparse one-page Web site.

Such statements might sound familiar.

The would-be buyers bear a striking resemblance to the Redding hospital's now-defunct parent company Hospital Partners of America, which purported to rescue hospitals in financial stress when it bought Shasta Regional in 2004.

Since this summer, the Charlotte, N.C.-based company has put the Redding hospital up for sale and announced it was filing for bankruptcy. Last week, SRMC's landlord booted HPA from its management role at the downtown Redding hospital.

That led at least one expert on hospital acquisitions to question whether either of the firms now showing interest in buying the hospital has enough cash on hand to avoid ending up in the same situation as HPA.

"I think if you looked at profile of HPA before they went bankrupt and looked at Prime, you wouldn't see much difference," said Joshua Nemzoff, president of Nemzoff & Company, a Pennsylvania-based consulting firm that specializes in acute-care hospital mergers and acquisitions.

### The death of HPA

HPA bought what was then Redding Medical Center from ailing Tenet Healthcare Corp. in July 2004, paying about \$60 million for the 246-bed hospital.

At the time, the two-year-old HPA billed itself as a specialist in buying distressed hospitals at a discounted rate and making them profitable for the company and the local physician investors who owned minority shares in each hospital.

For a while, the business model seemed to work.

HPA was recognized by "Inc." magazine as the third fastest growing company in the country.

Hospital officials and company leaders touted the model's success, citing Shasta Regional and St. Joseph Medical Center in Houston as the cornerstones of the company.

But such claims proved premature.

HPA last month filed for Chapter 11 bankruptcy after defaulting on the \$60 million it owed Medical Properties Trust, which recently bought the SRMC property as well as others HPA owned.

This summer, HPA closed its River Oaks facility in Houston. Its other hospitals are in similar financial peril.

Nemzoff said that though HPA had qualified professionals running the organization, the firm didn't have enough capital to keep their investments running in the weakening economy.

"It's not like they were buying finely tuned cars you take down the highway," Nemzoff said. "They were buying cars that didn't run."

HPA spokesman Andy Brimmer declined to comment Tuesday.

### **Hoping for a savior**

But SRMC's CEO Phil Dionne said that before any firm takes over SRMC, it'll be vetted by MPT.

During the bankruptcy process, MPT granted Shasta Regional a \$3 million emergency loan so that it could continue treating patients while courting the organizations that have expressed interest in buying the Redding site.

After forcing HPA out of its management role last week, the Alabama-based real estate investment trust now is in control of the hospital's leadership.

Dionne said he believes both Prime and Transition have adequate finances for a deal, but if there's any doubt, MPT will make sure a buyer is financially solvent before proceeding with a sale.

"Because of MPT's financial commitment, they're going to make certain that they're going to make it run in the long term," Dionne said Tuesday.

Although no money has changed hands, Prime will likely be brought in at least temporarily to run the corporate side of the business, working side by side with the managers at the hospital, Dionne said.

Transition is less well known, but Dionne said the firm's senior management team is composed of respected and qualified leaders, many of whom are known in the industry for turning around distressed hospitals.

Dionne said that he's hopeful that he'll continue to have a job at SRMC, and he's adamant that the hospital isn't going to close.

Nevertheless, any firm that purchases SRMC will have to first win approval from a bankruptcy judge, who has final say over disposition of HPA's assets.

## Who are these firms?

Like HPA in 2004, both Transition and Prime are relative newcomers to the hospital field.

Nemzoff said that Prime, which owns and operates 12 hospitals in Southern California, also is heavily reliant on financing from MPT, having sold the trust three of its properties in recent months.

Nemzoff said that could be a sign that Prime is struggling to find the capital to keep running its own hospitals, not to mention what it would cost to take over SRMC.

He called turning to the trust "a lender of last resort," because real estate trusts have higher interest rates, among other disadvantages.

Officials at MPT didn't return a message left Tuesday at their Birmingham, Ala., headquarters.

Officials at Prime's corporate office in Victorville and at Transition's headquarters in Chicago didn't return messages left Tuesday.

The Chicago-based Transition is so new that Nemzoff said he had no way of knowing where it stood financially.

"Again, their problem is capital," he said. "They may not have enough capital to run one of these facilities."

Nemzoff said that if a company expects to buy a \$100 million hospital - Shasta Regional's sticker price - the firm should have at least 10 percent cash on hand to pay for initial operating costs like payroll and equipment.

Transition and Prime aren't publicly traded, so their financial balance sheets aren't available.

Both firms also are too new for any long-term examination.

Transition was founded this year by a group of investors and longtime hospital administrators, according to its Web site.

Its first and only acquisition was this summer when it purchased Francis Hospital & Health Center in Blue Island, Ill., and renamed it MetroSouth Medical Center

Prime was founded in 2001 by Dr. Prem Reddy, cardiologist turned investor who specializes in buying up dying hospitals, according to his Web site.

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