



State of Rhode Island and Providence Plantations

OFFICE OF THE ATTORNEY GENERAL

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Peter F. Neronha
Attorney General

April 8, 2020

Via Electronic Mail Only

Patricia K. Rocha, Esq.
Adler Pollock & Sheehan P.C.
One Citizens Plaza, 8th Floor
Providence, RI 02903
PRocha@apslaw.com

Re: Hospital Conversion Initial Application of Chamber Inc.; Ivy Holdings Inc.; Ivy Intermediate Holdings, Inc.; Prospect Medical Holdings, Inc.; Prospect East Holdings, Inc.; Prospect East Hospital Advisory Services, LLC; Prospect CharterCARE, LLC; Prospect CharterCARE SJHSRI, LLC; Prospect CharterCARE RWMC, LLC (the “Transacting Parties”)

Dear Attorney Rocha:

In accordance with the Hospital Conversions Act (“HCA”), R.I. Gen. Laws §23-17.14-1, *et seq.*, the Office of the Attorney General (“Attorney General”) has reviewed the Hospital Conversion Initial Application and additional information you have submitted in the above-entitled matter. We notify you in your capacity as legal counsel to the Transacting Parties that the Attorney General hereby deems the Hospital Conversion Application filed with our Office complete and accepted for review. The review period under the HCA will commence tomorrow, April 9, 2020.

We will be advising you shortly of our confidentiality determinations. Please be aware that once our confidentiality determinations have been issued, you will need to submit a final copy of your complete applications to each agency in order for the public versions to be posted for public review.

Patricia K. Rocha, Esq.
Adler Pollock & Sheehan P.C.
April 8, 2020
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Finally, attached please find the first set of supplemental questions. Please feel free to contact us with any questions regarding the foregoing.

Sincerely

Jessica Rider

Jessica Rider
Special Assistant Attorney General
Health Care Advocate
401-274-4400 Ext. 2314

JR/dm
Enclosure

cc: Leslie Parker, Esq., Adler Pollock & Sheehan, P.C.
Jacqueline Kelley, Esq., Legal Counsel, RIDOH
Michael Dexter, Chief, Center for Health Systems Policy & Regulation, RIDOH
Fernanda Lopes, Chief, Health Systems Development, RIDOH

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Exhibit A

Please provide complete and accurate answers to the First Set of Supplemental Questions below.

The following definitions have been used:

- Chamber Inc. (“Chamber”);
- Ivy Holdings, Inc. (“Ivy”);
- Ivy Intermediate Holdings, Inc. (“IIH”);
- Prospect Medical Holdings, Inc. (“PMH” or “Prospect”);
- Prospect East Holdings, Inc. (“PEH”);
- Prospect East Hospital Advisory Services, LLC (“PEHAS”);
- Prospect CharterCARE, LLC (“PCC”);
- Prospect CharterCARE SJHSRI, LLC (“OLF”);
- Prospect CharterCARE RWMC, LLC (“RWMC”);
- Chamber, Ivy, IIH, PMH, PEH, PEHAS, PCC, OLF, RWMC (collectively, the “Transacting Parties” or “Parties”);
- Ivy Board of Directors (“Ivy BOD”);
- Board of Prospect Medical Holdings (“PMH Board”); and
- Rhode Island Department of Health’s Change in Effective Control Application (“RIDOH CEC”).

S-1	Question 1	Please explain in detail the \$1 Billion in liabilities being assumed as part of the Proposed Transaction as stated in the response to this question.
S-2	Question 1	Please explain how PMH’s cash depletion to fund the purchase impacts its ability to subsidize PCC and the subsidiary hospitals for their deficits.
S-3	Exhibit 3(b)	Please provide all documents related to the four (4) directors who are resigning after the conversion from Ivy BOD and PMH Board: John Baumer, Jeereddi A. Prasad, M.D., Michael S. Solomon and Alyse Wagner. If no documents exist, please indicate. If documents evidencing resignation will exist upon completion of conversion, please indicate.

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S-4	Question 4	What notice and information has been provided to PCC, including the CharterCARE Community Board, in connection with the Proposed Transaction?
S-5	Question 4	Please provide a copy of the minutes and votes from the Board meeting and approval of payment of the 2018 dividends on February 22, 2018.
S-6	Exhibit 4	Please explain how IH will determine whether to retain the \$12 Million Dividend for ordinary business purposes and/or use it to fund the closing of the transaction (See C-CIIH4-000091). If the \$12 Million Dividend is not used to fund the Proposed Transaction, please explain in detail what the funds will be used for.
S-7	Exhibit 4	Have any of the \$12M dividends already been paid/transferred as of the date of these Questions, and if not paid, where are those dividends sitting today?
S-8	Exhibit 4	<div style="background-color: black; height: 1.2em; width: 100%;"></div> <div style="background-color: black; height: 1.2em; width: 90%;"></div> <div style="background-color: black; height: 1.2em; width: 60%;"></div>
S-9	Question 10	This response states John Baumer, Alyse Wagner, Michael Solomon, and Jeereddi A. Prasad, MD do not receive compensation for their position as current board members. However, certain other board members do receive stipends according to their respective COIS. Please explain why certain board members receive stipends but the four above-mentioned members do not, and identify all documents that set forth that difference in compensation.
S-10	Exhibit 12	The Merger Agreement indicates that the capital stock of IHI consists only of common stock. Please explain the disposition of the

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		13.5% cumulative Preferred Stock issued to Green Equity Investors, when that occurred, and what the preference was. Please also explain if the \$.5B dividend was calculated in connection with Preferred Stock.
S-11	Exhibit 12	Please confirm there are no “In the Money Options” as referenced in Section 4.03(a) of the Merger Agreement.
S-12	Exhibit 12	Do the Transacting Parties still plan to send a Drag-Along Notice under Section 6.03(b) of the Merger Agreement within the time period referenced in this section even though there has been a request for all to consent? Please explain.
S-13	Exhibit 12	Under Section 6.03(b) of the Merger Agreement, “Special Stockholder Consent” is required prior to, and as a condition of, the closing. Please explain the process for obtaining such consent and when it be obtained.
S-14	Exhibit 12	Has any Stockholder elected to exercise their appraisal rights under the Agreement? If so, please explain.
S-15	Exhibit 12	Please explain the reasoning for the restrictions on distributions in Section 6.09 of the Merger Agreement.
S-16	Question 15	Were there any redemptions of stock or other transactions since the acquisition of OLF and RWMC for which the Fair Market Value was required to be determined? Please provide a chronological chart of stock valuations and explain the circumstances for each.
S-17	Question 15	Please provide documentation of the minority stockholder consent to the Merger Agreement.

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S-18	Question 15	Please provide a list of Stockholders who objected or did not consent, identifying each and provide all associated documentation regarding any objections.
S-19	Exhibit 15	Please provide a copy of the “Written Consent” attached as Annex B to the October 15, 2019 consent of majority stockholders.
S-20	Exhibit 15	Did every subsequent stockholder (i.e. holders of stock options) of IHI become a party to the Stockholders Agreement provided in this Exhibit so that every share of stock is subject to this Agreement?
S-21	Exhibit 15	Please explain the circumstances surrounding the issuing of the “Supplemental Notice to Shareholders” dated October 29, 2019 (CIIH15-000531).
S-22	Exhibit 15	Please confirm whether or not there have been no For Value Shares (shares purchased at FMV) as referenced in the Stockholders Agreement.
S-23	Question 16	Please confirm the investments made/held by Chamber, Ivy, IIH, PEH and/ or PEHAS. Please explain where those investments are held and provide current account statement(s).
S-24	Question 16	Please explain why there has been no financial activity for Chamber, Ivy, IIH, PEH or PEHAS as stated in this response.
S-25	Question 16	Please explain the process for deciding whether PMH and/or PEHAS makes an equity contribution to PCC and the hospital subsidiaries, and if so, in what amount and for what purpose.

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S-26	Question 16	Please provide a detailed summary of the current status of material weaknesses for RWMC and OLF.
S-27	Question 16	This response states that “The Transacting Parties will not ...distribute any dividends to the acquiror as a result of this Transaction” and the Response to Question 1 states that “There were no dividends made in connection with the Transaction prior to the date of the Initial Application.(CIIH-000022).” However, a \$0.5B dividend has been paid. Please provide details concerning that dividend and a detailed explanation as to how/why the initial dividend paid to the investors relates to the calculation of the merger compensation.
S-28	Question 16	Please explain why the RWMC financial statements for year ending 9/2017 do not reference FY16 when the other entities’ financial statements do.
S-29	Exhibit 16	All Notes to Consolidated Financial Statements for PMH (CIIH16-000635; CIIH16-000796; CIIH-16-000955) indicate “significant intercompany balances and transactions have been eliminated in consolidation.” Please explain.
S-30	Exhibit 16	Please explain how the amount to subsidize liabilities referenced in FY 2019 Financials for PCC in Note 1 at CIIH16-001013 and Note 7 at CIIH16-001025, was determined.
S-31	Exhibit 16	Please describe in detail any prior instances of PMH converting related party debt of PCC or the hospital subsidiaries into equity, including an explanation of what the debt was for (e.g. forgiveness of management fees, loan forgiveness) and what portion of the particular debt was converted. Please indicate if the converted debt is considered part of the \$50M long-term capital commitment required under

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		the Prospect CharterCARE Asset Purchase Agreement dated September 24, 2014, as amended, and explain this determination. Please describe how the decision is made to convert debt into equity and how to calculate the applicable portion to be converted.
S-32	Exhibit 16	The mortgage on the Rhode Island property referenced at CIIH16-000986 matures in August 2022 or upon conversion to sale-lease back. Are there any plans for a future sale of Rhode Island hospital real estate similar to the MPT sale?
S-33	Exhibit 16	PMH's Notes to Consolidated Financial Statements refers to full impairment of Rhode Island hospitals at CIIH16-000966. Does PMH have a policy or practice once an asset's goodwill is fully impaired? If so, please explain such policy or practice.
S-34	Exhibit 16	Please explain why Prospect sold and/or closed its hospitals in TX and NJ as mentioned in Section 5 of the Notes to Consolidated Financial Statements at CIIH16-000976.
S-35	Exhibit 16	Section 11 of the Notes to Consolidated Financial Statements states that "the exercise price of an incentive stock option ("ISO") may not be less than 100% of the fair market value of the Company's common stock on the date of the grant" (CIIH16-000987). Please provide a schedule listing the exercise price at the time of each grant since the closing of the Prospect CharterCARE transaction in 2014.
S-36	Exhibit 16	The responses provided in the RIDOH CEC indicate RWMC has "sufficient revenues." Please reconcile this statement with RWMC's FY 2018 and 2019 financial statements showing losses. See CIIH16-000919 and CIIH16-001074.

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S-37	Question 20	According to the financial statements provided in response to Question 16, RWMC has optional pension match but OLF does not. Please explain the plans for the next fiscal year and how the decision for pension matching is made.
S-38	Question 20	Please describe any impact of the Proposed Transaction on PMH's pension matches at PCC, OLF, and RWMC.
S-39	Question 20	Please explain how PMH determines when a hospital subsidiary will receive a pension match.
S-40	Question 20	Please explain the current union status for RWMC and OLF, including whether the collective bargaining agreements that expired in 2018 have been renewed, and the length of each CBA.
S-41	Question 23	Please explain the calculation of the total stockholder payments of \$16,882,998 and the discrepancy with the capital costs of the transaction of approximately \$12 million. Does the \$16,882,998 include the value of the Lee and Topper stock being contributed in addition to the majority and minority stock being purchased? If so, please explain this response.
S-42	Exhibit 23	Please explain the decision to enter into the MPT transaction and if the transaction was connected to obtaining cash flow after the \$.5 billion dividend payment.
S-43	Exhibit 23	Please provide a summary of the balance on the original \$1.55B MPT financing (i.e. of all outstanding MPT transactions to date) (See also Notes to PCC FY2019 financials at CIIH16-001027).
S-44	Exhibit 23	Please explain the current MPT financing impacts on:

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		<p>a. Contingent liability of the hospital subsidiaries for all cross defaulted and cross collateralized financing arrangement at the top of the organizational chart (See Note 10 to PMH's financial statement regarding MPT at CIIH16-000985-986; and see e.g. Note 8 to the RWMC financial statements at CIIH16-000648);</p> <p>b. Ability of PMH to continue to subsidize hospital subsidiaries particularly if deficits increase; and</p> <p>c. PMH's supporting pension matches at the hospital subsidiaries.</p>
S-45	Governance	Have there been any amendments to the management agreement between PEHAS and PCC since the Prospect CharterCARE transaction closed in 2014? If yes, please provide all amendments.
S-46	Miscellaneous	Please provide a summary of the investments Green Equity Investors has made to PMH since it became a private equity investor in PMH.
S-47	Miscellaneous	Please explain Green Equity's shareholder interest post-transaction. Why, as a non-party, is Green Equity requiring that no dividends are issued and that a pension contribution be made?
S-48	Miscellaneous	What criteria does Prospect use when evaluating whether to close a hospital, and which entity(ies) make the decision?
S-49	Miscellaneous	Does Prospect have any plans to sell and/or close OLF or RWMC?
S-50	Miscellaneous	Will there continue to be equity-based compensation under new ownership structure? If yes, please provide new Stock Options plan.

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S-51	Miscellaneous	Please reconcile the payment of dividends since the Prospect/CharterCARE transaction closed in 2014 with the response in S4-22 in the Non-Confidential Responses to the Fourth Supplemental Questions to the HCA Application of Prospect CharterCARE, LLC, et al. that “Prospect does not plan to make another dividend ...” Please explain the policies and criteria for that govern Prospect’s decision to pay dividends.
S-52	Miscellaneous	Please explain Prospect’s five-year strategic plan, including but not limited to whether Prospect is considering additional acquisitions in Rhode Island.
S-53	Miscellaneous	Please explain how the Rhode Island subsidiaries are performing in comparison with the rest of PMH’s subsidiaries.
S-54	Miscellaneous	Please state whether RWMC and OLF are treated differently than other hospital subsidiaries. If so, please explain how and why.
S-55	Miscellaneous	Please explain if Chamber, IH and IHI currently have or plan to have any additional activities outside of Prospect.