STATE OF RHODE ISLAND
OFFICE OF ATTORNEY GENERAL

June 1, 2021

DECISION

Re: 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 Office of Attorney General has considered the above-referenced application pursuant to the Hospital Conversions Act, R.I. Gen. Laws Section 23-17.14-1 *et seq*. In accordance with the reasons outlined herein, the application is **APPROVED WITH CONDITIONS**.

I. INTRODUCTION

The Office of Attorney General ("Attorney General") issues this Decision pursuant to its statutory obligation to review any proposed conversion as defined by the Hospital Conversions Act ("HCA"), R.I. Gen. Laws Section 23-17.14-1, *et seq*.

This proposed conversion involves a for-profit corporation. Therefore, the Attorney General is required to review the conversion subject to the following section of the Act:

> Any approval of a conversion involving a for-profit corporation as an acquiror shall be subject to any conditions as determined by the attorney general, provided those conditions relate to the purposes of this chapter. The conditions may include, but not be limited to, the acquiror's adherence to a minimum investment to protect the assets, financial health, and well-being of the new hospital and for community benefit.

R.I. Gen. Laws § 23-17.14-28(c).

The review conducted by the Attorney General in order to arrive at this Decision required an investigation into the current owners of a national company, Prospect Medical Holdings, Inc.

(hereinafter, "Prospect" or "PMH").[1] PMH owns hospitals and physician services in five states, including two hospitals and related healthcare services here in Rhode Island. The Rhode Island hospitals owned by PMH are Roger Williams Medical Center ("RWMC") and Our Lady of Fatima ("OLF") (collectively referred to herein as the "Rhode Island Hospitals" or "Hospitals").[2]

Our investigation revealed a company whose principals and investors have issued millions of dollars in dividends from a business responsible for the safety-net hospitals and services they own, which has translated into debt held by the entire system, such that liabilities now exceed assets by over $1 billion. In an ever-changing healthcare market, this debt-to-asset ratio raises a concern for the Attorney General that the national company that owns these Rhode Island Hospitals can become unstable, disrupting and even threatening Rhode Island's third largest hospital system. In other words, PMH is a system that is at risk of developing a lack of financial ability to respond to the volatility of the healthcare market, putting every hospital in its system including our Rhode Island Hospitals at risk of reduction in services, sale, or closure.

The Attorney General must respond to this risk by protecting the Rhode Island Hospitals. With this Decision the Attorney General is requiring the current owners address the financial uncertainty facing RWMC and OLF by imposing Conditions that include the creation of three escrow accounts[3] that total $80 million, and will exist for the sole benefit of these Rhode Island Hospitals. The precise Conditions placed on these funds create a backstop, allowing the funds to

[1] The reference to Prospect and PMH throughout this decision refers to Prospect Medical Holdings, Inc., Ivy Holdings Inc. ("Ivy"), and Ivy Intermediate Holdings, Inc. ("IIH"), although almost all actions are taken by Prospect Medical Holdings, as Ivy and IIH operate only as holding companies for Prospect Medical Holdings. As such, Ivy and IIH have no operations other than taking required corporate actions, and no financial activities outside of loaning funds to Prospect Medical Holdings. *See* Response to Initial Application Question 16; Supplemental Response S-24.

[2] PMH also owns a number of non-hospital healthcare entities in Rhode Island.

[3] This financial commitment is initially in the form of escrow accounts created by Prospect and Leonard Green. Prospect's escrows will be converted to letters of credit by August 15, 2021. Leonard Green will make reasonable commercial efforts to also convert its escrows to letters of credit by that same date.

be accessed in the event PMH fails to comply with its ongoing obligation under this Decision to meet the Rhode Island Hospitals' operating expenses and capital needs, or in the event of insolvency, and then only subject to the approval of the Attorney General. In other words, these are not funds on which PMH itself can draw for the ongoing operation of these Hospitals. Instead, the funds will serve as security for the Rhode Island Hospitals—protection from the financial risk Prospect's owners have introduced into the system to which the Hospitals belong. Such funds shall be entirely out of the reach of Prospect's owners and creditors, and will be protected in the event of insolvency. The Attorney General considers this condition absolutely necessary to ensure the ongoing operation of the Hospitals and their ability to serve the health care needs of Rhode Islanders.

The fact that PMH adhered to conditions placed upon it here in Rhode Island—conditions that permitted its purchase of the Rhode Island Hospitals in 2014—does not change the fact that the decisions made by PMH and its owners at the national level now require this response. The 2014 purchase of the Rhode Island Hospitals by PMH was subject to the regulatory approval of both the Attorney General and the Rhode Island Department of Health ("DOH"), pursuant to the HCA and specifically Section 23-17.14-28. The approval of PMH's purchase was therefore subject to conditions that required PMH to make specified investments in the Rhode Island Hospitals. The Attorney General monitored PMH to assure the mandated financial conditions were satisfied. The financial conditions imposed by the regulators, compliance of which was confirmed by the Attorney General, have protected the Rhode Island Hospitals from underfunding and, specifically, the loss of assets experienced by other hospitals in the PMH system. Again, the fact that Rhode Island's regulatory oversight has succeeded in providing some degree of protection to our local Hospitals does not eliminate the need for the protective Conditions included in this Decision.

Discrete and identifiable decisions made by PMH's owners led to its current financial condition. Details of the Transacting Parties'[4] financial decisions and resulting circumstances are described in the reports prepared by financial experts on behalf of the Attorney General and DOH, the Carris and PYA Reports, respectively.[5] These are among the materials upon which this Decision relies. Specific financial details are also discussed below in the context of relevant statutory criteria. However, these comprehensive Reports and the Attorney General's consideration of criteria as well as the Conditions to which this Approval with Conditions is subject are best understood in the context of the Transacting Parties' overall financial condition and the most significant decisions that contributed to that condition.

The Transacting Parties provided the audited financial statements (sometimes referred to as "AFS") of PMH for fiscal years ending September 30, 2015, through September 30, 2020. In 2017, Prospect's assets exceeded its liabilities by approximately $67 million. PYA Report 12. As of their most recent, Fiscal Year 2020, audited financial statement, PMH had total assets of $2,042,389,000 and total liabilities of $3,102,004,000—the latter exceeding the former by over $1 billion.[6] *Id; see* Table 1, *infra*. In Fiscal Year 2018,[7] PMH borrowed money and thereby assumed

[4] "Transacting Parties" is defined in Section II below.

[5] The expert report filed by James P. Carris, CPA, ("Carris Report") is attached to this Decision as Appendix C. The expert report filed by PYA, P.C. is attached to this Decision as Appendix D.

[6] Consideration of the effects of COVID-19 on PMH's financial condition is highly relevant. As noted by the Report of Attorney General's financial expert James P. Carris:

> For the year ended 9/30/20, PMH recognized approximately $117 million in Pandemic relief grant income. While PMH reported comprehensive loss of approximately $90 million for FY 2020, the loss would have been over $200 million without this programmatic support.

Carris Report 10.

Overall, based on PMH's audited financial statements, its financial condition was improved in the short term, not worsened, by the pandemic. *See* PYA Report 19.

[7] PMH FY2018 & 2019 AFS. CIIH16-000942-001003.

$1.12 billion in debt obligations. PYA Report at 15. Also in 2018, the PMH Board of Directors authorized $457 million of these borrowed funds to be distributed as dividends ("2018 Dividend"). *Id*. This type of transaction where money is borrowed to pay shareholders is called a leveraged dividend recapitalization. The primary beneficiaries of the dividend were Leonard Green, David Topper, and Sam Lee. In the immediate term, the 2018 Dividend was equal to approximately 60 days of operating expenses, leaving PMH cash and cash equivalents equal to approximately 1 day of operating expenses. *Id*. As noted in the Carris Report, "the 2018 [leveraged dividend recapitalization] transaction substantially weakened the balance sheet of PMH, benefitting the shareholders while providing minimal or no funds to any of the local operating entities." Carris Report 2-3.

In 2019, PMH increased its liabilities by selling certain of its hospital real estate assets in California, Connecticut, and Pennsylvania, and then leasing them back.[8] *Id.* at 9. Proceeds from this "sale/lease-back" transaction were used to pay debt assumed in 2018. PYA Report 15. Also in 2019, PMH entered into a promissory note (the "TRS" note) and received approximately $113 million. *Id.* at 11. According to the terms of that note, if it matured without being paid or renegotiated, the Rhode Island Hospitals would have been subject to a sale/lease-back.[9] *Id.*

Since 2019, PMH has assumed additional debt that is significant to the review by and Decision of the Attorney General. Specifically, PMH received approximately $276 million in federal funds under the CARES Act as advances on Medicare reimbursement, which will be recouped by the federal government from Medicare reimbursements due to the hospitals under the

[8] PMH FY2018 & 2019 AFS. CIIH16-000942-001003.

[9] The Conditions place upon this Approval have eliminated sale of the Rhode Island Hospitals as a means of satisfying this Note for at least the next five (5) years. In any event, such a transaction would constitute a conversion and could not proceed unless approved by the Attorney General. *See* R.I. Gen. Laws § 23-17.14-4(6).

Centers for Medicare and Medicaid Services ("CMS"), under CMS's Accelerated and Advance Payment Program or Medicare Advance Payment Program (the "MAAP Program"). *Id.* at 16. $27.5 million of these "MAAP" funds are due to be recouped from the Rhode Island Hospitals. *Id*. at 9.

Both financial experts who evaluated the Proposed Transaction[10] for the State of Rhode Island, James Carris for the Attorney General and PYA for DOH, discuss PMH's financial decisions dating back to 2018 as relevant to Prospect's current financial status. PYA concludes: "These patterns in operational performance and recapitalization are relevant because PMH has somewhat limited ability, in the form of current liquidity especially after recoupment of MAAP funds, to weather additional or continued financial challenges. *Id.* at 16, *see also* Carris Report 11-12.

This Decision is also based on a review of decisions by the relevant boards of directors, in light of the multiple board-specific criteria set forth in the HCA. The Attorney General notes a theme of transparency in these criteria. That is, the HCA criteria direct a probing of conversion-related decisions that should provide the opportunity to test assumptions and expectations that will ultimately come to roost on the involved Rhode Island Hospitals. Here, the Transacting Parties employed no objective criteria, no outside or independent consultants, and no discernible analyses in the process of deciding upon the transaction we review. These decisions by the Transacting Parties are concerning to the Attorney General and further support conditions which will protect the Rhode Island Hospitals going forward.

Finally, and again in accord with the Attorney General's statutory duties under the HCA, the character, competence, commitment, and standing in the community of the Transacting Parties

[10] "Proposed Transaction" is defined in Section II below.

was reviewed. For this purpose, the Attorney General took into account the matters discussed above as well as reports from people 'on the ground' at these hospitals. The Transacting Parties financial decisions and choices remain a decisive factor, revealing as they do a focus on wealth that puts at risk the well-being of institutions and people who communities in five states rely upon for care, often (as is the case with healthcare) at the time of greatest need. These 'character' criteria likewise informed the Conditions which the Attorney General imposes in this Decision.

Approval of a transaction that permits a 60% owner to exit a system of safety-net hospitals, when that system includes two key healthcare institutions in our State, gives this Attorney General great pause when that owner has realized hundreds of millions of dollars and would leave behind a system that is highly leveraged, that is, where liabilities greatly exceed assets. However, to permit that owner to remain would, in effect, maintain the status quo and would in no way protect these Rhode Island Hospitals in the long term nor "[a]ssure the viability of a safe, accessible and affordable healthcare system that is available to all of the citizens of the state." R.I. Gen. Laws §23-17.14-3(1). And it is that purpose the Attorney General is directed to pursue. Therefore, the Attorney General has concluded that the transaction can proceed only if the following Conditions are met – conditions imposed to assure financially secure, continually operating, and better governed healthcare institutions here in Rhode Island, subject to effective monitoring to the full extent of the Attorney General's statutory authority.

For reasons set forth more fully herein, the Attorney General is issuing a DECISION TO APPROVE WITH CONDITIONS, which Conditions include (but are not limited to) requirements that Prospect and Leonard Green: (1) immediately set aside $80 million in either escrow or letter of credit for the sole benefit of the Rhode Island Hospitals, payable at closing, which funds can only be accessed if PMH fails to comply with Conditions requiring payment of operating losses

and capital expenditures, or in the event of insolvency; (2) pay all operating losses over the next five (5) years; (3) invest $72 million in capital expenditures through the end of fiscal year 2026 based on the schedule set forth in the Conditions below (at a minimum of $10 million each year); (4) forego any management fees; (5) amend the TRS Note to extend its maturity date and remove the sale/leaseback option for the Rhode Island Hospitals during such an extension, and thereafter only with the approval of the Attorney General; (6) assume payment of the MAAP and PACE liabilities of the Rhode Island Hospitals; (7) maintain essential health services throughout the PCC System; (8) take actions to reform Board practices and constitute the local Board with community members; and (9) provide monitoring and reporting to the Attorney General to ensure oversight and compliance with all Conditions.

II. BACKGROUND

A review under the Hospital Conversions Act begins with the filing of an initial application with the Attorney General and DOH. The parties filed their initial application ("Initial Application") with the Attorney General on December 13, 2019 (resubmitted on February 4, 2020). The parties (collectively, "Transacting Parties") to the Initial Application are identified below:

- **Chamber Inc.** ("Chamber") is a Delaware corporation. Chamber is a newly formed entity that will become the parent of IIH after the close of the Proposed Transaction. The two shareholders of Chamber will be Samuel Lee ("Lee") and David Topper, through his family trust, ("Topper").

- **Ivy Holdings Inc.** ("Ivy") is a Delaware corporation and the current parent of IIH and will remain the parent of IIH after the close of the Proposed Transaction. Ivy current shareholders are Green Equity Investors V, L.P. Green Equity Investor Side V, L.P. (together, "Leonard Green"), Lee, Topper, and less than 10% minority shareholders.

- **Ivy Intermediate Holding Inc.** ("IIH") is a Delaware corporation and the current parent of PMH and will remain the parent of PMH after the close of the Proposed Transaction.

- **Prospect Medical Holdings, Inc.** ("PMH") PMH is a Delaware corporation with its principal place of business located in Los Angeles, California. PMH is a health care services company that owns and operates hospitals and other health care entities and manages the provision of health care service for managed care enrollees through its network of specialists and primary care physicians.

- **Prospect East Holdings, Inc.** ("Prospect East") a Delaware corporation which is a wholly-owned subsidiary of PMH. Prospect East holds PMH's interest in Prospect CharterCARE, LLC.

- **Prospect East Hospital Advisory Services, LLC** ("Prospect Advisory"), a Delaware limited liability company, which is a wholly-owned subsidiary of PMH. Prospect Advisory oversees and assists in the management of the day-to-day operations of Prospect CharterCARE, LLC.

- **Prospect CharterCARE, LLC**, ("PCC or Prospect CharterCARE") a Rhode Island limited liability company, which will own the entities that own and operate and hold licensure for the hospitals, RWMC and OLF. Prospect CharterCARE, LLC is currently owned 85% by Prospect East and 15% by CharterCARE Community Board ("CCCB"), however, a buy-out of CCCB's interest by PCC is contemplated as more fully described below.

- **Prospect CharterCARE RWMC, LLC** ("RWMC"), is a Rhode Island limited liability company, which owns and hold the licensure for Roger Williams Medical Center. RWMC is wholly-owned by Prospect CharterCARE, LLC. RWMC is a 220-bed acute care, community hospital located in Providence, Rhode Island.

- **Prospect CharterCARE SJHSRI, LLC** ("OLF") is a Rhode Island limited liability company, which owns and holds the licensure for Our Lady of Fatima Hospital. Fatima is wholly-owned by Prospect CharterCARE, LLC. Fatima is a 278-bed acute care, community hospital located in North Providence, Rhode Island.

See Response to Initial Application Question 1, Tab 6 and Appendix A (Organizational Charts pre- and post-transaction).

In its simplest form, the structure of the transaction outlined in the Initial Application (the "Proposed Transaction") is a buy-out of Leonard Green and the minority shareholders (approximately 60% the company) by Lee and Topper (the current approximately 40% owner) for a total of $11,940,992.00 for their shares. *See* Appendices A & B.

III. REVIEW CRITERIA

The Attorney General has the statutory duty and authority under the Hospital Conversions Act, R.I. Gen. Laws § 23-17.14-1, *et seq.* to:

- Review a conversion as defined by the HCA and as proposed by the Transacting Parties; and
- Issue a Decision that shall
- Approve, Disapprove, or Approve with Conditions.

The application of this statutory duty and authority in the context of this for-profit conversion directs a review pursuant to an established process, *see id.* § 23-17.14-28(c), and § 23-17.14-3, and a development of Conditions that relate to the purpose of the HCA, *see id.* § 23-17.14-28(c), as discussed below.

The HCA states that "[a]ny approval of a conversion involving a for-profit corporation as an acquiror shall be subject to any conditions as determined by the attorney general, provided those conditions relate to the purpose of this chapter." *Id*. § 23-17.14-28(c). The statute also says that these conditions "may include, but not be limited to, the acquiror's adherence to a minimum investment to protect the assets, financial health, and well-being of the new hospital and for community benefit." *Id.*

The conversion currently under review involves a "for-profit corporation as an acquiror," namely, Chamber Inc. Hospital Conversion Application 1, *see id.* § 23-17.14-4(2) ("'Acquiror' means the person or persons which gain(s) an ownership or control in the new hospital as a result of a conversion . . . ."). According to Section 23-17.14-28(c), this conversion is therefore "subject to any conditions as determined by the attorney general, provided those conditions relate to the purpose of this chapter." The purpose of the HCA is, *inter alia*, to:

> (1) Assure the viability of a safe, accessible and affordable healthcare system that is available to all of the citizens of the state;
>
> (2) To establish a process to review whether for-profit hospitals will maintain, enhance, or disrupt the delivery of healthcare in the state and to monitor hospital performance to assure that standards for community benefits continue to be met;
>
> (3) To establish a review process and criteria for review of hospital conversions . . . .

Id. § 23-17.14-3.

This purpose has, as required by Section 23-17.14-28(c), guided the Attorney General's review of the Proposed Transaction. To ensure that the conditions the Attorney General imposes on its approval of this conversion "relate to the purpose of [the HCA]," the Attorney General has reviewed the entire record using the criteria found in the HCA that pertain to for-profit hospitals. These criteria are located at R.I. Gen. Laws Section 23-17.14-7(c), specifically its subsections (3)–(9), (11)–(18), (20)–(25), and (27)–(30).[11] They are:

> (3) Whether the board established appropriate criteria in deciding to pursue a conversion in relation to carrying out its mission and purposes;
>
> (4) Whether the board formulated and issued appropriate requests for proposals in pursuing a conversion;
>
> (5) Whether the board considered the proposed conversion as the only alternative or as the best alternative in carrying out its mission and purposes;
>
> (6) Whether any conflict of interest exists concerning the proposed conversion relative to members of the board, officers, directors, senior management, experts or consultants engaged in connection with the proposed conversion including, but not limited to, attorneys, accountants, investment bankers, actuaries, health care experts, or industry analysts;
>
> (7) Whether individuals described in subdivision (c)(6) were provided with contracts or consulting agreements or arrangements which included pecuniary

[11] Subsections (1), (2), (10), (19), and (26) regard charitable assets and other concerns related to non-profits. Because all Transacting Parties are for-profit entities and do not maintain charitable assets, these conditions were not applicable to the Attorney General's review. These criteria are included in Section 7 to apply in the event a for-profit entity purchases a non-profit hospital, which is not the case here.

rewards based in whole, or in part on the contingency of the completion of the conversion;

(8) Whether the board exercised due care in engaging consultants with the appropriate level of independence, education, and experience in similar conversions;

(9) Whether the board exercised due care in accepting assumptions and conclusions provided by consultants engaged to assist in the proposed conversion;

…

(11) Whether the board exposed an inappropriate amount of assets by accepting in exchange for the proposed conversion future or contingent value based upon success of the new hospital;

(12) Whether officers, directors, board members or senior management will receive future contracts in existing, new, or affiliated hospital or foundations;

(13) Whether any members of the board will retain any authority in the new hospital;

(14) Whether the board accepted fair consideration and value for any management contracts made part of the proposed conversion;

(15) Whether individual officers, directors, board members or senior management engaged legal counsel to consider their individual rights or duties in acting in their capacity as a fiduciary in connection with the proposed conversion;

(16) Whether the proposed conversion results in an abandonment of the original purposes of the existing hospital or whether a resulting entity will depart from the traditional purposes and mission of the existing hospital such that a cy pres proceeding would be necessary;

(17) Whether the proposed conversion contemplates the appropriate and reasonable fair market value;

(18) Whether the proposed conversion was based upon appropriate valuation methods including, but not limited to, market approach, third party report or fairness opinion;

…

(20) Whether the conversion is proper under applicable state tax code provisions;

(21) Whether the proposed conversion jeopardizes the tax status of the existing hospital;

(22) Whether the individuals who represented the existing hospital in negotiations avoided conflicts of interest;

(23) Whether officers, board members, directors, or senior management deliberately acted or failed to act in a manner that impacted negatively on the value or purchase price;

(24) Whether the formula used in determining the value of the existing hospital was appropriate and reasonable which may include, but not be limited to factors such as: the multiple factor applied to the "EBITDA" – earnings before interest, taxes, depreciation, and amortization; the time period of the evaluation; price/earnings multiples; the projected efficiency differences between the existing hospital and the new hospital; and the historic value of any tax exemptions granted to the existing hospital;

(25) Whether the proposed conversion appropriately provides for the disposition of proceeds of the conversion that may include, but not be limited to:

(i) Whether an existing entity or a new entity will receive the proceeds;

(ii) Whether appropriate tax status implications of the entity receiving the proceeds have been considered;

(iii) Whether the mission statement and program agenda will be or should be closely related with the purposes of the mission of the existing hospital;

(iv) Whether any conflicts of interest arise in the proposed handling of the conversion's proceeds;

(v) Whether the bylaws and articles of incorporation have been prepared for the new entity;

(vi) Whether the board of any new or continuing entity will be independent from the new hospital;

(vii) Whether the method for selecting board members, staff, and consultants is appropriate;

(viii) Whether the board will comprise an appropriate number of individuals with experience in pertinent areas such as foundations, health care, business, labor, community programs, financial management, legal, accounting, grant making, and public members representing diverse ethnic populations and the interests of the affected community; and

(ix) Whether the size of the board and proposed length of board terms are sufficient;

…

(27) Whether a right of first refusal to repurchase the assets has been retained;

(28) Whether the character, commitment, competence and standing in the community, or any other communities served by the transacting parties are satisfactory;

(29) Whether a control premium is an appropriate component of the proposed conversion; and

(30) Whether the value of assets factored in the conversion is based on past performance or future potential performance.

An application of these criteria to this conversion was also necessary to the Attorney General's identification of those facts in the record material to the Attorney General's statutory mandate to "subject [this conversion] to any conditions [that] . . . relate to the purpose of this chapter." *Id.* § 23-17.14-28(c). That is to say, the identified criteria provided the Attorney General the requisite lens with which to view the record, assuring that all the Conditions imposed herein relate to the HCA's purpose, as required by Section 23-17.14-28(c).

The Attorney General's authority under the HCA includes the authority to "adopt rules and regulations to accomplish the purpose of this chapter." R.I. Gen. Laws § 23-17.14-32. This authority is relevant to the Attorney General's construction of the HCA provisions discussed above and elsewhere in this Decision. The construction of various HCA provisions is also provided with an awareness that Rhode Island law "accord[s] great deference to an agency's interpretation of its rules and regulations and its governing statutes, provided that the agency's construction is neither clearly erroneous nor unauthorized." *Endoscopy Assocs., Inc. v. R.I. Dep't of Health*, 183 A.3d 528, 533 (R.I. 2018).[12]

IV. RECORD

The record the Attorney General reviewed and considered in rendering this Decision includes the Transacting Parties' Initial Application; supplemental responses and information

[12] As the seat of the Office of Health Care Advocate, the Attorney General also has the power "[t]o take all necessary and appropriate action . . . to secure and insure compliance with the provisions of title[] 23," which includes the HCA. *Id.* § 42-9.1-2(a)(5).

provided thereto; and relevant, publicly available information. Also included in the record are the statements under oath taken by the Attorney General and DOH of the following individuals:

Prospect CharterCARE

1. Jeffrey H. Liebman, CEO of Prospect CharterCARE
2. David Ragosta, CFO of Prospect CharterCARE
3. Daniel Ison, Vice President of Finance Operations, Prospect CharterCARE
4. Lynn Leahey, RN, Chief Nursing Officer - OLF
5. Eleanor Milo, DNP, RN, CENP, NEA-BC, Chief Nursing Officer - RWMC
6. Edwin J. Santos, Prospect CharterCARE - former PCC Category A board member
7. Joseph DiStefano, Esq., Prospect CharterCARE -former PCC Category A board member
8. Andrea Doyle, MD, Prospect CharterCARE former PCC Category A board member
9. Edward Quinlan, Prospect CharterCARE - former PCC Category A board member

Prospect Medical Holdings[13]

10. Samuel Lee, CEO of Prospect Medical Holdings
11. David Topper, Senior Vice President, Prospect Medical Holdings
12. Mark Johnson, CFO of Prospect Medical Holdings
13. George Pillari, Senior Vice President of Integration and Operations of Prospect Medical Holdings

Leonard Green

14. Alyse Wagner, Partner, Leonard Green
15. John Baumer, Partner, Leonard Green

United Nurses & Allied Professionals ("UNAP")

16. Christopher Callaci, General Counsel, UNAP

The record, moreover, includes comments submitted during the public informational meeting required by the HCA. *See* R.I. Gen. Laws § 23-17.14-7(b)(3)(iv). A public notice was published regarding this informational meeting, as well as a solicitation of written comments

regarding the Proposed Transaction. The Attorney General and DOH jointly held this meeting, virtually via Zoom, on December 10, 2020, from 5 p.m. to 7 p.m.[14] At the beginning of the session, the Transacting Parties were provided an opportunity to give a presentation regarding the Proposed Transaction; afterwards, public comment was taken. Over the course of the meeting, 17 speakers provided public comment.

V. PROCEDURAL HISTORY

Hospital conversions involving RWMC and OLF have been approved by the Attorney General twice before. In 2009, RWMC and OLF (St. Joseph Health System of Rhode Island at the time) affiliated through the creation of CharterCARE Health Partners ("CCHP"). See Attorney General HCA Decision dated October 28, 2009 ("2009 Decision"). Both hospitals were suffering losses at the time, and the purpose of the affiliation was to stem those losses through efficiencies in a combined system. *Id.* at 15-16. The affiliation was approved, with conditions, by Attorney General Patrick Lynch in 2009. *Id*.

Despite the efficiencies achieved through the CCHP affiliation, the system was still struggling with significant operating losses, aging plants, and capital needs. *See* Attorney General HCA Decision dated May 16, 2014 at 7 ("2014 Decision"). In 2011, CCHP began looking for a partner. *Id*. at 9. Ultimately, CCHP selected PMH and contemplated a joint venture whereby PMH owned 85% and CCHP owned 15% of the newly-formed joint venture, called Prospect CharterCARE. *Id.* at 3. The governing structure of the new entity was split equally—50% of the PCC board is appointed by PMH's ownership interest and 50% is appointed by CCHP's ownership interest. *Id*. Importantly, this transaction contemplated a $50 million long-term

[14]The meeting took place virtually because, at the time, CDC Guidelines did not allow for in-person meetings, on account of the COVID-19 pandemic.

capital commitment[15] to be funded directly by PMH and an annual $10 million routine commitment by PCC. *Id.* at 21. The joint venture was approved, with conditions, by Attorney General Peter F. Kilmartin in 2014. *Id*.

Prospect CharterCARE operates two hospitals in Rhode Island, RWMC and OLF. Prospect CharterCARE also operates a number of other non-hospital healthcare facilities in Rhode Island. Prospect, the ultimate parent company to the 85% owner of PCC, operates 17 hospitals in 5 states, as well as many non-hospital healthcare facilities. Prospect was formed in 1996 and started with hospitals in California. Since 2014, Prospect has expanded outside of California to Rhode Island, Connecticut, Pennsylvania, Texas, and New Jersey.[16]

In the years following the 2014 transaction, the Attorney General monitored compliance with the conditions by Prospect, CCHP, and the CharterCARE Foundation through an independent monitor, Affiliated Monitors Inc. ("AMI"). Overall, AMI found that Prospect was compliant. *See* AMI First Report on Compliance by Prospect CharterCARE, CharterCARE Community Board, and CharterCARE Foundation with Conditions of Certification Pertaining to the Acquisition of Roger Williams Medical Center, St. Joseph Health Services of Rhode Island, Our Lady of Fatima Hospital and Other Entities dated December 20, 2018 ("AMI First Report"); AMI Second Interim Report on Compliance by Prospect CharterCARE, CharterCARE Community Board, and CharterCARE Foundation with Conditions of Certification Pertaining to the Acquisition of Roger Williams Medical Center, St. Joseph Health Services of Rhode Island, Our Lady of Fatima Hospital and Other Entities dated March 20, 2020 ("AMI Second Report"); AMI Final Report on Compli-

[15] This amount was later increased to approximately $62 million after the sale of Elmhurst Rehab & Healthcare Center and some of smaller properties. A more complete explanation of this matter is provided in AMI's Final Report on Compliance dated December 23, 2020.

[16] Prospect has since closed the hospitals in Texas and is in the process of selling the New Jersey hospital.

ance by Prospect CharterCARE, CharterCARE Community Board, and CharterCARE Foundation with Conditions of Certification Pertaining to the Acquisition of Roger Williams Medical Center, St. Joseph Health Services of Rhode Island, Our Lady of Fatima Hospital and Other Entities dated December 23, 2020 ("AMI Final Report"). However, it was often difficult to timely receive information, and AMI noted "the entity did not seem to be focused on collecting and organizing the information necessary to demonstrate its compliance with the conditions set forth in the HCA Decision until pressed by the Attorney General." *See* AMI Second Report at 26. Late last year, AMI concluded its monitoring of Prospect's financial commitments and found that overall Prospect had spent $63,815,932.22 on long-term capital expenditures and PCC had spent $51,398,707.77 during the four-year monitoring period for routine expenses. *See* AMI Final Report at 35.

However, through this review, the Attorney General discovered that RWMC and OLF subsequently entered into Property Assessed Clean Energy ("PACE")[17] financing agreements totaling approximately $60 million. The financing attaches to the respective property as a tax lien—essentially an encumbrance on the property. The PACE financing funds completed in-flight and new projects. A number of the completed projects that are now funded by PACE were included in the long-term capital commitment PMH made in 2014. Ison SUO 110:18-111:6, March 15, 2021. This is problematic, as loans taken out by PMH remain as liens on the Rhode Island Hospitals, a matter addressed by the Conditions imposed by this Decision.

Another issue that emerged in the first years after the 2014 transaction was the St. Joseph Health System's pension liability. This pension liability was a looming concern for CCHP when it pursued a partner in 2011. *See* 2014 Decision at 9. In 2017, the severely underfunded St. Joseph's

[17] The PACE program provides financing for clean and renewable energy improvements.

pension went into receivership. *See St. Joseph Health Services of Rhode Island, Inc. v. St. Josephs Health Services of Rhode Island Retirement Plan, as amended,* PC-2017-3865 (R.I Super. Ct 2017). While the pension was not assumed by Prospect as part of the PCC joint venture, litigation ensued with a number of claims—including fraud and misrepresentation—asserted against PMH, Leonard Green, and others regarding the handling of the pension. Ultimately, a settlement was reached, after years of contentious litigation. PMH agreed to a payment of $27,250,000 with no admission of liability.

In the fall of 2019, the Attorney General was notified of the Proposed Transaction, which is described as a buy-out of the private equity investor, Leonard Green & Partners ("Leonard Green"). Initial Application Response to Question 1. The ultimate parent company, Ivy Holdings Inc., would undergo a change of ownership. Ivy is a holding company that owns PMH. Approximately 60% of Ivy is currently owned by Leonard Green and most of the remaining, approximately 40%, is currently owned by the CEO of PMH, Sam Lee, and another its executives, David Topper. The Proposed Transaction consists of Lee and Topper creating a new entity, Chamber Inc., that will take full control of Ivy, PMH, and, by extension, RWMC and OLF. In other words, Lee and Topper will come to own 100% of Ivy and PMH by buying out Leonard Green's share for approximately $12 million. *Id*.

Leonard Green initially invested in PMH in 2010 in a "going private" transaction by purchasing a majority of PMH's then-publicly traded shares for approximately $150 million and assuming PMH's liabilities (although Leonard Green never paid those liabilities). *See* Supplemental Response S5-3; *see also* Baumer SUO I 102:5-11, February 9, 2021. Since then, Leonard Green has held a majority of the board seats on Prospect and Ivy—but relies on Prospect's senior management to run the day-to-day operations. *See* Wagner SUO I 26:25-27:5; 28:2-4, February 8,

2021; Baumer SUO I 35:19-36:14. The impetus for the Proposed Transaction is that the Leonard Green wants to divest its investment in Prospect. *See* Wagner I 88:10–25; *id.* at 89:25–90:10. This investment has had a significant return: in 2018 alone, Prospect shareholders received $457 million in dividends, most of which went to Leonard Green. Baumer SUO I at 93:7–17.

An Initial Application was submitted by the Transacting Parties on December 13, 2019 and resubmitted on February 4, 2020. On March 4, 2020, the Attorney General informed the Transacting Parties that there were deficiencies to the Initial Application and requested additional information. On March 25, 2020, the Attorney General received a letter addressing the deficiencies within the Initial Application. Thereafter, on April 8, 2020, the Attorney General and DOH issued the Transacting Parties a notice of completeness letter, starting the 120-day review process. During the review, 7 sets of Supplemental Questions consisting of 279 questions were sent to and responded to by the Transacting Parties.

Three months into the initial 120-days, it became clear to both the Attorney General and DOH that this review would not be complete—healthcare was changing as a result of the COVID-19 global pandemic, the parties had delayed providing relevant information, and there were still many unanswered questions related to the purchase price and other impacts of the Proposed Transaction. *See* Joint Attorney General & DOH Letter to Transacting Parties dated July 3, 2020. On July 3, 2020, the Attorney General and DOH notified the Transacting Parties that the decision deadline would be extended by 90 days. *Id.* As the months unfolded, it became clear to the Attorney General and DOH that they would need additional time to complete a thorough review of the Proposed Transaction, so they notified the Transacting Parties on October 20, 2020 that the decision deadline would be extended to January 29, 2021. *See* Joint Attorney General & DOH Letter to Transacting Parties dated October 20, 2020. On January 18, 2021, the Attorney General

and DOH again informed the Transacting Parties that the deadline would need to be extended and no new date was provided. *See* Joint Attorney General & DOH Letter to Transacting Parties dated January 18, 2021. This extra time was necessary to complete a thorough and robust review of the Proposed Transaction.

VI. DISCUSSION

As outlined above, the review criteria contained in the Hospital Conversions Act applicable to the Proposed Transaction are found at R.I. Gen. Laws Section 23-17.14-7(c). For organizational purposes we have addressed them grouped by topic below.

A. FINANCIAL CRITERIA

The following section discusses the financial criteria and conditions applicable to the HCA conversion under review.

The first group of these concern the value of the proposed transaction, *see* R.I Gen. Laws § 23-17.14-7 (c)(17), (18), (24); the second group consider the Transacting Parties' financial decisions and how those decisions affected both the Proposed Transaction's value, *see id.* § 23-17.14-7 (c)(23), as well as the Attorney General's decision to impose financial Conditions on its approval of the Proposed Transaction, *see id.* § 23-17.14-28(c). As with the other criteria discussed in this Decision, the Attorney General addresses these criteria and conditions upon consideration of the entire record before it.

1. Value of the Transaction

As it reviewed the Proposed Transaction, the Attorney General considered whether its value is one that is fair and that has been reasonably derived. In particular, R.I Gen. Laws Sections 23-17.14-7 (c)(17), (18), and (24) ask the Attorney General to consider the following:

> (17) Whether the proposed conversion contemplates the appropriate and reasonable fair market value;

> (18) Whether the proposed conversion was based upon appropriate valuation methods including, but not limited to, market approach, third-party report, or fairness opinion;
>
> (24) Whether the formula used in determining the value of the existing hospital was appropriate and reasonable . . . .

The Attorney General considers these criteria to set an expectation that the value of a proposed conversion will be capable of objective review by a regulator through examination of valuation methods, outside opinions, and valuation formulas. It is important to note at the outset that no objective valuation methods were used by the Transacting Parties. *See* Response to Initial Application Question 23.

The Proposed Transaction contemplates Lee and Topper (through his family trust) buying out Leonard Green's current ~60% stake in PMH's holding company, Ivy Holdings Inc., as well as that of various minority shareholders'. Response to Initial Application Questions 1–2; Carris Report 1–2; PYA Report 22. Lee and Topper plan to pay Leonard Green and the other shareholders a total of $11,940,992.00 for their shares.[18] Response to Initial Application Question 1. But rather than use their own money to facilitate the transaction, Lee and Topper anticipate taking the $11.9 million out of PMH to secure the buyout. Carris Report 1–2. In addition to the cash consideration, Leonard Green will benefit from the Proposed Transaction by being relieved of its responsibility for PMH's approximately $3.1 billion in current liabilities. PYA Report 18.

The valuation of the Proposed Transaction's concerns the Attorney General for many reasons, the first of which is the source of its $11.9 million capital cost. The Transacting Parties' testimony on this point evinced a willingness to conflate PMH's assets with the individual assets

[18] Pursuant to Condition 1, "$10,000,000 payable to Leonard Green pursuant to the Merger Agreement shall be contributed by Leonard Green to the funding of the Escrow Accounts set forth in Condition 6."

of Lee and Topper. The protection and treatment of assets of a safety-net hospital system should be viewed differently from an individual's own wealth.[19] Topper stated under oath, for example, that it makes no difference whether the purchase price is paid out of PMH's funds or out of his pocket because those two sources are "one and the same once we own the company." Topper SUO 158:14–15, Dec. 16, 2020. Lee agreed that company money and that in his and Topper's personal possession were both "our money one way or the other." Lee SUO I 124:6–7, Feb. 25, 2021. From Leonard Green's perspective, John Baumer described the two possible sources as "six of one, half a dozen of the other." Baumer SUO I 126:25–14. And Alyse Wagner said Leonard Green was "indifferent" about the source of the $11.9 million "because cash is cash." Wagner SUO I 171:2–9, Feb. 8, 2021. Such testimony reveals a troubling perspective held by the Transacting Parties and Leonard Green, namely, that no difference exists between the money belonging to a company that operates over a dozen safety-net hospitals and the money located in the personal bank accounts and investment vehicles of Lee and Topper.

Moving to "[w]hether the proposed conversion contemplates the appropriate and reasonable fair market value," R.I Gen. Laws § 23-17.14-7 (c)(17), the Attorney General notes that the $11.9 million price for approximately 60% of PMH is a startingly low sum for a company owning 17 hospitals in 5 states—especially considering that Leonard Green's portion of these shares sold for approximately $150 million in 2010. *See* Baumer SUO I 101:15-102:11. If credited, this marks a 92% loss in PMH's value in just over a decade, and indicates that PMH is now worth, in total, around just $20 million. Carris Report 2. Such a precipitous drop is at least in part a function of the debt burden Leonard Green and Lee participated in placing on PMH in 2018 to pay a $457 million dividend benefiting themselves and other shareholders. *See* Lee SUO I 120:11–19. But

[19] Noteworthy is the fact that neither Lee nor Topper consider the company's $3 billion in liabilities as their individual obligation.

even with PMH's significant debt, there are indications that the company is worth more than its principals acknowledge; in November 2019, the chief executive at another healthcare company, Prime Healthcare Services ("Prime"), offered $50 million for PMH. *See, e.g.*, Howard Fine, *Prospect Fights Hostile Offer*, L.A. Bus. J., Dec. 6, 2019, https://labusinessjournal.com/news/2019/dec/06/prospect-fights-hostile-offer/. When asked about this offer under oath, Mr. Lee said that he "d[id]n't really pay attention to it." Lee SUO I 118:2-13.

Aside from comments regarding Prime's offer, the Transacting Parties have provided the Attorney General nothing to substantiate the $11.9 million capital cost. Response to Initial Application Question 23 ("[N]o reports were prepared in connection with the negotiations and ultimate execution of the transaction agreement."); *see* Carris Report 2 ("[W]e have no way of determining if the $12 million acquisition price is fair and reasonable."). They failed to subject the sale to the valuation methods mentioned Section 23-17.14-7 (c)(18), i.e., a "market approach, third-party report, or fairness opinion." *See* Lee SUO I 120:2–6 ("Q. So, was there a valuation analysis done to support the purchase price . . . ? A. I don't believe so. Q. Why not? A. We didn't have to have one."). According to Sam Lee's testimony, PMH was averse to opening up a competitive bidding process for the company, calling Prime "jerks" for proposing to buy the company for much more than Leonard Green is planning to sell it to Lee and Topper. Lee SUO I 118:2–13.

Rather than by the methods statutorily recognized in Section 23-17.14-7 (c)(18), $11.9 million was a number arrived at via private negotiation between, primarily, Baumer, for the sellers, and Lee, George Pillari, and Eric Samuels, for the buyers. Pillari SUO 51:12–16; 56:23–57:1; March 22, 2021; Baumer SUO I 119:7–15. Wagner also analyzed the transaction from the seller's side. *See* Wagner SUO I 127:6–129:7. She testified that when Leonard Green determined what a

reasonable price for its PMH shares would be, it considered as a benchmark the price of various public hospitals companies' shares as a multiple of their respective EBITDAs. *Id.* And Wagner believes the $11.9 million reflects the product of a similar multiple applied to PMH's EBITDA. *Id.* Leonard Green also looked to [redacted] Baumer SUO I 109:5–17. [redacted] Baumer SUO I 109:9. Again, this [redacted] falls far short of the independent and objective methods contemplated by the Hospital Conversions Act.

Given the foregoing, the Attorney General determines that the HCA criteria concerning valuation have not been met. No objective measures of valuation were employed to arrive at the sale price for 60% of the company. Any claim that the Proposed Transaction "contemplates the appropriate and reasonable fair market value" of PMH is belied by Lee's dismissing the idea of even entertaining a higher-priced offer. Moreover, executives at both PMH and Leonard Green indicated that neither a "market approach, third-party report, [n]or [a] fairness opinion" were undertaken to substantiate the proposed value of PMH. The Transacting Parties' insistence on evasion and mystification in response to inquiries into valuation—Baumer's testimony, [redacted] Baumer SUO 109:9–17—means the Attorney General cannot say that the Transacting Parties used "appropriate valuation methods" or that "the formula used in determining the value of [PMH] was appropriate and reasonable."

2. Further Predicates for Financial Conditions

Other of the Transacting Parties' financial decisions are relevant to the Attorney General's HCA review when viewed through the lens of the following two applicable statutory sections:

> Whether officers, board members, directors, or senior management deliberately acted or failed to act in a manner that impacted negatively on the value or purchase price.[20]
>
> …
>
> Any approval of a conversion involving a for-profit corporation as an acquiror shall be subject to any conditions as determined by the attorney general, provided those conditions relate to the purposes of this chapter. The conditions may include, but not be limited to, the acquiror's adherence to a minimum investment to protect the assets, financial health, and well-being of the new hospital and for community benefit.

R.I. Gen. Laws § 23-17.14-7(c)(23); 23-17.14-28(c).

a. PMH's Relationship to the Rhode Island Hospitals

Founded in 1996, PMH currently owns 17 hospitals in 5 states. These include RWMC and OLF, both of which PMH purchased in mid-2014. PMH FY2020 AFS 15; *see generally* 2014 Decision. Although intermediate entities exist between PMH and the Rhode Island Hospitals, PMH is the company to whose financial fortunes the Rhode Island Hospitals are most tethered: PMH deploys its standard practice through which cash received by the Hospitals is swept up daily to PMH, Johnson SUO 94:11–95:1, PMH returns money back to the Rhode Island Hospitals to pay their bills and employees, *id.*; the Rhode Island Hospitals' operating and capital budgets are reviewed and approved by PMH executives, Johnson SUO 35:18–36:12; and the difference in years past between what the Rhode Island Hospitals earn themselves and the money they need to continue to serve the Rhode Island community has been paid by PMH, *see id.* at 95:5–22; Lee

[20] Both Lee and Baumer admitted as much under oath: When the Attorney General asked Lee whether the $11.9 million price was affected by prior shareholder dividends—like the $188 million in 2012 and $457 million in 2018—he said, "Yes." Lee SUO I 120:11–14. And he provided the following explanation: "So if you take the value of a company . . . it's going to be made up of equity and debt, those two things, and to do the dividend, we increased our debt, so the price, the equity went down." Lee SUO I 120:16–19. In other words, without the dividends PMH would be worth more "[b]ecause [it] would have less debt." Lee SUO I 121:14–15. Mr. Baumer [redacted] Baumer SUO I 109:23–110:6. The $457-million, debt-financed shareholder dividend and this testimony regarding same is sufficient evidence to support the Attorney General's conclusion that PMH's board "deliberately acted or failed to act in a manner that impacted negatively on the value or purchase price." R.I. Gen. Laws § 23-17.14-7(c)(23). This criterion has not been satisfied.

SUO I 141:22–142:1. *See* Topper SUO 116:23–117:4; Carris Report 3 ("PMH manages all cash flow and determines what items will be paid and when they will be paid."). Despite its dependence on PMH, PCC's CFO testified that he has no access to and has never seen PMH's financial statements. Ragosta SUO I 31:20–32:1 Dec. 14, 2020; *see also* DiStefano SUO 96:11–18, Nov. 9, 2020 ("I have never seen a financial statement from [PMH], at least not maybe since 2014.").

This difference PMH has had to make up between the Rhode Island Hospitals' revenue and expenses has not been insignificant: Between Fiscal Year 2015 and Fiscal Year 2019, the cumulative loss experienced by RWMC was $16.6 million. Carris Report 5. That number for OLF was $8.7 million. *Id.* at 3. RWMC and OLF's local parent company, PCC, has run even further in the red, having lost a cumulative $88.2 million from Fiscal Year 2015 to Fiscal Year 2020. *Id.* at 6. These deficits are why auditors for RWMC, OLF, and PCC have repeatedly stated that they are "financially dependent on [their] parent company." *Id.* 4, 5–7 ("[PCC]" is not substantially viable without support from PMH."); *see* PCC FY2020 AFS ("As of September 30, 2020, the Company had a receivable of approximately $32 million due from PMH and its subsidiaries . . . and the Company is dependent on this receivable settling in order to maintain its current liquidity."). The average annual amount that PMH has contributed to the Rhode Island Hospitals over and above what the Rhode Island Hospitals themselves earned in revenue is $14.7 million.[21] There seem to be no signs that this need will soon abate: PCC's vice president of finance operations, Daniel Ison, testified that so far in 2021 PMH's Rhode Island Hospitals are "a fair amount off" forecasted net income targets. Ison SUO 175:20–176:22.

[21] This total number includes a management fee with a yearly average of $6,977,000. *See* PCC FY2015-2020 AFS. The Attorney General has made it a Condition of this transaction that the management fee be discontinued, which is consistent with the stated plans of the Transacting Parties.

Whether PMH will continue to subsidize PCC and its Rhode Island Hospitals is a major concern. Topper's testimony on this point was less than reassuring: He repeatedly qualified PMH's and his personal future financial support for PMH hospitals on whether he considered any current financial or other struggles of a particular hospital as temporary. In his words, Topper decides to support PMH operations like those in Rhode Island only if he sees a "light at the end of the tunnel." Topper SUO 95:4-16; 103:10-18, 104:22-105:10; 140:25-141:8. Asked, "How does Prospect decide when to sell or close a hospital," Topper answered, "Well it's in the numbers. So if we're subsidizing the hospital continuing, and we don't see the light at the end of the tunnel, then we have to make some hard choices." 103:10-15.[22]

Prospect has made such "hard choices" with respect to other hospital systems it owns. In 2019 and 2020 PMH shuttered Nix Health System in Texas. PMH is currently trying to sell its East Orange General Hospital in New Jersey [redacted] Topper SUO 104:12–105:10.

The Attorney General asked Topper about his financial commitment to PMH's Rhode Island hospitals in particular. Echoing his refrain, he said the commitment would remain "if there's light at the end of the tunnel, if it's an investment that is worthwhile." Topper SUO 141:5–7. The Attorney General is concerned that the continued financial struggles at PMH's Rhode Island Hospitals—described above and documented in the expert reports—will soon cause PMH to view them as no longer "an investment that is worthwhile." *See* Johnson SUO 146:2–7 Feb. 11, 2021 [redacted]; Lee SUO I 83:15–18 (describing the Rhode Island as a "difficult market" for hospitals); Topper SUO 135:15–17 [redacted]

[22] As with other financial conclusions reached by Lee and Topper, most notably the purchase price of ~60% of the company's shares, no objective analyses or benchmarks appear to be relied upon to define the "light at the end of the tunnel."

[redacted]. The Attorney General is also concerned that without long-term financial planning—PMH's CFO testified that PMH does not plan for more than a year at a time, but agreed that "it's probably valuable to be looking at . . . three years out," Johnson SUO 142:15–143:8—PMH will be left without a turnaround strategy if and when the light starts (or continues) flickering in Rhode Island.

PYA wonders too that "if PCC operations do not improve to a point where they are contributing to the profitability and/or growth of PMH, it remains unclear whether the new board of IH and PMH would continue funding those portfolio investments." PYA Report 19. Of further concern is a situation where the only thing keeping crucial Rhode Island healthcare facilities from being underfunded or closing is Lee and Topper's undefined view of "the numbers." *See* Lee SUO I 132:18–133:8 (remarking that closing the Rhode Island Hospitals "[h]as to be on the table" for PMH if the Attorney General declined to approve the Proposed Transaction); Quinlan SUO 120:22–24, Jan. 7, 2020 (stating that the PCC board of directors had no role in making sure PMH provided the Rhode Island Hospitals with adequate resources).

The relevant financial statements do make clear, however, that PMH has tried to improve "the numbers" at the Rhode Island Hospitals. One of the most effective initiatives in this regard has regrettably been to cut costs by way of reducing the Rhode Island Hospitals' respective workforces: In Fiscal Year 2018, RWMC had 997.86 full-time equivalents, which dropped to 935.21 by the end of Fiscal Year 2019. Change in Effective Control Application of Prospect et al. ("CEC Application") App. A I. During the same time period, the number of full-time equivalents at OLF fell from 990.26 to 926.02. *Id.* App. A II. Eliminating these jobs saved RWMC and OLF 3% and 8% on their respective wage and salary expenditures. *See* PMH FY2018-2019 AFS.

Despite these force reductions, and as mentioned above, Ison testified that PCC's net income for the first few months of 2021 remains below company forecasts. Ison SUO 175:20-176:11.

PMH has also saved money by failing to cover annual depreciation of the Rhode Island Hospitals' capital: For example, from Fiscal Year 2017 through Fiscal Year 2020, PCC only replaced approximately 66% of the annual depreciated value of its assets. PYA Report 10. *Contra* Lee SUO II 20:18-23, March 9, 2021 (stating that PCC has replaced 100% of depreciated capital). The ideal amount of capital investment is typically closer to 100%. PYA Report 10; *see also* Lee SUO II 20:4–11. (agreeing that depreciation should be funded at 100%). The Attorney General notes that PMH's CFO initially demurred on the ideal amount of capital investment, but when asked if he could think of a better benchmark for capital investment than annual depreciation, he said he could not. Johnson SUO 100:13–101:20. The amounts PCC has expended on charity care—0.15% and 0.3% of its operating expenses in Fiscal Year 2019 and Fiscal Year 2020, respectively—is also below some industry standards. PYA Report 10, 14.

b. Overview of PMH's Finances

Money problems have not been limited to PMH's subsidiaries; PMH itself has and continues to struggle financially. *See, e.g.*, PYA Report 19 (explaining that "PMH has reported limited liquidity and a highly leveraged position in recent fiscal years"); Carris Report 11-12.[23] During the 6-year period from Fiscal Year 2015 to Fiscal Year 2020, the company took a cumulative comprehensive loss of $603 million, and has seen its long-term debt increase from $451 million in Fiscal Year 2015 to almost $1.6 billion in Fiscal Year 2020. *See* Carris Report 7–9 ("Growth has been primarily funded through debt and the sale-leaseback of certain properties to MPT."). By the end of Fiscal Year 2020, PMH's assets exceeded its liabilities by more than $1

[23] This assessment is not shared by Leonard Green partner Wagner. *See* Wagner SUO I 149:19–21 (claiming that PMH "continues to do . . . very well").

billion. *Id.* at 8; *see* PYA Report 13 (showing share of liabilities to total assets growing from Fiscal Year 2017 to Fiscal Year 2020).

The company's debt has not been cheap: PMH has had to make approximately $478 million in interest payments from Fiscal Year 2015 through Fiscal Year 2020. *See* Moody's Investor Service, *Rating Action: Moody's places ratings of Prospect Medical Holdings on review for downgrade*, Feb. 12, 2019, https://www.moodys.com/research/Moodys-places-ratings-of-Prospect-Medical-Holdings-on-review-for--PR_395207 (noting that, "[a]t [PMH's] current leverage levels," tens of millions of dollars of California Quality Assurance Fee ("QAF") reimbursement payments "must be used to repay term loan borrowings. As a result, even when QAF payments are received, they will not be a source of ongoing liquidity for the company."). What is more, the company's ballooning debt has not always translated into enough liquidity to pay its bills: In 2019, PMH needed a $41-million capital contribution from Leonard Green, Lee, and Topper. PYA Report 15; *see* Carris Report 11 ("[PMH] cannot continue to have significant operating losses and fund necessary capital projects and expect to survive long-term."). The accumulated debt has, as discussed below, turned PMH into a highly leveraged concern. *See* Carris Report 8, 11 ("[PMH's] rapid growth and increase in debt have strained the company's balance sheet. . . . PMH is a highly leveraged company that continues to have large annual losses."); *see also* Moody's Investors Service, *Rating Action: Moody's downgrades Prospect Medical Holdings, Inc.'s CFR to B3; outlook changed to* negative, Mar. 28, 2019, https://www.moodys.com/research/Moodys-downgrades-Prospect-Medical-Holdings-Incs-CFR-to-B3-outlook--PR_397518 (citing PMH's "very high financial leverage, shareholder-friendly financial policies, and a history of failing to meet projections" as reasons for downgrading the company's creditworthiness).

A considerable portion of the approximately $3.1 billion in liabilities currently on PMH's books is the result of three transactions PMH entered into with Medical Properties Trust, Inc. ("MPT") in 2019. Carris Report 9. In the first of these, PMH sold its hospitals in Connecticut, Pennsylvania, and all but one of its hospitals in California to MPT for approximately $1.4 billion. *Id*. MPT then leased these hospitals back to PMH. *Id*. PMH, according to its agreement with MPT, will pay rent for at least the next 15 years in order to continue operating in facilities it owned until recently. *Id.* In the second transaction, PMH took out a ~$51 million mortgage on one of its California hospitals; this mortgage is at a 7.5% interest rate per annum and matures in 2034. *Id*. And in the third transaction, PMH signed a promissory note in exchange for $113 million from MPT, referred to herein as the "TRS Note." *Id*. Interest on the note is 7.5% per annum and subject to an annual escalation clause. *Id.* PMH must pay back the full note amount by July 2022. *Id.* Alternatively, and subject to approval by the Attorney General and DOH pursuant to the HCA, PMH could discharge the note by selling to and leasing back the Rhode Island Hospitals from MPT. *Id.* The Attorney General was disturbed to discover that executives at the Rhode Island Hospitals were not made aware of this, calling into question their ability to act as a watchdog for these Hospitals. *See, e.g.*, Liebman SUO 178:16–18; 179:7–11; 214:24–215:1, Oct. 29, 2020. In their statements under oath, PMH executives testified that they have not yet decided how they will satisfy their obligations under the promissory note. *See, e.g.*, Johnson SUO 78:3–10; 79:13–20; Lee SUO I 183:5–9 ("We do not have a certain plan yet.").

The Attorney General has addressed this threat to the Rhode Island Hospitals' real estate by prohibiting it from being pledged or used as collateral unless approved by the Attorney General. *See* Conditions 9 and 17. Such prohibition stems from the recognition that the Rhode Island Hospitals' real property, each and together, constitutes a significant proportion of the assets of

PCC—a finding based upon the fact that the Hospital properties constitute a significant proportion of PCC's real property; that they each and together house and support a significant proportion of the services provided by PCC; and that a significant proportion of PCC's employees work at the Hospitals. The assets of PCC do not include the cash generated by PCC, which is swept up daily to Prospect, making the Rhode Island Hospitals' real property a greater proportion of PCC's assets than it otherwise would be.

In addition to the indebtedness created by the TRS Note, PMH in 2020—when it was no longer subject to the conditions of the 2014 Decision—obtained a $42 million Property Assisted Clean Energy ("PACE") loan to pay for improvements to RWMC. Carris Report 10. The loan has a 5.75% annual interest rate and is secured by a lien on RWMC itself. *Id.*; PYA Report 11. An $18 million PACE loan with the same rate of interest was taken out in early 2021. Carris Report 10. This money is for improvements to, and is secured by, a lien on, OLF. Carris Report 10, PYA Report 11.

PMH recently tapped another temporary source of cash by applying for and receiving money from the federal government pursuant to the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") and the Paycheck Protection Program and Health Care Enhancement Act ("PPPHCE Act"). Carris Report 10–11. PMH-owned hospitals, including those in Rhode Island, also received relief money from their respective state governments. *Id.* In total, PMH and its affiliates have received approximately $459 million in COVID-19 relief from the federal government. *See* PYA Report 16. Approximately $183 million of this money is a grant to PMH and will not need to be paid back. *Id.* PMH will, however, have to find a way to return approximately $276 million of this government aid over the next 17 months, pursuant to the

MAAP Program. Carris Report 10-11, PYA Report 16. PCC itself is due to return $27.5 million of the $276 million total. PYA Report 9.

Like the TRS Note, the debts attached to the Rhode Island Hospitals by the PACE and MAAP borrowing are the subject of Conditions imposed pursuant to this Approval with Conditions. In order to ensure the MAAP liability does not remain with the Rhode Island Hospitals in the event of a sale or insolvency, the Conditions require PMH to fund a $27 million escrowto be used if PMH does not make these payments, so that this obligation is never left on the Rhode Island Hospitals. The Financial Conditions further require PMH to assume all payments for the PACE debt while it owns the Hospitals, an obligation also protected by millions of dollars in cash escrow.

c. Leonard Green's Role in PMH

The financial performance of the Rhode Island Hospitals and PMH sketched above has occurred while both have been under the ultimate control of Leonard Green, the company with the largest share of PMH stock and the majority of PMH board seats, *see, e.g.*, Wagner SUO I 37:13–21, and the one which is seeking an exit in this conversion. [redacted] *E.g.*, Wagner SUO I 55:12–57:11. Leonard Green typically uses these funds to buy stakes, some majority others minority, in various companies. Baumer SUO I 96:20–97:24. [redacted] Baumer SUO I 49:10–11; 91:8–12; Wagner SUO I 56:4–6; 97:16–98:23; *see also* Wagner SUO I 35:21–23 (describing that Leonard Green's "ultimate duty is for Leonard Green's investors to have a return on their investment")

A large portion of that return on investment is expected [redacted] *See* Wagner SUO I 88:3–6; 94:15–95:21. The latter method for extracting a return on Leonard Green's investments—used in the case of PMH—is known as a dividend recapitalization. Carris Report 2-3; Wagner SUO I 25:7–23, 83:24–84:13; *see* Lee SUO I 66:11–14 (stating he does not think Leonard Green treats PMH and its hospitals differently than its non-healthcare portfolio companies). Leonard Green also makes money [redacted] *E.g.,* Wagner SUO I 131:6–16; 134:7–135:7.

Leonard Green bought its controlling stake in PMH in 2010. Baumer SUO I 88:20–24. [redacted] *See Id.* at 101:15–102:11. Most of this money went directly to the then-shareholders, with little if any kept on PMH's balance sheet. *id.* at 107:17–108:2; Supplemental Response S-46 ("[T]he [Leonard Green] entities purchased shares at the [] time it became a private equity investor."). Except for the approximately $25 million it contributed in 2019 as part of an $41-million capital contribution to PMH, which was returned to Leonard Green in under a year, Leonard Green has never put any of its own money into PMH. Supplemental Response S-46 ("There have been no investments by [Leonard Green] since it [] became a private equity investor in PMH."); Wagner SUO I 139:21–42; 176:8–12.

But it has taken money out: As mentioned above, in 2012, while under the control of Leonard Green, PMH paid Leonard Green and other PMH shareholders (primarily Lee and Topper) a $188-million dividend from the proceeds of bonds that PMH issued. *See* PMH FY2013 AFS at 50. And in 2018, PMH paid Leonard Green and PMH shareholders (again, primarily Lee

and Topper) a total of $457 million in dividends. Carris Report 8. These funds, like those in 2012, came from placing debt on the company, and were paid without the awareness, much less the approval, of those in charge at the Rhode Island Hospitals. *See, e.g.*, DiStefano SUO 98:3–24; Doyle SUO 124:3–129:14. The absence of oversight by board members is concerning to the Attorney General and, in accord with the criteria contained within the Hospital Conversions Act, is addressed with Conditions that require proper training for board members and install proper board by-laws.

The scale and timing of the 2018 Dividend is especially troubling: When it was paid, the $457 million represented approximately 60 days of PMH's operating expenses. PYA Report 15; Lee SUO II 101:9–16. And it came at a time when PMH had only 1 day's worth of cash on hand. Carris Report 8; *cf.* Lee SUO II 72:15–73:18 (testifying that 30 days cash on hand is an approximate ideal). Fiscal Year 2018, moreover, was the year that PMH had a net loss of over $240 million and in which its total liabilities exceeded its total assets by over $620 million. PYA Report 12. That year the company reported approximately $260 million in unfunded pension obligations in the national system. PMH FY2018 AFS. Despite these realities, Lee was willing to testify that PMH "was doing really well financially" in 2018. Lee SUO II 97:10–12, March 9, 2021.

2018 was also the year, as mentioned above, when a significant number of employees at the Rhode Island Hospitals were terminated. Ragosta SUO II 32:12–33:9, March 19, 2021. (confirming the loss of around 126 full-time equivalents from Fiscal Year 2018 to Fiscal Year 2019). During this period, and also mentioned above, PMH's capital investments were not keeping up with depreciation at the Rhode Island Hospitals. Notwithstanding these struggles, Wagner testified [redacted] Wagner SUO I 144:1-

145:2; *see also* Supplemental Response S2-10 ("The Company's senior management determined that the Company had sufficient surplus and that the making of the dividend was in the [C]ompany's best interest."); Lee SUO I 135:10–136:14 [redacted].

PMH's CEO Sam Lee personally received approximately [redacted] of this 2018 dividend, Lee SUO 137:2–4; Topper (via his family trust) took home between [redacted] Topper SUO 150:21–23. These numbers likely account for why this dividend was "viewed very favorably by all of the management team." Baumer SUO I 141:12–15; Lee SUO I 136:9–11 (signaling his agreement with the decision to issue the 2018 Dividend). All told, from 2012 to 2020, Leonard Green, Lee, and Topper have together paid themselves over half a billion dollars in cash from debt that went onto PMH's books—this while the company took the aforementioned $603 million cumulative comprehensive loss from Fiscal Year 2015 to Fiscal Year 2020. *See* Wagner SUO I 140:16–21 [redacted]. The disconnect between investor returns and financial performance contradicts, among other of the Transacting Parties' representations, PMH's CFO Mark Johnson's testimony that "[t]here are really not" major difference between PMH's business model and that of non-profit hospitals. Johnson SUO 22:9–12.

The reason provided under oath for paying these huge dividends is almost as alarming as their size and timing: the dividends were taken because, in Leonard Green's estimation, PMH was earning too much relative to its debt. Wagner SUO I 83:24-85:7; *see* Carris Report 7-8. Instead of using what Wagner called PMH's "extra earnings" to further pay down existing debt, invest in its facilities, or contribute to a rainy-day fund, she and Leonard Green saw them as a nuisance that was "causing [PMH] to pay taxes . . . pay a lot of federal income taxes." Wagner SUO I 84:14–24

"[W]hat we would rather do," Wagner testified, "is incur more debt, pay a dividend, pay more interest, pay less taxes." Wagner SUO I 85:1–15. Baumer agreed: [redacted] Baumer SUO I139:23–140:3. Lee testified that if PMH [redacted] Lee SUO I 145:1–6.

Regarding this rationale, the Attorney General notes as an initial matter that adding debt to a company in order to simultaneously avoid taxes and enrich private investors is particularly concerning given that the company in question, PMH, owns safety-net hospitals, whose main source of income are government (i.e., Medicare and Medicaid) payments. *See* Johnson SUO 112:16–19 (describing PCC's payer mix as "[p]redominantly Medicare, Medicaid"). As Baumer himself stated, PMH is "not taking over Cedars-Sinai," but instead runs and decided to load up with debt "hospitals . . . that are often losing money and maybe going out of business." Baumer SUO I 158 13–18; *see* Ragosta SUO II 51:12–20 (referring to PCC's Fiscal Year 2018 and Fiscal Year 2019 as "difficult years"). And as previously stated, PMH and its subsidiaries received hundreds of millions of dollars in financial aid from federal and state governments in 2020, and are hoping for more. *See* Johnson SUO 50:3–11; Lee SUO II 82:1–6 ("Q. Would you expect additional provider relief funds . . . . A. We have to.").

In the bigger picture, high earnings and low debt strike the Attorney General as a goal for most companies, especially for hospital companies, whose margins tend to be low even in the best of times, and where keeping a financial cushion can mean the difference between the ability to maintain and having to shutter public-health pillars, particularly in unforeseen downturns.[24] *See*

[24] PYA lists some of the "many risks faced by the healthcare provider industry, including but not limited to, public policy and regulatory changes, macro-economic shifts, payer reimbursement changes, impacts of public health

Wagner SUO I 166:8–9 ("Investment-grade companies have very little debt . . . ."); Moody's Investors Service, Mar. 28, 2019, *supra* ("Moody's believes that hospital industry-wide challenges to growth and margin expansion, including weak patient volume trends and increasing cost pressures, will constrain organic earnings and cash flow growth going forward."). As PYA wrote in its report, PMH currently "has somewhat limited ability, in the form of current liquidity especially after recoupment of [funds advanced to PMH by the federal government during the COVID-19 pandemic], to weather additional or continued financial challenges." PYA Report 16; *see also* Carris Report 7 ("COVID-19 adversely affected [PMH's] operations in FY 2020"). "That, in turn," said PYA, "is a risk to the ongoing financial viability of PCC as a PMH subsidiary." *Id.*; Carris Report 11 ("While pandemic relief from governmental entities has provided PMH with some short-term liquidity, that liquidity will evaporate as governmental funds are repaid and accounts payable becomes normalized.").

Adding to the Attorney General's concern is the Transacting Parties' own characterizations of PMH's financial condition, both historically and currently. *See, e.g.*, Lee SUO I 143:23–144:2, 144:16–18 (claiming that the 2018 Dividend had no effect on the Rhode Island Hospitals); Johnson SUO 33:18–21 ("I think going forward . . . there's not any concerns . . . that I would have on the financial performance of the organization."); Topper SUO 89:13–14 (stating that PMH's "balance sheet is very strong"). *Contra* Lee SUO II 106:7–11 ("Q. Any particular concerns regarding the financial viability of Prospect and its related entities? A. The answer was no. But now during this COVID, the answer[] . . . is yes, of course."). The Transacting Parties sometimes contradictory representations about the condition of PMH have hurt their credibility in the Attorney General's assessment of the transaction.

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emergencies and natural disasters, skilled labor availability, supply chain continuity, [and] regulatory compliance investigations." PYA Report 18.

Besides the dividends it took, Leonard Green also made money from PMH by charging it [redacted] from Fiscal Year 2010 through Fiscal Year 2018.[25] Supplemental Response S5-4. Leonard Green partners and PMH executives testified that PMH rarely, if ever, used the services for which these management fees were paid. *See* Wagner SUO I 135:19–136:8. In fact, Baumer, the Leonard Green partner most involved with PMH, testified that he spends "[v]ery, very little time on Prospect." Baumer SUO I 35:21–2. All told, Leonard Green made [redacted] initial investment in PMH. Baumer SUO I 93:7–17; Wagner SUO I 98:24–99:15; *see* Wagner SUO I 106:25–107:1 (remarking that Leonard Green "had done well" with its investment in PMH, and that "it was a good deal on our portfolio").

d. PMH's Financial Stability

PMH's "financial health . . . is of vital importance to [PCC] and its subsidiaries and affiliates." Carris Report 7. Which is why it is concerning that in March 2019, Moody's Investors Service downgraded its assessment of PMH's creditworthiness by giving the company a B3 rating. Moody's Investors Service, Mar. 28, 2019, *supra.* This rating indicates the company's degree of financial instability is such that lending it money would be "considered speculative and . . . subject to high credit risk." Moody's Investors Service, *What is a credit rating?*, https://ratings.moodys.io/ratings. Moody's cited PMH's "very high financial leverage, shareholder-friendly financial policies, and a history of failing to meet projections" as reasons for downgrading the company's creditworthiness. Moody's Investors Service, Mar. 28, 2019, *supra*;

[25] Two separate management fees are discussed in this Decision and should be distinguished. Leonard Green charged [redacted]. In addition, PMH 'charged' a management fee to PCC which was reflected in the Audited Financial Statements as part of operating expenses. PMH has agreed, and the Attorney General in Condition 11 has required, that upon the buy-out of the 15% CCCB ownership, no management fees will be assessed.

s*ee* Wagner SUO I 165:11–22 (stating that "shareholder-friendly polices" refers to PMH's dividend payments).

In July 2019, after PMH had announced its deal with MPT, Moody's commented that "the sale-leaseback transaction does not address the company's continuing operating challenges and lease-adjusted leverage will likely remain high." Moody's Investors Service, *Announcement: Moody's: Prospect Medical's sale-leaseback improves liquidity, however operating challenges remain*, Jul. 16 2019, https://www.moodys.com/research/Moodys-Prospect-Medicals-sale-leaseback-improves-liquidity-however-operating-challenges--PR_405116. The Service went on to say that there was "no immediate impact on Prospect Medical's B3 Corporate Family Rating or its negative rating outlook." *Id*. The Attorney General notes that it was around this time that, by Leonard Green's lights, PMH "was stable and doing well." Wagner SUO I 88:7-25.

Various ratios are used by Moody's and others to gauge a company's financial health. *See* Moody's Investors Service, Mar. 28, 2019, *supra*. The following sections record the values of two ratios calculated by the Attorney General's financial expert—measures of PMH's solvency and liquidity, respectively. Each section then compares the values for PMH with those of publicly traded hospital companies.[26] PYA provided similar comparisons, to similar effect, in its report. PYA Report 14. Again, the Attorney General notes a contradiction between financial reality as depicted in PMH's financial statements and how it is represented in testimony by PMH, including by PMH's CFO, who testified that when compared to other participants in the industry, PMH's financial position is "probably somewhat standard." Johnson SUO 86:5–13; Lee SUO II 27:17–20 ("We are . . . performance[-]wise pretty much . . . consistent with our peers.").

[26] The parties admitted that these companies are useful comparators. Wagner, for example, testified that Leonard Green looked to the financial metrics of publicly traded hospitals when negotiating a purchase price for PMH. Wagner SUO 127:23–129:7.

i. Solvency

The debt-to-equity ratio measures a company's solvency, that is, the company's ability to meet its debt and other financial obligations for the foreseeable future. The lower the value of this ratio, the more solvent the company. A negative debt-to-equity ratio means a company's liabilities outnumber its assets.

The following chart ("Table 1") plots PMH's debt-to-equity ratios from Fiscal Year 2015 through Fiscal Year 2020, which are based on PMH's audited financial statements and calculated by the Attorney General's financial expert. Also plotted are the median debt-to-equity ratios of publicly traded, for-profit hospital companies (*i.e.*, those assigned Standard Industrial Classification 806 by the federal government) for Fiscal Year 2015 through Fiscal Year 2019.[27]

[27] Source: https://www.readyratios.com/sec/industry/806/. The Attorney General recognizes that the for-profit, hospital companies used as comparators are not all of similar size to Prospect; however, as companies in the same industry, the comparisons are useful.

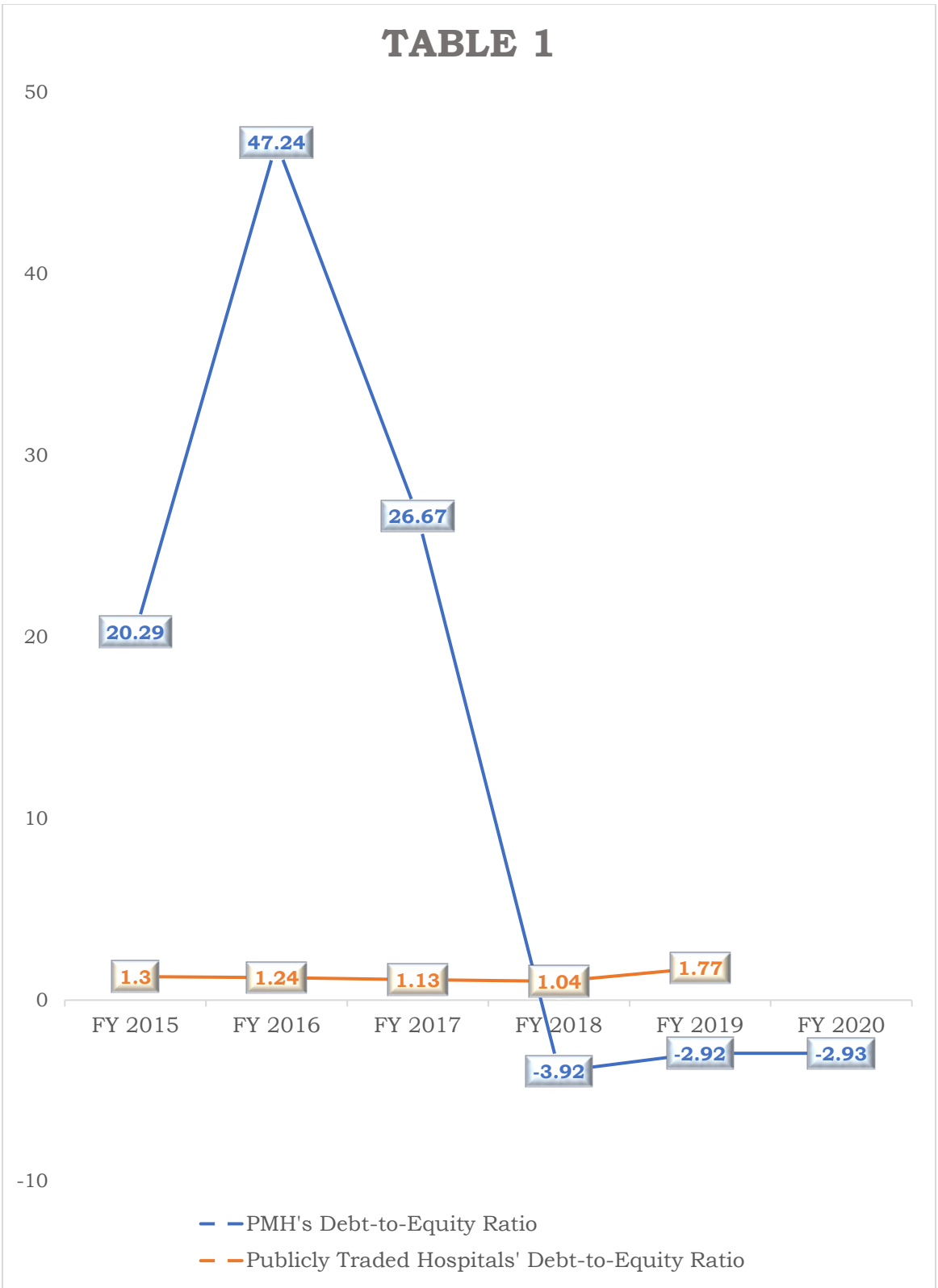
TABLE 1
50
40
30
20
10
0
-10
47.24
26.67
20.29
-3.92
-2.92
-2.93
1.3
1.24
1.13
1.04
1.77
FY 2015
FY 2016
FY 2017
FY 2018
FY 2019
FY 2020
PMH's Debt-to-Equity Ratio
Publicly Traded Hospitals' Debt-to-Equity Ratio

Table 1 shows that PMH had a debt-to-equity value well over 1.0 for Fiscal Years 2015, 2016, and 2017, after which the ratio became negative for the rest of the period. Carris Report 8 ("The debt-to-equity ratio has been negative for the past three years because of large losses and the $500 million in dividend payments."). The Attorney General takes particular note of the fact that the plunge in this ratio's value coincided with the $457-million dividend taken in Fiscal Year 2018. *Accord* Carris Report 2–3 ("[T]he 2018 transaction substantially weakened the balance sheet of PMH, benefitting the shareholders while providing minimal or no funds to any of the local operating entities."). Moody's Investors Service, Mar. 28, 2019, *supra* ("Since completing a debt-funded sponsor dividend in early-2018, Prospect's leverage has increased significantly."). These values and their trend line indicate that PMH's ability to meet its medium- and long-term debt obligations are becoming more uncertain with each passing year. *See* PYA Report 17 ("PMH is in a highly leveraged position."). Table 1 also shows that PMH's debt-to-equity ratios do not compare favorably with those of its publicly traded, for-profit peers, which have hovered between 1.0 and 2.0, and never dipped below 0.0.

ii. Liquidity

Another metric used to gauge a company's financial health is the quick ratio. *See* Carris Report 8. This ratio measures a company's liquidity, that is, its ability to cover short-term financial obligations such as payroll, vendor invoices, and outstanding or impending interest payments. Higher values of the quick ratio indicate a company able to meet its short-term obligations; lower values mean the opposite.

A quick ratio of 1.0, for example, means that a company has a dollar of liquid assets for every dollar in current liabilities. A ratio less than 1.0 indicates that a company has less than a dollar available to pay every dollar in short-term obligations. A ratio of 0.5 would mean a company

has only 50 cents to cover every $1 in short-term obligations. In essence, the lower the value of this ratio, the more likely it is that a company will be unable to pay its bills. This could force the company to make up for the shortfall by selling illiquid assets at a steep discount or seeking protection in bankruptcy.

The following chart ("Table 2") plots PMH's quick ratios from Fiscal Year 2015 through Fiscal Year 2020, which are based on PMH's audited financial statements and calculated by the Attorney General's financial expert. Also plotted are the median quick ratios of publicly traded, for-profit hospital companies (i.e., those assigned Standard Industrial Classification 806 by the federal government) for Fiscal Year 2015 through Fiscal Year 2019.[28]

[28] Source: https://www.readyratios.com/sec/industry/806/.

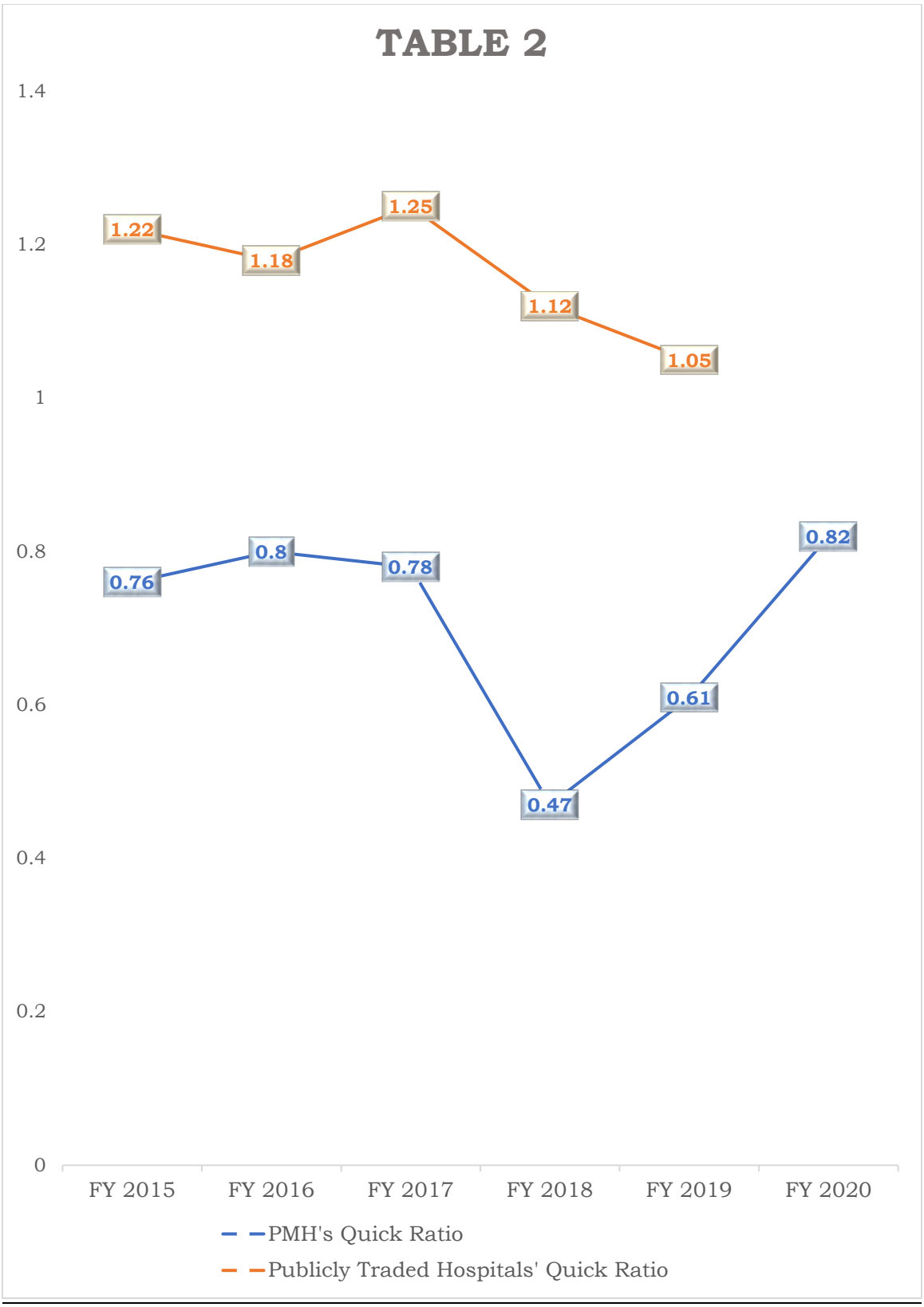
TABLE 2
1.4
1.2
1
0.8
0.6
0.4
0.2
0
1.22
1.18
1.25
1.12
1.05
0.76
0.8
0.78
0.47
0.61
0.82
FY 2015
FY 2016
FY 2017
FY 2018
FY 2019
FY 2020
PMH's Quick Ratio
Publicly Traded Hospitals' Quick Ratio

As Table 2 shows, PMH's quick ratio was under 1.0 at the end of every Fiscal Year from 2015 to 2020, meaning that the company had less than $1 to cover every $1 in short-term financial obligations. *See* Carris Report 11 (expressing concern about liquidity crisis at PMH "within 18 to 24 months"). *Contra* Wagner SUO I 149:23–105:1 ("[PMH]'s probably got more liquidity than it ever has had . . . at any point in our ownership over the last 10 years . . . ."). Like the value of its debt-to-equity ratio, PMH's quick ratio dipped significantly in Fiscal Year 2018, the year of the $457-million dividend, and the year when Wagner testified [redacted] Wagner SUO I144:11–145:2. This despite Wagner's acknowledgment that "companies tend to . . . get into trouble when they run out of cash to pay their bills." *Id.* at 80:8–10. Although these dividends were issued three years ago, with two of the same owners remaining after the transaction, concerns remain and the Conditions imposed by the Attorney General are necessary.

The drop in the value of PMH's quick ratio illustrates the cash shortfall that precipitated the $41 million capital contribution made to PMH by its shareholders in Fiscal Year 2019. *See* Wagner SUO I 146:14–22 [redacted]; Moody's Investors Service, Mar. 28, 2019, *supra* ("Prospect exited its first quarter ending December 31, 2018 without any unrestricted cash and $20 million of availability on its ABL facility (unrated), thereby limiting financial flexibility. In response to this, Prospect's sponsor and certain members of management provided the company with a $41 million cash infusion on January 25, 2019."). PYA's report suggests that PMH's operational performance, assets to serve as collateral, and soon the absence of Leonard Green as a financial partner leaves unclear PMH's ability to access capital going forward to help paper over future liquidity crises.

See PYA Report 17**.** The Attorney General sees this as creating a circumstance where PMH will not be able to find operational cash when it is needed. *See* Carris Report 9 ("PMH has sold substantially all its real property . . . . There is very little left to leverage to provide liquidity.") Moody's Investors Service, Mar. 28, 2019, *supra* (referring to PMH's "cash flow cycle" as "typically volatile").

The uptick in the value of PMH's quick ratio for Fiscal Year 2020 is due in large part to the federal government's COVID-19 relief money that flooded in last year to buoy PMH's balance sheets. Carris Report 10-11 ("Most of the increase [in PMH's cash on hand] appears to be from these government programs."); *see* Baumer SUO I 128:22–129:2 ("[I]f [PMH] didn't get that [COVID-19 relief money], [PMH] would have . . . much less liquidity . . . ."). As discussed previously, much of this relief money will be recovered by the federal government via reduced Medicare reimbursement rates. Carris Report 11 ("While pandemic relief from governmental entities has provided PMH with some short-term liquidity, that liquidity will evaporate as governmental funds are repaid and accounts payable becomes normalized."). And, PYA says, if "delays in economic recovery continues, such delays could have negative impacts on PMH's and PCC's liquidity and ability to meet obligations to third parties." PYA Report 19.

Table 2 above also shows that PMH's ratio lagged the median ratio of publicly traded hospital companies, which remained over 1.0 from Fiscal Year 2015 to Fiscal Year 2019. This indicates that PMH was at a relatively higher risk of running out of cash or other liquid assets to meet its short-term financial obligations than its publicly traded counterparts.

* * *

As evidenced above, PMH has a history of prioritizing shareholder returns over stable balance sheets. *Accord* Carris Report 11 ("My overall conclusion is that PMH is a highly leveraged

company that continues to have large annual losses. . . . [T]he current owners issued $500 million in dividends which benefitted the shareholders and weakened the financial position of PMH."). The company's commitment to realizing short-term, debt-financed dividends has likely been, in part, the product of Leonard Green's desire to make back its initial investment plus a return before selling the company, all in just a few years. As opposed to the wellbeing of Rhode Islanders, what Leonard Green and its "investors ultimately care about is getting cash back." Wagner SUO I 95:8–9. PMH will hopefully adopt a steadier, less-leveraged, longer-term business plan once Leonard Green exits.

But hope is not enough when it comes to ensuring the continued viability and development of critical Rhode Island healthcare services, particularly when the keys to the company will be handed over to two men who have supported and implemented many of the decisions that kept PMH walking a financial tightrope for years. *See* Baumer SUO I 78:15–18 (recalling no "major areas of disagreement between Leonard Green and the Prospect management"); Wagner SUO I 57:12–18 (same); *see also* Wagner SUO I 19:9–13 (testifying that Leonard Green "rel[ies] on strong management teams to run [its portfolio] businesses for us"); Topper SUO 34:16–19 (stating that PMH chose to partner with Leonard Green because Leonard Green "would allow management to operate. They wouldn't interfere."); Topper SUO 167:2–4 (testifying that "hopefully" PMH will pay more dividends in the next 5 years).

In order to protect RWMC and OLF from PMH's practice of operating with substantial leverage, little liquidity, and sizable interest payments, the Attorney General has decided to impose long-term, bankruptcy-shielded monetary conditions that ensure "the acquiror's adherence to a minimum investment to protect the assets, financial health, and well-being of the new hospital and for community benefit." § 23-17.14-28(c); *accord* Carris Report 11-12 (suggesting imposition of

financial conditions with similar characteristics). These conditions will secure a future where PMH continues to help its Rhode Island Hospitals meet their operating and non-operating expenses. The conditions also require that PMH increase its capital investment in the Rhode Island Hospitals, both to make up for deferred capital expenditures and to prevent further deferments.

The Conditions mandate that funds necessary for the PCC system be secured up front by $80 million in either cash escrows or irrevocable standby letters of credit. *See* Carris Report 12 (recommending that financial conditions "be pre-funded or otherwise protected in the event of a restructuring by PMH"). There are two primary reasons for this requirement: The first is to guarantee that operations at the Rhode Island Hospitals will be protected if PMH's financial position tips into an "Insolvency Event," as that term is defined in the Conditions below. The second reason for the escrows/letters of credit—as well as a reason for requiring that PMH pay all future costs of the PACE loans—is to dissuade PMH management from treating its Rhode Island Hospitals like it has those in other states: as assets available for encumbrance by PMH in order to forestall a liquidity crunch or insolvency crisis brought on by a business model that has prioritized returns on investment over the needs of safety-net hospitals.

Rhode Islanders can ill afford their healthcare infrastructure serving as a private bank for private investors. The financial conditions the Attorney General imposes here are necessary to protect the State and its citizens from the fallout of such previous practices and from the practices themselves going forward.

B. BOARDS OF DIRECTORS

Numerous provisions of R.I. Gen. Laws Section 23-17.14-7(c) involve a review of the actions of the board of directors of the existing hospital, the acquiree.[29] Applying these criteria to

[29] *See e.g.*, Hospital Conversions Act, R. I. Gen. Laws §§ 23-17.14-7(c) (3), (4), (5), (8), (9), (10), (11), (13), (14), (15), and (23).

the instant review, the Attorney General reviewed the actions of the boards of directors with respect to their decision to pursue this the Proposed Transaction, the board's use of consultants, and the structure of the board post-conversion. In addition, the Attorney General makes observations of the functioning of both the PMH and the local boards that pertain to Section 23-17.14-28(c) and the purpose of Chapter 23-17.14. Where board-specific criteria direct consideration of a criterion "in relation to carrying out its mission and purposes," the Attorney General includes in his consideration the mission and purpose of Prospect CharterCARE which, of course, PMH as the owner of those hospitals is likewise obligated to advance.

1. Board Decision to Pursue a Conversion[30]

The first criteria of the Hospital Conversions Act guiding the review of the actions of the board of directors in pursuing a conversion is found at R.I. Gen. Laws Section 23-17.14-7(c)(3):

> Whether the board established appropriate criteria in deciding to pursue a conversion in relation to carrying out its mission and purposes.

Here, the board of directors did not establish any criteria in the context of pursuing the conversion. *See* Response to Initial Application Question 7. This absence of articulated criteria interferes with the Attorney General's ability to conduct a meaningful evaluation of the bases for the transaction, such as any goals or plans associated with it, including whether such bases are "appropriate." This vacuum also undercuts the ability to consider the reasons for the transaction in relation to the mission and purpose of either the PMH board or the Rhode Island Hospitals. Thus, the board's decision not to establish such criteria is concerning.

Notwithstanding the absence of established criteria, the Transacting Parties offered an explanation for the transaction in the context of their Initial Application. The transaction is

[30] For purposes of this section, the reference to "board of directors" means the board of Prospect Medical Holdings, Inc. and Ivy Holdings, Inc.

described as a buy-out of the private equity investors Leonard Green—essentially an in-house transaction—such that criteria in the traditional sense were not applied. *See* Response to Initial Application Question 1. Unlike the traditional third-party transaction, Leonard Green as seller is familiar with the buyers, particularly Lee, who had been operating the company for the entirety of Leonard Green's investment in Prospect. Leonard Green representatives on the Prospect board testified that, overall, Leonard Green was satisfied with Lee and Topper's running of the company. *See* Baumer SUO I 164:14-23; Wagner SUO I 70: 6-25. Additionally, while not "criteria" in the traditional sense, Leonard Green did require certain terms to be made part of the Merger Agreement in order to effectuate the buy-out because "it seemed like a prudent and appropriate provision to put in place." *See* Baumer SUO I 118:16-24 (referencing Section 6.09 of the Merger Agreement, a requirement that no dividends be paid for two (2) years or until Prospect fulfilled a $50 million mandated pension payment (in addition to a $70 million pension payment that was made initially *see* Section 4.07)); *see also* Supplemental Response S2-5.

As this applicable section of the HCA directs consideration of whether the decision to pursue a conversion relates to the "mission and purpose," the Attorney General evaluated the decision on those terms, as well. The entity closest to the delivery of health care in Rhode Island and owned by the Transacting Parties is PCC. Its purpose is stated as follows:

> The purposes of the Company are: (i) to provide and promote the growth of health care services in the greater Providence, Rhode Island metropolitan service area (including charitable care and community health services); (ii) to provide efficient and cost-effective rendering of health care services for the benefit of health care consumers in the greater Providence, Rhode Island metropolitan service area; (iii) to provide quality medical care at competitive charges; (iv) to provide consumers of health care choice in providers of care; (v) to own, manage, operate, lease or take any other action in connection with operating the Hospitals and other health care related services and businesses; (vi) to acquire (through asset acquisition, stock acquisition, lease or otherwise) and develop other property, both real and personal, in connection with providing health care related services, include, without limitation, general acute care hospitals, specialty care hospitals, diagnostic imaging

> centers, ambulatory surgery centers, nursing homes, clinics, home health care agencies, psychiatric facilities and other health care providers; (vii) to deploy ambulatory locations of care; (viii) to recruit and integrate physicians; (ix) to institute safety and quality improvement initiatives; and (x) generally to engage in such other business activities and to do any and all other acts and things that the Board of Directors deems necessary, appropriate or advisable from time to time in furtherance of the purposes of the Company as set forth in this Section 3.1.

Amended & Restated Limited Liability Company of Prospect CharterCARE, LLC dated June 20, 2014 ("LLC Agreement") Section 3.1.

It is concerning that, as described by the Transacting Parties, the Proposed Transaction was not contemplated "in relation to" these purposes. It is notable to the Attorney General that the purpose for which PCC is organized is closely aligned with the purpose of the Hospital Conversion Act found at § 23-17.14-3(1)—"Assure the viability of a safe, accessible and affordable healthcare system that is available to all the citizens of the State"—to which the Attorney General is directed in § 23-17.14-28(c).

The criterion found at R.I. Gen. Laws Section 23-17.14-7(c)(4) states: "Whether the board formulated and issued appropriate requests for proposals in pursuing a conversion." There were no requests for proposals—appropriate or otherwise—formulated by the board, again precluding a full review of factors relevant to the decision to pursue the Proposed Transaction. As this was an in-house buy-out of majority stockholders where the sellers comprise 60% of the board, what the Transacting Parties took into account when negotiating the purchase price may be considered "requests for proposals." In that regard, the Transacting Parties described the following factors:

1. The enterprise value of PMH;
2. The equity value of PMH;
3. The dividend recapitalization transaction which occurred in fiscal year 2018;[31]
4. Future obligations of PMH; and
5. Future capital needs of PMH.

[31] The dividend recapitalization was a board-approved dividend payment of $458 million that was made by Prospect to its shareholders in February 2018.

See Initial Application, Tab 23.

While in the context of the Proposed Transaction the above factors were outlined in the Transacting Parties' responses to requests and referenced in testimony, no evaluations of factors one, two, four, or five were performed. *See* Baumer I 110:24-111:6; Lee I 120:12-19. In other words, there is no independent objective evidence based on which the Attorney General can evaluate the factors the Transacting Parties say they considered.

Section R.I. Gen. Laws § 23-17.14-7(c)(5) states: "Whether the board considered the proposed conversion as the only alternative or as the best alternative in carrying out its mission and purposes." Here, the board considered no alternatives to the Proposed Transaction. In fact, when another offer came in from Prime, Lee testified that he "d[id]n't really pay attention to it." Lee SUO I 118:2-12. Nor is there any evidence that, in deciding to consider only this form of Conversion, the parties accounted for "mission and purpose."

The criterion at R.I. Gen. Laws § 23-17.14-7(c)(11) states: "Whether the board exposed an inappropriate amount of assets by accepting in exchange for the proposed conversion future or contingent value based upon success of the new hospital." The Merger Agreement does not include consideration that is based upon future or contingent value based upon success of Prospect or the Rhode Island Hospitals. In fact, Prospect has been funding losses at the Rhode Island Hospitals since the joint venture in 2014. PYA Report 7. Through testimony, Prospect management sees no concern in continuing to fund those losses but was unable to make any firm promises about this. *See* Johnson SUO 147:9-12 (no concern that Prospect will not be able to fund losses); Pillari SUO 102:1-6, March 22, 2021 (Prospect would continue to fund losses unless a decision is made to close). With respect to the future security (and thus the future value) of the Rhode Island Hospitals, the post-conversion 33% owner David Topper testified that he would personally fund the hospitals

if Prospect were not able to do so in the next couple of years "under the right circumstances," which he takes to mean "if there's a light at the end of the tunnel, if it's an investment." Topper SUO 140:25-141:8. The current and post-conversion owner Lee testified that he would be able to personally invest in the hospitals if PMH could not depending on the amount needed, although he could not state what that amount would be. Lee SUO II 41:2-11. While it may seem at first reassuring that the prospective new owners are prepared to commit their own wealth to the Rhode Island Hospitals, it is concerning at least David Topper appears to recognize that need may arise in the next couple of years. However, this is consistent with the evaluation of the Attorney General's financial expert James Carris, who notes in his report that he anticipates a liquidity crisis for Prospect within 18 to 24 months. Carris Report 11.

To the extent it is the purpose of these criteria to allow meaningful and objective regulatory review of transfers of interest in Rhode Island hospitals, the Attorney General finds that purpose frustrated by the lack of independent, professional, and appropriate criteria; appropriate requests for proposal; and consideration of alternatives in relation to the Proposed Transaction.

2. Board Use of Consultants[32]

Two criteria in the Hospital Conversions Act deal with a board's use of consultants. *See* R.I. Gen. Laws §§ 23-17.14-7(c)(8) and (9). These read as follows:

> (8) Whether the board exercised due care in engaging consultants with the appropriate level of independence, education, and experience in similar conversions; and
>
> (9) Whether the board exercised due care in accepting assumptions and conclusions provided by consultants engaged to assist in the proposed conversion.

[32] For purposes of this section, the reference to "board of directors" means the boards of Prospect Medical Holdings, Inc. and Ivy Holdings, Inc.

The Transacting Parties offered a limited rationale for the process they followed in arriving at the transaction. Specifically, the parties said they are sophisticated and did not need outside assistance for valuation. *See* Initial Application, Tab 23.[33] However, no consultants, other than corporate and outside counsel, were engaged by the board related to the proposed conversion. *See id.* at Responses to Question 8; Question 9. This is concerning to the Attorney General. These criteria direct consideration not simply of whether or not consultants were used by the Transacting Parties in evaluating the Proposed Transaction. The statute directs an evaluation of whether consultants were independent of the parties, brought sufficient training and experience to their review, whether the transacting parties accepted assumptions and conclusions of these qualified and independent reviewers, and, overall, whether due care was exercised by the Board with respect to each of these factors. As is evident from the precise language of these criteria, in a transaction involving a for-profit entity, the ability to see objective and reviewable bases for the conversion is key to the regulator's Decision. Arguably, objectivity is even more important where, as here, the parties are engaged in an in-house transaction without even market forces to pressure a transaction of value to the overall company.

Here, there was no independent eye on this transaction, leaving no basis to conclude that Prospect exercised due care in engaging consultants. R.I. Gen. Laws § 23-17.14-7(c)(8).

3. Remaining Board Criteria

Additional criteria in the Hospital Conversions Act deal with the structure of the board post-conversion. *See* 23-17.14-7(c)(25)(vi)–(ix).[34] These read as follows:

[33] Aside from the manner by which the Transacting Parties arrived at the valuation, concerns about the resulting valuation itself are addressed in Section A above.

[34] Another consideration is whether the new entity has bylaws and articles of incorporation. *Id.* § 23-17.14-7(c)(25)(i). Here, both have. The new corporate entity that will purchase Leonard Green and the minority owners' shares is Chamber. Chamber is a Delaware corporation incorporated on September 17, 2019. CEC Application Tab 26. Chamber was created for the purposes of effecting the Proposed Transaction. Initial Application 1. Chamber's bylaws were provided by the Transacting Parties and essentially mirror Ivy's bylaws. CEC Application Tab 26.

(vi) whether the board of any new or continuing entity will be independent from the new hospital;

(vii) Whether the method for selecting board members, staff, and consultants is appropriate;

(viii) Whether the board will comprise an appropriate number of individuals with experience in pertinent areas such as foundations, health care, business, labor, community programs, financial management, legal, accounting, grant making, and public members representing diverse ethnic populations and the interests of the affected community; and

(ix) Whether the size of the board and proposed length of board terms are sufficient.

As is evident, with respect to a transaction involving a for-profit purchase of a Rhode Island hospital or hospital system, the legislature points the Attorney General to consideration of the process by which a board is composed and the skills and diversity of the people who populate the board.

The criterion at R.I. Gen. Laws § 23-17.14-7(c)(14) provides: "Whether the board accepted fair consideration and value for any management contracts made part of the proposed conversion." The Attorney General evaluated the two management service agreements Prospect has assumed to date since it purchased the Rhode Island Hospitals and does not find a basis to conclude the management services were provided for "fair consideration and value."

As part of Leonard Green's investment in Prospect in 2010, a ten-year Management Services Agreement ("LG Management Agreement") was entered into between Prospect and Leonard Green. *See* C-CIIH-007669-007675. The Transacting Parties asserted that this type of fee "is a standard private equity fee intended to compensate Leonard Green for its time and resources spent working with PMH." *See* Supplemental Response S3-11. The fee is no longer being collected and "[f]ollowing the closing of the Proposed Transaction, this fee will be eliminated and not

replaced with anything equivalent from any other party." *Id.* It appears from the testimony that nothing is needed to replace those services, as Prospect used the services infrequently, if at all. *Id*. The conclusion of this arrangement raises the question as to the value of the services paid for given they were rarely used and are not being replaced.

The other management agreement that was considered during this review is the Management Services Agreement that operates between Prospect CharterCARE and Prospect Advisory. *See* 2014 Decision at 15 f. 39 (citing Initial Application Exhibit 18). As part of the 2014 Prospect CharterCARE joint venture, Prospect East, as the managing member of Prospect CharterCARE, LLC, delegated its day-to-day management of the Rhode Island Hospitals to Prospect Advisory under the Management Services Agreement ("PCC Management Agreement"), which provides for a number of services, including assistance with operational activities. *Id*. Under the PCC Management Agreement, Prospect Advisory works with senior leadership team members of Prospect CharterCARE, LLC to run the day-to-day operations of the Rhode Island Hospitals. This type of agreement is unique to Prospect CharterCARE because of the joint venture; Prospect does not have these types of agreements with its other hospital subsidiaries. As discussed below, the parties contemplate that the Prospect CharterCARE joint venture will be dissolved, and Prospect will gain 100% ownership in Prospect CharterCARE. Prospect plans to eliminate the PCC Management Agreement once the St. Joseph's pension settlement is approved. *See* Supplemental Response S7-9. As is already contemplated by the Transacting Parties, the Attorney General will require that the Management Services Agreement be terminated as a condition of approval. The Attorney General will also require that no accrued management fees be assessed against, or collected from, PCC.

4. Other Board Issues

Throughout the Attorney General's review of the Proposed Transaction, there were a number of other board related issues and concerns that surfaced as to both the Prospect and Ivy boards of directors, as well as the Prospect CharterCARE board of directors. Given the recurring attention in the Hospital Conversions Act to the conduct, composition, and professionalism of boards of directors of for-profit acquirors, the Attorney General includes these observations in this Decision in fulfillment of his duties under the Act.

a. Duty of a Healthcare Board

Throughout this review, the Attorney General has focused on the duty of a healthcare board, especially in the face of the Prospect and Ivy boards permitting new debt in order to issue large dividends, leading, as it has, to a significantly untenable debt-to-asset ratio and financial risk, in a sector that not only employs thousands of Rhode Islanders but on which we often must rely for care at our most vulnerable moments. As discussed above, by passing the Hospital Conversions Act, the legislature accounted for and balanced the risks associated with for-profit ownership of hospitals and hospital systems by requiring the Attorney General to "protect the assets, financial health, and well-being of the new hospital …" R.I. Gen. Laws § 23-17.14-2(c).

Towards that end, and specifically with respect to the functioning of the boards of directors, the Attorney General has addressed elsewhere in this Decision the extent to which the Transacting Parties exhibit a conflict between a drive to maximize their own income and the duty to protect safe, viable, accessible healthcare. Here, it was concerning that a board member did not differentiate between the duties associated with membership on a healthcare board from any other board, specifically testifying that there is no difference of fiduciary duty between a health care company and retail company. *See* Baumer SUO I 41:10-15. Also concerning is that another board

member testified that their ultimate duty was to Leonard Green. *See* Wagner SUO I 35:21-25; 36-1.

b. Additional Concerns: Prospect CharterCARE Board

Under the terms of the 2014 transaction, it was contemplated that the governing board of Prospect CharterCARE, LLC would be a 50/50 board (the "PCC Board") with half of its members selected by and through Prospect East's ownership (Category B members) and the other half of the members selected by and through CCCB's ownership (Category A members). *See* 2014 Decision at 36. The PCC Board was intended to be the organized governing body responsible for the management and control of the operations of the Rhode Island Hospitals, and governed by the terms of the LLC Agreement. *Id.* The LLC Agreement specifically charges the PCC board with "overall oversight and ultimate authority over the affairs of the Company and the Company Subsidiaries," and defines 24 actions that require approval of the PCC Board. *See* LLC Agreement Section 12.1.; Section 8.3. Included in those 24 actions are "[d]evelopment and approval of a strategic plan for the Company" and "[a]pproving the annual operating and capital budgets of the Company." *Id.* at Section 8.3(b) & (c).

Throughout the review, the Attorney General discovered that the PCC board members were not observing best practices expected of the governing body. Board members did not seem to have a basic working knowledge of the financials of the Prospect CharterCARE. One Category A board member was not aware of Prospect sweeping the cash of PCC daily, *see* DiStefano SUO 129:9-11, or the structure of the PCC board. Another board member was not aware of Category A and Category B members, *see* Doyle SUO 70:15-20. At least two of the four Category A board members had never seen or were not familiar with the LLC Agreement. *See* Doyle SUO 107:14-22; Quinlan SUO 77:21-78:2, Jan. 7, 2021.

Additionally, and of particular concern, *the PCC board never asked about the financial condition of Prospect, the company that owned and determined the future of the company on whose board they served*. *See* DiStefano SUO 138:17–140:6; Doyle SUO 67:16-68:5. Through testimony, it was reported that the capital and operating budgets were presented to the PCC board *after* they were approved by Prospect management. *See* Ison SUO 51:16-24, 52:7-15. Likewise, the PCC board was apprised of local (PCC) strategic plans and acquisitions but was not part of the vetting or day-to-day processes. *See* Doyle SUO 83:4-84:3. It appears to the Attorney General that the PCC board was simply putting a "rubber stamp" on the actions of Prospect. This is especially concerning when half the PCC board was comprised of representatives (by voting rights) of CCCB. Finally, a long-time member of the PCC board was being compensated under a consulting agreement with Prospect beginning in 2018, a clear and direct conflict of interest. *See* C-CIIH-008520.

It was also concerning that the PCC board was not provided with information regarding the Proposed Transaction until months after the Merger Agreement was signed, when the Transacting Parties were preparing to re-file the HCA Initial Application in February 2020 and needed signed Conflict of Interest Statements from the PCC board members. *See* Supplemental Response S-4; *see* also DiStefano SUO 85:1-6. While the PCC board would not have a vote as to whether its parent company entered into a transaction, in order to perform their mandated functions, members of the PCC board should, at a minimum, have been provided with a presentation and an opportunity to inquire into the reason for the departure of the 60% private equity owner.

During the pendency of the HCA review, in July 2020, the Liquidating Receiver of CCCB removed and replaced the existing Category A board members. *See* C-CIIH-007827-007828. That

change prompted a dispute between Prospect and CCCB that resulted in suspension of meetings of the PCC board after June 2020 (except for a special meeting to approve a settlement related to the St. Joseph pension plan litigation). It is highly concerning that the governing body with obligations to oversee two Rhode Island safety-net hospitals was not meeting during the COVID-19 pandemic.

Thereafter, in December 2020, Prospect entered into a Settlement Agreement to resolve all litigation related to the pension (hereinafter referred to as "Pension Settlement"). *See* Case No. 1:18-cv-00328-WES/PC-2017-3856. As part of the Pension Settlement, the LLC Agreement was amended to remove the requirement that the actions listed in Section 8.3 of the LCC Agreement require the approval of the Category A board members. *See* Pension Settlement ¶15. There was also an agreement that the newly appointed Category A board members would not attend any PCC board meeting during the pendency of the proceedings for the settlement agreement. *Id.* at ¶ 19 Agreement. Both of these provisions are concerning to the Attorney General. Certainly, the Attorney General appreciates the complex and contentious litigation that resulted from the St. Joseph pension plan and the enormous amount of time and effort all parties put into a resolution to the matter. To address his concerns, the Attorney General imposes Conditions requiring the LLC Agreement to be amended to require a majority vote of the board members, which will continue to have 40-49% community representation, for all matters in Section 8.3 after the proceedings are complete. Additionally, since approval of the settlement and subsequent buy-out is expected to occur after this Decision, any and all changes to terms of the settlement must be reported to and approved by the Attorney General.

Once Prospect becomes the 100% owner of Prospect CharterCARE, it will have the authority to nominate both Category A and Category B members and/or further amend the LLC

Agreement to remove the Category A members altogether. While Prospect has stated they intend to maintain the Category A members post buy-out, there is currently no requirement to do so. The Attorney General continues to recognize the importance of maintaining local representation on the PCC board, especially with an out-of-state parent, but the board members must be fully engaged and honor their fiduciary duties. Therefore, appropriate conditions will be put in place to ensure the continuance of a locally represented board with meaningful representation that lacks any conflicts of interest and has the tools it needs to fulfill its fiduciary duties.

C. CHARACTER, COMMITMENT, COMPETENCE AND STANDING IN THE COMMUNITY

R.I. Gen. Laws Section 23-17.14-7(c)(28) asks "Whether the character, commitment, competence and standing in the community, or any other communities served by the transacting parties are satisfactory. Section 7(c)(28) is an important and encompassing portion of the Hospital Conversions Act review criteria. Here, the relevant parties under review are Prospect, as well as Lee and Topper, who will become the sole owners of Prospect as a result of the Proposed Transaction. The character, commitment, competence, and standing in the community of Prospect, Lee, and Topper raise serious concerns that must be addressed in a manner to ensure the continued viability of the hospitals.

1. Important Community Asset

Before discussing the character, commitment, competence, and standing in the community of Prospect, Lee, and Topper, the Attorney General wants to recognize the importance of RWMC and OLF in the landscape of Rhode Island healthcare. Both hospitals provide vital services to their surrounding communities. RWMC, an academic medical center, has the state's only bone marrow transplant program and dedicated behavioral health emergency department. Both hospitals serve

crucial populations, including psychiatric, cancer, and geriatric patients, to name a few. Throughout this review, the Attorney General has seen the dedicated services of the frontline workers that make it possible for these facilities to run and provide care to Rhode Islanders. And it would be neither fair nor accurate to ignore the fact that many of these improvements have occurred under Prospect's ownership. Capital investments in RWMC and OLF since 2014 have revived aging physical plants, expanded services, and attracted new physicians. *See* AMI Final Report at 35. Even this year, RWMC opened "Rhode Island's first completely dedicated emergency room unit to treat mental health, drug and alcohol medical emergencies"—certainly an essential need in the state.[35]

2. Character, Commitment, Competence, and Community Standing as Evidenced by Quality, Employee Relations, Regulatory Failures, and Closed Hospitals

In Rhode Island, the Center for Medicare & Medicaid Services ("CMS") mediocre star ratings of these hospitals have not improved since 2014 (both were rated at a 3 in 2014).[36] In fact, OLF's star rating has decreased and is most recently at a 2.[37] RWMC and OLF are in the bottom half of the state's hospitals overall based on CMS ratings.[38] The Rhode Island Hospitals have been penalized by CMS since 2014 by a reduction in Medicare payments under a program that measures

[35]https://www.chartercare.org/news/roger-williams-medical-center-opens-behavioral-health-and-substance-use-emergency-treatment-unit/.

[36] Henry Powderly, *CMS updates hospital star ratings, more than 500 earn top marks*, Healthcare IT News, July 23, 2015, https://www.healthcareitnews.com/news/cms-updates-hospital-start-ratings-more-500-earn-top-marks (search "Roger Williams Medical Center" and "Our Lady of Fatima"); https://www medicare.gov/care-compare/details/hospital/410004?city=Providence&state=RI ("Roger Williams Medical Center" as of April 23, 2021).

[37] https://www.medicare.gov/care-compare/details/hospital/410005?city=Providence&state=RI ("Our Lady of Fatima" as of April 23, 2021).

[38]https://www medicare.gov/care-compare/results?searchType=Hospital&page=1&city=Providence&state=RI&radius=25&sort=closest (comparing all Rhode Island Hospitals as of April 23, 2021).

rates of infections, blood clots, and other preventable complications that occur at hospitals.[39] The Attorney General received a 2017 consulting report that outlines findings of inspection of the equipment in operating rooms at OLF and identifies priority items to address as well as an action plan. *See* C-CIIH-008262-008316. Litigation ensued when Prospect refused to provide an internal report associated with this issue. *See NLRB v. Prospect CharterCARE*, No. 19-2289 (1st Cir. 2019).

We heard from hospital employees that supply shelves are often empty, the equipment and supplies are "substandard," and old equipment is left unreplaced. *See* Public Meeting, testimony of Lynn Blais 89:13-90:18, Dec. 10, 2020; *see also* testimony of Cindy Fenchel 79:2-22; 79:23-80:5 (noting assault of employees by behavioral health patients due to lack of security guards and larger turnover rate of employees). In March 2020, there was a COVID outbreak in the geriatric psychiatric unit at OLF that infected 19 of the 21 patients. *Id.* at 92:9-13. Unfortunately, 6 later died. *Id*. While the Attorney General appreciates that hospitals across the State and nation were grappling with preparedness for the pandemic early on, these numbers are startling. PCC management has vigorously disputed these criticisms and asserts that the quality of care provided at these hospitals is high. *See* Milo SUO 95:14-23, October 27, 2020; Leahey SUO 64:18-66:7, 143:16-146:15; 147:14-148:8, October 26, 2020.

These concerns are not limited to Rhode Island. Prospect was under a Certificate of Need settlement agreement with the Connecticut Department of Public Health ("DPH") related to its acquisitions of three Connecticut hospitals in 2016.[40] Despite meeting all conditions of the

[39] Jordan Rau, *Look Up Your Hospital; Is It Being Penalized by Medicare?* KHN, Feb. 18, 2021, https://khn.org/news/hospital-penalties/ (search "Rhode Island" for penalties from 2015-2021).

[40]https://portal.ct.gov/OHS/Health-Systems-Planning/Certificate-of-Need/Hospital-Mergers-Acquisitions-and-Compliance (Waterbury, Docket No. 15-32017-486; Manchester Memorial Hospital & Rockville General Hospital, Docket No. 15-32016-486.

settlement agreement, DPH extended that consent order for 18 months due to clinical and quality concerns.[41] We are informed that the consent order is due to expire in May 2021.

Another consideration here is the relationship among Prospect, the Rhode Island nurses, and other essential front-line workers.[42] United Nurses and Allied Professionals ("UNAP"), representing roughly 600 employees at OLF, raised concerns about Prospect and registered objections to the Proposed Transaction throughout the entirety of the Attorney General's review. As mentioned above, the Attorney General heard from union leadership about lack of appropriate and quality medical equipment, staffing shortages, and morale issues. *See* Callaci SUO 86:12-88:21 (identifying inadequate staffing, inadequate equipment, and lack of trust of Prospect as the three major concerns that UNAP has with the operations of OLF). Since Prospect's acquisition of PCC, roughly 400 ancillary employees formed a union because they were "unhappy with the pressure that comes with inadequate staffing," among other things. *Id*. at 91:9-22. According to Christopher Callaci, counsel for United Nurses and Allied Professionals which represents staff at Prospect hospitals, roughly 50 to 70 employees at Prospect Rhode Island Home Health and Hospice are voting on whether to organize a union because they are unhappy with Prospect as an employer. *Id*. at 29:5-23. The Attorney General is concerned that labor relations at these two safety net hospitals appear to be fraught. Hopefully, with the resolution of the St. Joseph's pension case,

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https://www.courant.com/news/connecticut/hc-news-waterbury-manchester-rockville-hospitals-scrutiny-20191210-ina3iijrzzdj3atlwi2lokyqhq-story html.

[41] Josh Kovner, *Oversight of for-profit owner of Waterbury, Manchester, Rockville hospital continued for 18 months after suicide, string of medical errors,* Hartford Courant, Dec. 10, 2019,
At the time of writing of this decision, a final report on compliance has not been completed.

[42] The Attorney General notes that a number of physicians have given statements at the Public Meeting and Health Services Council meetings and none have raised concerns about Prospect's ownership. In fact, many have praised Prospect. With that said, several (though by no means all) of those physicians were recruited under Prospect's ownership or have formed relationships with Lee, Topper and other Prospect executives, which has not been the experience for the nurses and other frontline workers.

as well as the departure of the private equity owner, the new owners can work on repairing and stabilizing this relationship in the future.

In recent years, Prospect made plans to sell, and later closed, some of its other hospitals. *See* CIIH16-000976. In 2019, Prospect decided to close the Nix Hospital System ("Nix") in Texas (selling some of its assets to real-estate investors) and sell the East Orange General Hospital ("EOGH") in New Jersey, as both were "going concern" businesses. *Id*. The sale of EOGH is currently pending. The Attorney General understands that Prospect's business model of acquiring distressed hospitals with a plan to make them profitable cannot always be successful, but Prospect did not close or sell a hospital during the course of the first twenty years it had been in this business. The recent pattern is concerning. *See* 2014 Decision p. 45.

Further, it cannot go without saying that other conduct discussed herein (*see supra*, Sections A. Board of Directors) weigh heavily against the character, commitment, competence, and standing in the community of these parties. The dysfunctional board, the conflicts, and the failure of the Transacting Parties to meaningfully vet the Proposed Transaction all must be considered and not ignored.

3. Financial Decisions and Priorities of the Transacting Parties

It is significant that the Hospital Conversions Act includes character, competence, commitment, and community standing among the criteria used to review a transaction involving a for-profit acquiror. Clearly the legislature contemplated that, notwithstanding the fact that for-profit companies are permitted to purchase hospitals in Rhode Island, they must be judged not merely based on their ability to meet their own goal of making a profit; both DOH and the Attorney General are directed to consider for-profit acquirors based on higher and more universal measures.

Before addressing the Transacting Parties larger financial decisions, it must be noted that that, while Prospect has made the capital investments required under the 2014 Decision, it has nonetheless failed to keep up with depreciation at the PCC hospitals. *See* PYA Report 10. These equipment concerns [redacted] *See* C-CIIH-013996.

The Transacting Parties have left a hospital system described in the PYA Report as in a financial condition that "absent governmental assistance associated with the COVID-19 public health emergency, could raise questions regarding the ongoing financial viability of PMH to support its subsidiaries, including PCC." PYA Report 12. They have also realized over half a billion dollars in dividends that is now carried on the PMH books as debt. *See* Section A, and references therein. Given their course of conduct, it should come as no surprise that the two post-closing owners could not commit to personally funding hospitals if PMH, as a company, is unable to do so. Topper SUO 140:25-141:8; Lee SUO II 41:2-11.

E. <u>Tax Implications of the Proposed Transaction</u>

There are three criteria in the Hospitals Conversions Act that deal with the tax implications of the Proposed Transaction. [43] These criteria have historically been viewed through the lens of a non-profit corporation converting to a for-profit corporation. For instance, considering "[w]hether the conversion is proper under applicable state tax code provisions" (and "[w]hether the proposed conversion jeopardizes the tax status of the existing hospital") hinges on a non-profit losing its status, which has important tax and other implications. Likewise, "[w]hether appropriate tax status implications of the entity received the proceeds of have been considered" is applicable to a for-profit entity receiving proceeds from a non-profit, which may be charitable or otherwise restricted.

[43] *See* R.I. Gen. Laws §§ 23-17.14-7(c)(20), (21) and (25)(ii).

As the Transacting Parties are already for-profit corporations and for-profit limited liability companies, these criteria were not applicable to the Attorney General's review.

G. MISCELLANEOUS

There are several additional HCA criteria the Attorney General considers applicable to this conversion and that do not fit neatly into the above categories. Those criteria are discussed below. Also discussed below are the HCA's monitoring requirements.

1. Right of First Refusal

The HCA requires the Attorney General to consider "[w]hether a right of first refusal to repurchase the assets has been retained." R.I Gen. Laws § 23-17.14-7 (c)(27). The Proposed Transaction does not include a right of first refusal, nor is one necessary.

2. Control Premium

The HCA includes a criterion asking "[w]hether a control premium is an appropriate component of the proposed conversion." R.I Gen. Laws § 23-17.14-7 (c)(27). The Transacting Parties did not indicate that the buyer will be paying a control premium for Leonard Green's shares. The Attorney General finds that a control premium would be inappropriate in any case, given the already-significant amount of control Lee exercises over PMH and its subsidiaries. *See, e.g.*, Lee I SUO 47:9-20; 172-3-173:20 (describing his responsibilities as CEO of PMH); Baumer SUO I 22:23–25:18; 30:10–20; 35:17–36:14 (explaining that Leonard Green's modus operandi, which it adhered to with PMH, is to provide management at portfolio companies significant authority over day-to-day operations).

3. Monitoring

The HCA mandates that "[f]or a period of five (5) years following the effective date of the conversion . . . [t]he department of health and the department of attorney general shall monitor,

assess, and evaluate the acquiror's compliance with all of the conditions of approval, as well as annually review the impact of the conversion on healthcare costs and services within the communities served." R.I. Gen. Laws § 23-17.14-28(d).

The HCA also compels the acquiror—here, Chamber, Inc.— to "pay for the costs" of such "monitoring, evaluation, and assessment in an amount to be determined by the attorney general or the director as they deem appropriate." *Id.* The money to pay these costs is to be "placed in escrow during the term of the monitoring period." *Id.*

The Attorney General has conditioned its approval of this conversion on a requirement that Chamber, Inc. enter all agreements with the Attorney General necessary to fulfill its statutory duty to fund the Attorney General's post-conversion monitoring, evaluation, and assessment. Because the Attorney General expects to choose an entity to begin undertaking these functions soon following the issuance of this Decision, the Attorney General will prompt Chamber, Inc. to enter the required agreements forthwith.

V. CONCLUSION

The overall financial risk created by the financial condition of the Rhode Island Hospitals' parent company, PMH, threatens to overwhelm the benefits the Hospitals have realized under PMH's ownership, which is especially concerning because RWMC and OLF are both valued community assets. The financial choices of the Transacting Parties and the condition in which those choices have left the company that owns these Rhode Island healthcare institutions is at odds with the future security of these local hospitals, and the Attorney General does not hesitate to conclude that significant financial conditions are required as a "minimum investment to protect the assets, financial health, and well-being of the new hospital and for community benefit." R.I. Gen. Laws § 23-17.14-28(c).

Wherefore, based upon the information provided above in this Decision, the Proposed Transaction is **APPROVED WITH CONDITIONS.** These conditions are outlined below.

VI. CONDITIONS

All of the following Conditions are directly related to the proposed conversion and the purposes of the Hospital Conversions Act. The Attorney General's APPROVAL WITH CONDITIONS is contingent upon the satisfaction of the Conditions. The Proposed Transaction shall not take place until CERTAIN CONDITIONS have been satisfied. The Attorney General shall enforce compliance with these Conditions pursuant to the Hospital Conversions Act, including R.I. Gen. Laws Section 23-17.14-30.

DEFINITIONS

The following definitions shall apply to the terms used in these Conditions[44]:

(1) "Agent/Trustee" as that term is used in these Conditions shall mean a third party, selected by the Attorney General, who, in the event that any escrow or letter of credit funds are delivered to the Agent/Trustee pursuant to Conditions 6.5 or 6.6, respectively: (a) shall act as a fiduciary for the Rhode Island Hospitals and other PCC providers included in these Conditions, (b) who shall hold the funds from the Escrow Accounts and/or Letters of Credit, as applicable, in trust for the Rhode Island Hospitals and other PCC providers included in these Conditions, and (c) shall have duties and powers specific to the holding and distribution of funds delivered to the Agent/Trustee pursuant to Conditions 6.5 and 6.6 as set forth in the Trustee Agreement. The Agent/Trustee may be replaced at any time at the direction of, or with the approval of, the Attorney General.

(2) "Agent/Trustee Agreement" as that term is used in these Conditions shall mean the document that sets forth the Agent/Trustee's powers and duties specific to the holding and distribution of any funds delivered to the Agent/Trustee pursuant to Condition 6. The Agent/Trustee Agreement and any amendments or modifications thereto shall be subject to the approval of the Attorney General. The Agent/Trustee Agreement shall be approved by the Attorney General no more than sixty (60) days after the closing.

(3) "CAPEX" shall mean routine and strategic capital investments recognized by GAAP that are limited to the following, unless otherwise approved by the Attorney

[44] Terms not defined below shall be defined in accordance with the Decision.

General: new equipment, equipment replacement, facility renovation, new facilities, construction in progress, medical office space, implementation of new services, information systems and licenses, physician practice acquisitions up to but no greater than $5 million during the Conditions and Monitoring Period, and shall include commitments incurred pursuant to capital financing leases.

(4) "Community Director" shall be defined as an individual who resides or works within the Prospect CharterCARE Service Area and has the appropriate skill sets to serve on a hospital board of directors. *See* R.I. Gen. Laws § 23-17.14-7(25)(viii).

(5) "Conditions" shall mean Conditions 1-34 and all subparts as set forth herein.

(6) "Conditions and Monitoring Period" shall begin upon issuance of the Decision and extend through September 30, 2026 of Fiscal Year 2026 and such time thereafter up to reversion of funds pursuant to Condition 6.

(7) "Essential Health Care Services" to be provided by PCC and its subsidiaries shall mean the following:

a) A 24-hour emergency department;
b) Medical/Surgical Services and Intensive/Coronary Care Unit;
c) Acute Dialysis Services;
d) Inpatient and Outpatient Rehabilitation Services, including Sub-acute;
e) Ambulatory Care Services;
f) Emergency Services, including emergency behavioral health services;
g) Inpatient and Outpatient Psychiatric/Mental Health/Addiction Medicine Services;
h) Diagnostic Imaging and Interventional/Radiology Services, including diagnostic Cardiac Catheterization;
i) Laboratory/Pathology;
j) Inpatient and Outpatient Cancer Services including Blood and Marrow Transplantation/ Surgical and Radiation Oncology;
k) Sleep Lab;
l) Wound Care/Hyperbaric Services;
m) Homecare/Hospice services; and,
n) Any other primary care service, as defined by R.I. Gen. Laws § 23-17.14-18 and under Rhode Island Department of Health regulations related to said statute, not listed herein.

(8) An "Insolvency Event" shall occur if Prospect or any of its subsidiaries and/or affiliates shall: (a) file a voluntary bankruptcy petition, (b) be the subject of an involuntary bankruptcy petition that is not dismissed within forty-five days of its filing, (c) suffer, request or acquiesce in the appointment of a receiver, guardian, conservator, trustee, custodian, liquidator or other similar official over such entity or substantially all of the property or assets of such entity that is not reversed or

vacated within forty-five days of such appointment, or (d) make an assignment for the benefit of creditors, or (e) seek or be the subject of any case seeking relief under any federal, state or other statute, law or regulation relating to the creditor/debtor relationship other than as is described in clauses (a) to (d) above (each, a "Proceeding"); provided, however, that it shall not be an Insolvency Event hereunder if the aggregate revenues of the entity or entities subject to the Proceeding (each, an "Affected Entity") do not exceed 5% of the consolidated revenues of Prospect and all of its consolidated subsidiaries for any of the preceding three fiscal years; and provided further, that the preceding proviso shall not be applicable if, as a direct or indirect result of the Proceeding, Prospect or any of its other subsidiaries or affiliates either (i) lose access to cash in the ordinary course of business in an amount greater than the revenues of the Affected Entity or Entities, or (ii) suffer a material disruption to their operations in the ordinary course of business, in each case, for a period greater than seven (7) days.

(9) "Leonard Green" shall mean Green Equity Investors V, L.P. ("GEI V"), Green Equity Investors Side V, L.P. ("GEI Side V"), and Ivy LGP Co-Invest LLC ("LGP Co-Invest").

(10) "MAAP Obligations" shall mean PCC's obligations under the **CMS Accelerated and Advance Payment** Program or Medicare **Advance Payment** Program, including all recoupments, fines, penalties and any other related costs and expenses.

(11) "PCC" or "Prospect CharterCARE" shall mean, collectively, Prospect CharterCARE, LLC and its subsidiaries in existence as of as of the date of the Decision; provided that neither Prospect CharterCARE Elmhurst, LCC nor Prospect CharterCARE Ancillary Services, LLC, shall be included in the definition of PCC or Prospect CharterCARE.

I. TRANSACTION

1. The transaction shall be implemented as outlined in the Initial Application, including all Exhibits and Supplemental Responses and as modified and/or amended consistent with these conditions, provided that $10,000,000 payable to Leonard Green pursuant to the Merger Agreement shall be contributed by Leonard Green to the funding of the Escrows set forth in Condition 6.

2. For the duration of the Conditions and Monitoring Period, upon any change in what was represented by the Transacting Parties in the Initial Application, Merger Agreement, or any supplemental responses describing post-closing actions of the Transacting Parties in connection with the approval of this transaction, notice shall be provided to the Attorney General no fewer than thirty (30) days prior to the implementation of any such change.

3. For the duration of the Conditions and Monitoring Period:

(a) Provide notice to the Attorney General identifying any post-closing contracts, material amendments to existing contracts, or termination of contracts, among any

of the Transacting Parties and any of the current officers, directors, board members, members, or senior management of Prospect CharterCARE and its subsidiaries, no fewer than thirty (30) days prior to the implementation of any such change; and

(b) Provide notice to the Attorney General identifying any post-closing contracts, material amendments to existing contracts, or termination of contracts, among any of the Transacting Parties and any of the current officers, directors, board members, members, or senior management of Prospect Medical Holdings, except for changes to employment contracts, compensation or distribution agreements, no fewer than thirty (30) days prior to the implementation of any such change.

4. Prospect shall pay all costs and expenses due from the Transacting Parties pursuant to the Reimbursement Agreement dated January 28, 2020 in full prior to the closing of the Proposed Transaction.

II. FINANCIAL CONDITIONS

5. **Financial Commitment:** Leonard Green, solely with respect to Condition 5.1, and Prospect shall provide the following support (collectively, the "Financial Commitment") to PCC:

5.1 Provide for the Escrows and/or Letters of Credit as set forth in Condition 6.

5.2 Ensure payment of all of PCC's operating expenses and pay the difference between PCC's total net revenue and total operating expenses (net operating loss) on an ongoing basis.

5.3 Beginning in Fiscal Year 2020 through the end of Fiscal Year 2026, spend not less than $72.0 million on CAPEX for the Rhode Island Hospitals only, unless otherwise approved by the Attorney General, which shall be spent according to the following schedule:

(a) For the period covering Fiscal Year 2020 and the first three quarters of fiscal year 2021, not less than $12.0 million; and

(b) For the period between October 1, 2021 and September 30, 2026, not less than $60 million shall be spent as follows:

i. not less than $10.0 million during each fiscal year;
ii. not less than $24 million in CAPEX shall be spent by September 30, 2023; and
iii. not less than $48 million in CAPEX shall be spent by September 30, 2025.

5.4 No more than $27 million of PACE financing may be applied against the minimum CAPEX requirement.

6. Escrow/Letters of Credit: Prospect, its parent entities and/or principal shareholders shall fund the following escrow accounts (collectively the "Escrows") and provide the following irrevocable standby letters of credit (the "Letters of Credit"):

6.1 Interim Escrows. Pursuant to one or more escrow agreements acceptable to the Attorney General, Prospect, its parent entities and/or principal shareholders and Leonard Green shall, prior to Closing of the Proposed Transaction, fund three (3) escrow accounts as follows (collectively the "Interim Escrows"):

(a) The amount of $12,000,000, of which Prospect shall fund $4,000,000 and Leonard Green shall fund $8,000,000 ("the Global Conditions Escrow");

(b) The amount of $41,000,000 (the "CAPEX Escrow"), of which Prospect shall fund $14,200,000 and Leonard Green shall fund $26,800,000;

(c) The amount of $27,000,000, funded entirely by Prospect ("MAAP Escrow");

(d) The Interim Escrows shall comply with, among other things, the terms set forth in Condition 6.5;

(e) All funds that Leonard Green is required to provide for the Interim Escrows shall be paid directly by Leonard Green; and

(f) The Interim Escrows shall remain in place until replaced as set forth in Conditions 6.2 and 6.3, and the Attorney General shall provide written instructions to the escrow agent for the Interim Escrows to release the funds in the Interim Escrows for the purpose of providing the Letters of Credit and/or Escrows required by Conditions 6.2 and 6.3.

(g) In the event a draw or a reduction is required from the Interim Escrows, such draw or reduction shall take place in accordance with the provisions of Conditions 6.4 or 6.5 as applicable.

6.2 Prospect Letters of Credit. Prospect, its parent entities and/or principal shareholders shall, on or before August 15, 2021, provide three (3) irrevocable standby letters of credit (collectively the "Prospect Letters of Credit"), in accordance with and subject to Condition 6.6, as follows:

(a) A $4,000,000 letter of credit that shall not expire until the Attorney General has determined that Prospect has complied with all Conditions through September 30, 2026 ("Prospect Global Conditions LOC").

(b) A $14,200,000 letter of credit (the "Prospect CAPEX LOC") that shall be reduced in accordance with the CAPEX Escrow/LOC Reduction Schedule set forth in Condition 6.4.

(c) A $27,000,000 letter of credit (the "MAAP LOC") that shall not expire until the Attorney General has determined that all of PCC's MAAP Obligations have been satisfied in full. The MAAP LOC shall, among other things, secure Prospect's guaranty of PCC's MAAP Obligations (see Condition 9). The MAAP LOC shall be reduced quarterly, only upon the written determination of the Attorney General, by the amount of the PCC's MAAP obligations that have been satisfied in the preceding quarter.

6.3 Leonard Green Obligations. Leonard Green shall, on or before August 15, 2021, either fund Escrows or provide irrevocable standby Letters of Credit, in accordance with and subject to Conditions 6.5 and 6.6, provided that Leonard Green shall use reasonable commercial efforts to obtain the Letters of Credit as set forth in this Condition 6.3.

(a) Provide an Escrow or a Letter of Credit in the amount of $8,000,000 that shall not expire until the Attorney General has determined that Prospect has complied with all Conditions through September 30, 2026 ("LG Global Conditions Escrow/LOC").

(b) Provide an Escrow or a Letter of Credit in the amount of $26,800,000 (the "LG CAPEX Escrow/LOC") that that shall be reduced in accordance with the CAPEX Escrow/LOC Reduction Schedule set forth in Condition 6.4.

6.4 "CAPEX Escrow/LOC Reduction Schedule" shall mean the following reductions in the Prospect CAPEX LOC and the LG CAPEX Escrow/LOC (collectively the "CAPEX Funds") based on the following conditions:

(a) An $8 million reduction in the CAPEX Funds, with 40% of the reduction returning to Prospect and 60% of the reduction returning to Leonard Green, on the later to occur of September 30, 2021, or the date upon which all of the following conditions have been satisfied: (a) the Attorney General has determined in writing, based upon documentation provided by Prospect no later than July 30, 2021, that Prospect has spent not less than $12.0 million in CAPEX for the Rhode Island Hospitals between October 1, 2019, and June 30, 2021, (provided that none of the foregoing CAPEX payments shall be included in the calculation of the minimum CAPEX requirement set forth in Condition 5.3(b)); (b) Prospect has provided Letters of Credit in accordance with Condition 6.2; and (c) Leonard Green has provided Escrows or Letters of Credit in accordance with Condition 6.3.

(b) A $6.0 million reduction in the CAPEX Funds upon the written determination by the Attorney General that Prospect has complied with all Conditions through September 30, 2022, with the reduction prorated between Prospect and Leonard Green based on the Reduction Percentages.

(c) A $7.0 million reduction in the CAPEX Funds upon the written determination by the Attorney General that Prospect has complied with all Conditions through

September 30, 2023, with the reduction prorated between Prospect and Leonard Green based on the Reduction Percentages.

(d) A $7.0 million reduction in the CAPEX Funds upon the written determination by the Attorney General that Prospect has complied with all Conditions through September 30, 2024, with the reduction prorated between Prospect and Leonard Green based on the Reduction Percentages.

(e) A $7.0 million reduction in the CAPEX Funds upon the written determination by the Attorney General that Prospect has complied with all Conditions through September 30, 2025, with the reduction prorated between Prospect and Leonard Green based on the Reduction Percentages.

(f) A $6.0 million reduction in the CAPEX Funds upon the written determination by the Attorney General that Prospect has complied with all Conditions through September 30, 2026, with the reduction prorated between Prospect and Leonard Green based on the Reduction Percentages.

(g) If Prospect fails to comply with a mandated condition in a given fiscal year, the scheduled reduction for that fiscal year shall not occur until the Attorney General has determined in writing that Prospect has remedied the failure.

(h) The term "Reduction Percentages" shall mean 66.67% to the LG CAPEX Escrow/LOC and 33.3% to the Prospect CAPEX LOC.

6.5 The following terms, among others, shall apply to the Escrows:

(a) The Escrows shall not be funded by PCC's revenue, funded by a loan secured by PCC's assets, or collateralized by PCC's assets;

(b) The funds in the Escrows shall, at the written direction of the Attorney General, be distributed to the Agent/Trustee, if, as determined by the Attorney General (i) Prospect fails to comply with its obligations under II. Financial Conditions (Conditions 5-11) or Condition 22 (Continuity of Services), and/or (ii) an Insolvency Event occurs;

(c) The Attorney General shall provide written instructions, in accordance with these Conditions, to the escrow agent regarding the distribution of funds from the Escrows;

(d) The Escrows shall not be reflected as a liability of PCC or the Hospitals on their financials;

(e) The Escrows, with the exception of the Interim Escrows set forth in Condition 6.1, shall be (i) with an entity that conducts business in the State of Rhode Island, (ii) be subject to Rhode Island law, and (iii) be subject to an agreement that provides, among other things, for disputes to be resolved in the courts of Rhode Island;

(f) The agreements governing the Escrows shall be approved by the Attorney General; and

(g) The escrow agent shall be approved by the Attorney General.

6.6 The following terms, among others, shall apply to the Letters of Credit:

(a) The Letters of Credit shall not be funded by PCC's revenue, funded by a loan secured by PCC's assets, or collateralized by PCC's assets;

(b) The Letters of Credit shall list the Agent/Trustee as the beneficiary;

(c) The Letters of Credit shall be irrevocable standby letters of credit in a form acceptable to the Attorney General;

(d) The Letters of Credit may be drawn upon by the Agent/Trustee, at the written direction of the Attorney General, if, as determined by the Attorney General: (i) Prospect fails to comply with its obligations under II. Financial Conditions (Conditions 5-11) or Condition 22 (Continuity of Services) and/or (ii) an Insolvency Event occurs;

(e) The Attorney General shall provide written instructions, in accordance with these Conditions, to the financial institution issuing the Letters of Credit regarding the reduction in the Letters of Credit;

(f) The Letters of Credit shall not be reflected as a liability of PCC or the Hospitals on their financials;

(g) The Letters of Credit shall be (i) with an entity that conducts business in the State of Rhode Island, (ii) be subject to Rhode Island law, and (iii) be subject to an agreement that provides, among other things, for disputes to be resolved in the courts of Rhode Island;

(h) The agreements governing the Letters of Credit shall be approved by the Attorney General; and

(i) The Letters of Credit shall be issued by one or more financial institutions approved by the Attorney General.

6.7 Reduction determinations with respect to the CAPEX Escrows and the Letters of Credit, as applicable, will be made by the Attorney General within thirty (30) days after documentation provided by Prospect to support a reduction is deemed complete by the Attorney General, such completeness determination not to be unreasonably withheld.

6.8 (a) If the Attorney General determines in writing, as provided in Condition 6.7, that Prospect has failed to comply with any of the required Conditions at any time in a given fiscal year, the Attorney General shall provide Prospect with written notice specifying in reasonable detail the Condition(s) that the Attorney General has determined has not been satisfied and the reasons therefor, and Prospect shall have thirty business days to cure any and all deficiencies with respect to such specified Condition(s). If Prospect has cured any and all deficiencies with respect to such Condition(s) within thirty (30) days of such written notice, the Attorney General shall make the scheduled reduction determination as provided in Condition 6.7.

(b) The Attorney General shall notify Prospect ten (10) days prior to any draw of the Escrows or Letters of Credit pursuant to Conditions 6.5(b) or 6.6(d), respectively, such notification to specify in reasonable detail the Condition(s) that the Attorney General has determined has not been satisfied and the reasons therefor, unless exigent circumstances exist, including but not limited to significant service disruptions or imminent closure of either of the Rhode Island Hospitals which require an immediate draw, in which case the Attorney General shall so inform Prospect, and may proceed with the draw within two (2) business days.

6.9 Prospect and Leonard Green shall pay all fees and costs associated with the Escrows and Letters of Credit.

6.10 Agent/Trustee Agreement. Any of the funds from the Escrows and/or the Letters of Credit that are delivered to the Agent/Trustee shall be governed by the Agent/Trustee Agreement. Prospect and Leonard Green shall execute the Agent/Trustee Agreement within five (5) business days of its approval by the Attorney General.

7. Operating Covenants

7.1 PCC shall ensure all payroll, including salaries, retirement contributions and benefits, payroll taxes, property taxes, sales taxes, hospital taxes and fees and workers compensation is paid on a timely basis. In the event that any such payments are delinquent by more than 15 days, PMH shall provide funding in an amount equal to the delinquency and cure the delinquency within thirty (30) days upon notification of the delinquency.

7.2 PCC shall ensure its vendors are paid on a timely basis. In the event accounts payable days outstanding is greater than 90 days, PMH shall provide funding to PCC so that accounts payable are less than 90 days at the next quarterly measurement.

8. **PACE Obligation**: Prospect shall guarantee the satisfaction of, and pay, all obligations owed by the Rhode Island Hospitals for PACE financing, including all debt service payments, fines, penalties and any other PACE related costs and expenses during the period of Prospect's ownership of Prospect CharterCARE and the Rhode Island Hospitals, and shall enter into an agreement prior to closing of the Proposed Transaction to meet this obligation.

9. **MAAP Obligation**

9.1 Prospect shall guarantee the satisfaction of, and pay, all MAAP Obligations of the provider organizations within PCC, including the Rhode Island Hospitals and shall enter into an agreement prior to closing of the Proposed Transaction to meet this obligation.

9.2 Prospect shall use its best efforts to obtain favorable terms for the repayment of all of the MAAP Obligations of all the provider organizations within PCC, including the Rhode Island Hospitals, and provide the Attorney General with the terms of any such agreement.

10. **TRS Note and MPT Amendments:** Prospect shall extend the maturity of the TRS Note[45] to five (5) years from April 30, 2021, and none of the PCC assets shall be used to satisfy the TRS Note during said five (5) year period, including through a sale/lease-back of said assets. Thereafter, any transfer of the PCC assets, including through a sale/lease-back, shall not occur unless and until approved by the Attorney General pursuant to the Hospital Conversion Act, R.I. Gen. Laws § 23-17.14-1 *et seq*. Prospect shall amend the TRS Note to reflect these Conditions and execute it prior to the closing of the Proposed Transaction.

11. **Management Fees:** Upon consummation of the contemplated buy-out of the 15% CCCB ownership in Prospect CharterCARE as approved by the courts or September 30, 2021, whichever is sooner, the Prospect CharterCARE Management Services Agreement shall be terminated and no management fees shall be assessed to or collected from PCC, including prior accrued management fees. During the Conditions and Monitoring Period, no management fees or other similar charges and assessments of any type pertaining to Prospect's central office functions shall be levied against Prospect CharterCARE or the Rhode Island Hospitals.

III. MONITORING AND NOTICE

12. Prospect shall comply with all necessary agreements for payment of reasonable costs associated with the expert(s) to assist the Attorney General with monitoring and enforcing compliance with the Conditions pursuant to R.I. Gen. Laws § 23-17.14-28(d)(3) and for payment of the fees of the Agent/Trustee during the Conditions and Monitoring Period. Escrow accounts shall be established and funded pursuant to these agreements prior to the closing of the Proposed Transaction.

13. Not later than the fiftieth (50^{th}) day after the end of each fiscal quarter, Prospect shall provide the Monitor and the Attorney General with quarterly financial statements, quarterly

[45] The TRS Note is defined herein on pp. 5 and 32.

balance sheet, quarterly statement of operations and quarterly statement of cash flows (including accounts payable and any amounts due to or due from affiliates), for Prospect Medical Holdings and Prospect CharterCARE and any other evidence documenting compliance with II. Financial Conditions (Conditions 5-11) and Condition 22 for the preceding quarter, which documents shall be certified as accurate by Prospect's Chief Financial Officer, and the PCC board minutes (Condition 29).

14. Not later than February 15th of each year, Prospect shall furnish the Monitor and the Attorney General with the audited annual financial statements of Prospect Medical Holding and Prospect CharterCARE, including but not limited to: (a) documentation of compliance with II. Financial Conditions (Conditions 5-11) and Conditions 16-29 for the preceding fiscal year, including any and all supporting documents for expenditures, including but not limited to general ledgers, current contracts, invoices, receipts, and (b) providing a projected capital budget for PCC for the next three (3) years.

15. During the Conditions and Monitoring Period, Prospect shall provide the Attorney General with evidence of a board vote of the Boards of Prospect and PCC, each accepting the audited financial statements of both Prospect and PCC.

16. **MPT, TRS Merger Agreement, PACE, MAAP, and Insolvency Event Notice:** During the Conditions and Monitoring Period, provide the Attorney General with:

16.1 notice of any proposed change to the documents related to the MPT Transaction[46] to the extent the changes concern, will by their terms apply to, or will materially impact any Rhode Island entities, no fewer than thirty (30) days prior to the implementation of any such change;

16.2 notice of any activity concerning the TRS Note, including but not limited to, repayment, refinancing, default and/or waiver, no fewer than thirty (30) days prior to the implementation of any such change;

16.3 copies of any and all notices provided to or received by a party under the Merger Agreement;

16.4 notice of any proposed change to the documents related to the obligations owed by the Rhode Island Hospitals for PACE financing, no fewer than thirty (30) days prior to the implementation of any such change;

16.5 notice of any proposed change to the documents related to the MAAP obligations of the provider organizations within PCC, including the Rhode Island Hospitals, no fewer than thirty (30) days prior to the implementation of any such change; and

16.6 notice of any and all Insolvency Event(s) of Prospect and/or any of its subsidiaries. For purposes of this Condition, the exclusion of Proceedings for Affected Entities whose

[46] The MPT Transaction is defined herein on p. 32.

aggregate revenues do not exceed 5% of the consolidated revenues of Prospect and all of its consolidated subsidiaries for any of the preceding three fiscal years, shall not apply.

17. During the Conditions and Monitoring Period provide sixty (60) days' written advance notice to the Attorney General of any terminations or material amendments to the internal agreements between the Rhode Island entities and Prospect and its affiliates (e.g., Management Agreement).

18. During the Conditions and Monitoring Period provide sixty (60) days' written advance notice to the Attorney General of any and all new proposed organizational agreements between the Rhode Island entities and Prospect and its affiliates.

19. During the Conditions and Monitoring Period, real or personal property, including any lines of service, owned by PCC with a value in excess of $100,000 shall not be sold, transferred or encumbered without prior notice of at least sixty (60) days and approval by the Attorney General. This condition shall not be construed to limit the authority of the Attorney General under R.I. Gen. Laws § 23-17.14-1, *et seq*.

20. Prospect shall provide any and all notifications related to the Settlement Agreement in Case # 1:18-cv-00328-WES/PC-2017-3856, including but not limited to, all court approvals and implementation of the contemplated buy-out of the 15% CCCB ownership in Prospect CharterCARE.

21. During the Conditions and Monitoring Period, Prospect and Prospect CharterCARE shall provide:

    (a) Any and all notices of investigation, violations, adverse findings, determinations and actions including fines and penalties, or complaints from the Office of Inspector General, Securities and Exchange Commission, Internal Revenue Service, Centers for Medicare and Medicaid Services, United States Department of Justice, any state attorney general, the Rhode Island Department of Health, Rhode Island Medicaid, any other Rhode Island regulatory body, or any hospital accreditation organizations, as well as any and all documents related to the resolution of any notices or complaints;

    (b) Any and all notices or complaints received from the state of Rhode Island or a Rhode Island municipality for violations, or potential violations, of state tax law, including but not limited to, any notice for delinquency in payments of taxes; and

    (c) All notices, complaints, or other documents shall be provided to the Attorney General within fifteen (15) days of receipt by Prospect and/or Prospect CharterCARE.

IV. BENEFITS, GOVERNANCE AND CONTINUITY OF SERVICES

22. During the Conditions and Monitoring Period, Prospect and PCC shall keep the Rhode Island Hospitals open and operational and maintain and continue to provide at each Hospital and all non-hospital settings the full complement of Essential Health Care Services. PCC shall continue to provide access to quality healthcare services and maintain good standing status with all state and federal licensing and regulatory requirements and shall meet all accreditation standards. There shall be no suspension, termination, or material reduction of Essential Health Care Services currently provided by PCC without the prior approval by the Rhode Island Department of Health.

23. During the Conditions and Monitoring Period, PMH shall guarantee funding of the PCC 401K retirement plan(s) matching contributions in accordance with the methodology in place as of the most recent plan year. Nothing herein shall impair the right of any union now existing, or to be formed at any of the PCC entities in the future, to negotiate changes to existing collective bargaining agreements and/or to enter new collective bargaining agreement provisions with respect to 401K retirement plan(s).

24. For the six (6) months following the issuance of the Decision, Prospect shall make no changes to benefits currently provided under PCC's current plans, including vacation, sick leave, holiday, health insurance, life insurance, and continued COBRA coverage, at current levels. Thereafter and during the Conditions and Monitoring Period, Prospect shall continue to provide benefits, including vacation, sick leave, holiday, health insurance, life insurance, and continued COBRA coverage. Nothing herein shall impair the right of any union now existing, or to be formed at any of the PCC entities in the future, to negotiate changes to existing collective bargaining agreements and/or to enter new collective bargaining agreement provisions with respect to benefits.

25. During the Conditions and Monitoring Period Prospect and/or Prospect CharterCARE shall provide written notice to the Attorney General (i) within ten (10) days upon the adoption of any resolution or plan to implement a reduction in workforce, layoff, furlough, or other restructuring of the workforce that will lower the number of employed FTEs by thirty (30) or more in the course of a fiscal year at PCC, or by ten (10) or more clinical staff (physicians and/or nurses) at either of the Rhode Island Hospitals; and (ii) again no fewer than thirty (30) days prior to the implementation date thereof.

26. During the Conditions and Monitoring Period, Prospect CharterCARE shall continue to provide charity care consistent with its current charity care policy and consistent with all applicable laws and Rhode Island Department of Health Regulations 216-RICR-40-10-23, and provide the Attorney General with supporting documentation evidencing its charitable and uncompensated care expenditures.

27. Prospect and Chamber shall notify the Attorney General of the initial board members prior to closing of the Proposed Transaction and, during the Conditions and Monitoring Period, shall notify the Attorney General of any change in the boards within thirty (30) days of such change.

28. Within thirty (30) days of Prospect's buyout of the 15% CCCB ownership in Prospect CharterCARE, the corporate document that functions as bylaws for Prospect CharterCARE shall be amended to require approval of the majority of all board members, for all matters that were previously listed in Section 8.3 of the Prospect CharterCARE LLC Agreement, dated June 20, 2014.

29. Following Prospect's buyout of the 15 % CCCB ownership in Prospect CharterCARE, and through completion of the Conditions and Monitoring Period, the board shall include Samuel Lee, a licensed and practicing physician, and consist of 40-49% Community Directors. All of the Community Directors shall: (1) be independent of and not employed by or affiliated with Prospect or its affiliates; and (2) not be an elected official or an individual that is subject to the Code of Ethics. The corporate document that functions as the bylaws shall be amended to reflect this Condition within thirty (30) days of Prospect's buyout of the 15% CCCB ownership in Prospect CharterCARE. Prospect shall produce all PCC board minutes to the Attorney General with the quarterly reporting set forth in Condition 13.

30. Prospect CharterCARE shall notify the Attorney General of the initial board members within thirty (30) days of the implementation of Condition 29 and, during the Conditions and Monitoring Period, shall notify the Attorney General of any change in board members board within thirty (30) days of such change.

31. During the Conditions and Monitoring Period, all board members of Prospect, Chamber, and Prospect CharterCARE shall be required to complete fiduciary training on an annual basis and provide certification of completion to the Attorney General.

32. During the Conditions and Monitoring Period, all board members of Chamber, Prospect and Prospect CharterCARE shall file annual conflict of interest statements on a form provided by the Attorney General no later than May 31 of each year. Additionally, any newly appointed board member must file a conflict of interest statement within thirty (30) days of appointment.

33. Prospect, Prospect CharterCARE, and any and all subsidiaries shall provide, within a reasonable time, any and all information requested by the Attorney General and/or the Attorney General's monitor(s) to confirm compliance with all Conditions stated herein.

34. If Prospect and PCC seek a determination by the Attorney General that any information submitted pursuant to the above Conditions should be deemed confidential and/or proprietary under R.I. Gen. Laws § 23-17.14-32, they shall submit such information clearly labeled "Request for Confidentiality" and shall including the legal citation and/or explanation for the reason that the information should be deemed confidential.

Peter F. Neronha	Miriam Weizenbaum	Jessica Rider, SAAG
Attorney General	Chief, Civil Division	Health Care Advocate

NOTICE OF APPELLATE RIGHTS

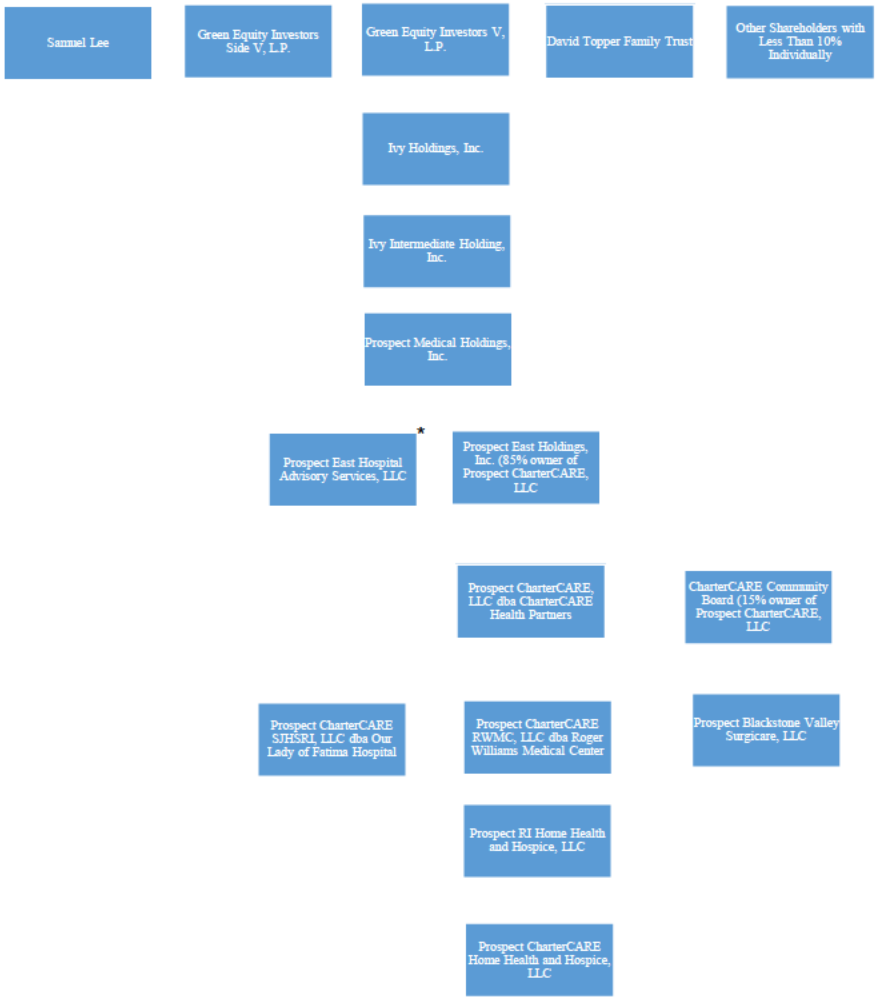
Under the Hospital Conversions Act, this Decision constitutes a final order of the Office of Attorney General. Pursuant to R.I. Gen. Laws Section 23-17.14-34, any transacting party aggrieved by a final order of the Attorney General under this chapter may seek judicial review in the superior court in accordance with Section 42-35-15.

CERTIFICATION

I hereby certify that on this 1st day of June 2021, a true copy of this Decision was sent via electronic and first-class mail to counsel for the Transacting Parties.

Appendix A: Organizational Chart Prior to Conversion

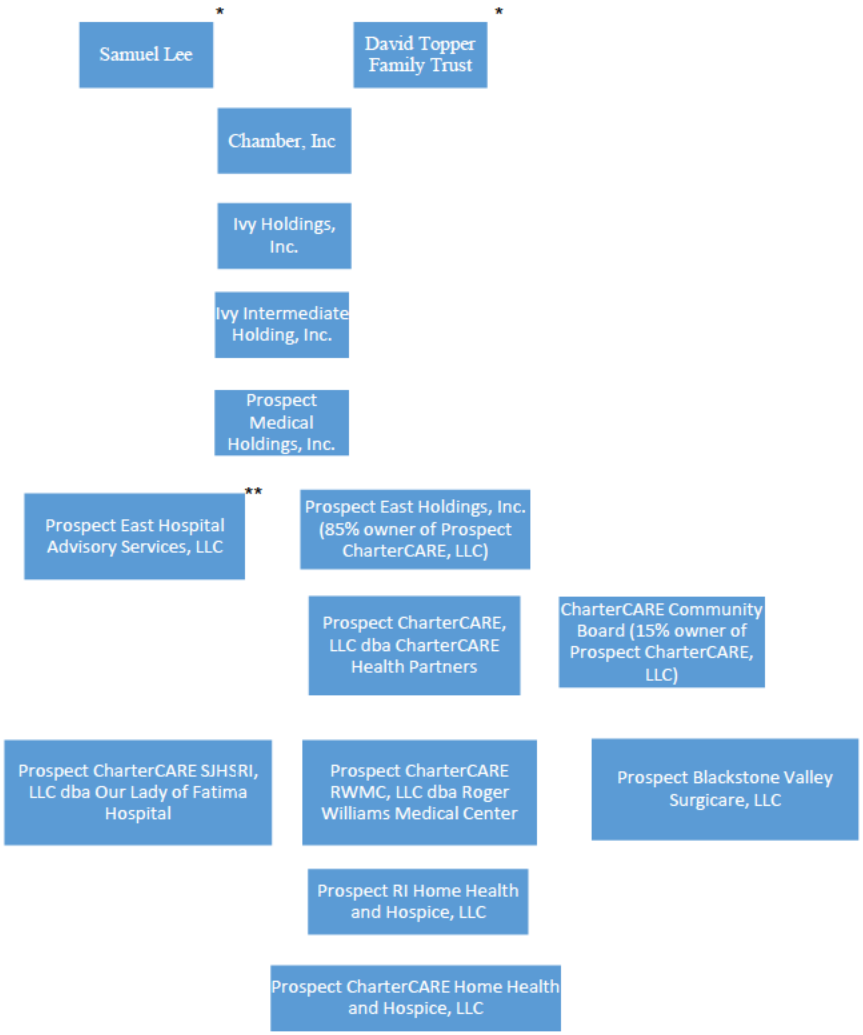
Organizational Chart
Pre-Transaction Structure



*Prospect East Hospital Advisory Services, LLC serves as manager to Prospect CharterCARE, LLC

Appendix B: Organizational Chart After Conversion

Organizational Structure
Post Transaction Structure



*Post transaction change involves ownership of Ivy Holdings, Inc., which will be solely owned by Chamber Inc., owned by Samuel Lee and David Topper through his Family Trust, with ownership interest of 66.67% and 33.33%, respectively.

**Prospect East Hospital Advisory Services, LLC serves as manager to Prospect CharterCARE, LLC

Appendix C: Expert Report of James P. Carris, CPA

CONFIDENTIAL

James P. Carris, CPA
27 West Willow Lane
Charlestown, RI 02813-1727
(617) 285-6075

Jessica Rider
Rhode Island Department of Attorney General
Health Care Advocate
150 South Main Street
Providence, RI 02903

Dear Ms. Rider:

In accordance with our retainer agreement dated May 13, 2020, I was engaged by your office to provide financial advisory services in your review of the Chamber/Ivy application under the Hospital Conversion Act.

I have reviewed the documentation provided by the transacting parties, including the statements under oath of the key participants. I reviewed the financial statements and other information provided only in the context of the proposed transaction and this report should not be used by any of the parties for any other purpose. Additionally, this report is not an audit of Prospect Medical Holdings, Inc. (PMH) or any of its subsidiaries or affiliates. The attached Exhibits are an integral part of this document.

Transaction:

As described by the transacting parties, the proposed transaction is to effectuate a buyout of the private equity investors (Leonard Green) and other minor shareholders of PMH resulting in the original co-founders (Lee and Topper) as sole shareholders of PMH. There is no change in corporate ownership proposed for any of the Rhode Island entities. In other words, the change in control is at the ultimate parent level (Chamber & Ivy Holdings).

If approved, Prospect CharterCare SJHSRI, LLC and Prospect Charter Care RWMC, LLC will continue to be owned by Prospect CharterCare, LLC. As of September 30, 2020, Prospect CharterCare, LLC was owned 85% by Prospect East Holdings, Inc. (Prospect East), a wholly owned subsidiary of PMH and 15% by CharterCare Community Board (CCCB). Subsequent to September 30, 2020, PMH entered into a settlement agreement, part of which, when effective, will result in Prospect East purchasing CCCB's 15% ownership interest. This settlement agreement is outside the scope of my report, but the amount of the settlement is included in the FY 2020 audited financial statements.

The agreed upon purchase price is approximately $12 million and is to be accounted for as a share buyback directly from PMH.

The parties have stipulated that the purchase price was the result of negotiations between the transacting parties taking into account the following factors:

1. The enterprise value of PMH
2. The equity value of PMH
3. The dividend recapitalization transaction which occurred in FY 2018
4. Future obligations of PMH, and
5. Future capital needs of PMH

Further, the parties have stipulated that they are sophisticated investors in the healthcare industry and did not require the assistance of external consultants. As such, no reports or valuation analyses were provided for our review.

They also stated PMH will not incur any additional debt nor distribute any dividends to the acquiror as a result of this transaction.

Analysis:

I will get into greater detail later in this report when I discuss the financial statements of PMH and the Rhode Island entities, but a couple of items should be highlighted here. First, we have no way of determining if the $12 million acquisition price is fair and reasonable. [redacted] To put it into context, if 60% of the company is worth $12 million, then 100% of the company is worth $20 million. That is for a company whose FY 2020 audited financial statements report over $2.7 billion in net revenues and over $2.0 billion in total assets.

For $12 million, the acquirors (Lee & Topper) will own 100% of PMH including the $2.0 billion in assets as well as assuming all of PMH's debt and other liabilities (approximately $3.1 billion at 9/30/20), including all MPT obligations. While the debt will remain with PMH, neither Lee nor Topper are personally guaranteeing any of the existing debt or liabilities of PMH. All Lee and Topper have at risk are the amounts currently invested in PMH. No other personal assets are being pledged or collateralized.

Secondly, the $12 million purchase price is to be accounted for as a share buy-back. While no additional debt or dividend is contemplated, the cash is still coming from the company and not the co-founders. This will further weaken the balance sheet (less cash on hand) and reduce the current ratio of PMH. This may potentially benefit the co-founders, since company rather than personal funds are being used, at the expense of the subsidiary hospitals.

Finally, the transacting parties acknowledge that the leveraged dividend recapitalization transaction in fiscal 2018 was a factor in determining the purchase price. An argument could be made that this change of control exit strategy began in 2018 with this $456 million leveraged dividend recapitalization. As I will discuss further, the 2018 transaction substantially weakened

the balance sheet of PMH, benefitting the shareholders while providing minimal or no funds to any of the local operating entities.

By definition, a dividend recapitalization is a type of leveraged recapitalization that involves the issuing of new debt that is later used to pay a special dividend to shareholders. This reduces a company's equity financing in relation to its debt financing. The source of the dividends distributed as a result of dividend recapitalization is newly incurred debt, not the company's earnings. The recapitalization directly impacts the company's capital structure since its leverage increases.

Financial Statement Review:

During the course of my review, I had access to all documents provided by the transacting parties. This report focuses primarily on the financial statements provided as well as interviews under oath of senior management (both PMH and local) and the local board members.

Rhode Island Entities:

Prospect CharterCare SJHSRI, LLC

The transacting parties provided audited financial statements for Prospect CharterCare SJHSRI, LLC (SJHSRI)for the fiscal years ended September 30, 2015, 2016, 2017, 2018, 2019 and 2020. As can be seen in Exhibit 1, Comparative Statement of Operations, net revenue was basically flat during the five-year period, FY 2015 through FY 2019 ranging from a low of $141.2 million to a high of $144.9 million. Total operating expenses for the same period varied slightly more than revenues from a low of $140.5 million to a high of $148.8 million. Net income ranged from a high of $1.8 million to a loss of $6.1 million. The cumulative loss over the five-year period was $8.7 million.

For FY 2020, net revenue decreased $21.3 million (14.8%) from FY 2019. This decrease in net revenue was offset by $18 million in pandemic relief funds. Operating expenses increased $9.3 million from FY 2019. The increase includes the legal settlement of $22.3 million discussed above. The overall net loss for FY 2020 was $11 million. Without the legal settlement, SJHSRI would have had net income of $ $11.2 million in FY 2020.

The comparative Balance Sheet for the six years is shown in Exhibit 2. There are a few significant items to point out on the balance sheet. First, little or no cash is shown on the local entities since cash is swept up to the parent company on a daily basis. PMH manages all cash flow and determines what items will be paid and when they will be paid. Second, Property, Plant and Equipment (PPE), net is essentially flat over the six-year period. That means acquisitions or additions to PPE effectively equal the amount of deprecation on an annual basis. It does not

appear that any major new capital projects have occurred at SJHSRI since the original transaction in 2014.

In FY 2015 through FY 2019, a due to affiliated companies (meaning funds were due back to PMH or other PMH affiliates) was reported on the SJHSRI balance sheets ranging from a low of $744,000 to a high of $5.7 million. The FY 2020 audited financial statements report a due from affiliates of $21.6 million. This represents a one-year change of $26.8 million from FY 2019, meaning PMH or its other affiliates transferred $26.8 million from SJHSRI to fund other operations. The primary driver of this change were the pandemic relief funds which were received by SJHSRI and swept by the parent. At 9/30/20, SJHSRI reports a total refund liability for various pandemic funds of $10.2 million. Of the total, $2.3 million is in current liabilities (due within 12 months and $7.9 million is in long-term liabilities (due after 12 months). [redacted]

I will discuss this further in the Covid -19 section of this report.

Subsequent to 9/30/20, SJHSRI entered into an agreement with a third party that specializes in property assessed clean energy financing (PACE) to finance qualifying renovations. This will be discussed later in this report.

Finally, in the auditor's opinion of the annual financial statements for FY 2015 through 2019, they emphasize that "*the Company is financially dependent on its parent companies which have agreed to provide the financial support necessary for the operations of the Company. The accompanying financial statements do not reflect any adjustments or disclosures that would be required should the parent companies discontinue their financial support*".

In FY 2020, the liquidity footnote addresses the $21.6 million due from affiliates and states, "*the Company is dependent on this receivable settling in order to maintain its current liquidity*".

Unlike a not-for-profit hospital which might have an endowment or other fundraising methodology to fund losses, SJHSRI is totally dependent on its parent and other affiliates and is not substantially viable without support from Prospect CharterCare, LLC and ultimately PMH.

Prospect CharterCare RWMC, LLC

The transacting parties provided audited financial statements for Prospect CharterCare RWMC, LLC (RWMC) for the fiscal years ended September 30, 2015, 2017, 2018, 2019 and 2020. They did not provide audited financial statements for FY 2016. The lack of these financial statements has no material impact on my overall analysis. As can be seen in Exhibit 3, Comparative Statement of Operations, net revenue increased from $171.1 million in FY 2015 to $183.3 million in FY 2019. Total operating expenses were $167.6 million in FY 2015 and $181.6

million in FY 2019. Net income ranged from a high of $3.9 million to a loss of $12.0 million. The cumulative loss through FY 2019 was $16.6 million.

For FY 2020, net revenue decreased $13.4 million (7.3%) from FY 2019. This decrease in net revenue was offset by $16.7 million in pandemic relief funds. Operating expenses decreased $1.7 million from FY 2019. Overall net income for FY 2020 was $7.5 million, resulting in cumulative net losses of $9.1 million through the end of FY 2020.

The comparative Balance Sheet for FY 2015 through FY 2020 (excluding FY 2016) is shown in Exhibit 4. As with Prospect CharterCare SJHSRI, little or no cash is reported on the balance sheet since cash is swept up to the parent company on a daily basis. Property, Plant and Equipment (PPE), net increases from $25.5 million in FY 2015 to $35.2 million in FY 2020. According to management, the increase is primarily due to an upgraded Emergency Room on the RWMC campus.

In FY 2015 through FY 2019, a due to affiliated companies was reported on the RWMC balance sheets ranging from a low of $5.1 million to a high of $25.8 million. The FY 2020 audited financial statements report a due from affiliates of $31.3 million. This represents a one-year change of $57.1 million from FY 2019, meaning PMH or its other affiliates transferred $57.1 million from RWMC to fund other operations. Approximately $35 million of this change results from pandemic relief funds which were received by RWMC and swept by the parent. In addition to the $18 million in pandemic relief grants, at 9/30/20, RWMC reports a total refund liability for various pandemic funds of $16.8 million ($3.8 current, $13.0 long-term). [redacted]

I will discuss this further in the Covid -19 section of this report.

During FY2020, RWMC entered into an agreement with a third party that specializes in property assessed clean energy financing (PACE) to finance approximately $42 million qualifying renovations. This will be discussed later in this report.

The same auditor's opinion applies to RWMC's FY 2015 – FY 2019 (excluding FY 2016) annual financial statements, where they emphasize that *"the Company is financially dependent on its parent companies which have agreed to provide the financial support necessary for the operations of the Company. The accompanying financial statements do not reflect any adjustments or disclosures that would be required should the parent companies discontinue their financial support"*.

In FY 2020, the liquidity footnote addresses the $31.3 million due from affiliates and states, *"the Company is dependent on this receivable settling in order to maintain its current liquidity"*.

Once again, unlike a not-for-profit hospital which might have an endowment or other fundraising methodology to fund losses, RWMC is totally dependent on its parent and other affiliates and is not substantially viable without support from Prospect CharterCare, LLC and ultimately PMH.

Prospect CharterCare, LLC

The transacting parties provided audited financial statements for Prospect CharterCare, LLC (PCC) for the fiscal years ended September 30, 2015, 2016, 2017, 2018, 2019 and 2020. Prospect CharterCare, LLC is the parent company of Prospect CharterCare SJHSRI, LLC and Prospect CharterCare RWMC, LLC. It also includes other health care entities (such as physician group practices) under the CharterCare umbrella. As can be seen in Exhibit 5, Comparative Statement of Operations, net revenue increased from $318.3 million in FY 2015 to $356.7 in FY 2019. As further discussed in the Covid 19 section of this report, net revenue decreased $34.5 million (9.7%) in FY2020 to $322.2 million. Total operating expenses for the same period varied slightly more than revenues from a low of $319.1 million to a high of $372.7 million. Net losses ranged from $.6 million $36.2 million. The cumulative loss over the six-year period was $88.2 million.

For FY 2020, the decrease in net revenues is offset by $36.1 million in pandemic relief grants. Additionally, operating expenses include the $22.2 million in legal settlement discussed earlier. If the legal settlement is excluded, PCC has net income of $7.6 million instead of the reported loss of $14.6 million.

The comparative Balance Sheet for the six years is shown in Exhibit 6. Once again, cash is swept up to the parent company on a daily basis. For FY 2015 through FY 2019, PCC reported a significant due to affiliated companies. This ranged from a low of $16.7 million to a high of $28 during the five-year period. These were amounts due to PMH and/or other affiliates primarily for funding operating losses, capital equipment purchases and acquisitions of physician group practices.

At 9/30/20, there is a $32.5 million due from affiliates which primarily relates to Covid -19 funds received by the Rhode Island hospitals from various governmental entities. This represents a one-year change of $49.2 million from FY 2019, meaning PMH or its other affiliates transferred $49.2 million from PCC to fund other operations. The primary driver of this change were the pandemic relief funds which were received by PCC and swept by the parent. At 9/30/20, in addition to the $36.1 million in pandemic relief grant, PCC reports a total refund liability for various pandemic funds of $27.5 million ($6.2 current, $21.3 long-term). [redacted]

I will discuss this further in the Covid -19 section of this report.

The same auditor's opinion applies to Prospect CharterCare's FY 2015 – FY2019 annual financial statements, where they emphasize that *"the Company is financially dependent on its parent company which has agreed to provide the financial support necessary for the operations*

of the Company. The accompanying financial statements do not reflect any adjustments or disclosures that would be required should the parent company discontinue their financial support".

Similarly, in FY 2020, the liquidity footnote addresses the $21.6 million due from affiliates and states, *"the Company is dependent on this receivable settling in order to maintain its current liquidity".*

In other words, Prospect CharterCare, LLC is not substantially viable without support from PMH.

Obviously, the continued financial health of PMH is of vital importance to Prospect CharterCare and its subsidiaries and affiliates. [redacted] While the functions of the local board were beyond the scope of this report, most properly functioning boards should be concerned about the viability of on-going operations as well as how to fund any shortfalls and necessary capital improvements. This lack of basic financial oversight should be addressed.

The last few sections of this report have detailed why the financial health of PMH is of vital importance to Prospect CharterCare and its subsidiaries and affiliates. Exhibit 7 shows that Prospect CharterCare is important to PMH. PMH's assets and net revenues have grown substantially since the original transaction in 2014. Even after all the growth and acquisitions of the past few years, Prospect CharterCare still accounts for 11.79% of PMH's net revenue and 7.84% of PMH's total assets in FY 2020.

PMH Financials:

The transacting parties provided audited financial statements for Prospect Medical Holdings, Inc. for the fiscal years ended September 30, 2015, 2016, 2017, 2018, 2019 and 2020. Exhibit 8 details the Comparative Statement of Operations for FY 2015 through FY 2020.

Total net revenues increased from $1.3 billion in FY 2015 to $2.73 billion in FY 2020 (a 207% increase). PMH has added hospitals and related entities in a number of states during that time. Also, as outlined later in this report, COVID-19 adversely affected operations in FY2020. This added growth has increased the top line (revenues) but has not made the company more profitable. In fact, operating income has decreased from $108.3 million in FY 2015 to $ 15.6 million in FY 2020 (an 86% decrease).

Growth has been primarily funded through debt and the sale-leaseback of certain properties to MPT.

Not all of the acquisitions were successful, as the loss from discontinued operations (net of taxes) has totaled $206 million for the six-year period FY 2015 to FY 2020.

This results in PMH's annual comprehensive gain or loss going from a gain of $34 million (2.6% of net revenue) in FY 2015 to a loss of $90 million (- 3.3% of net revenue) in FY 2020. The cumulative comprehensive loss for the six-year period was $603 million.

The comparative Balance Sheet for the six years is shown in Exhibit 9. The rapid growth and increase in debt have strained the company's balance sheet.

Long-term debt (excluding capital leases) has increased from $451 million in FY 2015 to almost $1.6 billion in FY 2020. Not all the additional debt went to fund operations or acquisitions. As previously noted, PMH executed a leveraged dividend recapitalization in February 2018. At that time, PMH closed a $1.12 billion debt financing, paid off their existing debt and issued a $457 million dividend to the shareholders. The primary beneficiaries of the dividend were Leonard Green (and its partners and investors), Lee and Topper. PMH issued an additional dividend of $44 million in FY 2019. As a consequence, $500 million is no longer available to any of the existing operating entities.

Between the $500 million in dividends and $603 million in comprehensive losses, PMH had a $1.06 billion deficit in stockholder equity. Put another way, liabilities exceed assets by more than $1 billion at the end of FY 2020.

Exhibit 10 details some key ratios for PMH for FY2015 through FY2020. Days cash on hand was approximately 20 days in FY 2015. It dropped into single digits for FY2016 through FY2019 with a low of 1 day cash on hand at the end of FY 2018 (the year of the large dividend). For FY 2020, days cash on hand increases to almost 52 days. However, as I discuss in the COVID-19 section of this report, that increase is primarily due to increase funding of COVID relief programs. Much of that cash will need to be paid back.

The current ratio currently exceeds 1.0 so PMH has marginal liquidity. PMH also had an available line of credit of approximately $211 million as of 9/30/20 which could be used to fund operations. The quick ratio is below 1.0 for all six years. Liquidity is discussed further in the COVID-19 section of this report.

The debt-to-equity ratio has been negative for the past three years because of large losses and the $500 million in dividend payments.

If the transaction is approved and Leonard Green exits its investment in PMH, that will remove an additional capital source for new equity. However, since its original investment in 2010, Green has not infused any substantial equity into PMH. Keeping them in the ownership structure is no guarantee that they will add equity, if needed.

MPT Transaction:

On August 23, 2019, PMH closed a series of transactions with affiliates of Medical Properties Trust, Inc. (MPT), a publicly traded Real Estate Investment Trust (REIT). The footnotes to PMH's audited financial statements provide a detailed summary of the transactions. To summarize, there were three separate transactions between PMH and MPT.

The first transaction involved the sale to MPT of all PMH's hospital buildings in California (excluding Foothill Regional Medical Center (Foothill)), Connecticut and Pennsylvania for a purchase price of approximately $1.4 billion. The initial lease term is 15 years with three potential extensions for a total of another 15 years. The specific master lease, rent, options to purchase, cross guarantees and escalation clauses are detailed in the financial statements. The important point is these PMH facilities are now owned by MPT.

Under the second transaction, MPT provided PMH with a mortgage of approximately $51 million on the Foothill property. The mortgage has an interest rate of 7.5% per annum and matures in August 2034.

In the third transaction, PMH entered into a promissory note (the "TRS" note), under which MPT advanced PMH approximately $113 million. Interest on this note is 7.5% per annum and is subject to an annual escalation clause. The maturity date of this note is the earlier of July 2022 or, if it occurs, a sale-leaseback of the properties in Rhode Island. At 9/30/20, the balance due under the TRS note was approximately $105.5 million.

All three transactions are cross-collateralized and cross defaulted among the parties (but no personal guarantees of Green, Lee or Topper) and the assets included therein. The applicant has stipulated and the footnotes to the financials state that neither the hospital operating entities nor the real properties in Rhode Island are included in the cross-collateral or cross default agreements.

Two key takeaways from the MPT transaction are:

1. PMH has sold substantially all its real property except for Foothill and the Rhode Island properties. There is very little left to leverage to provide liquidity.

2. It is possible that another change of control may be sought prior to July 2022, to satisfy the TRS note using the Rhode Island properties in a sale-leaseback arrangement.

PACE Financing:

Property assessed clean energy (PACE) programs allow a property owner to finance the up-front cost of energy or other eligible improvements on a property and then pay the costs back over time through a voluntary assessment. A unique characteristic of PACE assessments is that the assessment is attached to the property rather than an individual or company.

As noted in the PCC audited financial statements, in May 2020, PCC entered into an agreement with a third party that specializes in (PACE) financing to finance approximately $42 million for qualifying renovations for the property located at RWMC.

The full amount was deposited into an escrow account managed by a third-party administrator. The annual interest rate is 5.75% and the financing has a maturity date of April 30, 2045. Payments are collected through property tax bills as a non-ad valorem assessment. Payments begin in July 2020. As of 9/30/20, PCC recorded a liability of approximately $27 million and had approximately $15 million left to spend on qualifying renovations.

In January 2021, PCC entered into a similar PACE arrangement for qualifying renovations at SJHSRI for approximately $18 million. The annual interest rate is 5.75% and has a maturity date of July 31, 2046.

It is unclear how, if at all, these PACE arrangements effect any potential sale-leaseback of the Rhode Island properties under the TRS note mentioned above.

FY 2020 and COVID-19:

PMH:

The operations of PMH, similar to all other healthcare entities, were adversely affected by the spread and impact of COVID-19. According to PMH management, a number of steps were taken to mitigate the impact. Additionally, the federal and various state governments instituted legislation to assist healthcare entities with the financial ramifications.

The two primary sources of relief for healthcare institutions were the Coronavirus Aid, Relief and Economic Security Act (the CARES Act) and Paycheck Protection Program and Health Care Enhancement Act (the PPPHCE Act). The details of the two acts are beyond the scope of this report. However, PMH took advantage of both CARES and PPPHCE, as well as some state programs funding during FY2020.

For the year ended 9/30/20, PMH recognized approximately $117 million in Pandemic relief grant income. While PMH reported a comprehensive loss of approximately $90 million for FY 2020, the loss would have been over $200 million without this programmatic support.

Additionally, funding from these programs helped stabilize the balance sheet, at least temporarily. At 9/30/20, PMH reported cash on hand of approximately $387 million. While approximately $120 million appears to relate to extending accounts payable, most of the increase appears to be from these government programs. Ultimately, approximately $276 million will need to be repaid so the cash cushion is not permanent.

PCC:

The operating results of PCC were also adversely impacted by COVID-19. Similar to PMH, PCC took steps to minimize the impact and also took advantage of CARES, PPPHCE and state programs.

For the year ended 9/30/20, PCC recognized approximately $36 million ($18 @ SJHSRI, $16.7 @RWMC and $1.3 other) in Pandemic relief grant income. PCC also reports liabilities approximately $27.5 million ($10.2 at SJHSRI, $16.8 at RWMC and $.5 other) under these various programs. $6.2 million is due during FY2021 and $21.3 million is classified as long-term (greater than 12 months). Since cash is swept on a daily basis, these amounts will ultimately need to be paid by PMH.

Conclusion:

My overall conclusion is that PMH is a highly leveraged company that continues to have large annual losses. Liabilities exceed assets by over $1 billion and the cumulative losses exceed $600 million for the six-year period under review. Additionally, the current owners issued over $500 million in dividends since PMH purchased the Rhode Island entities which benefitted the shareholders and weakened the financial position of PMH.

While pandemic relief from governmental entities has provided PMH with some short-term liquidity, that liquidity will evaporate as governmental funds are repaid and accounts payable becomes normalized.

If the transaction is approved, Leonard Green with be out and will not be available for additional equity contributions. Even if they remained in PMH, Green has been a net drain on Company assets. [redacted] Management seems to be relying on debt and the $200 million line of credit to fund the Company. This is mentioned in the footnotes to the FY 2020 audited financial statements and was reiterated by certain members of management during their interviews. However, there is no guarantee that lending institutions will leave that facility in place if losses continue to mount and there is no profitability forecasted.

While I do not believe that PMH faces a liquidity crisis in the next twelve months, I believe it will come sooner rather than later, probably within 18 to 24 months. They cannot continue to have significant operating losses and fund necessary capital projects and expect to survive long-term. The situation is complicated by the TRS note which is due in July 2022 and the fact that

most of the real property has already been sold to MPT. Unless PMH improves their operating results, they will eventually need an equity infusion or some type of debt restructuring.

In the meantime, if you approve the transaction, your office will need to impose certain conditions to ensure the continued operations of PCC, RWMC and SJHSRI. While any conditions are beyond the scope of my report, at a minimum, I would recommend continued funding of operations, capital improvements, repayment of pandemic relief funds and maintenance of all required service levels to maintain these safety-net facilities. I would also recommend that at least some of these required amounts be pre-funded or otherwise protected in the event of a restructuring by PMH.

Respectfully submitted:

James P. Carris, CPA
April 26, 2021

EXHIBITS

Exhibit 1

Comparative Statement of Operations - 2015 to 2020

Prospect CharterCare SJHSRI, LLC

(in thousands)

	Y/E 9/30 2020	Y/E 9/30 2019	Y/E 9/30 2018	Y/E 9/30 2017	Y/E 9/30 2016	Y/E 9/30 2015
Revenues:						
Net patient service revenue	126,316	147,297	147,129	144,498	144,754	144,741
Provision for bad debt	(7,000)	(6,813)	(6,096)	(5,819)	(6,913)	(7,897)
	119,316	140,484	141,033	138,679	137,841	136,844
Other non patient hospital revenue	2,677	2,781	3,870	4,161	3,406	5,045
Net revenue	121,993	143,265	144,903	142,840	141,247	141,889
Operating expenses:						
Salaries, wages & benefits	69,584	75,334	81,487	80,979	82,417	80,984
Supplies	16,098	19,200	19,662	19,948	20,707	19,302
Taxes & licenses	10,060	10,037	9,840	9,355	9,544	8,466
Purchased services	12,258	12,015	9,980	7,476	7,260	6,478
Depreciation & amortization	2,834	7,188	7,846	7,248	6,784	5,826
Professional fees	6,309	6,512	5,124	4,075	4,849	4,089
Legal settlement	22,250	-	-	-	-	-
Other	1,662	1,258	5,374	3,957	4,369	3,191
Insurance	1,438	1,508	1,668	2,142	3,287	1,851
Management fees	2,488	2,954	2,994	2,981	2,915	2,973
Utilities	2,052	2,125	1,957	1,862	2,227	2,786
Lease & rental	1,526	1,544	1,536	1,577	1,957	2,277
Research grant expense	-	-	-	-	-	-
Repairs & maintenance	537	671	1,261	1,247	783	1,260
Registry	860	293	46	89	222	1,071
Total operating expenses	149,956	140,639	148,775	142,936	147,321	140,554
Pandemic relief grant income	18,049	-	-	-	-	-
Income from unconsolidated investments	-	13	-	61	64	-
Operating income (loss)	(9,914)	2,639	(3,872)	(35)	(6,010)	1,335
Other expense (income):						
Interest expense	742	863	876	995	55	65
Goodwill impairment	-	-	-	-	-	-
Other expense (income), net	350	-	-	(98)	-	-
Net income (loss) from continuing operations	(11,006)	1,776	(4,748)	(932)	(6,065)	1,270
(Loss) income from discontinued operations	-	-	-	-	-	-
Net income (loss)	(11,006)	1,776	(4,748)	(932)	(6,065)	1,270

Source: Audited Financial Statements

Exhibit 2

Comparative Balance Sheets - 2015 to 2020

Prospect CharterCare SJHSRI, LLC

(in thousands)

	Y/E 9/30 2020	Y/E 9/30 2019	Y/E 9/30 2018	Y/E 9/30 2017	Y/E 9/30 2016	Y/E 9/30 2015
Assets:						
Current assets						
Cash & equivalents	177	-	-	-	-	11
Restricted cash	42	13	166	659	462	308
Patient A/R, net	14,347	20,929	20,224	17,399	16,321	16,396
Other receivables	1,644	451	554	969	821	1,198
Due from government payers	836	499	894	439	350	565
Third party settlements	-	-	-	-	-	-
Due from affiliates	21,609	-	-	-	-	-
Inventories	2,196	1,996	1,889	1,751	1,971	1,853
Prepaids and other current assets	626	655	496	922	1,073	503
Current assets held for sale	-	-	-	-	-	-
Total current assets	41,477	24,543	24,223	22,139	20,998	20,834
PP&E, net	23,871	23,726	24,064	23,152	24,763	25,796
Goodwill	-	-	-	-	-	-
Intangible assets, net	-	-	517	1,235	1,953	2,671
Insurance receivable	-	-	-	-	-	-
Equity method investments	-	-	-	-	-	-
Other assets	748	614	881	576	583	645
Total assets	66,096	48,883	49,685	47,102	48,297	49,946
Liabilities and Members' Equity						
Current liabilities:						
Accrued medical claims	-	-	488	673	-	-
A/P and other accrued liabilities	32,593	12,032	11,438	9,299	8,847	8,316
Accrued salaries, wages & benefits	6,436	4,642	4,852	4,483	4,276	4,994
Third party settlements	-	-	-	-	-	-
Deferred revenue	187	170	681	971	-	-
Due to government payers	669	5	424	36	6	166
Refund liability, current portion	2,291	-	-	-	-	-
Due to affiliated companies, net	-	5,241	5,657	744	5,137	3,796
Current portion of capital leases	164	38	369	750	718	130
Current portion of sale leaseback	-	-	-	-	-	-
Current liabilities held for sale	-	-	-	-	-	-
Total current liabilities	42,340	22,128	23,909	16,956	18,984	17,402
Malpractice reserves		-	-	-	-	-
Capital leases, net of current portion	665	-	38	408	969	104
Asset retirement obligations	2,312	2,290	2,092	1,945	4,188	3,883
Refund liability, net of current portion	7,892	-	-	-	-	-
Sale leaseback, net of current portion	-	-	-	-	-	-
Deferred revenue, net of current portion	1,123	1,327	1,514	1,701	-	-
Other long term liabilities	4,633	5,001	5,771	4,983	2,115	451
Total liabilities	58,965	30,746	33,324	25,993	26,256	21,840
Members' Equity:						
Member contributions	28,535	28,535	28,535	28,535	28,535	28,535
Accumulated deficit	(21,404)	(10,398)	(12,174)	(7,426)	(6,494)	(429)
Total members' equity	7,131	18,137	16,361	21,109	22,041	28,106
Total Liabilities & members' equity	66,096	48,883	49,685	47,102	48,297	49,946

Source: Audited Financial Statements

Exhibit 3

Comparative Statement of Operations - 2015 to 2020

Prospect CharterCare RWMC, LLC

(in thousands)

	Y/E 9/30 2020	Y/E 9/30 2019	Y/E 9/30 2018	Y/E 9/30 2017	Y/E 9/30 2016	Y/E 9/30 2015
Revenues:						
Net patient service revenue	175,640	187,275	181,353	177,720		172,689
Provision for bad debt	(9,671)	(6,986)	(5,996)	(6,190)		(7,672)
	165,969	180,289	175,357	171,530		165,017
Other non patient hospital revenue	3,954	3,012	2,819	3,001		6,098
Net revenue	169,923	183,301	178,176	174,531		171,115
Operating expenses:						
Salaries, wages & benefits	82,968	84,126	86,715	83,968		82,577
Supplies	39,567	39,285	39,889	38,638		36,325
Taxes & licenses	12,789	12,636	12,151	11,347		9,471
Purchased services	15,728	14,726	12,714	13,629		12,984
Depreciation & amortization	6,509	7,867	7,124	6,168		4,857
Professional fees	7,971	8,040	5,422	6,728		4,140
Other	2,025	1,745	5,969	6,219		3,807
Insurance	1,275	1,821	1,869	2,799		1,670
Management fees	3,503	3,791	3,721	3,665		3,556
Utilities	2,343	2,586	2,400	1,792		2,813
Lease & rental	1,067	1,126	1,210	1,434		1,168
Research grant expense	2,263	2,626	2,503	120		2,738
Repairs & maintenance	1,194	858	1,254	978		1,121
Registry	687	406	720	623		387
Total operating expenses	179,889	181,639	183,661	178,108		167,614
Pandemic relief grant income	16,683	-	-	-		-
Income from unconsolidated investments	881	560	589	507		455
Operating income (loss)	7,598	2,222	(4,896)	(3,070)		3,956
Other expense (income):						
Interest expense	(222)	(183)	(340)	(217)		39
Goodwill impairment		-	7,452	-		-
Other expense (income), net	366	-	-	(89)		-
Net income (loss) from continuing operations	7,454	2,405	(12,008)	(2,764)		3,917
(Loss) income from discontinued operations	-	-	-	-		-
Net income (loss)	7,454	2,405	(12,008)	(2,764)		3,917

Source: Audited Financial Statements

Exhibit 4

Comparative Balance Sheets - 2015 to 2020

Prospect CharterCare RWMC, LLC

(in thousands)

	Y/E 9/30 2020	Y/E 9/30 2019	Y/E 9/30 2018	Y/E 9/30 2017	Y/E 9/30 2016	Y/E 9/30 2015
Assets:						
Current assets						
Cash & equivalents	579	-	-	299		140
Restricted cash	475	158	267	2,369		970
Patient A/R, net	18,969	25,276	22,400	21,506		19,244
Other receivables	1,554	1,121	2,171	9,303		5,093
Third party settlements	-	-	-	-		-
Due from government payers	1,319	792	402	580		306
Grant receivable	-	-	-	-		-
Due from affiliates	31,254	-	-	-		-
Inventories	4,055	3,657	3,332	3,750		4,266
Prepaids and other current assets	989	749	768	1,378		615
Current assets held for sale	-	-	-	-		-
Total current assets	59,194	31,753	29,340	39,185		30,634
PP&E, net	35,249	37,076	35,044	30,679		25,487
Goodwill	-	-	-	-		-
Intangible assets, net	-	-	653	1,561		3,377
Insurance receivable	-	-	-	-		-
Equity method investments	3,619	3,650	4,063	4,052		4,242
Other assets	793	584	872	601		1,033
Total assets	98,855	73,063	69,972	76,078		64,773
Liabilities and Members' Equity						
Current liabilities:						
Accrued medical claims	-	-	491	394		-
A/P and other accrued liabilities	13,803	14,122	17,154	13,946		14,635
Accrued salaries, wages & benefits	9,861	7,597	7,152	6,540		5,784
Third party settlements	-	-	-	-		-
Deferred revenue	-	-	-	-		-
Due to government payers	509	214	74	282		181
Refund liability, current portion	3,773	-	-	-		-
Due to affiliated companies, net	-	25,834	20,750	18,357		5,139
Current portion of capital leases	-	-	326	596		206
Current portion of sale leaseback	257	257	257	257		-
Current liabilities held for sale	-	-	-	-		-
Total current liabilities	28,203	48,024	46,204	40,372		25,945
Malpractice reserves	3,168	3,211	4,243	3,273		-
Capital leases, net of current portion	-	-	-	326		347
Asset retirement obligations	1,182	1,333	839	750		701
Refund liability, net of current portion	12,997	-	-	-		-
Sale leaseback, net of current portion	2,017	2,539	3,117	3,760		-
Deferred revenue, net of current portion	-	-	-	-		-
Other long term liabilities	26,175	297	315	335		759
Total liabilities	73,742	55,404	54,718	48,816		27,752
Members' Equity:						
Member contributions	34,241	34,241	34,241	34,241		34,241
Accumulated deficit	(9,128)	(16,582)	(18,987)	(6,979)		2,780
Total members' equity	25,113	17,659	15,254	27,262		37,021
Total Liabilities & members' equity	98,855	73,063	69,972	76,078		64,773

Source: Audited Financial Statements

Exhibit 5

Comparative Statement of Operations - 2015 to 2019

Prospect CharterCare, LLC

(in thousands)

	Y/E 9/30 2020	Y/E 9/30 2019	Y/E 9/30 2018	Y/E 9/30 2017	Y/E 9/30 2016	Y/E 9/30 2015
Revenues:						
Net patient service revenue	327,759	362,109	354,578	343,050	338,440	323,795
Provision for bad debt	(17,091)	(14,290)	(12,598)	(11,936)	(15,264)	(15,782)
	310,668	347,819	341,980	331,114	323,176	308,013
Other non patient hospital revenue	11,543	8,879	8,102	7,678	6,357	10,307
Net revenue	322,211	356,698	350,082	338,792	329,533	318,320
Operating expenses:						
Salaries, wages & benefits	182,085	189,268	196,794	186,382	189,529	174,949
Supplies	58,939	61,933	62,507	60,005	59,152	56,099
Taxes & licenses	23,257	22,911	22,309	25,581	20,459	18,014
Purchased services	30,900	29,817	24,125	21,542	19,629	18,132
Depreciation & amortization	8,924	15,048	15,096	13,843	12,376	10,775
Professional fees	16,003	16,545	10,988	10,535	11,774	8,203
Legal settlement	22,250	-	-	-	-	-
Other	4,027	3,461	11,287	7,277	9,750	7,348
Insurance	4,040	4,091	4,620	5,659	8,141	3,618
Management fees	6,532	7,395	7,298	7,033	6,888	6,717
Utilities	4,893	5,159	4,771	3,993	4,506	5,239
Lease & rental	5,206	5,185	5,438	4,792	3,615	3,423
Research grant expense	2,263	2,626	2,503	2,231	2,424	2,738
Repairs & maintenance	1,805	1,702	2,675	2,315	1,624	2,396
Registry	1,547	699	887	713	788	1,458
Total operating expenses	372,671	365,840	371,298	351,901	350,655	319,109
Pandemic relief grant income	36,069	-	-	-	-	-
Income from unconsolidated investments	881	560	589	605	512	455
Operating loss	(13,510)	(8,582)	(20,627)	(12,504)	(20,610)	(334)
Other expense (income):						
Interest expense	836	1,023	955	1,131	82	104
Goodwill impairment		-	14,228	-	-	-
Other expense (income), net	715	-	282	(98)	-	-
Net loss from continuing operations	(15,061)	(9,605)	(36,092)	(13,537)	(20,692)	(438)
(Loss) income from discontinued operations	420	(91)	(101)	9,411	(2,280)	(117)
Net loss	(14,641)	(9,696)	(36,193)	(4,126)	(22,972)	(555)

Source: Audited Financial Statements

Exhibit 6

Comparative Balance Sheets - 2015 to 2019

Prospect CharterCare, LLC

(in thousands)

	Y/E 9/30 2020	Y/E 9/30 2019	Y/E 9/30 2018	Y/E 9/30 2017	Y/E 9/30 2016	Y/E 9/30 2015
Assets:						
Current assets						
Cash & equivalents	1,820	-	-	-	4,091	13,288
Restricted cash	521	174	433	3,028	2,198	1,277
Patient A/R, net	36,314	49,713	46,076	42,427	38,511	36,935
Other receivables	4,803	2,895	3,306	12,295	8,883	6,143
Third party settlements	-	-	-	-	-	-
Due from government payers	6,281	5,531	5,533	5,143	785	871
Grant receivable	-	-	-	-	-	
Due from affiliates	32,458	-	-	-	-	-
Inventories	6,569	5,974	5,590	5,805	6,196	6,128
Prepaids and other current assets	4,934	3,812	2,188	3,286	3,372	2,168
Current assets held for sale	-	-	-	-	3,887	3,894
Total current assets	93,700	68,099	63,126	71,984	67,923	70,704
PP&E, net	60,265	60,918	59,780	53,850	55,592	52,725
Goodwill	415	-	-	5,822	3,774	3,432
Intangible assets, net	-	19	1,211	2,854	4,499	6,145
Insurance receivable	-	-	-	-	-	-
Equity method investments	3,644	3,675	4,088	4,357	4,611	4,547
Other assets	2,057	1,970	2,302	1,473	1,205	1,727
Total assets	160,081	134,681	130,507	140,340	137,604	139,280
Liabilities and Members' Equity						
Current liabilities:						
A/P and other accrued liabilities	30,512	33,382	35,590	26,881	26,297	22,379
Accrued salaries, wages & benefits	23,971	18,150	17,696	16,589	14,849	14,378
Third party settlements	-	-	-	-	-	-
Deferred revenue	1,376	170	170	170	-	-
Due to government payers	5,742	4,900	4,796	4,505	125	347
Refund liability, current portion	6,198	-	-	-	-	-
Due to affiliated companies, net	-	16,694	26,377	20,056	28,006	24,114
Current portion of capital leases	254	49	798	1,475	1,439	457
Current portion of LT debt	-	-	-	-	-	-
Other current liabilities	-	-	-	-	-	-
Current liabilities held for sale	-	-	-	-	7,205	3,759
Total current liabilities	68,053	73,345	85,427	69,676	77,921	65,434
Capital leases, net of current portion	932	43	92	895	2,012	538
Asset retirement obligations	2,982	3,123	2,623	2,438	4,943	4,583
Deferred revenue, net of current portion	-	1,484	2,270	2,891	-	-
Refund liability, net of current portion	21,347	-	-	-	-	-
Malpractice reserve	-	-	-	-	-	-
Long term debt, net of current portion	-	-	-	-	-	-
Other long term liabilities	35,686	10,964	12,674	10,673	5,451	1,265
Total liabilities	129,000	88,959	103,086	86,573	90,327	71,820
Members' Equity:						
Member contributions	120,105	120,105	92,108	82,261	71,645	68,856
Accumulated deficit	(89,024)	(74,383)	(64,687)	(28,494)	(24,368)	(1,396)
Total members' equity	31,081	45,722	27,421	53,767	47,277	67,460
Total Liabilities & members' equity	160,081	134,681	130,507	140,340	137,604	139,280

Source: Audited Financial Statements

Exhibit 7

Prospect CharterCare, LLC as a percentage of PMH

(In thousands except for percentages)

	Y/E 9/30 2020	Y/E 9/30 2019	Y/E 9/30 2018	Y/E 9/30 2017	Y/E 9/30 2016	Y/E 9/30 2015
Net revenue:						
Prospect CharterCare, LLC	322,211	356,698	350,082	338,792	329,533	318,320
PMH	2,733,388	2,849,198	2,893,888	2,914,497	1,630,558	1,321,045
% of Total	11.79%	12.52%	12.10%	11.62%	20.21%	24.10%
Total Assets:						
Prospect CharterCare, LLC	160,081	134,681	130,507	140,340	137,604	139,280
PMH	2,042,389	1,866,367	1,818,533	1,862,400	1,439,632	775,618
% of Total	7.84%	7.22%	7.18%	7.54%	9.56%	17.96%

Exhibit 8

Comparative Statement of Operations - 2015 to 2020

Prospect Medical Holdings, Inc.

(in thousands)

	Y/E 9/30 2020	Y/E 9/30 2019	Y/E 9/30 2018	Y/E 9/30 2017	Y/E 9/30 2016	Y/E 9/30 2015
Revenues:						
Net hospital segment patient services revenue	2,339,379	2,487,156	2,576,844	2,538,695	1,273,038	1,021,038
Provision for bad debts	(102,251)	(98,306)	(100,026)	(91,203)	(41,427)	(42,042)
	2,237,128	2,388,850	2,476,818	2,447,492	1,231,611	978,996
Other non-patient hospital revenue	38,464	49,377	45,828	-	-	-
Net hospital segment revenues	2,275,592	2,438,227	2,522,646	2,447,492	1,231,611	978,996
Medical group revenues	372,646	353,954	334,408	391,120	369,730	333,238
Global risk management revenues	84,900	49,696	33,863	20,752	19,635	3,440
Corporate revenues	250	7,321	2,971	55,133	9,582	5,371
Total net revenues	2,733,388	2,849,198	2,893,888	2,914,497	1,630,558	1,321,045
Operating expenses:						
Hospital operating expenses	1,937,766	1,966,380	2,029,219	2,003,706	990,385	768,863
Medical group cost of revenues	242,314	259,631	267,376	274,639	248,063	224,028
Global risk management cost of revenues	52,851	33,444	20,430	10,396	17,661	3,119
General & administrative	493,486	501,586	486,543	454,576	270,988	188,956
Depreciation & amortization	110,285	92,011	85,051	104,348	47,106	34,128
Total operating expenses	2,836,702	2,853,052	2,888,619	2,847,665	1,574,203	1,219,094
Pandemic relief grant	117,148	-	-	-	-	-
Operating income (loss) from unconsolidated joint ventures	1,724	5,889	2,599	5,388	(931)	6,400
Operating income	15,558	2,035	7,868	72,220	55,424	108,351
Other expense:						
Interest expense	86,157	127,835	100,190	73,190	48,616	42,027
Loss on early extinguishment of debt	-	30,052	18,422	-	26,561	-
Adjustment to bargain purchase	-	-	-	(30,010)	-	319
Goodwill impairment	-	-	14,228	-	-	-
Other (income) expense, net	11,333	2,858	2,231	(1,861)	(315)	230
Total other expense, net	97,490	160,745	135,071	41,319	74,862	42,576
Income (loss) before income taxes	(81,932)	(158,710)	(127,203)	30,901	(19,438)	65,775
Income tax provision	(7,070)	16,455	62,786	554	(4,750)	31,279
Net income (loss) from continuing operations	(74,862)	(175,165)	(189,989)	30,347	(14,688)	34,496
Income (loss) from discontinued operations, net of taxes	(23,612)	(123,305)	(58,625)	4,772	(4,904)	(194)
Net income (loss) attributable to non-controlling interests	1,136	(734)	(4,449)	867	(3,435)	(337)
Net income (loss) to PMH	(99,610)	(297,736)	(244,165)	34,252	(16,157)	34,639
Other income (expense) net of tax:						
Pension	9,267	(45,796)	12,995	(3,646)	11,332	-
Securities unrealized gain	46	1,257	160	456	6	-
Total comprehensive (loss)	(90,297)	(342,275)	(231,010)	31,062	(4,819)	34,639

Source: Audited Financial Statements

Exhibit 9

Prospect Medical Holdings, Inc.

Comparative Balance Sheets - 2015 to 2020

	Y/E 9/30 2020	Y/E 9/30 2019	Y/E 9/30 2018	Y/E 9/30 2017	Y/E 9/30 2016	Y/E 9/30 2015
Assets:						
Current assets						
Cash & equivalents	386,824	52,091	7,694	27,109	29,587	65,899
Cash held in escrow	70	70,000	-	-	-	-
Restricted cash	1,828	1,485	1,742	30,761	6,117	4,585
Restricted investments	31,354	29,540	23,779	15,810	4,568	1,266
Patient A/R, net	288,764	306,587	317,412	358,914	262,497	135,529
Due from government payers	20,390	20,270	21,409	51,152	38,806	38,460
Other A/R, prepaids etc	108,343	118,000	117,026	191,190	99,228	24,690
Income tax receivable & deferred taxes	4,154	-	2,737	-	24,731	-
Inventories	36,742	34,229	32,624	36,967	25,590	12,115
Hospital fee program receivable	189,941	167,530	211,454	59,209	43,039	32,285
Current assets held for sale	18,015	37,277	60,990	-	10,494	7,199
Total current assets	1,086,425	837,009	796,867	771,112	544,657	322,028
PP&E, net	544,256	538,471	513,590	576,933	441,352	238,205
Deferred income taxes, net	-	823	1,975	104,323	25,294	11,865
Goodwill	274,487	302,377	301,988	310,695	341,488	159,821
Intangible assets, net	20,054	25,545	31,822	40,794	41,897	28,820
Other assets	107,731	118,022	56,922	58,543	42,560	9,901
Long term assets held for sale	9,436	44,120	115,369	-	2,384	4,978
Total assets	2,042,389	1,866,367	1,818,533	1,862,400	1,439,632	775,618
Liabilities and Stockholder Deficit						
Current liabilities:						
Accrued medical claims	76,457	72,508	62,887	55,485	52,761	53,531
A/P and other accrued liabilities	383,040	264,252	298,996	320,246	205,946	101,708
Accrued salaries, wages & benefits	225,125	179,997	167,705	144,287	108,795	56,694
Hospital fee program liability	70,660	24,362	65,966	1,968	18,684	15,022
Due to government payers	32,749	28,606	29,137	23,754	23,002	27,078
Refund liability, current portion	62,115	-	-	-	-	-
Income taxes payable	-	7,395	-	42,793	-	15,110
Revolving line of credit, net	-	70,000	207,645	113,061	55,000	20,000
Current portion of capital leases	6,285	10,238	12,933	11,315	6,894	2,900
Current portion of long term debt	19,138	18,983	18,429	12,509	6,951	135
Current portion of MPT liabilities	47,484	43,145	-	-	-	-
Other current liabilities	15,592	25,249	27,831	17,762	10,293	2,168
Current liabilities held for sale	17,748	33,939	42,224	-	2,630	1,972
Total current liabilities	956,393	778,674	933,753	743,180	490,956	296,318
Long term debt net of current portion	190,201	187,367	1,098,441	625,719	613,005	415,466
Malpractice reserves	103,349	133,300	73,532	60,722	34,757	6,632
Refund liability, net of current portion	213,951	-	-	-	-	-
Capital leases, net of current portion	32,670	30,372	29,230	37,612	33,334	9,296
Deferred income taxes, net	-	-	-	-	-	-
Asset retirement obligations	6,970	5,602	6,179	6,022	5,056	4,583
Other long term liabilities	70,868	48,706	32,949	21,465	22,235	6,754
Pension obligations	231,941	302,372	254,121	300,364	209,658	-
MPT liabilities, net of current portion	1,290,556	1,338,040	-	-	-	-
Long term liabilities held for sale	5,105	11,994	12,777	-	787	129
Total liabilities	3,102,004	2,836,427	2,440,982	1,795,084	1,409,788	739,178
Stockholder deficit:						
Common stock & paid in capital	64,962	64,962	23,962	22,399	21,278	20,038
Accumulated deficit, net	(1,124,577)	(1,035,022)	(646,311)	44,917	8,566	16,402
Total stockholder (deficit) equity	(1,059,615)	(970,060)	(622,349)	67,316	29,844	36,440
Total liabilities & stockholder deficit	2,042,389	1,866,367	1,818,633	1,862,400	1,439,632	775,618

Source: Audited Financial Statements

Exhibit 10

Ratio Analysis

Prospect Medical Holdings, Inc.

	Y/E 9/30 2020	Y/E 9/30 2019	Y/E 9/30 2018	Y/E 9/30 2017	Y/E 9/30 2016	Y/E 9/30 2015
Days Cash on Hand	51.79	6.89	1.00	3.61	7.07	20.30
Current Ratio	1.136	1.075	0.853	1.038	1.109	1.087
Quick Ratio	0.820	0.612	0.473	0.777	0.797	0.763
Debt to Equity Ratio	-2.927	-2.924	-3.922	26.667	47.239	20.285

Appendix D: Expert Report of PYA, P.C.

Report on Proposed Hospital Conversion Application Regarding Prospect CharterCARE

April 6, 2021

Prepared for
Rhode Island Department of Health

VISION BEYOND the Numbers®

PYA, P.C.
One Cherokee Mills, 2220 Sutherland Avenue
Knoxville, TN 37919
p: (865) 673-0844 | f: (865) 673-0173
pyapc.com

April 6, 2021

Fernanda M. A. Lopes, MPH
Chief, Health System Development
Rhode Island Department of Health
Three Capitol Hill
Providence, RI 02908-5097

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") 2020

Dear Ms. Lopes:

As outlined in the Memorandum of Agreement dated December 14, 2020, PYA, P.C. ("PYA") was engaged by the Rhode Island Department of Health ("RIDOH") to provide consulting services concerning the proposed hospital conversion application as resubmitted February 19, 2020 ("Application"), and relating to a transaction ("Proposed Transaction") involving the Transacting Parties. RIDOH is authorized and directed to review the conversion application pursuant to the provision of Chapter 23-17.14 of the Rhode Island General Laws, as amended (the "Act" or "HCA"). We have prepared the following summary report ("Report") solely to assist RIDOH with its review of the Application. Our engagement was conducted in accordance with consulting standards established by the American Institute of Certified Public Accountants ("AICPA"). The terms of this engagement were established in advance and PYA's services to RIDOH are detailed in ***Appendix A***. We make no representation regarding the sufficiency of the procedures performed or analysis detailed herein either for the purpose for which this Report has been requested or for any other purpose. The results of our engagement are summarized in the following report.

The procedures used in preparation of this Report do not constitute an audit, examination, or review of any of the Transacting Parties' historical financial statements in accordance with auditing standards generally accepted in the United States of America. Furthermore,

the procedures used do not constitute an examination or compilation of prospective financial statements, nor did we apply agreed-upon procedures to such information, in accordance with attestation standards established by the AICPA. Additionally, the procedures used in our analysis do not address the effectiveness of internal controls over financial reporting under Section 404 of the Sarbanes Oxley Act, nor is PYA responsible for testing for, evaluating, or identifying any occurrences of fraud or other illegal acts, if any. In performing our analysis, PYA relied upon information provided by the Transacting Parties' legal counsel and we have not validated the accuracy or completeness of such information. Accordingly, we express no opinion, or any other form of assurance related to this information, including historical financial information and Transacting Parties' management representations. Had we performed additional procedures beyond those established in advance, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of RIDOH and is not intended to be, and should not be used by anyone other than the specified party. Accordingly, PYA assumes no liability for any unauthorized use of this Report.

This Report was prepared under the direction of RIDOH, containing PYA's objective observations regarding the financial information provided by the Transacting Parties for analysis. The content of this Report is meant to assist RIDOH as it assesses the Transacting Parties' Proposed Transaction pursuant to the Act. The decision whether to approve the Application resides solely with RIDOH, and our Report or other work products include observations but do not in any way constitute a recommendation whether to approve the Application. The information also does not constitute a valuation of the Proposed Transaction. Additional details regarding our analysis and observations are contained in our work papers. PYA has no responsibility to update our analysis or this Report for events and circumstances arising after the date of this Report. We appreciate the opportunity to assist RIDOH with this important matter.

Respectfully,

PYA, P.C.

PYA, P.C.

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ABBREVIATIONS

Entities

AMI	Affiliated Monitors, Inc.
CCCB	CharterCARE Community Board
CHS	Community Health Systems
GEI	Green Equity Investors V, LP and Green Equity Investors Side V, LP (private equity funds managed by LGP and investing in IH)
HC	HCA Healthcare
IH	Ivy Holdings, Inc.
LGP	Leonard Green & Partners, LP
MPT	Medical Properties Trust, Inc.
OLF	Prospect CharterCARE SJHSRI, LLC d/b/a Our Lady of Fatima Hospital
PCC	Prospect CharterCARE, LLC
PCCHHH	Prospect CharterCARE Home Health and Hospice, LLC
PEH	Prospect East Holdings, Inc.
PEHAS	Prospect East Hospital Advisory Services, LLC
PMH	Prospect Medical Holdings, Inc.
PRIHHH	Prospect RI Home Health and Hospice, LLC
RIAG	Rhode Island Attorney General
RIDOH	Rhode Island Department of Health
RWMC	Prospect CharterCARE RWMC, LLC d/b/a Roger Williams Medical Center
THC	Tenet Healthcare Corporation

Terms

ABL	Asset Based Loan
ACA	Affordable Care Act
Act or HCA	The Hospital Conversions Act
AFS	Audited Financial Statements
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
EBITDA	Earnings before interest, taxes, depreciation, and amortization
EMR	Electronic Medical Record
FY	Fiscal Year

FYE	Fiscal Year End
HHS	Department of Health and Human Services
Merger Agreement	Plan of Merger between Chamber Inc., Chamber Merger Sub, Inc., Ivy Holdings Inc., and GEI dated October 2, 2019
MOA	Memorandum of Agreement
MSA	Management Services Agreement
NPSR	Net Patient Services Revenue
NWC	Net Working Capital
PACE	Property Assessed Clean Energy
REIT	Real Estate Investment Trust
SUO	Statements Under Oath
TTM	Trailing Twelve Months

Individuals

Mr. Baumer	Mr. John Baumer, Senior Partner at LGP
Mr. Lee	Mr. Samuel Lee, Chief Executive Office of PMH, Chairman of the Board of IH and PMH, and stockholder in IH
Mr. Topper	Mr. David Topper, President of PMH and stockholder in IH
Ms. Wagner	Ms. Alyse Wagner, Partner at LGP

ENGAGEMENT OVERVIEW

PYA INTRODUCTION

For the past 38 years, PYA has provided clients objective accounting and healthcare consulting services. Ranked as the 16th largest healthcare management consulting firm in the United States by *Modern Healthcare*, a Top 15 largest auditor of the American Hospital Association's top U.S. multi-hospital systems according to Ames Research Group, and a Top 100 accounting firm by *Inside Public Accounting*, PYA has significant experience providing transaction advisory, due diligence, and regulatory support services related to healthcare transactions. As a national professional services firm with 33 Principals, our team of resources is more than 200 strong and continually growing. Our consultants have backgrounds and degrees in nursing, healthcare administration, public health, medicine, economics, finance, management, accounting, tax, and law. Several have extensive prior experience with other healthcare-related organizations, and have specialized training in strategic planning, financial analysis, and quality of earnings.

SCOPE OF WORK, LIMITING FACTORS, AND KEY INFORMATION RECEIVED AND ANALYZED

Per the MOA with RIDOH, PYA was engaged to provide consulting services to RIDOH related to RIDOH's review of the Application. The following listing presents a summary of the services provided by PYA in the course of our engagement:

- Conducted an initial meeting with RIDOH to confirm engagement scope and purpose;
- Analyzed relevant information provided by the Transacting Parties;
- Requested supplemental information from the Transacting Parties;
- Analyzed supplemental information provided by the Transacting Parties and Transacting Parties' representatives;
- Attended SUOs conducted by RIDOH and the Office of the RIAG, as applicable to the financially focused scope of work;
- Facilitated at least weekly meetings with RIDOH representatives to discuss engagement progress; and
- Prepared report documenting results of PYA's engagement.

A summary of our original scope of work is included in ***Appendix A.*** Additionally, a listing of relevant information received from the Transacting Parties and analyzed by PYA is also included in ***Appendix A.***

PROPOSED TRANSACTION OVERVIEW

TRANSACTING PARTIES' REQUEST

The Application seeks approval for a change in ownership of RWMC's and OLF's ultimate parent organization, IH, in order to effectuate a buy-out of the private equity investors and other minority stockholders of IH. Specifically, the proposed change of ownership will be completed through the establishment of a newly formed entity, Chamber Inc. Chamber Inc. will become the parent of IH and be solely owned by Mr. Lee and Mr. Topper (through his Family Trust), both of whom are current stockholders of IH.

TRANSACTING PARTIES' CURRENT LEGAL STRUCTURE

PCC wholly owns RWMC, OLF, and Prospect Blackstone Valley Surgicare, LLC a licensed freestanding ambulatory surgery center. In addition, RWMC wholly owns PRIHHH, a home healthcare provider, which wholly owns PCCHHH a licensed home nursing care provider. All PCC entities are located in Rhode Island and are subject to the provisions of the Act. PCC is currently owned 85% by PEH and 15% by CCCB; however, associated with a settlement in December 2020, PEH is acquiring the remaining 15% interest in PCC from CCCB.

PEH and PEHAS are wholly owned by PMH. PMH is wholly owned by Ivy Intermediate Holding Inc., which is wholly owned by IH. IH is currently primarily owned by a combination of GEI, Mr. Lee, and Mr. Topper (through his Family Trust). Other PMH management own a small minority of shares. A copy of the current and proposed organization structures, as submitted in the Application, can be found in ***Appendices B and C***, respectively.

PROPOSED TRANSACTION SUMMARY

Per the Application, "The capital costs of the transaction are eleven million nine hundred forty thousand nine-hundred ninety-two dollars ($11,940,992.00). After the transaction, GEI and the other minority management shareholders will no longer retain any ownership in IH. The transaction funds will not come from or affect any of the [PCC] entities; instead, the transaction funds consist entirely of available PMH corporate cash."

The Application goes on to state, "Following the Transaction, all existing entities described above will remain as surviving corporations. There will be no change whatsoever to any of the existing entities that will in any way impact the operations or governance of the licensed facilities including RWMC and OLF. Specifically, PMH will continue to own PEH and PEHAS, PEH will continue to own PCC, and PCC will continue to own and operate RWMC and OLF."

PCC HOSPITAL ENTITY SUMMARY

The following is excerpted from the Application and provides an overview of the PCC hospital entities:

"[RWMC] is a licensed acute care hospital (license number HOSP00133) located in Providence, Rhode Island. RWMC provides a wide array of high quality and cost-effective services to its patients, including emergency department services, ambulatory care services, and inpatient and outpatient services including cancer care, elder care, and gastroenterology…. RWMC is an academic medical center affiliated with Boston University School of Medicine and is accredited by the Joint Commission."

"[OLF] is a licensed acute care hospital (license number HOSP00132) located in North Providence, Rhode Island. OLF provides a wide array of high quality and cost-effective services to its patients, including emergency department services, ambulatory care services, and inpatient and outpatient services including psychiatric, mental health and addiction medicine services."

Additional detail related to the transaction and Transacting Parties are disclosed in the publicly available Application.[1]

OBSERVATIONS SUMMARY

CONSIDERATIONS RELATED TO STATUTORY REVIEW CRITERIA

PYA began our analysis by gaining an understanding of the Act established by the state of Rhode Island. The purpose of the provisions of the Act includes assuring the viability of a safe, accessible, and affordable healthcare system; establishing a process to review whether for-profit hospitals will maintain, enhance or disrupt the delivery of healthcare in the state and to monitor hospital performance; and establish a review process and criteria for review of hospital conversions. RIDOH considers the following nine statutory criteria in their assessment when reviewing applications pursuant to the Act.

- *Whether the character, commitment, competence, and standing in the community, or any other communities served by the proposed transacting parties, are satisfactory*;
- *Whether sufficient safeguards are included to assure the affected community continued access to affordable care;*
- *Whether the transacting parties have provided clear and convincing evidence that the new hospital will provide health care and appropriate access with respect to traditionally underserved populations in the affected community;*
- *Whether procedures or safeguards are assured to insure that ownership interests will not be used as incentives for hospital employees or physicians to refer patients to the hospital;*

[1] https://drive.google.com/drive/folders/1JfBOMFAUGGropxncVEZh8GaBWbEFAWO3

- *Whether the transacting parties have made a commitment to assure the continuation of collective bargaining rights, if applicable, and retention of the workforce*;
- *Whether the transacting parties have appropriately accounted for employment needs at the facility and addressed workforce retraining needed as a consequence of any proposed restructuring*;
- *Whether the conversion demonstrates that the public interest will be served considering the essential medical services needed to provide safe and adequate treatment, appropriate access and balanced health care delivery to the residents of the state; and*
- *Whether the acquiror has demonstrated that it has satisfactorily met the terms and conditions of approval for any previous conversion pursuant to an application submitted under § 23-17.14-6.*

Related to the particulars of this specific Application and PYA's engagement scope (which is financially focused) as shown in ***Appendix A***, PYA identified the following specific criteria ("Applicable Criteria") as most relevant:

1. *Whether sufficient safeguards are included to assure the affected community continued access to affordable care;*
2. *Whether the transacting parties have provided clear and convincing evidence that the new hospital will provide health care and appropriate access with respect to traditionally underserved populations in the affected community;*
3. *Whether the transacting parties have appropriately accounted for employment needs at the facility and addressed workforce retraining needed as a consequence of any proposed restructuring; and*
4. *Whether the acquiror has demonstrated that it has satisfactorily met the terms and conditions of approval for any previous conversion pursuant to an application submitted under § 23-17.14-6.*

PYA analyzed the financially related documentation in context of these Applicable Criteria. This analysis, along with the interviews from various SUOs, forms the basis for our observations.

In summary, we observed that PCC, since the acquisition by PMH in 2014, has consistently been dependent upon PMH to fund operational shortfalls and capital investments. Additionally, we observed that PMH has reported limited liquidity and a highly leveraged position in recent fiscal years. Therefore, as a result of PCC's economic dependency on PMH, any element of the Proposed Transaction that may result in a deterioration in the ability of PMH to continue supporting PCC would impact the Applicable Criteria. Examples of economic impacts or limitations the Proposed Transaction may have on PMH, which in turn may affect PCC, include the following:

- **PMH's ability to access capital cost effectively;**

- **Direct and Indirect Financial Impact to PMH via:**
  - **reduction in PMH's equity and liquidity;**
  - **higher future costs borne by PMH due to replacement of services provided by an exiting owner; and/or**
  - **decreased PMH net income and/or cash flow.**

The remainder of this "Observations Summary" report section identifies the key financial characteristics of PCC and PMH, as well as the potential impacts of the Proposed Transaction on the financial condition of these entities. Additional detail to these key observations, and other analysis and work products, are contained in PYA's work papers.

KEY PCC FINANCIAL OBSERVATIONS

PCC has been dependent upon PMH to fund its operational shortfalls since its acquisition by PMH in 2014. In PCC's FY2019 AFS, the independent auditor's report included an Emphasis of Matter paragraph, stating that "[PCC] is financially dependent on its parent company which has agreed to provide the financial support necessary for the operations of [PCC]." This Emphasis of Matter did not appear in the FY2020 PCC AFS. PYA observed through our analysis of information provided by the Transacting Parties that the cash flows generated from PCC's stand-alone operations do not appear to be sufficient to fund both PCC's operational obligations and its necessary capital reinvestment.

Certain financial information from PCC's FY2017 through FY2020 financial statements are presented within the following tables. PCC's performance is not necessarily atypical to many hospital organizations in the country, particularly those which are members of an integrated system and/or serving populations with high concentrations of individuals covered by Medicare and Medicaid, and/or service areas with higher concentrations of populations without a third-party payer source.

Table 1

(Dollars in Thousands)	FY2017	FY2018	FY2019	FY2020
Income Statement				
Total Net Revenue	$ 338,792	$ 350,082	$ 356,698	$ 322,211
Total Operating Expenses	351,901	371,298	365,840	372,671
Net Operating Loss before grants and investments	(13,109)	(21,216)	(9,142)	(50,460)
Net Loss	(4,126)	(36,193)	(9,696)	(14,641)
EBITDA	10,848	(5,914)	6,375	(4,881)
Balance Sheet				
Total Assets	140,340	130,507	134,681	160,081
Total Liabilities	86,573	103,086	88,959	129,000
Total Stockholders Equity	53,767	27,421	45,722	31,081
Net Working Capital Surplus (Deficit)	2,308	(22,301)	(5,246)	25,647

(Dollars in Thousands)	FY2017	FY2018	FY2019	FY2020
Cash Flow Statement				
Cash from Operating Activities	$ (3,151)	$ 4,323	$ (5,167)	$ 57,574
Cash from Investing Activities	3,069	(9,131)	(8,953)	(55,240)
Cash from Financing Activities	(4,009)	4,808	13,861	(167)
Liquidity				
Total Cash	-	-	-	1,820
Available Line of Credit	N/A	N/A	N/A	N/A

Furthermore, certain financial metrics calculated from the AFS of PCC over the previous four FYs are as follows:

Table 2

	PCC				
	FY2017	FY2018	FY2019	FY2020	Comments
Liquidity					
Current ratio	1.03	0.74	0.93	1.38	Higher is better
NWC % to Revenue	1.12%	-6.14%	-1.47%	7.96%	Higher is better
Activity					
Days cash on hand	-	-	-	2.03	Higher is better
Days in accounts receivable	45.71	48.04	50.87	41.14	N/A
Days in accounts payable	27.93	35.04	33.36	33.17	N/A
Leverage					
Liabilities to total assets	61.69%	78.99%	66.05%	80.58%	Lower is better
Profitability					
EBITDA Margin	3.20%	-5.75%	1.79%	-1.51%	Higher is better
Capital Spending					
Capital Expenditures/Depreciation and Amortization	50.88%	59.44%	65.96%	59.09%	Higher is better

Based on information provided from FY2015 – FY2020, PCC has accumulated net losses of $88.1 million in the aggregate during this time. From the acquisition by PMH in 2014 to FY2019, these losses were funded by PMH and recorded as a liability presented on the PCC balance sheet as Due to PMH. As of September 30, 2019, the AFS presented a $16.7 million amount Due to PMH. That amount, however, is net of prior intercompany liability forgiveness from PMH to PCC, such as the debt to equity conversion of $24.7 million that occurred during FY2019.[2] Therefore, the intercompany liability presented as of FY2019 was not representative of the amount necessary to fund the cumulative operational losses of PCC since acquisition.

During FY2020, two separate one-time events, among other operational impacts, affected the intercompany balance between PCC and PMH. First, PCC received approximately $41 million in PRF distributions as a result of the CARES Act. Additionally, PCC received approximately $27.5 million in MAAP funding (see additional details regarding PRF and MAAP in the "Key PMH Financial Observations" section of this Report). This total amount of one-time funding ($68.5 million) was transferred from PCC to PMH. As a result, the FY2019 balance of the Due to PMH liability was satisfied in full, and the remaining amount of one-time funding transferred to PMH was reflected as an asset on the PCC FY2020 balance sheet, presented as Due from PMH ($32 million). While we were not provided detail regarding the components of this account balance, we observe that, absent these one-time events, the change in the account balance suggests approximately $19.8 million in additional, unsatisfied liability of PCC to PMH in FY2020.

Table 3

(Dollars in Thousands)		FY2020
Due to PMH October 1, 2019	$	(16,700)
Due from PMH September 30, 2020		32,000
Year Over Year Change		48,700
One-time funding for PRF and MAAP		68,500
Additional support from PMH to PCC	$	(19,800)

Additional relevant PCC financial observations include:

- Neither PCC nor the two individual hospitals hold any cash or cash equivalents, as reported on their balance sheets. The treasury function is centralized within PMH. Prior to FY2020, PCC appears to have benefited from this approach, as operational cash flows produced by other PMH subsidiaries, whose treasury functions were also consolidated within PMH, were used to subsidize PCC's operations and capital needs.

[2] During FY2019, a noncash equity contribution of $24.7 million was recorded related to the forgiveness of accrued and unpaid management fees, which were recorded in the Due to PMH account on PCC's balance sheet.

This is a standard practice for integrated health systems. However, the cumulative liability incurred by PCC from FY2015 through FY2019 demonstrates its dependency on PMH to fund operations and capital needs.

- PMH charges a management fee to PCC for centralized administrative and support services. In FY2019, these management fees approximated 2.0% of NPSR. Based on PYA experience, this management fee is not materially inconsistent with rates charged to operating entities by integrated health systems for centralized support services.
- Per the PCC FY2020 AFS, its FY2020 and FY2019 direct and indirect expenses for the provision of charity care approximated $1,094,000 and $501,000, respectively, or 0.3% and 0.15% of total operating expenses.[3] Based on our experience, this level of reported charity care, even for investor owned hospital companies, is low. See ***Table 7*** for a comparison to other investor owned hospital companies. However, relevant also to this observation is the fact that Rhode Island has expanded its Medicaid program, known as Rhode Island Medical Assistance Program, under the ACA. This expansion, in theory, reduces the number of residents who are deemed eligible for charity care. The auditor notes PCC provides services to other medically indigent patients under various state Medicaid programs; however, the costs for those services which was not fully reimbursed from the Medicaid programs was not defined.

  As presented within the statement of cash flows of PCC's AFS, purchases of property, improvements, and equipment by PCC for FY2017 through FY2020 averaged $7.8 million, which equated to replacing approximately 66% of the annual depreciated value of PCC assets. This suggests there is a potential level of deferred capital investment in recent fiscal years, as high performing and growing health systems reinvest at levels closer to average annual depreciation so as to support growth. A comparison of this capital spending to depreciation expense for other investor owned hospital companies is included in ***Table 7***.

  A summary of PCC's historical capital expenditures as shown in the AFS is included in the below table:

Table 4
Prospect CharterCARE

	FY2017	FY2018	FY2019	FY2020	Average
Capital Expenditures	$ 7,043,000	$ 8,973,000	$ 9,926,000	$ 5,273,000	$ 7,803,750
Depreciation Expense	$ 12,200,000	$ 13,222,000	$ 13,100,000	$ 8,815,000	$ 11,834,250
Capital Expenditures as a % of Depreciation Expense	57.73%	67.86%	75.77%	59.82%	65.94%

[3] PCC's charity costs are estimated by calculating a ratio of cost to gross charges and then multiplying that ratio by the gross uncompensated charges associated with providing care to charity patients.

However, Mr. Lee asserted in his SUO that PMH has invested over $100 million in the PCC facilities since the acquisition. PYA was not provided with the information prior to FY2017 necessary to analyze this claim. Mr. Lee referenced significant emergency room, oncology services, and behavioral health facility investments within his SUO.

The independent monitor for the 2014 HCA decision, AMI, indicated in their December 23, 2020 report that the information submitted by PCC to evidence routine capital expenditures was sufficient to support that PCC had complied with the $10 million per year routine capital expenditure requirement for FY2015 through FY2018 as required in the May 16, 2014 HCA decision. Furthermore, AMI indicated that the documentation submitted by PCC demonstrated that PCC complied with and exceeded the revised long-term capital commitment of $62.5 million.

Per information provided by PCC, its FY2021 capital budget is $17.9 million. Approximately $10 million of the budget is associated with facility capital expenditures funded through PACE financing (see below observation for details). PACE financing is debt assumed by PCC for which proceeds must be used for certain facility related expenditures. Therefore, the FY2021 capital budget for routine capital replacement and other facility investment needs, after adjusting for the PACE financing, is commensurate with prior periods analyzed.

- RWMC entered into the PACE financing agreement in May 2020 to improve energy efficiency, financing up to $42 million for property renovations. Per the PMH FY2020 AFS, as of September 30, 2020, $27 million had been expended and recognized as a liability with $15 million remaining in escrow. In January 2021, PCC entered into another PACE agreement to finance approximately $18 million of qualified renovations at OLF. The financed amounts are to be repaid through non-ad valorem assessments collected through PCC property tax bills through 2046. Security on the loan includes a levy and lien against certain real property of RWMC and OLF.
- PCC real property assets were excluded from the MPT transaction. (see "Key PMH Financial Observations" for more detail related to the MPT transaction). However, as a part of the MPT transaction, PMH entered into a promissory note (the "TRS Note"), with an original principal amount approximating $113 million. The promissory note carried an initial interest rate of 7.5%, which increases annually between 2% and 4%. The promissory note also has a balloon payment due on August 31, 2022 and must be either: (i) paid in full at that date, (ii) amended to extend the maturity date, or (iii) satisfied through the sale and subsequent leaseback of the RWMC and OLF real property assets which is contractually allowed per the agreement. However, the TRS Note is not secured by any PCC real or personal property.[4] No evidence was provided to PYA which illustrates how repayment of the TRS Note will be addressed. If the PCC facilities are sold to meet this obligation, PCC's ability, in and of itself, to access additional sources of capital could be limited as collateralizing assets would be significantly reduced.

[4] E. Samuels confirmation of facts letter dated July 22, 2020, as provided by Applicants.

- Even though pension obligations were not assumed by PMH in the original 2014 transaction, in December 2020, various IH subsidiaries entered into a settlement agreement to pay $27.5 million in exchange for release from ongoing litigation regarding pension funding. PCC does not hold the ongoing pension liability and, of the $27.5 million, approximately $22.5 million was expensed in the year ended September 30, 2020 and approximately $5 million was allocated to the purchase price of the 15% residual ownership in PCC held by CCCB. It appears this settlement suggests no further claims will be brought related to the Rhode Island pensions.

KEY PMH FINANCIAL OBSERVATIONS

Observations regarding the Proposed Transaction's impact on PMH's financial statements and its ability to access capital are relevant considerations in the context of the Applicable Criteria. The financial results reported by PMH from FY2017 through FY2020 are erratic. Operational performance declined through FY2019, as quantified in net income/(loss) and EBITDA, per the AFS. Several factors contribute to these erratic operational results during the four-year period, including events characterized as non-recurring in nature such as an EMR system conversion in FY2019 and the impacts, including non-recurring governmental assistance associated with the nationwide COVID-19 public health emergency. That stated, PMH's financial condition, absent governmental assistance associated with the COVID-19 public health emergency, could raise questions regarding the ongoing financial viability of PMH to support its subsidiaries, including PCC. The following information summarizes PMH's recent financial results over the last four years:

Table 5

(Dollars in Thousands)	FY2017	FY2018	FY2019	FY2020
Income Statement				
Total Net Revenue	$ 2,914,497	$ 2,893,888	$ 2,849,198	$ 2,733,388
Total Operating Expenses	2,847,665	2,888,619	2,853,052	2,836,702
Net Operating Income (Loss) before grants and investments	66,832	5,269	(3,854)	(103,314)
Net Income (Loss)	34,252	(244,165)	(297,736)	(99,610)
EBITDA	212,344	36,512	(48,613)	89,762
Balance Sheet				
Total Assets	1,862,400	1,818,633	1,866,367	2,042,389
Total Liabilities	1,795,084	2,440,982	2,836,427	3,102,004
Total Stockholders Equity (Deficit)	67,316	(622,349)	(970,060)	(1,059,615)
Net Working Capital Surplus (Deficit)	27,932	(136,886)	58,335	130,032

(Dollars in Thousands)	FY2017	FY2018	FY2019	FY2020
Cash Flow Statement				
Cash from Operating Activities	$ 50,239	$ (5,962)	$ (71,448)	$ 412,236
Cash from Investing Activities	(90,461)	(108,799)	(65,587)	(4,670)
Cash from Financing Activities	37,744	95,346	181,432	(72,833)
Liquidity				
Total Cash	27,109	7,694	52,091	386,824
Available Line of Credit	29,900	41,000	175,600	210,800

Furthermore, certain financial metrics calculated from the AFS of PMH over the previous four FYs are as follows:

Table 6

	PMH				
	FY2017	FY2018	FY2019	FY2020	Comments
Liquidity					
Current ratio	1.04	0.85	1.07	1.14	Higher is better
NWC % to Revenue	1.78%	-3.65%	4.59%	7.42%	Higher is better
Activity					
Days cash on hand	3.61	1.00	6.90	53.53	Higher is better
Days in accounts receivable	44.95	40.04	39.28	38.56	N/A
Days in accounts payable	41.13	37.81	33.88	51.44	N/A
Leverage					
Liabilities to total assets	96.39%	134.22%	151.98%	151.88%	Lower is better
Profitability					
EBITDA Margin	7.29%	0.63%	-2.76%	3.28%	Higher is better
Capital Spending					
Capital Expenditures/Depreciation and Amortization	54.44%	82.94%	56.60%	32.92%	Higher is better

The below table shows a comparison of PMH financial metrics to those calculated from peer group data.

Table 7

	PMH	Peer Group	HC	THC	CHS	
	FY2020	Average	TTM 09/20	TTM 09/20	TTM 09/20	Comments
Activity						
Days in accounts receivable	38.56	52.10	46.26	50.34	59.72	N/A
Days in accounts payable	51.44	24.34	27.17	22.49	23.34	N/A
Leverage						
Liabilities to total assets	151.88%	99.58%	97.45%	92.36%	108.94%	Lower is better
Profitability						
EBITDA Margin	3.28%	15.38%	18.89%	13.79%	13.45%	Higher is better
Capital Spending						
Capital Expenditures/Depreciation and Amortization	32.9%	87.6%	122.1%	65.6%	75.2%	Higher is better
Charity Care						
Charity care as % of Operating expenses	0.23%	1.92%	3.73%	0.90%	1.14%	Higher is better

	FY19					
	PMH	Peer Group Average	HC	THC	CHS	Comments
Activity						
Days cash on hand	6.90	5.98	5.46	5.88	6.60	Higher is better

The following observations report events and circumstance affecting PMH's financial results, liquidity, and capital structure as noted in our analysis of the information provided and within the SUOs:

- In FY2018[5], the PMH Board of Directors authorized dividends to be paid to stockholders of approximately $457 million ("2018 Dividend"). PMH recorded operating income (before interest expense and other financing related costs) of approximately $8 million and a net loss before income taxes of approximately $127 million during FY2018. The 2018 Dividend was financed via a recapitalization whereby PMH entered into new debt obligations approximating $1.12 billion. In addition to funding the 2018 Dividend, this new debt was used to refinance prior debt facilities, pay certain expenses associated with the refinance, prefund approximately $40 million of pension liabilities to PMH's subsidiaries (none of which related to PCC), make payments to certain option holders under the dividend recapitalization, and to finance certain working capital and operational needs of PMH and its subsidiaries. These actions contributed to the resulting FYE2018 stockholders' deficit balance of approximately $623 million, compared to stockholders' equity at FYE2017 of approximately $67 million. Also, the FYE2018 financial statements reported a working capital deficit of approximately $137 million, compared to a working capital surplus of approximately $28 million for FYE2017. The 2018 Dividend extracted cash from PMH equivalent to 60 days of operating expenses.[6] At September 30, 2018, PMH cash and cash equivalents of $7.7 million was sufficient to cover approximately 1 day of PMH's operating expenses. At that date, PMH had an outstanding balance on the amended revolving credit facility of approximately $208 million, with an available balance on the line of credit of approximately $41 million (sufficient to cover approximately 5 days of PMH's operating expenses).
- On August 23, 2019, PMH closed a series of transactions with MPT, a publicly traded REIT, whereby PMH sold to MPT hospital real estate assets in California, Connecticut, and Pennsylvania for an aggregate purchase price approximating $1.386 billion[7]. Proceeds from the sale were utilized, in part, to extinguish the long-term debt assumed in FY2018. Concurrent with the real estate transactions, PMH entered into two master lease agreements whereby the assets sold to MPT were leased back for an initial 15-year term with options to extend. These long-term lease arrangements are recorded on the PMH balance sheet as liabilities. No Rhode Island facilities were included in the MPT sale/leaseback transactions. In addition to this sale/leaseback transaction and other transactions between MPT and PMH involving PMH real property assets, MPT and PMH entered into the aforementioned TRS Note which can be satisfied, among other alternatives, by entering into a sales/leaseback transaction for the PCC facilities.
- During FY2019[8], an additional $44.0 million was paid to stockholders, which was mostly offset by capital contributions from stockholders during FY2019 of $41 million. We understand this $41 million was to inject capital into PMH to support operations during a transition to a new EMR. Also, during FY2019, PMH also agreed with lenders to expand its maximum revolving credit facility from $250 million to $285 million,

[5] FY2018 PMH AFS.
[6] Operating expenses in days cash on hand calculations exclude interest, depreciation, and amortization expense.
[7] FY2019 PMH AFS.
[8] FY2019 PMH AFS.

with subsequent reductions totaling $30 million upon closures of two hospital facilities. At September 30, 2019, the outstanding balance and available balance on the revolving credit facility approximated $70 million and $176 million, respectively, per the FY2019 AFS.

- In response to the global COVID-19 pandemic, the CARES Act afforded healthcare providers with liquidity in the form of stimulus payments to offset qualifying and substantiated expenses incurred in response to the pandemic, in addition to revenues lost by providers as a result of certain care being eliminated or postponed for public health reasons. The CARES Act also provided the opportunity for healthcare providers to receive advances on Medicare reimbursement via the MAAP. Per the 2020 PMH AFS, PMH received approximately $183 million in PRF stimulus payments and approximately $276 million associated with MAAP. Repayments are not required on PRF distributions to the extent the provider recipient can justify, report, and support that the distributions were used to offset qualifying expenses and lost revenue as defined in pronouncements from HHS.

  Per the PMH FY2020 AFS, all but $10.4 million of the PRF stimulus payments were recognized into operating income during FY2020. The MAAP will be recovered via withholdings of future Medicare reimbursement due to providers over a 17-month period beginning at the one-year anniversary of the provider's initial MAAP recipients.

  These two one-time funding sources contributed to a dramatic increase in PMH's cash and cash equivalent balance, increasing $334 million over the reported FY2019 balance to a total balance of $387 million at September 30, 2020. As a result of this increase, PMH's cash available to cover operating expenses as of September 30, 2020 increased to approximately 52 days. However, as noted, the full $276 million in cash held by PMH at September 30, 2020 associated with MAAP will be recovered via reduced reimbursement from Medicare starting in April 2021. If the $276 million is removed from the reported FY2020 cash and cash equivalents, the remaining funds cover approximately 15 days of operating expenses. Per the 2020 PMH AFS, at September 30, 2020, PMH did not have an outstanding balance on its revolving line of credit, and the available balance to borrow was approximately $211 million (which amounts to approximately 28 days of operating expenses).

These patterns in operational performance and recapitalization are relevant because PMH has somewhat limited ability, in the form of current liquidity especially after recoupment of MAAP funds, to weather additional or continued financial challenges. That, in turn, is a risk to the ongoing financial viability of PCC as a PMH subsidiary. Such challenges can be mitigated by accessing additional sources of capital; however, PMH is already extremely leveraged and has limited unencumbered assets to collateralize additional debt financing. If the effects of the Proposed Transaction have material impacts on PMH's financial position, or creates additional challenges with respect to its ability to access capital, the financial risk associated with the ability to fund ongoing operations and capital needs of the PCC entities is also increased.

KEY PROPOSED TRANSACTION OBSERVATIONS

PYA analyzed how the Proposed Transaction could impact the Applicable Criteria. The most relevant considerations appear to be twofold: 1) what impact does the Proposed Transaction have on the ability of IH and its related subsidiaries, including PMH, to access capital and 2) how does the Proposed Transaction's consummation affect IH's and its related entities' financial condition, including liquidity, cash flow, operating results, and net asset balance. Our observations related to these matters are as follows:

Access to Capital

A key financial consideration is whether the Proposed Transaction will impact PMH's ability to access capital to fund operations and investments. PYA was provided no information suggesting that LGP, and specifically GEI as the owners in IH, has invested additional capital in IH, as PMH's corporate parent entity, since the acquisition of PCC in 2014, with the exception of capital contributions equal to GEI's portion of the $41 million capital call in FY2019. That contribution appears to be essentially a shareholder loan to provide short term liquidity during the 2019 system conversion and was subsequently returned in the form of dividends. Per the SUOs from Mr. Baumer and Ms. Wagner, no additional investments beyond the initial 2010 capital investment in IH in an amount approximating $151 million have been made by GEI in IH.[9] As described previously in this Report, some, perhaps most, of the dividends received by GEI from IH resulted from the $457 million 2018 Dividend to IH shareholders as a part of a dividend recapitalization. At that time, we understand GEI held a majority of the stock in IH.

Furthermore, while PYA was not provided information pertaining to GEI, Ms. Wagner and Mr. Baumer stated in their respective SUOs that the GEI funds are at the end of their life and are contractually required per the terms of the investor agreements to liquidate held investments. IH has utilized the two automatic extensions allowing IH extended use of the funds per the investor agreement, and IH must now close the funds.

The ability of any entity to access capital is impacted by several considerations, including, but not limited to, operational performance, assets to serve as collateral, personal guarantees, etc. As discussed previously in this Report, PMH is in a highly leveraged position. As a result, it remains unclear whether PMH would be able to obtain incremental capital investments and/or access debt funds. The sale/leaseback transaction(s) described previously remains as an option available to PMH to access funding. The amount of capital available through this mechanism is unknown, however, as the value of the collateral necessary for such a transaction has not been quantified. Whether or not GEI remains an investor in IH going forward is only one variable when evaluating the amount of capital IH and PMH are able to access. Indeed, the ability of the IH, PMH, or their collective subsidiaries to produce positive operating results, and as a result, positive returns on any invested funds would be a key consideration for any lender or investor.

[9] Ms. Wagner and Mr. Baumer are Partners with Leonard Green & Partners and Board members of IH and PMH.

Financial Impact of Proposed Transaction on Transacting Parties

Per the Merger Agreement, the agreed upon cash consideration at close of the Proposed Transaction is $11,940,992. PYA was provided no further analysis to substantiate this amount, such as third-party fair market value analyses or fairness opinions. Furthermore, in their respective SUOs, Mr. Baumer, Ms. Wagner and Mr. Lee asserted that the amount was agreed upon between the Transacting Parties.[10] In addition to the cash to be paid upon closing the Proposed Transaction, the Merger Agreement also appears to, in effect, release GEI from any portion of existing liabilities and future obligations related to IH and its subsidiaries. As stated in the FY2020 PMH AFS, total current and long-term liabilities held by PMH approximated $3.1 billion. As a result of the Proposed Transaction, our understanding is IH will fund the cash payment, via the merger, for the net purchase price of approximately $11.9 million, and will retain all other assets and liabilities of IH and its subsidiaries. This component of the Proposed Transaction marginally, but directly, impacts PMH's net assets, cash flow, and liquidity.

Existing stockholders, Mr. Lee and Mr. Topper, held approximately 34% of the stock in IH at time of the Application, and will hold 100% if the Proposed Transaction is approved and consummated.[11] Furthermore, those proposed sole owners are also operators and leaders in the operating entities. This is a different dynamic than a sale of all or the majority of the stock to an external investor, as this transaction should have more continuity in leadership and less disruption on operations. The transaction will result in a change in the board governance, with LGP vacating 3 of the 5 IH board seats.[12] It is yet to be determined how this change in board composition may positively or negatively impact governance and leadership of PMH.

OTHER CONSIDERATIONS RELEVANT TO PMH AND PCC

There are many risks faced by the healthcare provider industry, including but not limited to, public policy and regulatory changes, macro-economic shifts, payer reimbursement changes, impacts of public health emergencies and natural disasters, skilled labor availability, supply chain continuity, regulatory compliance investigations, etc. The scope of this Report is not to consider all those risks. But, specific to observations relevant to the Proposed Transaction and its impact on the ongoing support and viability of PCC to provide essential healthcare services to the residents of Rhode Island, some risks exist in any change of majority ownership of an entity, not specifically this circumstance. We are not able to make observations regarding whether any of these risks could materialize under this particular Proposed Transaction, as we have no information on management's prior actions, and it was not in our scope to evaluate the efficacy or motives of management. But we recognize, agnostic to particular industries or individual entities, majority owners do have legal rights and ability to affect change in an organization. In this particular case, certain minority owners (who are also executive leaders and operators of the business) will become majority owners, increasing their legal ability to make changes. Therefore, these observations simply recognize the changing dynamics which could occur in any change in majority stockholders. Based on our limited information, the following could influence decisions on how PCC is funded going forward:

[10] Mr. Sam Lee is Chief Executive Officer of PMH and a Board member of IH, PMH, and PCC, among other entities.
[11] Derived from the Application, page 1154.
[12] Derived from the Application, page 1154.

- PMH is a conglomerate of various healthcare operations across multiple states. Some operations will generate positive operational results which are used, to some extent, to offset losses in other segments of the business, including PCC. There is risk to continuity to the aforementioned support provided by PMH to PCC if operations of the more successful components of the PMH provider portfolio suffer. PYA was not provided financial information for each of the PMH regions. However, there is risk to continuity of the aforementioned support provided by PMH to PCC if operations of the more successful components of the PMH provider portfolio suffer. Similarly, if PCC operations do not improve to a point where they are contributing to the profitability and/or growth of PMH, it remains unclear whether the new board of IH and PMH would continue funding those portfolio investments.
- At present, any lingering financial impact to the healthcare industry as a result of the COVID-19 pandemic remains unclear. Some of the PMH facilities are located in geographic regions which experienced high rates of infection, hospitalizations, and fatalities from COVID-19, and some locations continue to have state-imposed restrictions which affect the timing of economic recovery. Therefore, if continued delays in economic recovery continues, such delays could have negative impacts on PMH's and PCC's liquidity and ability to meet obligations to third parties. PMH management members' interviews identified the pandemic as their greatest economic concern.

SUMMARY OF PROPOSED TRANSACTION IMPLICATIONS

We have observed through our analyses that both PCC and its parent, PMH, face long-term financial viability challenges. We observed that PCC, since the acquisition by PMH in 2014, has consistently been dependent upon PMH to fund operational shortfalls and capital investments. In addition, based on our observations, PMH has reported limited liquidity and a highly leveraged position in recent fiscal years. Threats to long-term viability might jeopardize the healthcare access for Rhode Island residents who depend on PCC health services, including those populations who are traditionally underserved.

In addition to the $11.9 million of proceeds GEI would receive as a result of the Proposed Transaction, GEI would also be released from any portion of existing and future obligations related to IH and its subsidiaries. At September 30, 2020, current and long-term liabilities held by PMH approximated $3.1 billion. Based on our observations, GEI has not made significant investments in IH or PMH since the initial capitalization in 2010 nor do they appear to be instrumental in assisting PMH with obtaining access to capital going forward.

However, despite these general observations, utilizing the information made available to us by the Transacting Parties, we did not observe impacts from the Proposed Transaction, whereby GEI would divest of its majority stake in IH, which directly affect the financial condition of PCC. We do note that PCC may be impacted indirectly as a result of any potential material effects to PMH caused by the Proposed Transaction.

APPENDIX A: SCOPE OF WORK

Scope of Work	Key Information Utilized
Project Initiation	
Conduct kick-off call with relevant individuals of RIDOH to ensure RIDOH's objectives are clearly understood and to confirm timeline, process for interviews with the Transacting Parties, and form of anticipated deliverables.	
Perform an inventory of relevant information provided to-date by the Transacting Parties to identify additional information needs.	
Discuss with parties already engaged by the state of Rhode Island (e.g., Attorney General's financial expert) to understand analyses already performed.	
Issue information request to obtain data and information not yet provided by the Transacting Parties.	
Understand Key Terms of the Proposed Transaction	
Obtain an overview of the Transacting Parties' organizational structure before and after the Proposed Transaction.	– Pre-transaction and proposed Post Transaction Organizational Charts – Listing of Board Members and Officers – Governing Documents – 2014 Asset Purchase Agreement – PMH HCA Application
Read the purchase agreement for Chambers, Inc.'s purchase of the shares in Ivy Holdings, Inc.	– Agreement and Plan of Merger Agreement between Chamber Inc., Ivy Holdings, Inc., and Green Equity Investors
Obtain and comment on audited financial statements* from calendar years 2015 through 2019, and requested supporting information, for Chambers, Inc., Ivy Holdings, Inc., Ivy Immediate Holding, Inc., and Prospect Medical Holdings, Inc.	– Audited Financial Statements – Unaudited Quarterly Financial results for FY2020 – Unaudited Monthly Financial Statements for October and November 2020

Scope of Work	Key Information Utilized
After understanding the terms of the purchase agreement and existing financial statements of Chambers, Inc., Ivy Holdings, Inc., Ivy Intermediate Holdings, Inc., and Prospect Medical Holdings, Inc., analyze implications which the transaction by Chamber's Inc. purchase in the shares of Ivy Holdings, Inc. may have on the continued financial viability and access to capital of the Prospect CharterCARE S.11-15111, LLC and Prospect CharterCARE RWMC, LLC entities (collectively, "PCC").	– Audited Financial Statements – Listing of auditor's comments for FY2018-FY2020 for PCC – Unaudited Quarterly Financial Results for FY2020 for PCC – Unaudited Monthly Financial Statements for October and November 2020
Provide observations at a high level of the $12 million purchase price for approximately 60% of the interests in Prospect Medical Holdings, Inc, as they may relate to industry standards and norms.[13]	– N/A
Provide observations regarding prior relevant transactions with major investors in the equity of Ivy Holdings, Inc., Ivy Intermediate Holdings, Inc., and Prospect Medical Holdings, Inc. during the period from 2015 through the current period, and specifically how those transactions impacted these entities' ability to invest in healthcare services, including at PCC.	– Various Board of Directors' Meeting Minutes that outline distributions and other major relevant transactions
Provide observations regarding relevant, major transactions in healthcare real estate assets by Ivy Holdings, Inc., Ivy Intermediate Holdings, Inc., and Prospect Medical Holdings, Inc. during the period from 2015 through the current period, and specifically how those transactions impacted these entities' ability to invest in healthcare services, including at PCC.	– Real Property Asset Purchase Agreement between PMH and MPT dated July 10, 2019 – ChambersProspectCharterCARE-LTR E. Samuels Confirmation of Facts 07.22.2020 – Various details of real estate transactions that occurred within PMH

[13] No portion within the entirety of PYA's scope should be considered in any way to constitute a fairness opinion, an opinion regarding fair market value exchange of consideration, or a commercial reasonableness opinion related to any transactions analyzed in our processes.

Scope of Work	Key Information Utilized
Analyze Current Financial Performance of PCC	
Obtain and comment on the previous three annual financial statements of PCC and the three most recent internal monthly financial statement packages distributed.	- Audited Financial Statements - Unaudited Quarterly Financial Results for FY2020 for PCC - Unaudited Monthly Financial Statements for October and November 2020 - Adjusted EBITDA (15-month Trend) for October and November 2020 - Listing of Provider Relief Funding Received for PCC
Comment on significant estimates found in PCC's internal financial statements for the prior 3 annual periods and the current year to date (collectively, the "Historical Period").	- Audited Financial Statements
Obtain and comment on any PCC budget to actual reports for the Historical Period.	- Operating Budget for FY2018-FY2021 for PCC entities
Obtain listing and statements of cash and investment accounts held by PCC for the Historical Period.	- Various detail and statements related to Cash accounts - Audited Financial Statements - Treasury, Revenue, and Purchases Cycle descriptions
Inquire and comment on the following items related to PCC's banking relationships during the Historical Period, including: - Banking agreements - Borrowing terms and debt covenants - Credit facilities - Debt covenant compliance - Outstanding indebtedness	- Various detail of debt agreements related to the ABL Credit Agreement and Financing Agreement - Various detail of debt agreements related to the PACE financing agreement, including the Certificate of Levy and Lien of PACE Assessment - Audited Financial Statements

Scope of Work	Key Information Utilized
Obtain and comment on materials related to PCC's historical revenues during the Historical Period, including: - Cash to net revenue historical trends - Charity care - Revenue trends by payer - Volume metrics	- Revenue cycle description - PCC Table of Revenue by Payer for FY2018-FY2020 and November 2020 - PCC Operating Metrics for FY2018-FY2020 and November 2020 - Audited Financial Statements - Unaudited Monthly Financial Statements for October and November 2020
Prepare annual trending analysis for select ratios and metrics of PCC compared to appropriate benchmarks during the Historical Period.	- Audited Financial Statements - Unaudited Quarterly Financial Results for FY2020 for PCC - Balance Sheet and Income Statement for OLF and RWMC as of June 30, 2020 - PCC Full Time Equivalent Adjusted Occupied Bed comparison - PCC Full Time Equivalent Calculations
Obtain and comment on materials related to operating and financing lease contracts, purchase commitments, and other agreements that have otherwise restricted the use of PCC's assets.	- Summary schedule of operating and finance leases - Various detail of debt agreements related to the ABL Credit Agreement and Financing Agreement - Management service agreement - Audited Financial Statements

Scope of Work	Key Information Utilized
Obtain schedules and details in order to comment on PCC's patient accounts receivable during the Historical Period, including: - Aging analysis by payer - Allowance for contractual adjustments - Bad debt reserves and adjustments - Credit balances	- Accounts Receivable Process memo – Current - Accounts Receivable Process memo – Historical - Accounts Receivable Aging by Payer analysis for 2018-2020 and November 2020 - PCC lookback analysis of collections on accounts receivable - Audited Financial Statements - Unaudited Monthly Financial Statements for October and November 2020
Comment on the aging of PCC's accounts payable and accrued liabilities during the Historical Period by obtaining detail reports.	- Accounts Payable Aging report as of December 31, 2020 - Purchasing cycle description - Various schedules related to accounts payable and accrued liability accounts - Various schedules related to prepaid accounts - Employee Handbook and Vacation Policy description - Summary of changes in employee benefits - Audited Financial Statements - Unaudited Quarterly Financial Results for FY2020 for PCC - Unaudited Monthly Financial Statements for October and November 2020

Scope of Work	Key Information Utilized
Inquire of and comment on PCC's significant commitments or contingent liabilities, including: - Pending or threatened litigation - Investigations by regulatory or other authorities - Self-insurance liabilities - Post-retirement benefits	- Summary of post-retirement benefits for PCC employees - Listing of pending and historical litigation claims - Regulatory update summary - PCC incentive plan payout - Worker's compensation claim listing - Audited Financial Statements - Unaudited Quarterly Financial Results for FY2020 for PCC - Unaudited Monthly Financial Statements for October and November 2020
Obtain and comment on PCC's projected monthly statistical reports related to patient volume and payer mix.	- Audited Financial Statements - Unaudited Monthly Financial Statements for October and November 2020 - PCC Table of Revenue by Payer for FY2018-FY2020 and November 2020
Obtain and comment on intercompany account activity between PCC and parent organizations.	- Audited Financial Statements - Unaudited Monthly Financial Statements for October and November 2020 - List of joint ventures
Comment on PCC's ability during the Historical Period to support its capital needs through cash flow generated from hospital operations.	- Audited Financial Statements - Listing of auditor's comments for FY2018-FY2020 for PCC - Unaudited Quarterly Financial Results for FY2020 for PCC - Unaudited Monthly Financial Statements for October and November 2020

Scope of Work	Key Information Utilized
Potential Need for Capital for Working Capital and Physical Plan Investment Purposes	
Obtain and comment on a schedule of PCC capital spending over the past three years.	– Summary of Routine Capital Expenditures for 2017 - 2020
Obtain and comment on PCC provided capital budgets for future periods compared against historical levels of depreciation and relevant benchmarks.	– Capital Projection Schedule for 2020-2022 – Capital Budget 2021 – IT Commitment summary for 2018 – 2030 – Audited Financial Statements – Unaudited Quarterly Financial Results for FY2020 for PCC – Unaudited Monthly Financial Statements for October and November 2020
Interviews of Relevant Parties	
Upon request by RIDOH, participate in and/or assist with the facilitation of interviews under oath with selected members relevant to the proposed transaction (estimated total of 20 to 25 hours) for enhanced understanding of purpose and impact of the Proposed Transaction.	
Preparation and Provision of Report	
Document in a written executive summary report, key findings of our analysis for consideration by RIDOH in its assessment of the Transacting Parties Application. This report will contain a list of relevant observations through our analyses and considerations for RIDOH.	
Presentation to Rhode Island Health Services Council	
Prepare and deliver presentation of key observations and considerations to the Health Services Council at the conclusion of the engagement. This presentation will be provided remotely and will not require travel to Rhode Island for an in-person meeting.	

Scope of Work	Key Information Utilized
Communication with RIDOH	
Throughout the engagement, provide regular updates to RIDOH leadership on the progress of the analysis, any complicating issues in completing the scope of work, updates to timeline, and sharing of significant observations.	

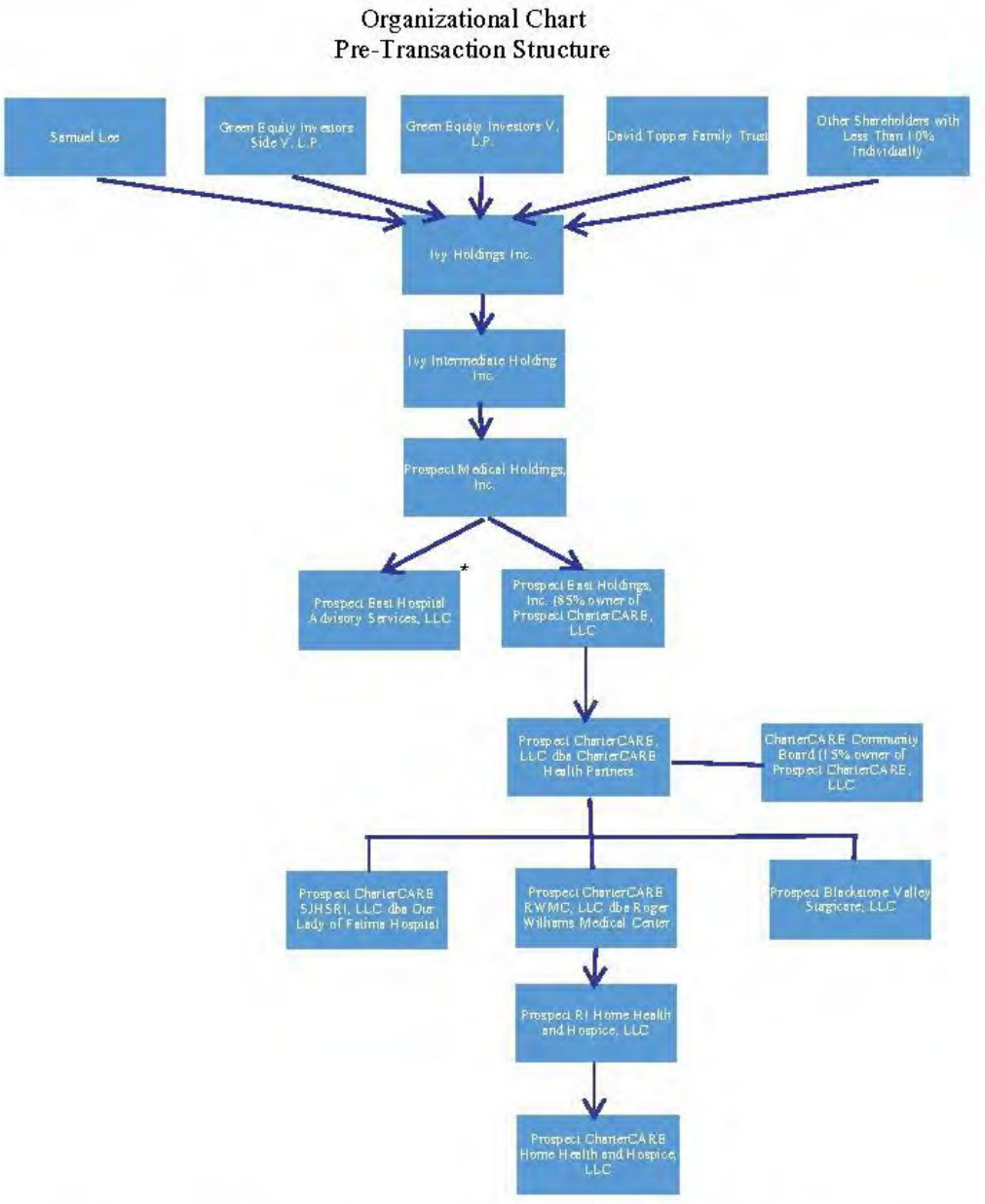
*Audited Financial Statements analyzed include:

- 2016-2020 Audited Financial Statements of PMH
- 2016-2020 Audited Financial Statements of PCC
- 2016-2019 Audited Financial Statements of OLF
- 2017-2019 Audited Financial Statements of RWMC

APPENDIX B: ORGANIZATIONAL CHART PRIOR TO CONVERSION

PCC wholly owns RWMC, OLF, and Prospect Blackstone Valley Surgicare, LLC a licensed freestanding ambulatory surgery center. In addition, RWMC wholly owns PRIHHH, a home healthcare provider, which wholly owns PCCHHH a licensed home nursing care provider. All PCC entities are located in Rhode Island and are subject to the provisions of the Act. PCC is currently owned 85% by PEH and 15% by CCCB; however, associated with a settlement in December 2020, PEH is acquiring the remaining 15% interest in PCC from CCCB.

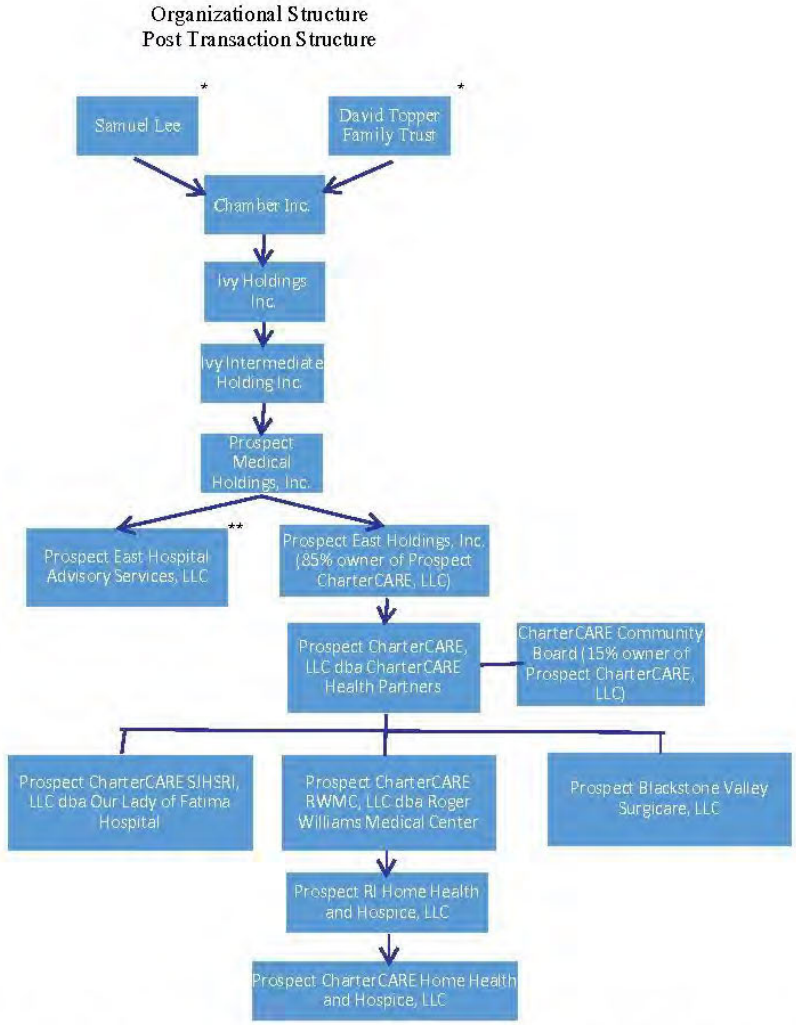
PEH and PEHAS are wholly owned by PMH. PMH is wholly owned by Ivy Intermediate Holding Inc., which is wholly owned by IH. IH is currently primarily owned by a combination of GEI, Mr. Lee, and Mr. Topper (through his Family Trust). Other PMH management own a small minority of shares. The current organization structure, as submitted in the Application, can be found below.



*Prospect East Hospital Advisory Services, LLC serves as manager to Prospect CharterCARE, LLC

APPENDIX C: PROPOSED ORGANIZATIONAL CHART SUBSEQUENT TO CONVERSION

The proposed organization structure, as submitted in the Application, can be found below.



*Post transaction change involves ownership of Ivy Holdings, Inc., which will be solely owned by Chamber Inc., owned by Samuel Lee and David Topper through his Family Trust, with ownership interest of 66.67% and 33.33%, respectively.

**Prospect East Hospital Advisory Services, LLC serves as manager to Prospect CharterCARE, LLC