



State of Rhode Island and Providence Plantations

OFFICE OF THE ATTORNEY GENERAL

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Peter F. Neronha
Attorney General

June 26, 2020

Via Electronic Mail Only

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

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

Dear Attorney Rocha:

Attached at **Exhibit A** are questions from the Office of the Attorney General resulting from the information that was provided in the Hospital Conversion Initial Application in the above-entitled matter. We will consider the answers to these questions as a supplement to the Initial Application. Accordingly, please provide the question and response in the same format as previously provided in the Initial Application and Supplemental Questions and identify the submission as “Supplement 2” to the Initial Application.

If the Transacting Parties would like to request that any information that is provided (including any question itself) be deemed confidential in accordance with R.I. Gen. Laws. § 23-17.14-32, please mark it preliminarily as “Confidential” and provide it in a separate packet. The Attorney General will make a determination regarding such information. Please note the information provided in response to the attached questions will become part of the public record in this matter.

Patricia K. Rocha, Esq.
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Page Two

Please provide your responses as soon as possible and let us know if you have any questions or if you would like to meet to discuss.

Sincerely,

Jessica Rider

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

JR/dm
Enclosure

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

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Exhibit A




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

The following definitions have been used:


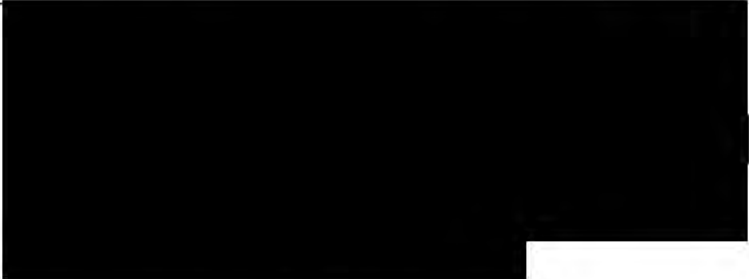
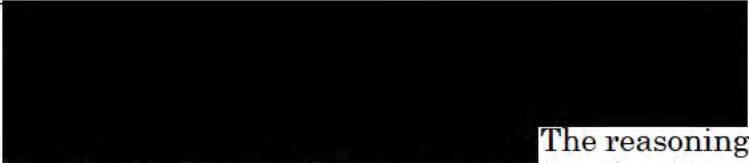
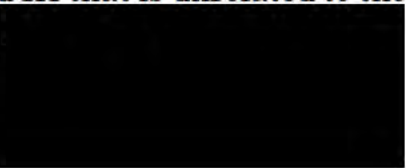
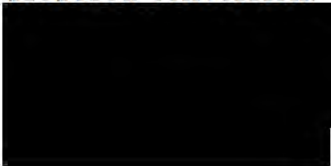
- Chamber Inc. (“Chamber”);
- Ivy Holdings, Inc. (“Ivy”);
- Ivy Intermediate Holdings, Inc. (“IIH”);
- Prospect Medical Holdings, Inc. (“PMH” or “Prospect”);
- Prospect East Holdings, Inc. (“PEH”);
- Prospect East Hospital Advisory Services, LLC (“PEHAS”);
- Prospect CharterCARE, LLC (“PCC”);
- Prospect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

S2-1	Revised Exhibits 3A and 3B	Please include all prior individuals for each occupation listed Column D. If no individual held that occupation prior to the current person listed, please so state.
S2-2	Revised Tab 4	<div></div> . See C-CIIH4-000250A.
S2-3	Revised Tab 4	<div></div> See C-CIIH4-000251A-000252A.
S2-4	Revised Tab 4	<div></div> See C-CIIH4-

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		000254A. Please explain why this condition was imposed.
S2-5	Revised Tab 4	The MPT refinance required a \$70 million pension payment, and the Merger Agreement requires a pre-payment of \$50 million to fund underfunded pension liabilities. Please explain the history of and rational behind these various pension obligations and payments and the rationale behind these two pension payments.
S2-6	Revised Tab 4	
S2-7	Revised Tab 4	Please explain if pension liabilities were excluded for purposes of surplus calculations.
S2-8	Revised Tab 4	 Is there an updated Officer's Certificate attesting to review of FY 2019 PMH Financials with updated numbers, reflecting FY 2019 Financials and the impact of COVID-19? If yes, please provide. If no, please explain why an updated Officer's Certificate is not needed.
S2-9	Revised Tab 4	


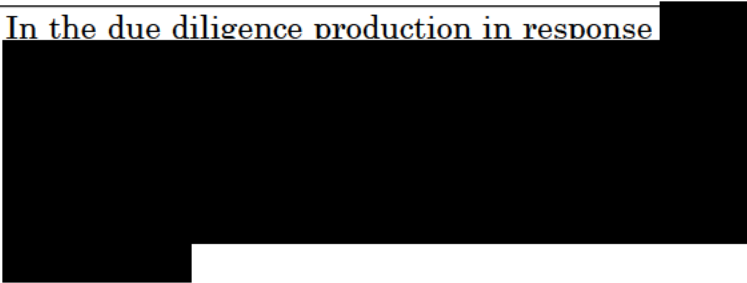
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S2-10	Revised Tab 4	
S2-11	Revised Tab 4	Please indicate if an updated Solvency Opinion for the payment of the \$12 million dividend is needed, specifically in light of COVID-19 and explain if the Proposed Transaction is still allowable under Delaware law which requires a surplus in order to pay dividends.
S2-12	Privilege Log for Revised Tab 4	 <p>The reasoning for all redactions is that the information “is related to a payment to IIH and IH that is unrelated to the proposed conversion.” </p> 

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S2-13	Privilege Log for Revised Tab 4	<div style="background-color: black; width: 100%; height: 300px; position: relative;"> <div style="position: absolute; top: 10%; left: 40%; width: 10%; height: 15px; background-color: white;"></div> <div style="position: absolute; top: 10%; left: 55%; width: 10%; height: 15px; background-color: white;"></div> <div style="position: absolute; top: 10%; left: 75%; width: 10%; height: 15px; background-color: white;"></div> <div style="position: absolute; top: 10%; left: 85%; width: 10%; height: 15px; background-color: white;"></div> <div style="position: absolute; top: 30%; left: 45%; width: 10%; height: 15px; background-color: white;"></div> <div style="position: absolute; top: 30%; left: 55%; width: 10%; height: 15px; background-color: white;"></div> <div style="position: absolute; top: 30%; left: 65%; width: 10%; height: 15px; background-color: white;"></div> <div style="position: absolute; top: 30%; left: 80%; width: 10%; height: 15px; background-color: white;"></div> </div> <p>Please provide an unredacted version of that paragraph, or if still claiming privilege, please provide a more detailed description of the contents of the redaction.</p>
S2-14	Tab 23	Please reconcile the statement in this Tab that “MPT’s thirty (30) year horizon provides for a stable future and ready source of capital” with the fact that the MPT transaction is 25 years or less.
S2-15	Question S-31	Please explain PMH’s rationale for converting inter-company debt into equity and booking uncollected management fees as long-term capital commitment under the Prospect CharterCARE Asset Purchase Agreement dated September 24, 2014 and the Amended & Restated Limited Liability Company Agreement of Prospect CharterCARE dated June 20, 2014 (“LLC Agreement”).
S2-16	Question S-31	Please indicate if the procedures under Section 4.2 of the LLC Agreement regarding long-term capital commitments were followed and provide evidence thereof.
S2-17	Question S-34	This response indicates the Nix Health system was closed “based on a business decision grounded in business strategy, market demand, and financial


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		results, as well as a business decision to concentrate on markets in which PMH has a great presence.” Please apply this calculus to the Rhode Island Hospitals.
S2-18	Question S-37	Please specify the matching contributions for the RWMC and OLF Defined Contribution 401(k) plans, and provide the governing documents regarding the Defined Contribution 401(k) plans.
S2-19	Question S-38	Please describe any impact of the Proposed Transaction on PMH’s Defined Contribution 401(k) plan matches at PCC, OLF, and RWMC.
S2-20	Question S-42	Explain the reasons for the “unforeseeable losses” and explain why they were unforeseeable.
S2-21	Question S-42	Please explain why regulators in Rhode Island, California, Texas, Pennsylvania, and Connecticut were not notified of the MPT transaction prior to its execution. If notice of the MPT transaction was given, please provide all relevant documentation. If notice of the MPT transaction was not given, please explain why not.
S2-22	Question S-43	
S2-23	Financials	In the due diligence production in response 
S2-24	Financials	Please provide Audited Financial Statements (or unaudited if audited statements not available) for RWMC for Years 2015 and 2016.
S2-25	Financials	Please provide all available year-to-date audited financial statements (or unaudited where audited


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		is unavailable), balance sheets, and any other financial statements through May 2020 for all Transacting Parties and affiliated Rhode Island Hospitals. If there is no data available, please explain why no data exists.
S2-26	Financials	<p>Questions S2-26 to S2-31 are related to the PMH Consolidated Financial Statements for years ended September 30, 2019 and 2018.</p> <p>Please explain the reference on Page 9 to a negative value for excess pension contribution and indicate if the pension is underfunded.</p>
S2-27	Financials	Provide a status of the \$70 million held in escrow that is expected to be contributed to the Company's pension plans by September 30, 2020 referenced on Page 27.
S2-28	Financials	Explain the prefunding of \$40 million of in pension liability from the refinance referenced on Page 43 and the status of that pension payment.
S2-29	Financials	Please provide an overall explanation of the Company's pension liability, specifically addressing how the various figures referenced in the financial statements (Page 40 - \$66 million and Page 50 - \$307 million), and the document production to RIDOH (\$302 million), can be reconciled.
S2-30	Financials	Explain if Option Price associated with the Second Master Lease discussed on Page 44-45 is a contingent liability that cannot be estimated or booked in the financials.
S2-31	Financials	Explain what indebtedness is due to MPT as referenced on Page 44, specifically stating if it is the TRS Note, paying reserves for capital repairs, or something else. Additionally, what is the actual amount of the indebtedness if it is not booked as the balance due under the leases and it is on the chart of liabilities?

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S2-32	Misc.	MPT's SEC Form 10-Q for quarterly period ending on September 30, 2019 references the Prospect Transaction on Page 16, specifically the TRS note which MPT expects "will be converted into the acquisition of two additional acute care hospitals upon the satisfaction of certain conditions." Please explain what conditions must be satisfied and when they are expected to be satisfied.
S2-33	Misc.	On Page 16 of MPT's SEC Form 10-Q, MPT states that it originated a "\$112.9 million term loan which we expect will be converted into the acquisition of two additional acute care hospitals upon the satisfaction of certain conditions." Prospect has verbally indicated to the regulators reviewing the proposed Transaction that Prospect will either repay or refinance the \$112.9 million loan to avoid MPT acquisition of RWMC and OLF through a sale-lease back. Please explain the discrepancy between these two statements and why the options of repayment or refinancing were not included in MPT's SEC form.
S2-34	Misc.	
S2-35	Misc.	Have the Rhode Island hospital properties been valued? If so, please provide the date of the valuation and the amount they were valued at.
S2-36	Misc.	Regarding the MPT Asset Purchase Agreement ("MPT APA"), explain the significance of having two Master Leases and why they are different.

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S2-37	Misc.	
S2-38	Misc.	Please explain what Third Party Consents and Regulatory Approvals were required under Section 5.2 of the MPT APA. In this response, please explain how the parties determine Rhode Island regulatory approval was not needed to consummate the MPT Transaction.
S2-39	Misc.	Please address the allegations contained in a letter dated June 4, 2020 by four members of congress from California, Texas, Pennsylvania, and Connecticut to Leonard Green & Partners Managing Partner, Jonathan Sokoloff.
S2-40	Misc.	<p>With respect to COVID-19, please provide the following information for (1) PMH; (2) RWMC; and (3) OLF:</p> <ul style="list-style-type: none"> a. Total COVID losses to date, including a breakdown of losses per day; b. Total COVID expenses to date; c. Any decline in inpatient revenues; d. Any decline in outpatient revenues and telehealth revenue increase/offset; e. Any and all COVID relief funds by source, including but not limited to the CARES Act (CMS Provider Relief Funds by type (https://www.hhs.gov/coronavirus/cares-act-provider-relief-fund/general-information/index.html#general) and State Medicaid; f. Any additional COVID relief funds that are currently being applied for; g. Any CMS advanced payments (including amount per hospital);

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		<ul style="list-style-type: none">h. Any COVID loans and forgiveness status;i. Explain where COVID funds and loan amounts are reflected on the financial statements requested herein;j. The projected losses and expenses for the current fiscal year;k. The PPE status of each hospital; andl. The current status of reopening in all states that PMH owns and operates facilities, including an explanation if the reopening has expanded elective procedures and other services that have been limited.
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