



May 26, 2020

Attorney General Xavier Becerra  
Attorney General's Office  
California Department of Justice  
Attn: Public Inquiry Unit  
P.O. Box 944255  
Sacramento, CA 94244-2550

Dear Attorney General Becerra,

We write regarding hospital chain Prospect Medical Holdings' pending change in ownership. Safety net hospital chain Prospect Medical Holdings operates seventeen hospitals in five states, including six hospitals in California: Southern California Hospital at Hollywood, Southern California Hospital at Culver City, Southern California Hospital at Van Nuys, Los Angeles Community Hospital, Los Angeles Community Hospital at Norwalk, and Foothill Regional Medical Center.<sup>i</sup>

Prospect is owned by private equity firm Leonard Green & Partners. Since Leonard Green acquired Prospect in 2010, the private equity firm and minority owners have drawn \$658 million dollars in fees and dividends from the company even its hospitals suffered operating challenges, substantially underfunded pensions, and regulatory scrutiny. Prospect has reported that Leonard Green is selling its now majority stake in Prospect to Prospect's management for \$10 million<sup>ii</sup>—a fraction of what it acquired Prospect and many of its hospitals for.

Prospect's hospitals currently have some of the lowest quality ratings from the Centers for Medicare and Medicaid Services—all but one have received one or two stars, the lowest quality ratings from CMS.<sup>iii</sup> In Connecticut, state regulators placed Prospect's three hospitals under review last year for deteriorating conditions that place patients in "immediate jeopardy."<sup>iv</sup> In Rhode Island, Prospect-owned hospitals' pensioners are suing Prospect for allegedly hiding the pension plan's poor health to shield its own liability from regulators.<sup>v</sup>

Prospect saw its EBITDA decline dramatically in recent years, from \$142 million in 2015 to \$17 million in 2018. Prospect's EBITDA margin dropped from 10.8% in 2015 to just 0.6% in 2018.<sup>vi</sup> In addition, Prospect faced \$260 million in unfunded pension liabilities as of September 2018.<sup>vii</sup>

Yet since Leonard Green acquired Prospect in 2010, the private equity firm and other owners have collected approximately \$658 million in fees and debt-funded dividends from the hospital company.<sup>viii</sup>

The \$457 million dividend the Leonard Green-led investment group collected in 2018 directly contradicted a commitment Prospect made to state regulators. In their consideration of Prospect's conversion of the CharterCARE hospitals in Rhode Island from non-profit to for-profit in 2014, the Rhode Island Office of the Attorney General and the State Department of Health made note

of previous dividends the company had paid to investors, stating that Prospect had assured the regulators that it did not intend to make additional dividend distributions.<sup>ix</sup> Prospect paid the \$457 million dividend to its ownership group just four years later.

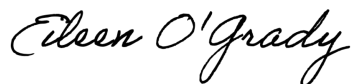
Last year, in an effort to pay down some of the existing \$1.1 billion debt it had accrued in part to fund dividends, Prospect sold much of its hospitals' real estate to health care REIT Medical Properties Trust and leased it back, adding additional lease obligations for Prospect's balance sheet.<sup>x</sup> Moody's analysts in July 2019 noted that the transaction did not merit a change in the company's B3 credit rating and negative outlook, as it "does not address the company's continuing operating challenges and lease-adjusted leverage will likely remain high."<sup>xi</sup>

Prospect subsequently shut down all of its health care facilities in Texas, laying off nearly 1,000 workers.<sup>xii</sup> It then sold the downtown hospital real estate to a hotel developer.<sup>xiii</sup>

It is inappropriate for a private equity firm to draw hundreds of millions of dividends from a safety net hospital chain, especially given the company's operating challenges and the hospitals' poor quality ratings.

We ask that your office decline to approve Prospect Medical Holdings' proposed change of ownership until Leonard Green & Partners returns the fees and dividends it collected from Prospect to ensure the hospitals and health care workers have as many resources as possible to respond to the COVID-19 pandemic.

Sincerely,



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<sup>i</sup> <https://pmh.com/>. Accessed May 6, 2020.

<sup>ii</sup> Change in Effective Control Application submitted by Prospect CharterCARE to State of Rhode Island Department of Health, Center for Health Systems Policy and Regulation. Submitted February 19, 2020. Accessed May 5, 2020. [https://drive.google.com/file/d/1vYdWVfRgKHQ3u\\_thgjz0qZA7UuPffWBS/view](https://drive.google.com/file/d/1vYdWVfRgKHQ3u_thgjz0qZA7UuPffWBS/view)

<sup>iii</sup> CMS Hospital Compare, accessed March 2020. <https://www.medicare.gov/hospitalcompare/search.html>

<sup>iv</sup> <https://www.courant.com/news/connecticut/hc-news-waterbury-hospital-prospect-medical-protests-20190602-hqc3yulngngwnd6qftmeiogsq-story.html>

<sup>v</sup> <https://www.modernhealthcare.com/article/20180622/NEWS/180629970/lawsuits-allege-fraud-conspiracy-in-insolvency-of-st-joseph-health-services-of-rhode-island-plan>

<sup>vi</sup> <https://pestakeholder.org/wp-content/uploads/2020/05/UPDATE-Leonard-Green-Prospect-Medical-Dividends-PESP-051420.pdf>; Prospect Medical Holdings Consolidated Financial Statements as of and for the Years Ended September 30, 2018 and 2017. Prospect Medical Holdings Consolidated Financial Statements as of and for the

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Years Ended September 30, 2016 and 02015.

[https://drive.google.com/file/d/1vYdWVfRgKHQ3u\\_thgjz0qZA7UuPffWBS/view](https://drive.google.com/file/d/1vYdWVfRgKHQ3u_thgjz0qZA7UuPffWBS/view)

<sup>vii</sup> <https://pestakeholder.org/wp-content/uploads/2020/05/UPDATE-Leonard-Green-Prospect-Medical-Dividends-PESP-051420.pdf>; Prospect Medical Holdings Consolidated Financial Statements as of and for the Years Ended September 30, 2016 and 02015. [https://drive.google.com/file/d/1vYdWVfRgKHQ3u\\_thgjz0qZA7UuPffWBS/view](https://drive.google.com/file/d/1vYdWVfRgKHQ3u_thgjz0qZA7UuPffWBS/view)

<sup>viii</sup> <https://pestakeholder.org/wp-content/uploads/2020/05/UPDATE-Leonard-Green-Prospect-Medical-Dividends-PESP-051420.pdf>

; [https://www.moodys.com/research/Moodys-downgrades-Prospect-Medical-Holdings-Incs-CFR-to-B3-outlook--PR\\_397518](https://www.moodys.com/research/Moodys-downgrades-Prospect-Medical-Holdings-Incs-CFR-to-B3-outlook--PR_397518)

<sup>ix</sup> See: State of Rhode Island Department of the Attorney General, CharterCARE/Prospect Final Decision, (pg. 48).

<http://www.riag.ri.gov/documents/5-16-14AGFinalDecision.pdf>; and Department of Health, Committee of the Health Services Council, Submitted May 2014 (pg. 22) <https://drive.google.com/file/d/0B91x-sHDAL9qRmJPWmd1MXNpbEk/view>

<sup>x</sup> <https://www.businesswire.com/news/home/20190715005786/en/Prospect-Receive-1.55-Billion-Investment-Medical-Properties>

<sup>xi</sup> [https://www.moodys.com/research/Moodys-Prospect-Medicals-sale-leaseback-improves-liquidity-however-operating-challenges--PR\\_405116](https://www.moodys.com/research/Moodys-Prospect-Medicals-sale-leaseback-improves-liquidity-however-operating-challenges--PR_405116)

<sup>xii</sup> <https://www.ksat.com/news/2019/11/06/last-nix-health-care-facility-in-san-antonio-set-to-close/>

<sup>xiii</sup> <https://www.sacurrent.com/the-daily/archives/2020/01/03/hotel-company-purchases-downtown-san-antonios-historic-nix-hospital-building>