

June 12, 2020

The Honorable Katie Porter
1117 Longworth House Office Building
Washington, DC 20515

The Honorable Lloyd Doggett
2307 Rayburn House Office Building
Washington, DC 20515

The Honorable Mary Scanlon
1535 Longworth House Office Building
Washington, DC 20515

The Honorable Rosa DeLauro
2413 Rayburn House Office Building
Washington, DC 20515

Dear Representatives Porter, Doggett, Scanlon and DeLauro,

We write to acknowledge receipt of your letter regarding our fund's investment in Prospect Medical Holdings ("Prospect"), a healthcare system that provides accessible, quality healthcare and physician services. We wish to take this opportunity to correct elements that were stated in your letter and to provide you with the facts.

First and foremost, we share Prospect's dedication to the health and safety of its patients and take very seriously the duty it has to the communities it serves. Under our ownership, Prospect has grown from five hospitals with 759 licensed beds and approximately 2,100 employees to 17 hospitals with 3,300 licensed beds and approximately 17,800 employees. Prospect acquires and rehabilitates closed or failing hospitals at risk of closure. Prospect has invested tens of millions of dollars in improving hospital operations and thus makes many positive contributions to the communities it serves, including access to healthcare and the addition or preservation of jobs at the hospitals it acquires.

In California, for instance, Prospect acquired hospitals in Tustin and Bellflower in 2014 that had been closed by their previous owners. Prospect renovated and reopened the facilities in 2015, bringing both new jobs and much needed healthcare services to residents. Upon the reopening of Foothill Regional Medical Center, Tustin Mayor Dr. Allan Bernstein emphasized the value, saying, "*Prior to the opening of Foothill Regional Medical Center, Tustin residents had to seek emergency medical attention outside of the city. With quality emergency care close to home, our residents as well as the Tustin Police Department and our local fire departments, are able to utilize a central location in Tustin.*"¹

In Connecticut, a number of the hospitals that Prospect bought in 2016 were in serious financial distress and were close to shutting down prior to being acquired by Prospect. When no other hospital operators

¹ <https://www.ocregister.com/2017/03/13/tustins-only-hospital-reopens-under-new-ownership-after-scandal/>

were willing to step up, Prospect saved the two hospital systems, preserved thousands of jobs, and secured the systems' existing pension funds, guaranteeing retirement income for many employees. For the first time ever, both systems now pay property taxes that help support schools, fire departments, and other important services in their local communities.

In Pennsylvania, the Crozer-Keystone Health System was in serious financial distress and close to shutting down when Prospect acquired it in July 2016. Once again, when no other hospital operators were willing to step up, Prospect saved the health system, preserved thousands of jobs, and secured the system's existing pension fund.

Correctly, you noted that our fund invested in Prospect in December 2010 through a going-private transaction. It is a mistake, however, to suggest that we "loaded" Prospect with debt. Zero additional debt was incurred as a result of the transaction. Rather, it was funded entirely with equity from the institutional investors for whom we manage capital.²

We would also like to correct your assertion that Leonard Green is using Prospect to "enrich wealthy investors." The reality is that our investors are largely composed of public and corporate pension funds, endowments and foundations, including several state pension funds providing retirement benefits for millions of public employees, including teachers, firefighters and other first responders. Two of our largest investors are public pension plans that have many thousands of members in your constituencies.

In July of 2019, Prospect completed a \$1.55 billion transaction with Medical Properties Trust, Inc. ("MPT") that allowed the company to repay all of its existing term loan debt. At the time of the transaction, Samuel Lee, the CEO of Prospect, said, "*In addition to strengthening Prospect financially, having MPT available for long-term capital provides us with a significant and experienced potential source of funding for improvements to our existing facilities as well as for future acquisitions and other growth opportunities. We will intensify our focus and resources in our existing markets – where we can expand and drive more growth – to provide quality, cost-effective, coordinated care through our comprehensive network of hospitals, medical groups, and ancillary facilities.*"³ We are confident that Prospect continues to have sufficient financial resources to serve its patients and communities.

While Prospect did cease operations in Texas due to declining demand for services in a highly competitive market, the 10-mile area surrounding Nix Medical Center contains numerous healthcare facilities, including five full-service acute care hospitals with 24-hour emergency rooms that continue to meet the health care needs of San Antonio residents. Prospect attempted to sell the Nix Medical Center to other healthcare providers, but did not receive any serious offers to continue operating the facilities, presumably since the area already had a sufficient number of healthcare facilities.

We would also like to address the allegations in lawsuits regarding the pension of St. Joseph Health Services of Rhode Island. Prospect was named in this litigation along with a host of other unaffiliated defendants, yet we believe that Prospect should not have been named as a party to this lawsuit. Prospect purchased assets of the failing hospital in 2014, long after the pension plan was in financial distress. The legal agreements associated with Prospect's purchase expressly state that Prospect did not assume responsibility

²Definitive Proxy Statement, Prospect Medical Holdings, Inc., November 12, 2010.

https://www.sec.gov/Archives/edgar/data/1063561/000104746910009625/a2200972zdefm14a.htm#dy70701_financing_of_the_merger_and_the_lgp_funds_guarantee

³Prospect Medical Holdings, Inc Press Release July 15, 2019.

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

for the pension plan, and the transaction was vetted and approved by the Rhode Island Attorney General, the Rhode Island Department of Health and the local hospital unions. Following the 2014 acquisition, employees in Rhode Island were given the opportunity to participate in a separate retirement plan that Prospect offered to its employees. Furthermore, the once failing CharterCARE hospitals in Rhode Island have been transformed, including a \$15.1 million new comprehensive emergency department that handles 32,000 emergency and urgent care visits each year.

All 17 Prospect hospitals are fully accredited by, and are in good standing with, the Centers for Medicare and Medicaid Services (“CMS”) as well as other accreditation agencies. With regard to the “immediate jeopardy” review in Connecticut last year referenced in your letter, we would like to note that the hospitals promptly submitted plans of correction, regained compliance and are currently in good standing with CMS. Furthermore, we would note that the hospitals’ star ratings reflect data from 2015 to 2018 and thus do not reflect recent quality initiatives.

Prospect facilities have achieved multiple awards, recognitions and accreditations during the same time period reflected in the CMS star ratings, including Get with the Guidelines Gold Plus rating from both the American Heart Association and the American Stroke Associations, The American Heart Association Mission Lifeline- STEMI Receiving Center- Gold Award and multiple Healthgrades Awards for quality, patient safety, critical care, cancer care, GI and sepsis, to name a few. Prospect hospitals have been featured in *US News and World Report* for best care, and Prospect has received local and regional awards for its hospitals, physicians and nurses from its communities, which understand and appreciate the high-quality care provided by Prospect hospitals. For example, Waterbury Hospital was voted the Best Hospital in the Greater Waterbury Region by the *Waterbury Observer*. The hospital also received the St. Vincent DePaul Mission award and was recognized by the New England Quality Innovation Network-Quality Improvement Organization for improvements in hospital readmissions.

Additionally, it is important to note that the dividends referenced in your letter were paid in May 2012, November 2012 and February 2018, long before the current COVID-19 crisis. The February 2018 dividend was not in violation of an agreement made with state regulators as stated in your letter; the approval of Prospect’s conversion of CharterCARE hospitals in Rhode Island from non-profit to for-profit status in 2014 did not include a prohibition on dividends. The dividends were fully approved by Prospect’s governing leadership and distributed to all shareholders of Prospect, while only a portion of those amounts were paid to our fund. The distributions that were paid to our fund were disbursed to our investors, which, to reiterate, include the pensions for thousands of public employees in a variety of professions. In addition, any debt incurred for dividends was repaid in full in conjunction with the transaction with MPT noted above.

We can assure you with firm, empirical confidence that Prospect remains well-capitalized with adequate liquidity and resources for its staff to address the current COVID-19 epidemic.

Best regards,



Andrew Goldberg
General Counsel

Leonard Green & Partners, L.P.