

July 17, 2020

The Honorable David Cicilline
2233 Rayburn Building
Washington, DC 20515

Dear Representative Cicilline,

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 appreciate your inquiry and wish to take this opportunity to address the important points outlined in your letter.

First and foremost, we share your and Prospect's dedication to the health and safety of its patients and take very seriously Prospect's duties 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 has invested hundreds of millions of dollars to acquire and improve the operations of hospitals, many of which had been on the verge of closure prior to being acquired by Prospect.

Our fund invested in Prospect in December 2010 through a going-private transaction. 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, which are largely comprised of public and corporate pension funds, endowments and foundations, including several state pension funds providing retirement benefits for millions of public employees, such as teachers, firefighters and other first responders.¹

In October 2019, well before the current COVID-19 pandemic, our fund entered into a definitive agreement to sell our interest in Prospect to the management team of Prospect, who already owns a meaningful portion of the company. Prospect will continue to be owned and led by its Chief Executive Officer, Samuel Lee, who has nearly 20 years of experience owning and operating hospitals and is dedicated to the health and safety of Prospect's hospitals systems and patients. Further, the sale of our interest was conditioned upon a \$70 million contribution from Prospect to its employee pension funds, which condition was satisfied in January 2020, just three months after our sale agreement was signed.

We chose to sell our interest in Prospect in 2019 because our investment in Prospect had already exceeded our targeted holding period by several years, and since our fund is nearing the expiration of its term. Our fund is required to use efforts to sell its final remaining investments once the term has expired. The closing of the sale is subject to regulatory approval, the process for which began last year.

We reject any implication that we have managed Prospect in a financially irresponsible fashion or that we have put our own financial interests ahead of the interests of the hospital system. Prospect today is at no risk of financial failure. Prospect has hundreds of millions of dollars of liquidity available to continue to

¹ Definitive 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

fund operations, to continue to invest in improving the hospitals it manages and to continue to provide quality care to its patients. Further, the CharterCARE hospitals are in significantly better financial health now than they were before being acquired by Prospect.

The CharterCARE hospital system in Rhode Island that Prospect bought in June 2014 is an example of a failing hospital system that would likely have been forced to close had it not been acquired by Prospect. These hospitals were in serious financial trouble for years leading up to their acquisition by Prospect. The situation was sufficiently dire that CharterCARE began in December 2011 to look for alternatives “*to ensure the continued viability*” of the CharterCARE hospitals.² To give you a sense of how serious things were, CharterCARE incurred a \$9 million loss in the six-month period ending in March 2014 before being acquired by Prospect. Ultimately, the financial situation at CharterCARE became so grave that the management and the board of the hospital attested that “*the system does not have the ability to survive long-term with a ‘go it alone’ strategy.*”³ It was in urgent need of a lifeline, which Prospect provided.

Since Prospect acquired the CharterCARE hospital system in 2014, Prospect has invested in technology, equipment, quality improvement, expanded services and physician recruitment for its hospitals. Prospect has revitalized CharterCARE with investments in a new ambulatory surgery center, a new long-term behavioral care program, new suboxone clinics and new physician groups. In addition, Prospect has expanded CharterCARE’s emergency department at Roger Williams, its Level 4 inpatient addiction medicine program and its primary care physician base.

Charles Lombardi, Mayor of North Providence, Rhode Island commented, “*Prospect’s investment saved thousands of jobs at both Fatima and Roger Williams, generated tax revenue for our community and most certainly stimulated our local business economy.*”⁴ In fact, Prospect has paid nearly \$25 million in state and local property and sales use taxes to support local communities that would not have been paid under prior ownership.

Today, CharterCARE’s hospitals are 5-star rated by Healthgrades for outcomes in numerous conditions and procedures including heart failure, heart attack, total knee replacement, stroke, chronic obstructive pulmonary disease, pneumonia, appendectomy, sepsis and respiratory failure. Brad Bowman, MD, the Chief Medical Officer at Healthgrades noted, “*This 5-star rating for these conditions and procedures showcases the expertise and commitment of CharterCARE’s hospitals to their patients.*”⁵ Further, under Prospect’s ownership, the CharterCARE hospitals have gained accredited status for Behavioral Health Services and Spine Surgery, and The Cancer Program has achieved accreditation by the American College of Surgery – Commission on Cancer and has been awarded an outstanding achievement award. Finally, CharterCARE’s quality metrics as measured by CMS for Surgical Complications, Infections and Mortality have improved since the acquisition by Prospect.

² State of Rhode Island Department of the Attorney General, CharterCARE/Prospect Final Decision, Retrieved at: <http://www.riag.ri.gov/documents/5-16-14AGFinalDecision.pdf>

³ State of Rhode Island Department of the Attorney General, CharterCARE/Prospect Final Decision, Retrieved at: <http://www.riag.ri.gov/documents/5-16-14AGFinalDecision.pdf>

⁴ <http://www.chartercare.org/news-and-events/post/prospect-delivers-on-promise-with-70-million-of-investments-in-rhode-island-added-01.08.2018>

⁵ <http://www.chartercare.org/news-and-events/post/chartercare-hospitals-receive-5-star-ratings-in-numerous-clinical-outcomes>

Your letter references allegations in lawsuits regarding the pension of St. Joseph Health Services of Rhode Island. The pension obligations under dispute were and remain the responsibility of the previous owner of the hospitals, and not Prospect. 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 for the pension plan. The transaction as structured was vetted and approved by the Rhode Island Attorney General, the Rhode Island Department of Health and the local hospital unions.

In July 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, 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.*"⁶ We are confident that Prospect continues to have sufficient financial resources to serve its patients and communities.

While Moody's did not change its rating outlook as a result of the MPT transaction, they did however note that "*the transaction is credit positive as it will provide a meaningful liquidity boost to Prospect Medical.*"⁷ Furthermore, given the retirement of Prospect's debt, Moody's discontinued its ratings of the company in September 2019 and thus has not monitored the continued progress in the company's operations and liquidity position. However, as stated above, Prospect has continued to build liquidity since the MPT transaction and remains well-capitalized.

We would also like to correct the assertion that the February 2018 dividend was in violation of representations made to the State of Rhode Island in connection with the approval of Prospect's conversion of the CharterCARE hospitals in Rhode Island from non-profit to for-profit status in 2014. As quoted in your letter, Prospect's management and representatives gave assurances that "*there were no plans to make similar distributions in the foreseeable future.*" That was and remains a true statement, as Prospect did not make any distributions until approximately four years after its acquisition. Further, any debt incurred for dividends was repaid in full in conjunction with the transaction with MPT noted above.

In addition, the February 2018 dividend from Prospect Medical was not paid from Rhode Island hospitals, as implied in the letter. The CharterCARE entities have not paid any dividends to its Prospect parent entities or to our fund. All capital generated at CharterCARE has been retained in the Rhode Island system to support operations and to continue to improve the quality of care offered to the communities it serves.

Furthermore, 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 pandemic, and have had no impact on Prospect's ability to provide quality care to the communities it serves. The dividends and note repayment⁸ were fully approved by Prospect's governing leadership and lawfully distributed to all

⁶ Prospect Medical Holdings, Inc Press Release July 15, 2019.

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

⁷ Moody's Investor Services Issuer Comment on Prospect Medical Holdings, Inc. dated July 16, 2019.

⁸ The \$44 million 2019 dividend noted in your letter was not a dividend to Prospect's shareholders, but rather a repayment of the shareholder capital contribution loaned to the company by way of a note held by our fund and other shareholders.

shareholders of Prospect, while only a portion of those amounts were paid to our fund. The portion of the dividends paid to our fund was subsequently distributed to our investors.

Again, we can assure you that Prospect maintains adequate liquidity and resources for its staff to address the current COVID-19 pandemic and the ongoing needs of Prospect's hospital systems. Prospect today remains extraordinarily well-capitalized, faces no material financial challenges and is at no risk of financial failure. The CharterCARE hospitals are in significantly better financial health now than they were before being acquired by Prospect.

Should you have any further questions relating to the quality of care provided by Prospect, the CharterCARE hospitals, or Prospect's operations generally, we respectfully request that you direct your questions directly to Prospect, as Prospect is better suited to address any concerns on those matters.

Best regards,

A handwritten signature in blue ink, appearing to be 'AG', is positioned above the typed name of Andrew Goldberg.

Andrew Goldberg
General Counsel
Leonard Green & Partners, L.P.