



STATE OF RHODE ISLAND
OFFICE OF THE ATTORNEY GENERAL

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(401) 274-4400 • www.riag.ri.gov

Peter F. Neronha
Attorney General

August 21, 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 Applications 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 Applications, and supplemental materials, 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 3” 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.

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Please provide your responses as soon as possible, but in no event later than September 14, 2020, 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 Third 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”);
- Roger Williams Medical Center and Our Lady of Fatima Hospital (“Rhode Island Hospitals, “RI Hospitals” or “RI Hospital Properties”)
- Rhode Island Department of Health’s Change in Effective Control Application (“RIDOH CEC”), and
- Transaction as outlined in the Initial Hospital Conversions Act Application as amended on March 18, 2020 and all subsequent supplemental submissions (“Proposed Transaction”).

S3-1.	Exhibit 4	
S3-2.	Exhibit 4	
S3-3.	Question 10	Provide Conflict of Interest Forms for the individuals listed in the Revised Exhibit 3A and 3B

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		in response to S2-1 that have not previously provided Conflict of Interest Forms.
S3-4.	Question 12	Please provide copies of preliminary term sheets, letters of intent, proposals or drafts reflecting changes in terms (in redline) circulated prior to: (1) the final Proposed Transaction documents; and (2) for the MPT Transaction
S3-5.	Question 14	Explain the regulatory process in California and provide evidence of California's approval of the Proposed Transaction.
S3-6.	Financial	The revised note in the 2019 audited financials provided to the Attorney General on August 11, 2020 is limited to the direct parent (PCC). Is the 85% parent of PCC (PEH) jointly and severally liable?
S3-7.	Financial	Please provide the solvency opinions for the \$459,930,000 dividend paid in 2018; and the planned \$12 million dividend for the Proposed Transaction.
S3-8.	Financial	Provide the PMH balance sheets as of (1) February 22, 2018 and (2) September 24, 2019.
S3-9.	Financial	Provide the annual routine capital needs of each of the Rhode Island Hospitals for the prior three (3) years, as well as the anticipated routine capital needs for the next year.
S3-10.	Financial	Provide a five-year capital plan for each of the Rhode Island Hospitals for non-routine expenditures. Please identify any prioritization of the capital needs and which items which require CON, or other regulatory approval.
S3-11.	Financial	Provide a copy of the Management Agreement between Prospect and Leonard Green ("Green") and an explanation of the basis for the management fee paid by Prospect to Green. Please include the current management fee paid to Green. Finally, confirm that this expense will be eliminated


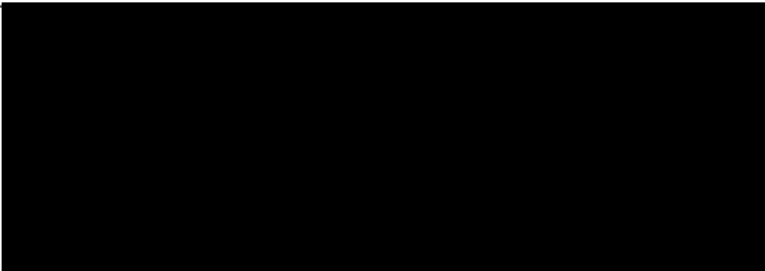
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		following the closing of the Proposed Transaction and explain if this expenses will be replaced with something equivalent from another party.
S3-12.	Financial	Please confirm Prospect's total outstanding debt under ABL as of the date of Prospect's response to these Third Set of Supplemental Questions.
S3-13.	Financial	Provide list any regular reporting, defaults, and/or waivers under ABL.
S3-14.	Misc.	Please summarize and provide documentation of Prospect's consideration of various exit strategies from the Green private equity investments and how and when Prospect ultimately selected each of the leveraged dividend recapitalization, the MPT transaction, and the Proposed Transaction.
S3-15.	Misc.	<p>Please provide copies of any written or electronic (1) documentation of, or (2) communication between or among any of PMH and its affiliates, their board members, senior managers and shareholders concerning, each of the following:</p> <ol style="list-style-type: none"> a. the decision to pay, the calculation of the amount of, the source of funds and the timing of each dividend payment from 2014 to present (i.e. list amounts and dates); b. the calculation of the purchase price for the Proposed Transaction, and the decision as to the source of payment therefor, including the use of the Lee and Topper equity commitments and funding/lack of funding thereof; c. the purpose, timing and use of funds from the MPT transaction; and d. any connection between or among the dividend payments, the purchase price, and the MPT financing.
S3-16.	Misc.	Please explain if Prospect is currently considering other mergers, acquisitions, or other similar transactions. In your response, please include the plan for financing any anticipated transactions.

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S3-17.	MPT Transaction	Provide agenda and minutes, as well as any other related documents, of all meetings of the board of directors (of all Parties) and any of its committees, subcommittees, task forces, or similar entities related to the review and approval of the MPT Transaction.
S3-18.	MPT Transaction	Please provide all documentation regarding the minority board consents and approvals of the MPT Transaction.
S3-19.	MPT Transaction	Do any representatives of MPT serve on any board of the Parties or their subsidiaries? If so, please indicate which individuals, and to the extent information has not been provided for those individuals, provide: (a) name; (b) addresses; (c) phone number; (d) occupation; and (e) tenure. If the answer to this question is no, please indicate if there is a plan to have MPT representatives on the boards after the close of the Proposed Transaction.
S3-20.	MPT Transaction	Regarding MPT's consent to the Proposed Transaction: <ul style="list-style-type: none"> a. What information was/will be provided to MPT or what diligence did MPT request regarding the Proposed Transaction in order to decide as to its consent? b. What is the status of the MPT consent? Please provide copy if/when available including with respect to any conditions to such consent. c. Does the consent require/will it result in any modifications to the existing MPT arrangements? Please detail.
S3-21.	MPT Transaction	Please provide a copy of any out of the ordinary course correspondence with MPT since the closing.
S3-22.	MPT Transaction	Have any of the MPT-related documents been amended since the closing and if not, are any amendments planned? If so, provide all amendments.


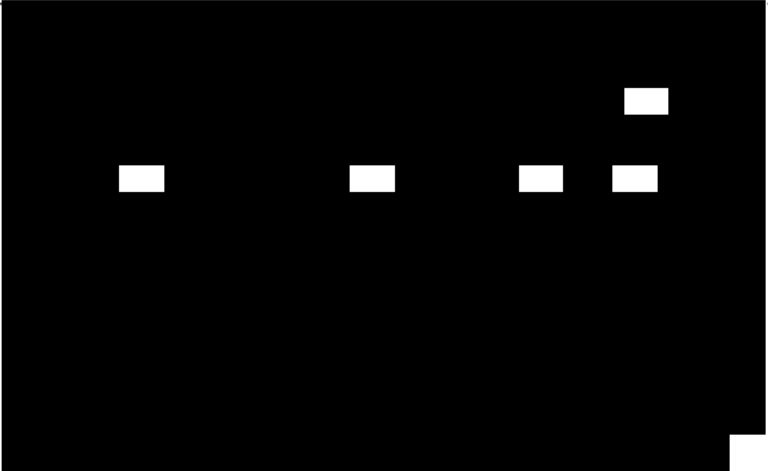

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S3-23.	MPT Transaction	Please list any Prospect defaults, when they occurred and any waivers of defaults received by Prospect under any of the MPT documents.
S3-24.	MPT Transaction	Have the documents described in Section 6.4 “Closing of Special Condition Property” of the Real Estate Asset Purchase Agreement (“RPAPA”) been agreed to in substantial draft form, including the joinder documentation to Master Lease II? If so, please provide. If not, which documents will be referenced in the joinder as it has been discussed between the parties?
S3-25.	MPT Transaction	What other steps, if any, have been taken to satisfy the “Special Conditions”? Please detail if any have been waived.
S3-26.	MPT Transaction	One of the requirements of the Closing of the Special Condition Property is the settlement of claims against MPT parties resulting from the Proposed Agreement. Please provide a summary of these claims, current status, and MPT’s posture and plans with respect thereto.
S3-27.	MPT Transaction	
S3-28.	MPT Transaction	Please provide a copy of the reports provided to MPT under Article IVXX (b)(v),(b)(vi), (c) and (h) of Master Lease II regarding PMH on a consolidated basis. If Prospect has not made any of the required reports, please explain why and provide any related documentation (e.g. extensions or waivers of ongoing reporting).
S3-29.	MPT Transaction	





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S3-30.	MPT Transaction	
S3-31.	MPT Transaction	Regarding Exhibit C to the RPAPA, if the Rhode Island Hospital Properties are joined, will the Rhode Island Hospital Properties have repair requirements? It appears that MPT has already undertaken its due diligence with respect to the Rhode Island Hospital Properties. Please provide whatever capital requirements have been determined for the Rhode Island Hospital Properties.
S3-32.	MPT Transaction	Please explain what
S3-33.	MPT Transaction	Has MPT provided funding of capital projects beyond the initial financing? If so, please provide a schedule of all capital projects funded by MPT beyond its initial financing, including the type of project funded, the amount of the project, and the location of the project. For any capital projects funded by MPT beyond its initial financing in Rhode Island, please also included any and all documentation related to those Rhode Island projects.
S3-34.	MPT Transaction	Is an overdue interest rate in effect under any of the MPT documents? If so, please provide the rate and explain any adverse impact on the Rhode Island Hospitals.
S3-35.	MPT Transaction	Please provide any and all documentation related to a sale leaseback with MPT of Prospect's equipment. If no such sale leaseback is under way, will occur, and/or has been completed, please confirm such.
S3-36.	MPT Transaction	Please confirm that any and all equipment associated with the Rhode Island Hospitals are not




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		and will not be part of any sale leaseback of equipment with MPT.
S3-37.	MPT Transaction	
S3-38.	MPT Transaction	
S3-39.	MPT Transaction	

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S3-40.	MPT Transaction	
S3-41.	MPT Transaction	List each use and applicable amount of what the TRS funds were used for. If money was used for refinancing of debt, please describe including which if any mortgages were discharged.
S3-42.	MPT Transaction	If any TRS funds remain, please describe the intended use(s) and amounts. Will any remaining funds be used to make the \$12 million purchase price of the Proposed Transaction?
S3-43.	MPT Transaction	
S3-44.	MPT Transaction	Please confirm whether Prospect is prohibited from refinancing the TRS note with anyone other than MPT or if they would be allowed to take it out through other financing.
S3-45.	MPT Transaction	
S3-46.	MPT Transaction	Pease explain Prospect's options in the event it is unable to make payment on the TRS note when due.
S3-47.	MPT Transaction	Please explain MPT's options with respect to the Rhode Island assets if Prospect defaults on the TRS Note.
S3-48.	MPT Transaction	Attorney Rocha's August 11, 2018 letter states that

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		<p>“[t]he TRS Note under which MPT has advanced to PMH \$112,937,000 is not related to the value of the properties in</p> 
S3-49.	MPT Transaction	
S3-50.	MPT Transaction	
S3-51.	MPT Transaction	