Prospect Medical Holdings, Inc. ("PMH")
Committee Meetings & Board Meeting

Agenda
November 17, 2016
LGP Office

10:00 am — Chairman's Remarks (PMH Chairman: Sam Lee)

Approval of Prior PMH Board minutes and committee minutes

10:10 am — Business Units Operations Review

- Hospitals
  - PA (Redacted
  - CA: (Redacted
  - TX/RI/NJ (Von Crockett)
- Medical Groups Redacted

11:30 am — Coordinated Regional Care (Redacted)

11:45 am — Finance (Steve Aleman)

- FY2016 Financial Statements and Audit Update
- Pension and Self Insurance Update
- Cash projections
- Election Impact

12:00 pm — Corporate Development/Related-Matters (Von Crockett)

- Transaction Status
- Eastern Connecticut Health Network
- Greater Waterbury Hospital
- Real Estate

12:15 pm — Executive Session

12:30 pm — Adjournment

RESOLUTIONS
OF THE
BOARD OF DIRECTORS
OF
PROSPECT MEDICAL HOLDINGS, INC.

Audit and Compliance Committee

WHEREAS, the Board of the Directors of Prospect Medical Holdings, Inc. (the "Corporation") deems it to be in the best interests of the Corporation to establish an Audit and Compliance Committee of the Board (the "Committee") to assist the Board in in its oversight responsibility concerning financial, audit and compliance matters;

WHEREAS, the Board of Directors has reviewed the proposed Prospect Medical Holdings, Inc. Audit and Compliance Organization Chart attached as Exhibit A (the "Chart") which provides the organizational structure for the Committee and the Prospect Medical Holdings, Inc. Audit and Compliance Committee Charter attached as Exhibit B ("Committee Charter");

NOW THEREFORE BE IT HEREBY

RESOLVED, that the Audit and Compliance Committee is hereby established and the organizational structure provided in the Chart, and the Committee Charter, is hereby approved;

RESOLVED FURTHER, that in accordance with the Committee Charter the following directors are appointed to the Audit and Compliance Committee:

Alyse Wagner (Chairperson)
John Baumer
Michael Soloman

Management Audit Committee

WHEREAS, the members of the Board of Directors desires to establish a Management Audit Committee (the "MAC") in accordance with the Committee Charter to assist the Board of Directors and the Committee in its oversight responsibility concerning financial and audit matters;

WHEREAS, the members of the Board of Directors have reviewed the proposed Prospect Medical Holdings, Inc. Management Audit Committee Charter attached as Exhibit C (the "MAC Charter");

NOW THEREFORE BE IT HEREBY

RESOLVED, that the Management Audit Committee is hereby established and the MAC Charter is hereby approved;

RESOLVED FURTHER, that in accordance with the MAC Charter, the following persons are appointed to the Management Audit Committee:

George Pillari (Chairperson)
Redacted
Ellen Shin
Redacted
Von Crockett
Redacted

Executive Compliance Committee

WHEREAS, the members of the Board of Directors desires to establish an Executive Compliance Committee (the "ECC") in accordance with the Committee Charter to assist the Board of Directors and the Committee in its oversight responsibility concerning compliance matters;

WHEREAS, the members of the Board of Directors have reviewed the proposed Prospect Medical Holdings, Inc. Compliance Program Charter which provides for the ECC attached as Exhibit D (the "ECC Charter");

NOW THEREFORE BE IT HEREBY

RESOLVED, that the Executive Compliance Committee is hereby established and the ECC Charter is hereby approved;

RESOLVED FURTHER, that in accordance with the ECC Charter the following persons are appointed to the Executive Compliance Committee:

Compliance Counsel (Chairperson)
Sam Lee
David Topper
Redacted
George Pillari
Redacted
Ellen Shin
Von Crockett
Redacted

General Authorization

RESOLVED FURTHER, that the Authorized Officers be, and each of them acting alone hereby is, authorized, empowered and directed, in the name of and on behalf of the Corporation, to execute, deliver and perform any and all other agreements, certificates, instruments or other documents required to be entered into or contemplated by the foregoing resolutions, and to do or cause to be done any and all further acts and things which any such Authorized Officer may deem necessary, advisable or appropriate in connection with the foregoing; and

RESOLVED FURTHER, that any and all actions heretofore taken by an Authorized Officer in connection with the matters contemplated by the foregoing resolutions be, and they hereby are, approved, ratified and confirmed in all respects as fully as if such actions had been presented to the Board of Directors for its approval prior to such actions being taken.

EXHIBIT A

PROSPECT MEDICAL HOLDINGS, INC.
AUDIT AND COMPLIANCE ORGANIZATION CHART
(attached)

EXHIBIT B

PROSPECT MEDICAL HOLDINGS, INC.
AUDIT AND COMPLIANCE COMMITTEE CHARTER
(attached)

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EXHIBIT C

PROSPECT MEDICAL HOLDINGS, INC.
MANAGEMENT AUDIT COMMITTEE CHARTER
(attached)

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EXHIBIT D

PROSPECT MEDICAL HOLDINGS, INC.
COMPLIANCE PROGRAM CHARTER
(attached)

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PROSPECT MEDICAL HOLDINGS, INC.
AUDIT AND COMPLIANCE COMMITTEE CHARTER

OVERVIEW AND PURPOSE

The Board of Directors ("Board") of Prospect Medical Holdings, Inc. (the "Company" or "PMH") has established an Audit and Compliance Committee (the "Committee"). The primary function and purpose of the Committee is to assist the Board in fulfilling its oversight responsibility to shareholders, employees and others relating to:

- The integrity of the Company's financial statements;
- The financial reporting process, the systems of internal accounting and financial controls;
- The performance of the Company's internal audit function and external auditors;
- The external auditor's qualifications and independence;
- The Company's compliance with the Company's Code of Conduct, policies and procedures, legal and regulatory requirements.
- The Company's procedures and policies related to compliance with laws and regulatory requirements necessary to ensure that the Company maintains an effective compliance program.

The Committee shall serve as an independent and objective party to monitor the Company's financial reporting process and internal control system, and its compliance with laws regulations and Company polices. The Committee shall provide an open avenue of communication among the independent accountants, financial and senior management, the compliance department, the internal auditing department and the Board.

The Company has also established a Management Audit Committee (the "MAC") and an Executive Compliance Committee (the "ECC") which shall consist of members of management and such committees may form further subcommittees consisting of members of management. The MAC and the ECC shall assist the Committee in fulfilling its oversight responsibility. The Committee shall oversee the activities of the MAC and the ECC, and any subcommittees thereof, and shall approve the selection or removal of its members. The Committee shall delegate responsibilities to the MAC and the ECC in its discretion.

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ORGANIZATION

The Committee shall consist of at least three (3) members of the Board of Directors, each of whom is considered to be "financially literate" and at least one member must be a "financial expert".

The Committee's responsibilities are limited to oversight. Management of the Company is responsible for the PMH's financial statements, including the estimates and judgments on which they are based, as well as the Company's financial reporting process, its policies and procedures, internal accounting controls and disclosure controls and procedures. The external auditor is responsible for performing an audit of the Company's annual financial statements, expressing an opinion as to the conformity of the annual financial statements with generally accepted accounting principles and reviewing the Company's quarterly financial statements. It is not the responsibility of the Committee to plan or conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate and in accordance with generally accepted accounting principles and applicable laws, rules and regulations. Management of the Company is also responsible for ensuring that it maintains an effective compliance program necessary for complying with laws, regulations and company policies and for establishing and implementing effective compliance training, auditing and monitoring and reporting and determining potential compliance concerns and ensuring that all appropriate corrective action is taken as necessary.

Each member of the Committee is entitled to rely on people within the Company and the professionals and experts (including the Company's external auditor and PMH's internal auditors) from which the Committee receives information on the completeness and accuracy of the financial and other information they provide to the Committee.

All Committee members serve at the pleasure of the Board and any member may be removed, with or without cause, by the Board.

POWER AND AUTHORITY

In addition to the powers and responsibilities expressly delegated to the Committee in this Charter, the Committee may exercise any other powers and carry out any other responsibilities from time to time delegated to it by the Board. The Committee may also conduct or authorize investigations into any matter within the scope of the duties and responsibilities delegated to the Committee by the Board.

The Committee will determine its own rules of procedure regarding the call, place, time and frequency of its meetings, subject to procedures of notification. In the absence of such rules, the Committee will meet at the call of its Chairperson as appropriate to fulfill the Committee's purposes. A majority of the members of the Committee will constitute a quorum for the transaction of business. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Meeting minutes will be prepared and approved by the Committee.

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RESPONSIBILITIES

The primary responsibility of the Committee is to assist the Board in fulfilling its oversight responsibilities by (a) reviewing the financial information which will be provided to the Board, the shareholders of the Company and others, the system of internal controls which Management and the Board have established and the audit process, and (b) reviewing the Company's compliance program that is necessary for complying with laws, regulations and company policies and for establishing and implementing effective compliance training, auditing and monitoring and reporting and determining potential compliance concerns and ensuring that all appropriate corrective action is taken as necessary.

The Committee has formed the MAC to assist it with its financial oversight responsibilities and has formed the ECC to assist it with its compliance oversight responsibilities and has delegated significant responsibilities to the MAC and the ECC pursuant to the MAC Charter and the ECC Charter. The Committee shall appoint all members of the MAC and the ECC and shall approve the appointment of any members of subcommittees thereof. The Committee may remove members of the MAC or ECC in its discretion.

The Committee shall oversee the activities of the MAC and the ECC including monitoring the performance of their respective responsibilities as described in the MAC Charter and ECC Charter, respectively. The Committee may determine in its discretion which activities shall require approval of the Committee (e.g. selection and retention of independent auditor). The Chairperson of the MAC and the Chairperson of the ECC shall report to the Committee regarding the activities of the MAC and the ECC, respectively, and they can contact the Committee at anytime they deem appropriate or necessary.

COMMUNICATIONS FROM SHAREHOLDERS, EMPLOYEES AND OTHERS

Shareholders, employees and other interested persons who wish to communicate with the Committee (including communicating complaints about the Company's accounting, internal accounting controls, auditing matters, compliance matters, policies and procedures) may do so by writing to the Committee. Such communications may be submitted on a confidential and anonymous basis, if desired.

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PROSPECT MEDICAL HOLDINGS, INC.
MANAGEMENT AUDIT COMMITTEE CHARTER

OVERVIEW

Prospect Medical Holdings, Inc. (the "Company" or "PMH") has established the Management Audit Committee (the "MAC") of Prospect Medical Holdings, Inc.'s Board's Audit Committee (the "Committee"). The MAC is made up of members of PMH's senior management. The MAC's Chairperson will periodically provide reports to the Committee. The purpose of the MAC is to provide assistance to the Committee in fulfilling its oversight responsibility to shareholders, employees and others relating to:

- The integrity of the Company's financial statements;
- The financial reporting process, the systems of internal accounting and financial controls;
- The performance of the Company's internal audit function and external auditors;
- The external auditor's qualifications and independence;
- The Company's compliance with the Company's Code of Conduct, policies and procedures, legal and regulatory requirements.

ORGANIZATION

The MAC shall consist of at least five (5) members, each of whom is considered to be "financially literate" and at least one member must be a "financial expert".

The MAC's responsibilities are limited to oversight. Management of the Company is responsible for the PMH's financial statements, including the estimates and judgments on which they are based, as well as the Company's financial reporting process, its policies and procedures, internal accounting controls and disclosure controls and procedures. The external auditor is responsible for performing an audit of the Company's annual financial statements, expressing an opinion as to the conformity of the annual financial statements with generally accepted accounting principles and reviewing the Company's quarterly financial statements. It is not the responsibility of the MAC or the Committee to plan or conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate and in accordance with generally accepted accounting principles and applicable laws, rules and regulations.

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Each member of the MAC is entitled to rely on people within the Company and the professionals and experts (including the Company's external auditor and PMH's internal auditors) from which the MAC receives information on the completeness and accuracy of the financial and other information they provide to the Committee.

All MAC members serve at the pleasure of the Committee and any member may be removed, with or without cause, by the Committee.

POWER AND AUTHORITY

In addition to the powers and responsibilities expressly delegated to the MAC in this Charter, the MAC may exercise any other powers and carry out any other responsibilities from time to time delegated to it by the Committee. The MAC may also conduct or authorize investigations into any matter within the scope of the duties and responsibilities delegated to the MAC by the Committee.

The powers and responsibilities delegated to the MAC by the Committee may be exercised in any manner the MAC deems appropriate (including delegation to subcommittees) and without a requirement for ECC's approval except as otherwise specified in this charter or the ECC's delegation. Any decision by the MAC, including any decision to exercise or refrain from exercising any of its delegated powers, is at the MAC's sole discretion. While acting within the scope of the powers and responsibilities delegated to it, the MAC may exercise all the powers and authority of the Committee and, to the fullest extent allowed by law, has the authority to determine which matters are within the scope of its delegated authority.

The MAC has the authority to retain and compensate independent counsel, consultants and other experts and advisors (accounting, financial, information technology, or otherwise) and may also use the services of the Company's regular counsel or other advisors to the Company. The Company will provide appropriate funding, as determined by the MAC, for payment of compensation to the external auditor for preparing or issuing an audit report or performing other audit, review or attest services, for payment of compensation to any experts or advisors retained by the MAC and for payment of ordinary administrative expenses of the MAC.

The MAC will determine its own rules of procedure regarding the call, place, time and frequency of its meetings, subject to procedures of notification. In the absence of such rules, the MAC will meet at the call of its Chairperson as appropriate to fulfill the MAC's purposes. A majority of the members of the MAC will constitute a quorum for the transaction of business. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Meeting minutes will be prepared and approved by the MAC.

Committee and ECC members who are not members of the MAC may attend and observe meetings of the MAC but will not be entitled to vote. The MAC may, at its discretion, include in its meetings members of management, representatives of the external auditor, the internal auditor, any other accounting or professional personnel employed or retained by the Company or any other person whose presence the MAC

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believes to be desirable and appropriate. Notwithstanding the foregoing, the MAC may exclude from its meetings any nonmember who it deems appropriate to exclude.

The Chairperson of the MAC will report on the MAC's activities to the Committee at appropriate times and as otherwise requested by the head of the Committee.

RESPONSIBILITIES

The primary responsibility of the MAC is to oversee the Company's external audit process on behalf of the Committee and report the results of their activities to the Committee. Although the MAC has the responsibilities and powers set forth in this Charter, it is not the duty of the MAC to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and in accordance with generally accepted accounting principles. Management is responsible for the preparation, presentation, and integrity of the Company's financial statements and for the appropriateness of the accounting principles and reporting procedures used by the Company. The external auditors are responsible for auditing the Company's annual financial statements and for reviewing the Company's unaudited interim financial statements.

The MAC and the Committee, in carrying out their responsibilities, needs policies and procedures to remain flexible to best react to changing conditions and circumstances. The MAC shall take appropriate actions to set the overall corporate "tone at the top" for quality financial reporting, sound business risk practices, and ethical behavior.

The following shall be the principal duties and responsibilities of the MAC:

- The MAC shall be directly responsible for the appointment, retention and termination of the external auditors (subject, if applicable, to Committee approval), and the external auditors must report directly to the MAC.

- The MAC shall be responsible for oversight of all work of the external auditors, including resolution of disagreements about financial reporting among management and the external auditor.

- The MAC shall approve all audit and non-audit services provided by the external auditors and shall not engage the external auditors to perform any non-audit services prohibited by laws or regulations. The MAC may delegate approval authority to a member of the MAC, provided the decisions of such member to whom approval authority is delegated presents any approval decisions to the full MAC at its next scheduled meeting.

- The MAC shall obtain and review reports by the external auditors at least annually describing:

    - The external auditor's internal quality control procedures.

    - Any material matters raised by the latest internal quality control review, or peer review, of the external audit firm, or by any inquiry or

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investigation by governmental or professional authorities, within the preceding five years, respecting one or more external audits carried out by the external auditor, and any steps taken to take care of any such matters.

- All relationships among the external auditor and the Company to assess the auditor's independence.

- The MAC shall discuss with the internal auditors and the external auditors the overall scope and plans for their audits, including the sufficiency of staffing and compensation.

- The MAC shall discuss with management, the internal auditors, and the external auditors the sufficiency and effectiveness of the accounting and financial controls, including the PMH's documented policies and procedures, to assess, monitor, manage business risk, and legal and ethical compliance programs as documented in Prospect Medical Code of Conduct. As part of this review, the MAC will receive a report documenting any transactions among the Company's Officers and Directors and the Company or any of it subsidiaries or affiliates.

- The MAC shall occasionally meet separately with management, the internal auditors, and the external auditors to discuss issues and concerns warranting MAC's attention. In such meetings the MAC shall provide sufficient opportunity for the internal auditors and the external auditors to meet privately with MAC members. The MAC will review with the external auditor any audit problems or difficulties and management's response.

- The MAC shall receive a regular report from the external auditor on all crucial accounting policies and practices of the Company, all material alternative treatments of financial information within generally accepted accounting principles discussed with management, including the consequences of using such alternative treatments and disclosures and the treatment preferred by the external auditor, and other material written communications between the external auditor and management.

- The MAC shall review management's assertion on its assessment of the effectiveness of internal controls, including information technology security and control, as of the end of the latest fiscal year and the external auditors' report on management's assertion.

- The MAC shall review with management and the external auditors the financial statements and disclosures to be included in the annual Consolidated Financial Statements of Prospect Medical Holdings, Inc., including their judgment about the quality, not just the acceptability, of accounting principles, the reasonableness of significant judgments, and the clarity of the disclosures in the financial statements. The MAC shall also discuss the results of the annual financial statement audit and any other matters required to be

communicated to the MAC by the external auditors under generally accepted auditing standards and the Public Company Accounting Oversight Board (PCAOB) standards, such as complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements.

- The MAC shall establish procedures for the receipt, retention, and treatment of complaints received by the Company about accounting, internal accounting controls, or auditing matters, and the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

- The MAC shall receive corporate attorneys' reports of evidence of a material violation of laws, regulatory rules and regulations, compliance matters or breaches of fiduciary duties.

- The MAC shall discuss with the Company's chief legal officer any legal matters brought to the MAC's attention that could reasonably be expected to have a material effect on the Company's financial statements. Periodically the MAC will meet separately with the chief legal officer to discuss legal, regulatory or compliance matters.

- The MAC will discuss with management the sufficiency of the Company's documented policies and procedures for risk assessment and risk management, compliance, significant financial risk exposures and the actions management has taken to limit, monitor or control such exposures. The MAC will also confirm with management that all PMH policies and procedures are reviewed by the policy owners and kept up to date.

- The MAC shall review the findings of any examinations by regulatory agencies, and any auditor observations and recommendations.

- The MAC shall review the process for communicating the Code of Conduct and PMH documented policies and procedures to Company personnel and for monitoring compliance therewith.

- The MAC shall perform an evaluation of its performance at least annually to determine whether it is functioning effectively, and any changes proposed by the MAC will be presented to the Committee for approval.

COMMUNICATIONS FROM SHAREHOLDERS, EMPLOYEES AND OTHERS

Shareholders, employees and other interested persons who wish to communicate with the MAC or the Committee (including communicating complaints about the Company's accounting, internal accounting controls or auditing matters) may do so by writing to the MAC or Committee directly or in care of the Company's chief legal officer, who will relay any communications received unopened to the Chairperson of

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the MAC or Committee, as applicable. Such communications may be submitted on a confidential and anonymous basis, if desired.

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PROSPECT MEDICAL HOLDINGS, INC.

COMPLIANCE PROGRAM CHARTER

OVERVIEW

Prospect Medical Holdings, Inc. hereby sets forth this Charter for its Compliance Program. Prospect's (PMH) adherence to the provisions of this Charter is intended to:

- support and maintain PMH's present and future responsibility with regard to participation in federal health care programs;

- further Prospect's goals of establishing an organization that:

  - fosters and maintains the highest ethical standards among all Prospect employees, officers and directors, physicians practicing at Prospect facilities and contractors that furnish health care items or services;

  - values its compliance with all state and federal laws and regulations as a foundation of its corporate philosophy: and

  - aligns with Prospect's core values of quality, integrity, service, innovation and transparency.

The primary focus of the Prospect Compliance Program is on the requirements of Medicare, Medicaid and all other federal health care programs. This Charter shall apply to any facility or business in which Prospect owns an interest of more than 50% or for which Prospect manages the day-to-day operations of the facility or business.

I. COMPLIANCE PROGRAM

The Executive Compliance Committee oversees Prospect's Compliance Program and includes the following:

1. Executive Compliance Committee. Prospect's Executive Compliance Committee ("ECC") shall be chaired by the Chief Compliance Officer and shall include, at a minimum the Chief Executive Officer, Chief Operating Officer and the Department Heads for the Quality, Law, Human Resources, Revenue Integrity, Audit, and a representative from Prospect Medical Services. The ECC provides senior management level oversight of the company's compliance with the legal and regulatory requirements of the federal health care programs. The ECC oversees and advises on the effectiveness of the Ethics and Corporate Compliance Program and makes decisions on investments in the Program, which are communicated to Prospect's QCE Committee for ratification as appropriate. The ECC also provides

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the final review and approval of all Prospect Compliance Program Work Plan policies and reviews the results of audits related to the compliance program. The ECC shall be familiar with Prospect's ethics and compliance policies and procedures and shall monitor, with input from the Compliance Department, all compliance-related issues that may have a material impact on the operations of Prospect. The ECC shall meet at least quarterly and shall keep a record of its proceedings for review by the Board Audit and Compliance Committee or the Prospect Board of Directors as appropriate. The ECC shall have the right to delegate policy and procedure reviews to the Regulatory Compliance Committee

2. ***Audit and Committee of the Board of Directors.*** The Role of the Audit and Compliance Committee of the Board of Directors is set forth in Attachment A. The Chair or his/her designee of the Executive Compliance Committee reports to the Audit and Compliance Committee of the Board.

3. ***Regulatory Compliance Committee.*** Prospect's Regulatory Compliance Committee provides support to Prospect's Executive Compliance Committee and assumes all duties delegated to it by the Executive Compliance Committee.

4. ***Hospital and Facility Compliance Committees***. Each Prospect hospital shall have a Hospital Compliance Committee ("HCC"). The Hospital Compliance Committee shall be chaired by the Facility Compliance Officer ("FCO") of the hospital or facility and include the hospital CEO, CFO, CNO, the Director of Human Resources, and other appropriate senior level executives from other hospital departments. The Hospital Compliance Committee shall be responsible for assisting the FCO in implementing the Prospect Ethics and Compliance Program at that hospital, and for ensuring compliance by the hospital with all federal and state laws and regulations related to federal health care programs. The Hospital Compliance Committee also shall be responsible for reporting, as appropriate, on compliance issues to the FCO, the Chief Compliance Officer. The HCC shall take all responsible steps to meet on monthly basis and shall keep a record of its proceedings for review by the respective RCD and Ethics and Compliance Department as appropriate.

5. ***Chief Compliance Officer.*** Prospect has a Chief Compliance Officer who is responsible for the management and operations of the Compliance Department. The Chief Compliance Officer shall be a senior officer of Prospect, has access to the Audit and Compliance Committee of the Board, and reports directly to Prospect's Chief Executive Officer ("CEO").

a. The Chief Compliance Officer shall make regular reports regarding compliance matters directly to the CEO. The Chief Compliance Officer shall be authorized to report to the Audit and Compliance Committee of the Board of Directors at any time.

b. To further his/her Compliance Program duties, the Chief Compliance Officer shall have the authority to monitor and perform risk assessments of the business and health care delivery activities engaged in by Prospect, Prospect employees, directors, contractors, agents and staff physicians. The Chief Compliance Officer shall have the authority to establish a periodic reporting mechanism to fulfill his/her reporting obligations to the CEO and Executive Compliance Committee. The Chief Compliance Officer may also reasonably request and have access to any Prospect business record at any time in furtherance of the mission of ensuring

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Prospect's compliance with applicable federal and state laws and regulations and company policies.

c. The Chief Compliance Officer shall be responsible for developing annual Compliance Work Plans and for the Compliance Department and Work Plans to the CEO and Executive Compliance Committee. The Compliance Department shall be separate from the Prospect Law Department. The Chief Compliance Officer shall have the independent authority to engage external legal counsel as the Chief Compliance Officer may deem necessary from time to time.

6. ***Compliance Department.*** Prospect's Compliance Department,is managed by the Chief Compliance Officer, and is responsible for the operation of Prospect's Corporate Compliance Program and for ensuring Prospect's compliance with all applicable federal and state laws related to federal health care programs. The Compliance Department shall focus its efforts on overseeing compliance in eight key areas: (1) quality; (2) medical necessity; (3) qualified providers and staff; (4) providing care without financial incentives; (5) providing care in a licensed, accredited facility; (6) patient rights; (7) correct reimbursement; and (8) correct documentation, coding, charging and billing. Among its responsibilities, the Compliance Department shall be responsible for (1) annually assessing, critiquing, and (as appropriate) drafting and distributing company policies and procedures; (2) developing, providing and tracking training to Prospect employees; (3) creating and disseminating the company's Code of Conduct and obtaining certifications of adherence to the Code as a condition of employment; (4) maintaining and promoting the Prospect Compliance Action Line (telephone hot line), which allows confidential reporting of issues on an anonymous basis and emphasizes Prospect's no retaliation policy; (5) responding to and resolving all compliance-related issues that arise from the Compliance Action Line and compliance reports received from Prospect facilities and Hospital Compliance Officers or any other source that results in a report to the Compliance Department; (6) ensuring that appropriate corrective action and disciplinary action is taken by Prospect when non-compliant conduct and/or improper contractual relationships are identified; (7) monitoring and measuring Prospect's adherence to all applicable Prospect policies and legal and regulatory requirements related to federal health care programs; (8) directing an annual screening of individuals for exclusion from federal health care program participation as required by federal regulations; and (9) overseeing annual audits of clinical quality, referral source arrangements, outliers, charging, coding, billing, and/or other compliance risk areas as may be identified from time to time.

7. ***Facility Compliance Officer ("FCO").*** Prospect shall create and staff, as appropriate, the position of the Facility Compliance Officer are responsible for each of its hospital or other facilities. Each FCO shall have sufficient management authority, responsibility, and resources to permit the effective performance of his/her duties. Each FCO is responsible, in coordination with the Chief Compliance Officer for implementation and oversight of the Prospect Compliance Program at the hospital and all applicable federal and state laws related to federal health care programs and shall

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have a dotted line reporting to the hospital CEO. The FCO's duties shall include the following: advising and directing hospital employees including senior executives, and contractors on Compliance Program matters, supporting the overall effectiveness of the Compliance Program by providing input on applicable compliance-related policies and procedures, reporting on ethics and compliance-related issues to the Chief Compliance Officer (or his/her designee), senior hospital executives, and serving as the hospital information resource for ethics and compliance issues.

DRAFT

UNANIMOUS WRITTEN CONSENT OF THE COMPENSATION COMMITTEE OF IVY HOLDINGS INC.

The undersigned, being all of the members of the Compensation Committee (the "Committee") of the Board of Directors (the "Board") of Ivy Holdings Inc., a Delaware corporation (the "Corporation"), acting pursuant to the authority set forth in Section 141(f) of the Delaware General Corporation Law, hereby take the following actions and adopt the following resolutions by unanimous written consent without a meeting:

WHEREAS, on December 15, 2010, the Board adopted the 2010 Stock Option Plan of Ivy Holdings Inc. (the "Plan") and, on December 16, 2010, the stockholders of the Corporation adopted the Plan; and

WHEREAS, on June 30, 2015, the Board adopted the First Amendment to the Plan and on June 30, 2015, the stockholders of the Corporation approved the First Amendment to the Plan (the Plan as so amended the "Plan"); and

WHEREAS, on May 18, 2017, the Board adopted the Second Amendment to the Plan and on May 18, 2017, the stockholders of the Corporation approved the Second Amendment to the Plan (the Plan as so amended the "Plan"); and

WHEREAS, on May 10, 2018, the Board adopted the Third Amendment to the Plan and on May 10, 2018, the stockholders of the Corporation approved the Third Amendment to the Plan (the Plan as so amended the "Plan"); and

WHEREAS, the Plan is administered by the Committee in accordance with the terms of the Plan; and

WHEREAS, the Committee desires to grant incentive stock options ("Options") within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, to certain employees of Prospect Medical Holdings, Inc., a wholly owned subsidiary of the Corporation ("Prospect Medical") or of Prospect Medical's direct or indirect subsidiaries; and

WHEREAS, the Committee desires to grant Non-Qualified Stock Options to certain employees of the Corporation or of its direct or indirect subsidiaries; and

WHEREAS, the offering and sale of shares of shares of the Corporation's common stock to employees under the Plan is intended to be exempt from registration under the Securities Act of 1933 as amended (the "Securities Act"), by virtue of Section 4(a)(2) of the Securities Act and/or Regulation D and/or Rule 701 promulgated thereunder by the Securities and Exchange Commission;

WHEREAS, the Committee has relied, in part, in determining the fair market value of the Corporation and its common stock for the purpose of fixing of the exercise price of the Options, among other things, on the valuation advice of Valuation Research Corporation set forth in its written report dated as of February 12, 2018 and issued on March 22, 2018.

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NOW, THEREFORE, BE IT RESOLVED, that the Committee has determined, based in part on the valuation advice of Valuation Research Corporation ("VRC") in its written report as of February 12, 2018, issued on March 22, 2018, that the exercise price of $390.14 equals or exceeds the current fair market value of a share of the Corporation's common stock; and it is

RESOLVED FURTHER, that the form of Incentive Stock Option Agreement (the "ISO Option Agreement") that is attached as Exhibit A to this Unanimous Written Consent hereby is approved by the Committee for use in connection with the grant of Incentive Options that is the subject of this Unanimous Written Consent; and it is

RESOLVED FURTHER, that the form of Non-Qualified Stock Option Agreement (the "NQSO Option Agreement" and, together with the ISO Option Agreement, the "Option Agreements") that is attached as Exhibit B to this Unanimous Written Consent hereby is approved by the Committee for use in connection with the grant of each Non-Qualified Stock Option that is the subject of this Unanimous Written Consent; and it is

RESOLVED FURTHER, that the form of Notice of Grant of Incentive Stock Option (the "Notice of Grant") that is attached as Exhibit C to this Unanimous Written Consent hereby is approved by the Committee for use in connection with the grant of each Incentive Option that is the subject of this Unanimous Written Consent; and it is

RESOLVED FURTHER, that the form of Notice of Grant of Non-Qualified Stock Option (the "Notice of Grant") that is attached as Exhibit C-1 to this Unanimous Written Consent hereby is approved by the Committee for use in connection with the grant of each Non-Qualified option that is the subject of this Unanimous Written Consent; and it is

RESOLVED FURTHER, that the Notice of Grant specifies, among other things, for each Option that is the subject of this Unanimous Written Consent: (1) the grant date and vesting commencement date of the Option; (2) the per share exercise price of $390.14 of the Option, and (3) the vesting terms of the Option, and it is

RESOLVED FURTHER, that the Corporation hereby grants an Option to each employee (an "Option Holder") whose name is listed in the Summary of Stock Option Grants that is attached as Exhibit D to this Unanimous Written Consent (the "Options Summary"); and it is

RESOLVED FURTHER, that the Options Summary describes, among other things, the number of shares of the Corporation's common stock, par value $0.01 per share, that each Option Holder is entitled to purchase upon the satisfaction of the terms and conditions set forth in the Notice of Grant, the Plan, and the Option Agreement for such Option Holder; and it is

RESOLVED FURTHER, that a Notice of Grant and an Option Agreement shall be prepared for each Option Holder regarding the Option that has been granted to the Option Holder and that each such Notice of Grant and Option Agreement together shall contain the terms that are set forth in the Options Summary; and it is

RESOLVED FURTHER, that each Option Holder is required to execute and deliver to the Corporation the applicable Notice of Grant and Option Agreement for such Option Holder; and it is

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RESOLVED FURTHER, that, as a condition to the exercise of the vested portion of his or her Option, an Option Holder must execute and deliver to the Corporation the Stockholders Agreement dated as of December 15, 2010 (the "Stockholders Agreement") among the Corporation and certain of its stockholders, if the Option Holder is not currently a party to the Stockholders Agreement as of the date of this Unanimous Written Consent; and it is

RESOLVED FURTHER, that the Chief Executive Officer, the Chief Financial Officer, and the Secretary of the Corporation (each, an "Authorized Officer" and, collectively, the "Authorized Officers") be, and each of them hereby is, authorized and directed, on behalf of the Corporation and in its name, to prepare for each Option Holder a completed Notice of Grant and Option Agreement and to execute and deliver the Notice of Grant and an Option Agreement for each Option Holder, and to take any and all actions including, without limitation, immaterial modifications to the foregoing agreements and notices and execute, deliver, prepare, and file any and all documents as may be necessary or appropriate, in his or her discretion, in order to cause the Corporation to consummate the transactions contemplated by each Notice of Grant and Option Agreement and perform its obligations thereunder; and it is

RESOLVED FURTHER, that the authority and power given under the foregoing resolutions shall be deemed retroactive and any and all acts authorized thereunder performed prior to the adoption of these resolutions are, in all respects, ratified, confirmed, and approved; and it is

RESOLVED FURTHER, that the Authorized Officers be, and each of them acting alone hereby is, authorized and directed to take any and all actions and to execute and deliver in the name and on behalf of the Corporation any and all filings, applications, and other documents as the Authorized Officer or Authorized Officers taking such actions or executing and delivering such documents may determine to be necessary or appropriate in order to effect the purposes of all of the foregoing resolutions, such approval to be conclusively evidenced by the taking of such actions or the execution and delivery of such documents by such Authorized Officer or Authorized Officers; and it is

RESOLVED FURTHER, that this Unanimous Written Consent may be executed in two counterparts with the same effect as if both signatories hereto had executed one document.

(Signatures on next page)

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IN WITNESS WHEREOF, the undersigned have executed this Unanimous Written Consent as of the date set forth below.

Dated: July 20, 2018

John Baumer

Alyse Wagner

Michael Solomon

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MINUTES OF THE
COMPENSATION COMMITTEE
OF
IVY HOLDINGS INC.
PROSPECT MEDICAL HOLDINGS, INC.

A meeting of the Compensation Committee (the "Committee") of Ivy Holdings Inc ("Ivy Holdings), a Delaware corporation, and Prospect Medical Holdings, Inc. ("Prospect Medical"), a Delaware corporation (collectively the "Company"), was held on December 4, 2013 at 10:00 a.m. Alyse Wagner and John Baumer were present. Ellen Shin, General Counsel, and Steve Aleman participated by invitation. The meeting was called to order by Chairperson, Alyse Wagner. Ms. Shin served as Secretary of the meeting.

Approval of FY 2013 Discretionary Management Bonus Pool

Ms. Shin reviewed with the Committee a resolution to set aside a discretionary management bonus expense accrual of $5.5 million as of September 30, 2013, which is attached hereto as Exhibit A. Upon motion duly made, and seconded, the Committee unanimously approved the resolution. The motion passed.

Approval of FY 2013 Option Vesting

Ms. Shin reviewed with the Committee a resolution to approve the discretionary portion of Sam Lee's Option that vested with respect to Prospect Medical's fiscal year 2013, which is attached hereto as Exhibit B. Upon motion duly made, and seconded, the Committee unanimously approved the resolution. The motion passed.

Adjournment

There being no further business to come before the meeting, the Chairperson declared the meeting adjourned at 10:15 a.m.

Respectfully submitted,

_____
Alyse Wagner, Committee Chairperson

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EXHIBIT A

RESOLUTIONS OF THE
COMPENSATION COMMITTEE
OF
IVY HOLDINGS INC.
PROSPECT MEDICAL HOLDINGS, INC.

December 4, 2013

Fiscal Year 2013 Discretionary Management Bonus Pool

WHEREAS, Prospect Medical Holdings., a Delaware Corporate ("Prospect" or "Corporation"), is a wholly owned indirect subsidiary of Ivy Holdings Inc., a Delaware corporation ("Ivy Holdings");

WHEREAS, all of the members of the Compensation Committee (the "Committee") of the Board of Directors of Prospect and Ivy Holdings, in consultation with senior management, is responsible for overseeing the Corporation's compensation program;

WHEREAS, pursuant to the Corporation's discretionary management bonus policy, certain employees at the Corporation and its subsidiaries may be entitled to an annual discretionary management bonus and/or contractual management bonus payments at such times and in such amount, as determined in the discretion of Samuel Lee, the Chief Executive Officer of Corporation ("CEO");

WHEREAS, the purpose of the discretionary management bonus pool is to aid the Corporation in recruiting and retaining executives and to motivate them to exert their best efforts on behalf of the Corporation by providing them with incentives through the granting of bonuses;

WHEREAS, the Committee members have reviewed and approved setting aside a management bonus pool (expense) of $5.5 million for fiscal year 2013 ("FY 2013 Bonuses"), with final bonus amounts to be determined following completion of the fiscal year;

NOW, THEREFORE, BE IT RESOLVED, that the Committee hereby approves the management bonus expense accrual of $5.5 million for fiscal year 2013;

RESOLVED FURTHER that the authority and power given under the foregoing resolutions shall be deemed retroactive and any and all acts authorized thereunder performed prior to the adoption of these resolutions are, in all respects, ratified, confirmed and approved; and it is

RESOLVED FURTHER that the officers of the Corporation be, and each of them acting alone hereby is, authorized, empowered and directed to take any and all actions and to prepare, execute and deliver, for an on behalf of the Corporation, all documents as

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any officer deems necessary or advisable in order to carry out the purposes of the foregoing resolutions or as may be required of the Company, in such form and of such content as any such officer shall approve such execution to be conclusive evidence of such approval.

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EXHIBIT B

RESOLUTIONS OF THE
COMPENSATION COMMITTEE
OF THE BOARD OF DIRECTORS OF
IVY HOLDINGS INC.

December 4, 2013

Fiscal Year 2013 Option Vesting

WHEREAS, on December 15, 2010, the Board of Directors adopted the 2010 Stock Option Plan of Ivy Holdings Inc. (the "Plan") and, on December 16, 2010, the stockholders of Ivy Holdings adopted the Plan;

WHEREAS, the Plan is administered by the Committee in accordance with the terms of the Plan;

WHEREAS, the Notice of Grant and the Stock Option Agreement (including any applicable amendments) for each Option granted to an Employee provide that, with respect to Prospect Medical's fiscal year ended September 30, 2013, the following portions of the Option will vest upon the satisfaction or partial satisfaction of the following four conditions:

- 5% of the Option will vest on December 15, 2013 if the Employee is an employee of Prospect Medical as of that date;
- Prospect Medical's Chief Executive Officer (or in the case of Mr. Lee, the Committee) has discretion to permit vesting of up to 5% of the Option;
- Up to 5% of the Option will vest upon the satisfaction or partial satisfaction of a specified Prospect Medical EBITDA target; and
- Up to 10% of the Option will vest upon the satisfaction or partial satisfaction of a specified business unit EBITDA target.

WHEREAS, the Committee desires to confirm and set forth in this Unanimous Written Consent, the discretionary portion of Mr. Lee's Option that vested with respect to Prospect Medical's fiscal year ended September 30, 2013;

NOW, THEREFORE, BE IT RESOLVED, that the Committee approves the full fiscal 2013 discretionary vesting component of the Option for Samuel S. Lee, which represents the vesting of 5% of Mr. Lee's Option.

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MINUTES OF THE
BOARD OF DIRECTORS
OF
PROSPECT MEDICAL HOLDINGS, INC.
a Delaware corporation

A meeting of the Board of Directors of Prospect Medical Holdings, Inc., a Delaware corporation (the "Company"), was held on December 4, 2013 at 10:00 a.m. pursuant to notice given by Samuel S. Lee, Chairman of the Board and Chief Executive Officer of the Company, and was held at the offices of the Company located at Redacted, Los Angeles, California.

Members of the Board of Directors who were present were Mr. Lee, Dr. Jeereddi Prasad, John Baumer, Alyse Wagner, and Michael Solomon. Also present for the meeting were Redacted Redacted Steve Aleman, CFO; and Ellen J. Shin, General Counsel. Mr. Lee acted as Chairman and Ms. Shin acted as Secretary of the meeting. The Chairman called the meeting to order at 10:10 a.m., announced that a quorum of the Board was present and that the Board would proceed with the transaction of business properly brought before it.

Chairman's Remarks
The Chairman opened the meeting with general remarks.

Approval of Prior Board Minutes
Ms. Shin asked the Board to review the September 10, 2013 and November 20, 2013 Board minutes. Upon motion duly made, and seconded, the Board unanimously approved those minutes. The motion passed.

Redacted Von Crockett, Redacted entered the room.

Operations Review
Redacted reviewed with the Board the consolidated financial summary for the Medical Groups for fiscal year 2013, and through October 31, 2013. She noted that the Medical Groups had a record year in terms of overall performance. Specifically, the key differences for the year were stabilization in commercial membership, full risk profitability, improvement in performance and medical management programs, and revenues from additional management service organizations. Mr. Baumer asked questions regarding the full risk line of business, and performance programs. Redacted answered those questions. Mr. Baumer then asked a general question about the competitive landscape. Redacted and Redacted responded, and also went into further detail about efforts the Medical Groups had taken to shore up the operations of the Medical Groups against the competition. Redacted then went through forward looking financial operations, which included an overview of key initiatives in attracting additional membership, increasing revenue, lowering medical cost and utilization, and ongoing operations. Redacted also noted risks facing the Medical Groups, including the unknown impact of the Health Insurance Exchange, physician attrition, full risk expansion, ICD-10 conversion, and certain government mandates. Mr. Baumer asked if there were concerns in entering into the full risk business. Redacted stated that the risks should be relatively low given that certain measurements had been implemented to mitigate any such risk. Mr. Lee then gave additional

context on the Company's full risk and Coordinated Regional Care model. Specifically, he noted that 2013 and 2014 would be investment years for the Company, and that the Company expected to see those investments materialize in 2015.

[redacted] Senior Vice President, Hospital Operations of Alta Hospitals System, reviewed with the Board the financial performance for the core Alta hospitals for fiscal year 2013. [redacted]. [redacted] went over volume, revenue, cost management, and EBITDA performance. He also went through forward financial operations in the areas of volume, financial drivers, and operational initiatives. [redacted] shared the ongoing risks from a reimbursement perspective that all hospitals are currently facing. Mr. Baumer asked what Medicare Disproportionate Share amounts the hospitals received last year. Mr. Aleman answered that question. Mr. Baumer then specifically asked about the differences in the normalized and GAAP EBITDA numbers. A discussion then ensued amongst management and the Board.

[redacted] then reviewed with the Board the financial performance of Southern California Hospital at Culver City ("Culver City") for fiscal year 2013. He stated that Culver City had notable increases in volume and revenue, and good control over cost management as compared to the same period last year. Ms. Wagner asked what is the volume of psychiatric care at the hospital. [redacted] reported that the patient population was now approximately 25%. A discussion ensued amongst management and the Board about the competitive landscape of hospitals that provide psychiatric care. [redacted] then shared Culver City's plans to expand into Obstetrics Services.

Mr. Crockett, Senior Vice President, Corporate Development, reviewed with the Board the financial performance of Nix Health ("Nix") for fiscal year 2013. Specifically, Mr. Crockett went over favorable improvements in volume, revenue, cost management, and EBITDA performance through fiscal year 2013. Despite these improvements, Mr. Crockett also noted to the Board that the Emergency Department expansion had also presented a different challenge with an increase in self-pay patients, and collectability of those accounts. On a positive development front, Mr. Crockett shared with the Board that a major favorable contract was entered between Nix and University Health System, and the continued demand for psychiatric services. He also went over the forward financial operations. Mr. Baumer asked what is the average daily census at Nix. Mr. Crockett responded to that question. Mr. Baumer then asked if opening the Emergency Department at Nix was the right decision. Mr. Crockett answered in the affirmative. Mr. Lee then provided an update regarding Nix Community General Hospital.

Coordinated-Regional-Care

[redacted] then provided a regional update to the Board about the Company's Coordinated-Regional-Care ("CRC") operating model and risk management platform. Specifically, he went over current accomplishments and results in Southern California, San Antonio, Rhode Island, and New Jersey. This included an overview of the timeline to put in place a state specific regulatory infrastructure, network development, and health plan engagement. [redacted] also expressed several of the key differences in each of the states, and the regulatory hurdles experienced to date.

[redacted] Mr. Crockett, and [redacted] left the room.

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Finance Matters

Mr. Aleman then reviewed with the Board the financial statements for the Company's consolidated entities through September 30, 2013. Specifically, Mr. Aleman went over the Company's consolidated balance sheet and income statement through September 30, 2013, the Adjusted EBITDA fifteen month trend, and further details at each entity level. Mr. Aleman also provided an update as to the status of the fiscal year 2013 audit, and that he estimated that the audit should be completed by the end of next week. Mr. Lee gave his perspective on the performance of the Company at fiscal year 2013, and expected headwinds into 2014 and 2015.

Mr. Solomon asked about the Company's available cash at September 30, 2013, and ability to fund upcoming transactions. Mr. Aleman responded to those questions. Mr. Solomon also asked what the Company anticipated paying in capital expenditures for the coming year. Mr. Aleman stated approximately $13 million.

Redacted entered the room.

Corporate Development

Redacted provided an update on the Chartercare transaction. Specifically, he went over the major deal points, timeline and current hurdles. Mr. Crockett elaborated further on the status of discussions with the union at the facilities. Mr. Lee explained the potential for the Company to make a significant impact in providing quality, and effective population management in the State of Rhode Island.

Redacted then provided an update on the Pacific Health transaction. He specifically went over each of the regulatory hurdles at the Tustin, Bellflower, and Redacted - Business Sensitive Redacted also reviewed the pipeline of potential acquisitions that the Company is considering.

Mr. Aleman then went over the status of the Redacted - Business Sensitive transaction, and another potential opportunity in New Jersey. A discussion ensued amongst management and the Board.

Adjournment

There being no further business to come before the meeting, the Chairman declared the meeting adjourned at 12:35 p.m.

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Sam Lee, Chairman

_____

Ellen Shin, Secretary

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MINUTES OF THE
BOARD OF DIRECTORS
OF
PROSPECT MEDICAL HOLDINGS, INC.
a Delaware corporation

A meeting of the Board of Directors of Prospect Medical Holdings, Inc., a Delaware corporation (the "Company"), was held on November 14, 2017 at 10:00 a.m. pursuant to notice given by Samuel S. Lee, Chairman of the Board and Chief Executive Officer of the Company, and was held at the offices of Leonard Green & Partners located at Redacted Redacted, Los Angeles, California.

Members of the Board of Directors who were present were Mr. Lee, John Baumer, Alyse Wagner, Michael Solomon and Jeereddi Prasad, M.D. (the "Board"). Also present for the meeting were Redacted Redacted a representative of Leonard Green & Partners; President - CRC President; Steve Aleman, Chief Financial Officer; Von Crockett, Senior Vice President, Corporate Development; Redacted Redacted Systems Chief Financial Officer; and Ellen Shin, General Counsel. Mr. Lee acted as Chairman and Ms. Shin acted as Secretary of the meeting. The Chairman called the meeting to order at 10:05 a.m., announced that a quorum of the Board was present and that the Board would proceed with the transaction of business properly brought before it.

Chairman's Remarks

The Chairman opened the meeting with general remarks.

Approval of Prior Board Minutes

Ms. Shin then asked the Board to review the August 22, 2017 Board minutes. Upon motion duly made, and seconded, the motion passed and the Board unanimously approved those minutes.

Redacted Redacted Von Crockett, Redacted Redacted Redacted Redacted, and Redacted entered the room.

Mr. Lee introduced Mr. Systems CFO to members of the Board.

Operations Review

Hospital Segment:

Redacted Senior Vice President, California Hospital Operations, reviewed with the Board the operational performance for the California hospitals for fiscal year 2017. He first went over as a group the challenges and successes at Los Angeles Community Hospital, Norwalk Community Hospital, Hollywood Community Hospital, and Van Nuys Community Hospital.

SVP - CA then went over the challenges and successes at Southern California Hospital at Culver City ("Culver City"). In particular, he noted that significant improvements had been made in decreased length of stay, premium pay reduction, termination of the LPS designation, and an increase in psychiatric admissions. Mr. Lee asked Systems CFO for his opinion regarding his assessment of the facility. Systems CFO responded to that question, and a discussed ensued amongst the Board and management regarding the challenges and current efforts to improve the financial performance of the hospital.

SVP - CA then reviewed with the Board the performance of Los Angeles Community Hospital at Bellflower ("Bellflower"). He went over improvements in average daily census and the status of the expansion of beds at the facility.

SVP - CA then reviewed with the Board the performance of Foothill Regional Medical Center ("Foothill"). Despite certain challenges with staff recruitment and retention and managed care contracting, SVP - CA noted several successes, including growth in inpatient volume and surgical programs, reduction in registry hours, new managed care agreements (with favorable rates), new Medical Staff leadership and management. Mr. Aleman commented on crossover benefits between Foothill and the Medical Groups.

Mr. Crockett then reviewed with the Board the performance of Eastern Connecticut Health Network ("ECHN") in Connecticut. Specifically, he went over ECHN's financial performance, major challenges, successes, and risks/opportunities. Although there were some volume leakage concerns, Mr. Crockett also noted that there were some successful payor contract negotiations and volume increases in the Eating Disorder Unit. Other notable risks/opportunities identified were a proposed $4 million increase in state supplemental revenue and the addition of Gero-Psych beds. A discussion regarding the process and timing of the Gero-Psych beds ensued amongst the Board members and management.

Mr. Crockett then discussed the performance of Waterbury Hospital ("Waterbury") in Connecticut. Some of the notable major challenges mentioned by Mr. Crockett were the Cerner electronic health records uplift and union negotiations with SEIU and CHCA. He also went over certain successes in labor management, ED LOS and patient experience. He also noted some opportunities in proposed supplemental revenue increase, physician engagement and recruitment, emergency room expansion and increases in managed care rates.

Mr. Crockett next discussed the performance of the Nix hospitals ("Nix") in San Antonio, Texas. A discussed ensued regarding certain challenges, including lower volumes at the Nix since the flood, psychiatry billing issues, and stagnated IPA growth. Mr. Crockett also went over some successes, which included the maintenance of Behavioral Health volumes, strong Labor management, and ED physician recruitment. He also noted that state reimbursement program were still on track to be extended to 2018 (Section 1115 Waiver), and there is a new supplemental program for managed Medi-caid effective in December 2017 that should yield some additional monies to the Nix.

A discussion ensued regarding the ongoing struggles at its facilities. Mr. Crockett noted some physician recruitment opportunities.

Mr. Crockett then provided an update regarding operations and matters at East Orange General Hospital (EOGH) in New Jersey. He noted some major challenges, including a monthly $500,000 reduction in Charity Care, effective July 1st, and loss of the psychiatric emergency screening grant, which totaled $1.6 million annually, effective November 1st. Mr. Crockett also went over some successes at the facilities, including an increase in physician morale and engagement, and a significant reduction in LOS. Risks and opportunities were also identified, including a changing landscape with local and state politicians.

Mr. Crockett then went over the financial performance, major challenges, successes and risks/opportunities for CharterCARE Health Partners in Rhode Island. He noted that there was a decline in volume and general instability in the Rhode Island healthcare marketplace and physician market. A discussion ensued amongst management and the Board about the current Rhode Island healthcare marketplace. Mr. Crockett added that the negative union campaigning by UNAP continued to contribute to the overall instability in the marketplace. Despite those challenges, Mr. Crockett noted several successes including strong acute admissions and continued recruitment of physicians affiliated with a competitor. Mr. Crockett also stated that there are some opportunities in the local marketplace the Company is pursuing.

Redacted Redacted Chief Executive Officer at Crozer-Keystone Health System ("Crozer), appeared by telephonic conference. CEO - Crozer reviewed with the Board Crozer's fiscal year 2017 performance, including fiscal year 2017 and 4th quarter adjusted EBITDA performance. He reviewed those results with prior year performance. He also noted certain volume trends, challenges, and successes. CEO - Crozer also gave a preliminary outlook on fiscal year 2018, including a rebound in certain volume trends and projected fiscal year 2018 EBITDA projections. Mr. Baumer thanked CEO - Crozer for his presentation and the good work at Crozer.

CEO - Crozer then exited the meeting.

Medical Group Segment:

Redacted Redacted, the Chief Executive Officer of the Company's Medical Group segment, went over the fiscal year 2017 successes and opportunities for the Medical Group segment. CEO - Medical Group then discussed Adjusted EBITDA performance excluding RAF adjustments, and also went over projected fiscal year 2018 EBITDA. Mr. Aleman gave some further context.

Redacted, Mr. Crockett, and Redacted then left the room.

Coordinated-Regional-Care:

Redacted Redacted, the President of the Company's Coordinated Regional Care segment, then provided an overall update to the Board about the Company's performance in the segment. Specifically, President - CRC went over the payor market in each market, and the Company's progress to adjust to those marketplace demands.

Finance Matters

Mr. Aleman then provided an update regarding the financial performance for the third quarter of fiscal year 2017. Specifically, he went over the 15 month Adjusted EBITDA trend, a summary of the Hospital Segment financial summary, and the current cash projections. Mr. Aleman also provided an update on the timing of Quality Assurance Fee monies. A discussion ensued amongst the Board and management regarding the inclusion of QAF monies into the Company's overall financial picture.

Corporate Development

Steve Aleman provided an update regarding current corporate development activities. He also noted ongoing activities related to the sale of excess non-essential real property and discussions regarding the possible sale of identified home health agencies.

Adjournment

There being no further business to come before the meeting, the Chairman declared the meeting adjourned at 12:55 p.m.

_____
Sam Lee, Chairman

_____
Ellen Shin, General Counsel & Secretary

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MINUTES OF THE
BOARD OF DIRECTORS
OF
PROSPECT MEDICAL HOLDINGS, INC.
a Delaware corporation

A meeting of the Board of Directors of Prospect Medical Holdings, Inc., a Delaware corporation (the "Company"), was held on May 23, 2018 at 10:07 a.m. pursuant to notice given by Samuel S. Lee, Chairman of the Board and Chief Executive Officer of the Company, and was held at Redacted Los Angeles, California.

Members of the Board of Directors who were present were Mr. Lee, John Baumer, Alyse Wagner, and Michael Solomon. Also present for the meeting were Redacted of Leonard Green & Partners; Steve Aleman, Chief Financial Officer; and Ellen Shin, General Counsel. Mr. Lee acted as Chairman and Ms. Shin acted as Secretary of the meeting. The Chairman called the meeting to order at 10:00 a.m., announced that a quorum of the Board was present and that the Board would proceed with the transaction of business properly brought before it.

Chairman's Remarks

The Chairman opened the meeting with general remarks.

Approval of Prior Board Minutes

Ms. Shin then asked the Board to review the May 23, 2018 Board minutes. Upon motion duly made, and seconded, the motion passed and the Board unanimously approved those minutes.

George Pillari entered the room.

Finance Matters

Mr. Aleman gave an overview of the financial performance of the Company, which included a 12 month and quarter by quarter review. Mr. Aleman noted that the figures were in line with the Company's projections. Mr. Aleman then went over an analysis of certain EBITDA adjustments with the Board. Mr. Baumer asked a question about financing costs in February 2018. Mr. Aleman answered that question.

Mr. Pillari noted that the Company was undergoing a new electronic health records implementation. A discussion ensued amongst the Board and members of management regarding the impact of the implementation, and other development costs.

Redacted entered the room.

Mr. Aleman then went over the GAAP to Adjusted EBITDA Bridge for the quarter ending March 31, 2018, which included certain pro forma adjustments. Mr. Aleman also provided a comparative analysis on cash collections from fiscal year 2017 to fiscal year 2018. Mr. Baumer asked about the status of cash collections specifically at Crozer Keystone Health System ("Crozer"). Mr. Lee responded to that question.

Mr. Aleman then provided a cash projection for the remainder of the calendar year.

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Von Crockett entered the room.

Operations Review

Hospital Segment:

Redacted Chief Executive Officer at Crozer, appeared by video conference. CEO - Crozer reviewed with the Board Crozer's second quarter of fiscal year 2018 financial performance, fiscal year to date financial performance and trailing twelve months performance. In particular, he went over admissions and expense control metrics from the prior fiscal year quarter. He also noted certain areas of underperformance and performance trends, and steps the management team has taken to address both items. Mr. Crockett also gave some perspective on some legislation that was currently being considered to address staffing ratios in Pennsylvania. There being no further discussion items, the Board members thanked CEO - Crozer for his participation.

CEO - Crozer exited the meeting.

Mr. Crockett, Senior Vice President, Corporate Development, reviewed with the Board the operational performance of the four legacy Alta hospitals for the second quarter of fiscal year 2018. Specifically, he went over challenges, successes, underperformance, trends, and steps taken to address any areas of underperformance and trends. Mr. Baumer asked for the financial performance of hospitals from the last year, and specifically for future presentations. Mr. Aleman stated that information would be provided going forward.

Mr. Crockett then reviewed with the Board the operational performance of Southern California Hospital at Culver City ("Culver City") for the second quarter of fiscal year 2018. Mr. Crockett went over certain performance and underperformance highlights, and the steps taken to address the underperformance areas. For instance, Mr. Crockett pointed out that registry costs had come down significantly during April 2018. Mr. Aleman went through the timing and impact of the Quality Assurance Fee ("QAF") monies. A discussion ensued regarding the breakdown and timing of QAF.

Mr. Baumer left the room.

Mr. Crockett then went over the operational performance of Foothill Regional Medical Center ("Foothill) for the second quarter of fiscal year 2018. Mr. Crockett highlighted for the Board that overall volume at Foothill had increased and the benefit of a significant payor agreement. He did state, however, that certain initiatives had fallen below expectations of management.

Mr. Crockett then reviewed with the Board the operational performance of Los Angeles Community Hospital at Bellflower ("Bellflower) for the second quarter of fiscal year 2018. Mr. Crockett stated that volume at Bellflower had remained relatively flat for the quarter, and that outreach efforts had expanded into Orange County. A discussion ensued amongst the Board and management regarding those updates.

Mr. Baumer returned to the room.
Sam Lee left the room.

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Redacted left the room.

Mr. Crockett then reviewed with the Board the operational performance of Nix Healthcare in San Antonio, Texas for the second quarter of fiscal year 2018. He noted that volume metrics and operating revenues were mixed compared to the prior quarter, and that there were some additional opportunities for improvements. A discussion ensued amongst the Board and management about the continued challenges and efforts by the management team to address them.

Sam Lee returned to the room.
George Pillari left the room.

Mr. Crockett then reviewed with the Board the operational performance of CharterCARE Health Partners ("CCHP") in Rhode Island for the second quarter of fiscal year 2018. Specifically, he went over CCHP's volume trends, focused improvements on employed physician practices, and further expense reductions. Mr. Baumer asked for a status update about the pension litigation at CCHP. Ms. Shin responded to Mr. Baumer's inquiry.

Redacted returned to the room.

Mr. Crockett then reviewed with the Board the operational performance of East Orange General Hospital ("EOGH") in New Jersey for the second quarter of fiscal year 2018. Mr. Baumer asked a question about efforts by the hospital to address the loss of charity care reimbursement. Mr. Crockett responded to that question. Mr. Crockett also went over some improvement initiatives in revenue cycle. A further discussion ensued amongst the Board and management.

Mr. Baumer left the room.

Mr. Crockett then reviewed the financial performance for the second quarter of fiscal year 2018 at Eastern Connecticut Health Network ("ECHN") in Connecticut. Mr. Crockett gave an update on new programs, and how the hospital had benefited from improved state rates.

Mr. Baumer returned to the room.

Mr. Crockett reviewed the financial performance for the second quarter of fiscal year 2018 at Waterbury Health. Mr. Crockett went over some challenges, successes, and trends. Mr. Baumer asked a question about competition from other area hospitals. Mr. Crockett responded to that question. Mr. Lee gave some further context.

The meeting participants then discussed the Connecticut marketplace.

Redacted entered the room.

Medical Group Segment:

Redacted President of the Company, provided an executive summary regarding the operational performance of the second quarter of fiscal year 2018 at the Medical Group segment. He noted that core operations continue to be strong, and that operational improvements were able to offset

a decline in commercial membership performance. President - PMH also went over certain initiatives to address underperformance.

Redacted entered the room.

Coordinated-Regional-Care ("CRC") Segment:

Redacted then provided an update to the Board about the Company's performance in the segment. Specifically, he went over total CRC membership, CRC financials highlight, and CRC opportunities and risks.

Redacted Mr. Crockett and Redacted then left the room.

Corporate Development

Mr. Aleman then provided an update regarding the Company's current corporate development pipeline. Mr. Aleman A discussion ensued amongst the Board and management related to the timing of those activities.

Adjournment

There being no further business to come before the meeting, the Chairman declared the meeting adjourned at 1:14 p.m.

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Sam Lee, Chairman

_____

Ellen Shin, Secretary

Confidential LGP-SBC-000002953

MINUTES OF THE
BOARD OF DIRECTORS
OF
PROSPECT MEDICAL HOLDINGS, INC.
a Delaware corporation

A meeting of the Board of Directors of Prospect Medical Holdings, Inc., a Delaware corporation (the "Company"), was held on February 25, 2011 at 10:45 a.m. pursuant to notice given by Samuel S. Lee, Chairman of the Board and Chief Executive Officer of the Company, and was held at the offices of the Company located at Redacted Los Angeles, CA at 2:00 p.m.

Members of the Board of Directors who were present were Mr. Lee, Dr. Jeereddi Prasad, John Baumer, Alyse Wagner, and Michael Solomon. Also present for the meeting were David Topper, Alta Hospitals System ("Alta") President; Redacted, CFO; and Ellen J. Shin, General Counsel. Redacted, outside Corporate Counsel participated by invitation. Sam Lee acted as Chairman and Ellen J. Shin acted as Secretary of the meeting. The Chairman called the meeting to order, announced that a quorum of the Board was present and that the Board would proceed with the transaction of business properly brought before it.

Chairman's Remarks
The Chairman opened the meeting with general remarks.

Acceptance of Prior Audit Committee Reports
The Board reviewed and accepted the February 7 and 11, 2011 Audit Committee minutes.

Appointment of Chairperson of Audit Committee
Given the recent formation of the Audit Committee, Ms. Shin stated that the Committee needed to appoint a Chairperson. Upon motion duly made, and seconded, the Board of Directors unanimously adopted the following resolutions:

WHEREAS, under the Audit Committee Charter ("Charter"), the Board of Directors shall designate a Chairperson;

WHEREAS, the Chairperson shall be financially literate and possess the requisite accounting or related financial management experience and expertise to qualify as an "audit committee financial expert;"

NOW, THEREFORE, BE IT RESOLVED, that the Board hereby appoints Alyse Wagner of Leonard Green & Partners, L.P. to serve as the Chairperson of the Audit Committee;

RESOLVED FURTHER, that the officers of the Company are hereby directed to provide to the Audit Committee, each member thereof, such information and materials, including books, records, projections and financial statements of the Company and any documents, reports or studies pertaining to the Company as may be useful or helpful in the discharge of the Audit Committee's duties or as may be determined by the Audit Committee, or any member thereof, to

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be appropriate or advisable in connection with the discharge of the duties of the Audit Committee;

RESOLVED FURTHER, that the officers of the Company are hereby authorized and directed to take all such further action and to prepare, execute, acknowledge, file and deliver all such further documents and instruments by and on behalf of the Company, and in its name, or otherwise, as in the judgment of any such officer shall be necessary, appropriate or advisable in order fully to carry out the intent and to accomplish the execution of the purposes of the foregoing resolutions.

Redacted, Redacted, and Redacted entered the room.

Legal Update

Redacted

Operations Review

Redacted, Alta's Senior Vice President, Operations, reviewed with the Board the consolidated financial summary for the month and year to date of December 31, 2010. Alta SVP Ops specifically noted that the volume of admissions and discharges was lower than the prior year due to a one time H1N1 flu outbreak during the same time frame last year. He also explained that revenue had decreased slightly from the prior year, and that overall cost management had slightly increased, primarily due to an increase in registry usage. With respect to the forward financial operations, Alta SVP Ops informed the Board that the volume of admissions had increased for January. Mr. Baumer asked why the increase in revenue did not translate into better financial performance for the month. Alta SVP Ops and Alta CFO explained that the length of stay should have been better managed.

Redacted Alta's Chief Financial Officer, then gave a report on Brotman Medical Center's financial operations for the month and year to date of December 31, 2010. She explained that the volume of discharges and patient days had increased from the prior year, but that the emergency room visits had decreased for the prior year. Alta CFO then explained that the net collectible revenue had increased for the same period from the prior year, and that the TAR denials had decreased for this same time frame. Mr. Baumer asked how these metrics compared to Alta. Mr. Lee responded to that question. Ms. Wagner asked for an update on the status of discussions with Gemino Healthcare LLC ("Gemino") and the Jewish Home for the Aging ("JHA"). Alta CFO also explained that there continued to be many challenges at Brotman Medical Center, Inc. ("Brotman"), including the inability to access additional capital under Brotman's existing revolving line of credit with Gemino. Mr. Lee provided an additional update on management's negotiations with the JHA.

Dr. Prasad, President of the ProMed entities, then provided an operations and financial summary of the ProMed entities through the end of January 2011. Given the ongoing recession, Dr. Prasad explained that commercial membership had continued to decline, but that continued growth in senior membership had helped to offset the overall decline. He also stated that revenue had decreased by approximately $83,000 from the prior year period, but that the

business unit had also obtained commercial rate increases from several health plans. On a going forward basis, Dr. Prasad informed the Board there continued to be risks on a national and local basis, which included competitive pressure and the uncertain impact of health care reform legislation. He then proceeded to explain a number of operational initiatives to mitigate the losses in membership.

Redacted then gave an update on Prospect Medical Group's financial operations through January 31, 2011. Redacted explained that membership had stabilized due to slight increase in senior membership, and despite a continued decrease in commercial membership. He also went over a number of forward financial operations efforts, including exclusivity arrangements with key physicians, strategic alliance with health plans, maximizing risk adjustment and pay for performance revenue, improvements in health plan contracting negotiations, IPA/MSO consolidation, capitated arrangements with certain health plans, and the potential purchase of medical groups. Mr. Lee also provided further context.

Finance Matters

Mr. Heather reviewed with the Board the financial statements for the Company's consolidated entities through December 31, 2010. This included a review of the first quarter of fiscal 2011 filing, which will be filed on February 14, 2010, and a review of the preliminary financials through January 31, 2011.

Mr. Heather explained that even though the Company was no longer publicly traded, it still had debt that could be publicly traded, and as a result, concluded that it would still file its quarterly financials until it had decided otherwise. He also informed the Board that Brotman had also issued its stand alone financials, and that Prospect Medical Group had timely filed its quarterly statutory filing with the Department of Managed Health Care.

Mr. Baumer raised a question about the Company's single physician shareholder model. A discussion ensued among the Board and management. Ms. Shin stated that she would further research the issue, and report back to the Board.

Mr. Heather then reviewed with the Board the Company's consolidated balance sheet through January 31, 2011, and the Adjusted EBITDA fifteen month trend. He then went over the tax filings for the various Company business entities.

Mr. Heather then provided an update on the Company's efforts to modify its existing indenture and remove the current requirement to file the Company's quarterly and annual financial statements. A discussion ensued among management and the Board.

Corporate Development

Mr. Lee gave an overview on the Company's current acquisition pipeline of hospital targets.

Adjournment

There being no further business to come before the meeting, the Chairman declared the meeting adjourned at 1:10 p.m.

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Sam Lee, Chairman

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Ellen Shin, Secretary

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MINUTES OF THE
BOARD OF DIRECTORS
OF
PROSPECT MEDICAL HOLDINGS, INC.
a Delaware corporation

A meeting of the Board of Directors of Prospect Medical Holdings, Inc., a Delaware corporation (the "Company"), was held on November 17, 2016 at 10:00 a.m. pursuant to notice given by Samuel S. Lee, Chairman of the Board and Chief Executive Officer of the Company, and was held at the offices of Leonard Green & Partners ("LGP"), Redacted Redacted Los Angeles, CA 90025.

Members of the Board of Directors who were present were Mr. Lee, John Baumer, Alyse Wagner, and Michael Solomon (the "Board"). Also present for the meeting were Redacted, LGP representative; Steve Aleman, Chief Financial Officer; and Ellen J. Shin, General Counsel. Mr. Lee acted as Chairman and Ms. Shin acted as Secretary of the meeting. The Chairman called the meeting to order at 10:10 a.m., announced that a quorum of the Board was present and that the Board would proceed with the transaction of business properly brought before it.

Chairman's Remarks
The Chairman opened the meeting with general remarks.

Approval of Prior Board Minutes
Ms. Shin then asked the Board to review the September 12 and 26, 2016 Board minutes. Upon motion duly made, and seconded, the Board unanimously approved those minutes. The motion passed.

Acceptance of Prior Compensation Minutes
Ms. Shin then asked the Board to the September 29, 2016 Compensation Committee minutes. The Board accepted those minutes.

Redacted Von Crockett and Redacted entered the room.

Mr. Lee gave context about the Company since the last Board meeting. This included a recap about the completion of this past year's acquisitions, and some key issues that had a significant impact on the overall performance of the Company.

Operations Review
Redacted Chief Executive Officer at Crozer-Keystone Health System ("Crozer), appeared by video conference. CEO - Crozer reviewed with the Board preliminary fourth quarter adjusted EBITDA, inpatient volume and case mix index trends, and outpatient volume trends. He then went over various development initiatives, challenges and successes. Mr. Baumer asked if the performance of the first quarter of fiscal 2017 was driven by revenue or focus on expenses. Redacted CEO - Crozer stated the drivers were both items. Mr. Baumer then asked about the marketplace, and whether or not much had changed as a result of the conversion from a non-profit organization to for-profit. CEO - Crozer stated in his opinion that the change was not significant.

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CEO - Crozer exited the meeting.

SVP Ops - CA, Senior Vice President, Hospital Operations, then reviewed with the Board the operational performance for the California hospitals through September 30, 2016. SVP Ops - CA went over the financial performance compared to the previous quarter performance. He also went through challenges, successes, and highlights for Los Angeles Community Hospital, Norwalk Community Hospital, Van Nuys Community Hospital, Hollywood Community Hospital, Southern California Hospital at Culver City, Los Angeles Community Hospital at Bellflower, and Foothill Regional Medical Center.

Mr. Lee and Mr. Solomon left the room.

Mr. Baumer asked a question about the status of the Emergency Department at Foothill Regional Medical Center. SVP Ops - CA gave an update about the specific regulatory hurdles and status.

Redacted left the room.

Mr. Crockett, Senior Vice President, Corporate Development, then reviewed with the Board the performance of Nix Healthcare ("Nix") for the quarter ending September 30, 2016. Specifically, Mr. Crockett went over Nix's financial performance, major challenges, successes, risks/opportunities. Mr. Baumer asked for some further clarification related to the performance of the first quarter of fiscal 2017. Mr. Aleman responded to that question.

Mr. Lee, Mr. Solomon and Redacted returned to the room.

Mr. Crockett then reviewed with the Board the performance of CharterCARE Health Partners ("CCHP") for the quarter ending September 30, 2016. Specifically, he went over CCHP's financial performance, major challenges, successes, and risks/opportunities. In particular, he noted that physician performance was an issue, and that several non-productive physician practices had been discontinued.

Mr. Crockett then reviewed with the Board the performance of East Orange General Hospital ("EOGH") for the quarter ending September 30, 2016. He stated that the facility was performing at or above expectations. He then went through the financial performance, major challenges, successes, and risks/opportunities at the facility.

Redacted President of the Company, then reviewed with the Board the performance for the Medical Group segment for the fiscal year ending September 30, 2016, and also gave an outlook for fiscal year 2017. He then went through the risk, challenges, and opportunities. He asked if there were any questions from the Board. Mr. Baumer asked a question about the overall performance. Ms. Wagner asked a question about the profitability with Medicaid expansion. Redacted President - PMH and Mr. Lee answered those questions.

Coordinated-Regional-Care

President - PMH then provide an overall update to the Board about the Company's Coordinated-Regional-Care ("CRC") operating model and risk management platform. He went over the (1)

current build-operate-transfer model in Pennsylvania, Connecticut and New Jersey; (2) Rhode Island CRC fiscal year 2017 bridge initiatives; (3) Pennsylvania CRC fiscal year 2017 bridge initiatives; (4) Connecticut CRC fiscal year 2017 bridge initiatives; and (5) New Jersey CRC fiscal year 2017 bridge initiatives. A discussion ensued amongst management and the Board.

SVP Ops - CA left the room.

Finance Matters

Mr. Aleman then provided an update to the Board of the fiscal 2016 audit and went over the financial statements for the Company's consolidated entities through September 30, 2016. Mr. Baumer asked if there were any concerns about finishing the audit on time. Mr. Aleman stated there were no concerns. Mr. Aleman then provided an overview of the potential impact of the Presidential election, including some of the healthcare positions that President elect Donald Trump had taken publicly. He also went through the recent and relevant healthcare California propositions 52 and 55. Mr. Aleman also gave an update of the pension and self-insurance efforts by the Company since the acquisitions of Crozer, Eastern Connecticut Health Network ("ECHN"), and Waterbury Hospital ("Waterbury"). Mr. Aleman also provided an update on cash projections and the monies spent on the recent acquisitions.

Corporate Development

Mr. Crockett provided a post-closing update on Crozer, ECHN, and Waterbury. In particular, he went over the financial performance, major challenges, successes, and risks/opportunities at ECHN and Waterbury, which had just closed on October 1, 2016. Mr. Crockett also shared with the Board that the focus for the coming year would be divesting excess real estate across the system, and several smaller closings by the end of calendar year 2016.

Mr. Crockett left the room.

Executive Session

The Board met with Mr. Aleman, Ms. Shin, and President - PMH in executive session.

Adjournment

There being no further business to come before the meeting, the Chairman declared the meeting adjourned at 12:46 p.m.

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Sam Lee, Chairman

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Ellen Shin, Secretary

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MINUTES OF THE
BOARD OF DIRECTORS
OF
PROSPECT MEDICAL HOLDINGS, INC.
a Delaware corporation

A meeting of the Board of Directors of Prospect Medical Holdings, Inc., a Delaware corporation (the "Company"), was held on May 20, 2015 at 10:00 a.m. pursuant to notice given by Samuel S. Lee, Chairman of the Board and Chief Executive Officer of the Company, and was held at the offices of the Company located at Redacted Los Angeles, California.

Members of the Board of Directors who were present were Mr. Lee, Dr. Prasad, John Baumer, Alyse Wagner, and Michael Solomon (the "Board"). Also present for the meeting were Steve Aleman, Chief Financial Officer, and Ellen J. Shin, General Counsel. Mr. Lee acted as Chairman and Ms. Shin acted as Secretary of the meeting. The Chairman called the meeting to order at 10:10 a.m., announced that a quorum of the Board was present and that the Board would proceed with the transaction of business properly brought before it.

Chairman's Remarks
The Chairman opened the meeting with general remarks.

Approval of Prior Board Minutes
Ms. Shin asked the Board to review the February 17, 2015 Board minutes. Upon motion duly made, and seconded, Dr. Prasad, Mr. Lee, Mr. Baumer, and Ms. Wagner approved the February 17, 2015 Board minutes. The motion passed.

Legal Update
Ms. Shin provided an update to the Board with respect to the Redacted – Privileged Redacted – Privileged

Approval of Designation of Prospect Health Plan as an Unrestricted Subsidiary
Ms. Shin then went over a request to seek approval of a resolution to designate Prospect Health Plan, Inc. ("PHP") as an "Unrestricted Subsidiary" under a certain Indenture, dated as of May 3, 2012, by and among the Company, the subsidiary guarantors party thereto and U.S. Bank National Association as trustee, under which the Company has issued its 8.375% Senior Secured Notes due 2019, a copy of which is attached hereto as Exhibit A. Upon motion duly made and seconded, the Board unanimously approved the resolution.

Redacted Von Crockett, Redacted and Redacted entered the room.

Operations Review
Redacted Hospital CEO of Alta Los Angeles Hospitals, Inc., reviewed with the Board the consolidated financial summary for the month and year to date through March 31, 2015 of Los Angeles Community Hospital, Norwalk Community Hospital, Van Nuys Community Hospital and Hollywood Community Hospital. Hosp CEO - Alta LA went through changes in volume, revenue, cost management, and EBITDA. He noted significant decreases in registry hours and supply

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expenses. Mr. Baumer asked what is driving the decrease in EBITDA? Hosp CEO - Alta LA stated that it was the payor and case mix index. Mr. Lee stated that the Medicare business is shifting over to managed care, and as a result utilization of medical services is decreasing. Mr. Baumer then asked for a status of the projects at Hollywood Community Hospital. Hosp CEO - Alta LA responded to that question. Hosp CEO - Alta LA then went over the forward financial operations.

Hosp CEO - Alta LA then reviewed with the Board the consolidated financial summary for the month and year to date through March 31, 2015 of Southern California Hospital at Culver City ("Culver City"). He explained that admissions had increased by 5%. This increase was despite the fact that a small fire occurred at the end of January on the roof at Culver City. Mr. Baumer asked what caused the fire. Mr. Lee explained a contractor working on the roof appeared to have caused a localized fire, which resulted in smoke entering the building. Although patients were forced to evaluate, there were no reported patient or employee issues. Hosp CEO - Alta LA stated that employee productivity numbers were high because of work related to the fire and a recent CMS survey. On the cost management side, he stated that registry hours had also decreased by about 60%. Mr. Lee reminded the Board about prior performance, the Disproportionate Share cuts, and expected current performance at Culver City. Hosp CEO - Alta LA then went over the forward financial operations, including the emergency room expansion and build out.

Mr. Baumer asked what is going on in the emergency room. Hosp CEO - Alta LA stated that the facility had outgrown the current emergency room, and as a result were turning away patients from the facility. Mr. Baumer asked some follow up questions. Mr. Aleman responded to those questions.

Hosp CEO - Alta LA then provided a summary of the financial operations for the month and year to date ending March 2015 at Los Angeles Community Hospital at Bellflower ("Bellflower) and Foothill Regional Medical Center ('Foothill"). With respect to Foothill, Hosp CEO - Alta LA stated that medical surgical services opened on March 30, 2015, and the first patient was admitted on March 31, 2015. Other key milestones achieved/to be completed were/are: OSHPD approval (occurred in mid-March) and California Department of Public Health ("CDPH") licensure (completed at the end of March). With respect to Bellflower, Hosp CEO - Alta LA stated that the facility is waiting for licensure inspection by CDPH, which should be any day now. He stated that the other key drivers for opening of the facility are: completion of construction (expected June 2015), OSHPD approval (occurred on April 29, 2015), CDPH licensure (expected to occur in late May 2015), conditional use permit by the City of Bellflower (occurred April 30, 2015), and Det Norske Veritas accreditation (expected to occur end of May). He also went over forward financial operations for Bellflower and Foothill. Mr. Baumer asked a question about the impact of any government reimbursement programs at the facilities. Mr. Aleman responded to that question.

Von Crockett, Senior Vice President, Corporate Development at the Company, provided a summary to the Board of the financial operations for the quarter and year to date ending March 2015 at Nix Hospitals System, LLC ("Nix"). Mr. Crockett stated that it was a transition year at the Nix, and went over the following highlights: (1) opening of the Babcock facility, (2) execution of the UHS contract, (3) increases in overall admissions volume, (4) slight decreases in emergency room admissions, and (5) continued challenges in the rural market at Nix Community

General Hospital ("NCGH"). He stated that the expected performance of Nix appeared to be about the same as last year.

Michael Solomon entered the room.

Mr. Crockett also went over expected risks to Nix's financial operations for next quarter, including some potential cuts in Uncompensated Care reimbursement, changes in Delivery System Reform Incentive Payments ("DSRIP") after 2016, and the fact that NCGH continues to lag in performance expectations. Mr. Baumer asked a question regarding what the DSRIP program will look like going forward. Mr. Crockett responded to that question.

Mr. Crockett then went over the consolidated financial summary for the quarter and year to date through March 31, 2015 at CharterCARE Health Partners ("CCHP"). Specifically, he stated that volume was still strong despite the severe snowstorms that occurred in the region during the quarter. He further added that the volume had returned to prior levels by March, except for elective surgeries. Other highlights for the quarter were: (1) the addition of some senior executives in finance and operations, (2) financial performance, (3) physician recruitment, and (4) the state Medicaid global risk project. Mr. Baumer asked a question regarding what percentage of the payor mix is Medicaid. Mr. Crockett stated approximately 10%.

Having concluded the discussion related to the Hospital segment, Mr. Crockett then turned the meeting to Redacted to review with the Board performance of the Medical Groups segment. Redacted Redacted stated the for the six months ending March 31, 2015, year to date EBITDA performance was $16.3 million. She attributed the successful performance to overall membership growth, increases in capitation revenue and other lines of revenue, and steady management of the cost of revenue and operating expenses. She then went over the forward finance and operations for the next quarter, which included a discussion regarding opportunities, key initiatives, revenue, cost of revenue, operations and risks. Redacted asked if there were any further questions, and there were none from the Board.

Redacted and Redacted left the room.

Coordinated-Regional-Care

President - PMH stated that over the last two years the Company had established its ability to set up independent physician associations, management service organizations, handle population management, and manage risk in several new regions. He further stated that the next evolution of the Company is to take this global risk platform into new regions where the Company is buying hospitals. He pointed out that this ability is what differentiates the Company from other buyers. He then explained to the Board the Company's plan to launch C-R-C Solutions to "friends and family" health systems in current and new markets. A discussion ensued amongst the Board and management regarding this new segment line of potential business.

Finance Matters

Mr. Aleman then reviewed with the Board the financial statements for the Company's consolidated entities through March 31, 2015. He highlighted the Company's projected revenue and EBITDA performance through September 30, 2015. Mr. Baumer asked how the projected

performance compared to last year. Mr. Aleman responded to that question. He then provided an update of the Company's available cash, including the timing of Quality Assurance Fee ("QAF") payments and net funds. He stated that the available cash on hand was lower due to the timing of those QAF funds. Mr. Baumer noted that the accounts receivables looked considerably higher. Mr. Aleman agreed, and explained that the Company had tightened up some processes in its management of revenue cycle. Mr. Lee also stated that from a billing and collection perspective, the Company was not as effective or as efficient compared to its prior performance.

Corporate Development

On the Corporate Development front, Mr. Crockett explained that there were several opportunities in two new states – Connecticut and Pennsylvania. In particular, Mr. Crockett explained that the laws in Connecticut had changed recently so that for-profit health systems could enter the state. As a result, all of the current health systems were non-profit and primarily dominated by two health systems – Yale and Hartford Health System. Mr. Crockett also stated some additional positive market attributes in Connecticut, including that Connecticut is familiar with managed care and is a Medicaid expansion state. Mr. Crockett then went on to explain an attempt by Tenet Healthcare last year to acquire five hospitals in Connecticut, which was ultimately unsuccessful. Mr. Crockett then provided a summary description of Waterbury Hospital, which included a review of the hospital profile, comprehensive range of acute care services, preliminary projection, proposed purchase price, projected cash required to close the transaction, and the current status of the Company's proposed transaction. Mr. Crockett stated that the Company had recently executed a letter of intent with an exclusivity period through September 8, 2015, and that the parties were currently in due diligence.

Mr. Crockett then provided a system profile of another health system in Connecticut – Eastern Connecticut Health Network ("ECHN"). He also covered the comprehensive range of acute care services provided by ECHN, preliminary projection, proposed purchase price, projected cash required to close the transaction, and that the Company had submitted an indication of interest on March 16, 2015, and expected a decision by ECHN in mid-June 2015.

A discussion ensued amongst the Board and management regarding the Connecticut marketplace.

Following that discussion, Mr. Crockett gave an overview of the health system marketplace in Pennsylvania and identified Crozer-Keystone Health System ("CKHS") as the target of interest for the Company. In particular, Mr. Crockett noted that Pennsylvania is experienced with managed care systems. He went over the profile of the health system, and noted that it covered four hospitals in Delaware County, Pennsylvania and currently had over $730 million in revenues. He stated that the Company had submitted an indication of interest in December 2014, and that CKHS was engaged in a high level of reverse due diligence. He expected CKHS to make their final selection of a suitor in mid-June 2015.

Mr. Crockett then went over the Company's efforts to work on a Coordinated Care Medicaid Pilot Project in Rhode Island. He went over the proposal to the State, potential projections, and the current status. A discussion ensued amongst the Board and management.

Finally, Mr. Crockett went over the Company's current pipeline of potential acquisition opportunities.

Adjournment

Mr. Lee asked if there were any further questions. There being no further business to come before the meeting, the Chairman declared the meeting adjourned at 11:53 a.m.

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Sam Lee, Chairman

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Ellen Shin, Secretary

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MINUTES OF THE
BOARD OF DIRECTORS
OF
PROSPECT MEDICAL HOLDINGS, INC.
a Delaware corporation

A meeting of the Board of Directors of Prospect Medical Holdings, Inc., a Delaware corporation (the "Company"), was held on August 24, 2015 at 10:00 a.m. pursuant to notice given by Samuel S. Lee, Chairman of the Board and Chief Executive Officer of the Company, and was held at the offices of the Company located at Redacted, Los Angeles, California.

Members of the Board of Directors who were present were Mr. Lee, Dr. Prasad, John Baumer, Alyse Wagner, and Michael Solomon (the "Board"). Also present for the meeting were Redacted representative from Leonard Green & Partners; Steve Aleman, Chief Financial Officer and Ellen J. Shin, General Counsel. Mr. Lee acted as Chairman and Ms. Shin acted as Secretary of the meeting. The Chairman called the meeting to order at 10:00 a.m., announced that a quorum of the Board was present and that the Board would proceed with the transaction of business properly brought before it.

Chairman's Remarks
The Chairman opened the meeting with general remarks.

Approval of Prior Board Minutes
Ms. Shin asked the Board to review the May 20, 2015 Board minutes. Upon motion duly made, and seconded, the Board unanimously approved the May 20, 2015 Board minutes. The motion passed.

Legal Update
Ms. Shin stated that Redacted – Privileged Redacted – Privileged Redacted – Privileged Ms. Shin responded to those questions. Ms. Shin also Redacted – Privileged Redacted – Privileged Redacted – Privileged

Redacted Von Crockett, Redacted, and Redacted entered the room.

Operations Review
Hosp CEO - Alta LA Hospital CEO of Alta Los Angeles Hospitals, Inc., reviewed with the Board the consolidated financial summary for the quarter and year to date through June 30, 2015 of Los Angeles Community Hospital, Norwalk Community Hospital, Van Nuys Community Hospital and Hollywood Community Hospital. Hosp CEO - Alta LA went through changes in volume, revenue, cost management, and Earnings Before Interest Tax Depreciation and Amortization ("EBITDA") for the quarter and year to date. He also went over the forward financial operations, including changes in volume, operational initiatives and risks. Mr. Aleman then went over the impact of

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the Quality Assurance Fees ("QAF"). Mr. Baumer asked a clarifying question about the timing and amounts. Mr. Aleman responded to that question.

Hosp CEO - Alta LA then reviewed with the Board the consolidated financial summary for the quarter and year to date through June 30, 2015 for Southern California Hospital at Culver City ("Culver City"). He stated that admissions for the quarter ending June 30, 2015 had increased primarily as a result of increases in psychiatric admissions and detoxification admissions, which were offset by decreases in acute admissions and rehabilitation admissions as compared to the prior fiscal year same quarter. He also went over positive increases in revenue. However, on the cost management side, Hosp CEO - Alta LA stated that registry hours and supply expenses had increased. Hosp CEO - Alta LA offered reasons as to the cause of those increases. For the month and quarter ended, Hosp CEO - Alta LA stated that the EBITDA performance for the hospital had improved by $1.1 million over the prior year period. Mr. Lee gave further context given Culver City's prior performance, and forward financial operations. Mr. Baumer asked a few follow questions about the performance. Mr. Aleman responded to those questions.

Hosp CEO - Alta LA then provided a summary of the financial operations for the quarter and year to date ending June 30, 2015 at Los Angeles Community Hospital at Bellflower ("Bellflower") and Foothill Regional Medical Center ("Foothill"). For the benefit of the Board, Hosp CEO - Alta LA went over the key milestones in the opening of Foothill. He also did the same overview with respect to Bellflower. For both facilities, Hosp CEO - Alta LA then went over the current operational initiatives and the associated regulatory and operational risks.

Mr. Crockett, Senior Vice President, Corporate Development at the Company, then provided a summary to the Board of the financial operations for the quarter and year to date ending June 30, 2015 at the Nix Hospitals System ("Nix"). Mr. Crockett reviewed with the Board changes in volume, which included decreases in admissions from the same quarter from the prior year period. He explained that the admission shortfall was attributed to a decrease in emergency room visits/admissions, the County re-opening of their psychiatric unit in February and discontinuance of the 10 additional contracted behavior beds, loss of certain key admitting physicians, and the general softness in the rural market. Mr. Lee explained further that the Redacted – Privileged Redacted – Privileged Ms. Shin provided further context. Mr. Crockett then proceeded to go over changes in revenue, cost management, and EBITDA performance. On the forward financial operations, Mr. Crockett continued to explain how the foregoing recent developments had negatively impacted the volume at the Nix, a number of operational initiatives (including the introduction of a new Chief Executive Officer for Nix, Redacted), and certain risks associated with the loss of certain physicians, continued declining performance at Nix Community General Hospital and certain reimbursement challenges. Mr. Baumer asked about the performance expectation for fiscal year end. Mr. Crockett and Mr. Aleman responded to that question.

Mr. Crockett then went over the consolidated financial summary for the quarter and year to date through June 30, 2015 at CharterCARE Health Partners ("CCHP"). Specifically, he went over positive increases in volume, increases in revenue, changes in cost management, and improved EBITDA performance from the prior same year period. He then went over forward financial

operations, including updates on volume, other financial drivers, operational initiatives for the remainder of 2015, and regulatory and operational risks at the facilities. A discussion then ensued amongst management and the Board.

Redacted Chief Financial Officer of the Medical Groups segment then reviewed with the Board the performance of the Medical Group segment for the quarter and year to date through June 30, 2015. She stated that year to date EBITDA performance is $44.7 million, which represented an increase of $23.3 million. She attributed the success to growth in all lines of business, increases in incentive bonus revenue (e.g. RAF, shared risk, full risk and pay for performance), and improvement in Medi-Cal and commericial gross profit. CFO - Med Grp then specifically went through the changes in membership, revenue, cost of revenue, operating expenses, and forward looking finance and operations. Mr. Baumer stated that the performance was strong, and then asked what are the business unit's expectations by fiscal year end. CFO - Med Grp responded to that question. Mr. Aleman provided further context.

Redacted Mr. Crockett, and Redacted left the meeting.

Coordinated-Regional-Care ("CRC") Update

President - PMH provided an update of the Company's Coordinated-Regional-Care results in Los Angeles, San Antonio, Rhode Island, New Jersey and Connecticut. President - PMH then stated that the CRC platform also included care management programs, which will put in place an integration of core processes between medical groups and hospitals. President - PMH also provided an update to the Board on CRC Solutions, and its C-R-C Group Launch Plan.

Financial Review

Mr. Aleman informed the Board of the Company's trailing twelve months EBTIDA performance as of June 30, 2015. Mr. Aleman then stated that projected EBITDA at fiscal year end should be approximately $160 million, and with $1.3 billion in revenue. Mr. Baumer asked what were the numbers for last year. Mr. Aleman responded to that question. Mr. Aleman then went through the consolidated financial statements for the quarter, and for each material business segment. Mr. Aleman then went over the Company's current cash projections, along with the proposed balances given the timing of certain acquisitions. He explained the timing of Quality Assurance Fee payments.

Redacted entered the room.

Corporate Development

Redacted Senior Vice President, Mergers and Acquisition, introduced himself to the Board, including an overview of his background and experience in mergers and acquisitions. He then presented to the Board the status of the Company's pending acquisition opportunities – Waterbury Hospital ("Waterbury"), Eastern Connecticut Health Network ("ECHN"), Crozer-Keystone Health System ("CKHS"), East Orange General Hospital ("EOGH"). Mr. Crockett then provided an update on the East Orange General Hospital ("EOGH") transaction. He stated that subject to receipt of certain conditions and regulatory approvals, it was currently anticipated that the EOGH transaction would close in late Fall 2015. Mr. Baumer asked a follow up question. A discussion ensued amongst management and the Board regarding the EOGH

transaction. SVP - M and A then went over the pipeline of potential acquisition opportunities with the Board.

Adjournment

Mr. Lee asked if there were any further questions. There being no further business to come before the meeting, the chairman declared the meeting adjourned at 12:07 pm.

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Sam Lee, Chairman

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Ellen Shin, Secretary

Confidential LGP-SBC-000003081

MINUTES OF THE
BOARD OF DIRECTORS
OF
PROSPECT MEDICAL HOLDINGS, INC.
a Delaware corporation

A meeting of the Board of Directors of Prospect Medical Holdings, Inc., a Delaware corporation (the "Company"), was held on September 12, 2016 at 2:00 p.m. pursuant to notice given by Samuel S. Lee, Chairman of the Board and Chief Executive Officer of the Company, and was held at the offices of the Company located at Redacted, Los Angeles, California.

Members of the Board of Directors who were present were Mr. Lee, John Baumer, Alyse Wagner, and Michael Solomon (the "Board"). Also present for the meeting were Redacted Redacted Leonard Green & Partners; Steve Aleman, Chief Financial Officer and Ellen J. Shin, General Counsel. Mr. Lee acted as Chairman and Ms. Shin acted as Secretary of the meeting. The Chairman called the meeting to order at 2:10 p.m., announced that a quorum of the Board was present and that the Board would proceed with the transaction of business properly brought before it.

Approval of Prior Board Minutes

Ms. Shin asked the Board to review the May 24, 2016 and August 23, 2016 Board minutes. Upon motion duly made, and seconded, the Board approved both sets of minutes. The motion passed.

Redacted entered the room.

Operations Review

Redacted President of the Company, reviewed with the Board performance of the Medical Groups segment for 10 months ending July 31, 2016, and the projected fiscal year 2016 performance. Specifically, he went over changes in membership growth, expected Medi-Cal expansion rate cuts of 15%, unfavorable full risk performance, unfavorable shared savings in the Healthnet Insurance Exchange, unfavorable operations expense, and lower than expected urgent care volume. Ms. Wagner asked how much of the decline in performance was recaptureable. President - PMH responded to that question, and then went over areas of remediation by the Company in order to address the financial impact in the areas of full risk, operations expense, clinic management, management, other areas of improvement. Finally, he went over challenges and possible areas that could offset some of the expected negative impact. Mr. Lee gave further context.

Redacted Chief Executive Officer of Crozer Keystone Health System ("Crozer"), appeared by videoconference and gave a general introduction about his background. He then went over with the Board a third quarter review of fiscal year 2016, update on the Crozer transaction, human resources update, inpatient volume and case mix index trends, and outpatient volume trends. He also went over certain development initiatives, which included the Broomall multi-specialty outpatient facility, continued primary care development, geriatric psych unit, and the drug and alcohol unit. Ms. Wagner then asked CEO - Crozer what is the biggest opportunity moving from a

non-profit entity to a for-profit entity such as the Company. CEO - Crozer answered that question. He asked if there were any further questions. The Board thanked him for his time, and CEO - Crozer signed off the videoconference.

Alta SVP Ops Senior Vice President of Hospital Operations at Alta Hospitals System then reviewed with the Board the performance of the California hospitals through the third quarter of fiscal year 2016. Alta SVP Ops went through the financial performance, prior issues, key challenges, successes, and updates at the California hospitals. Ms. Wagner asked a question about admissions at Culver City. Mr. Aleman answered that question. Mr. Lee gave further context.

Redacted and Mr. Solomon left the room.

Mr. Baumer asked about the status of regulatory approvals at Los Angeles Community Hospital at Bellflower ("Bellflower"). Alta SVP Ops stated that Bellflower was in its final stages of obtaining regulatory approval to expand its current psychiatric beds. He then went on to explain the status of regulatory approvals with opening up the emergency room at Foothill Regional Medical Center.

Redacted and Mr. Solomon entered the room.

Mr. Lee asked Redacted for his perspective on the status of the California hospitals altogether. Redacted gave his perspective and stated that he believed the right management team was in place, and with a renewed focus.

Redacted left the room.

Von Crockett, Senior Vice President, Corporate Development at the Company, went over the financial performance, major challenges, successes, and risks/opportunities at Nix Healthcare, CharterCARE Health Partners, and East Orange General Hospital for the third quarter of fiscal year 2016.

Coordinated-Regional-Care

President - PMH provided a Coordinated-Regional Care update. This included his perspective of the market progression to full risk, IPA provider growth, and the number of population under management, and an example of VBR health system service retention.

Finance Matters

Mr. Aleman then reviewed with the Board the consolidated income statement for the month ended July 31, 2016, monthly projections trends for 2016 and 2017, the fifteen month trend in EBTIDA performance, and the Company's current cash projections (which included timing of acquisitions).

Corporate Development

Mr. Crockett then gave an update on the status of the Waterbury Hospital and Eastern Connecticut Health Network transactions. Specifically, Mr. Crockett went over key milestones

and a timeline update. He also reminded the Board about the pension obligations. Finally, Mr. Crockett went over the Company's current pipeline of potential acquisition opportunities, but stated that the current focus is on closing the Connecticut transactions, Crozer Keystone Health System integration and non-strategic asset divestitures.

Executive Session

President - PMH provided an update to the Board.

Adjournment

Mr. Lee asked if there were any further questions. There being no further business to come before the meeting, the Chairman declared the meeting adjourned at 4:50 p.m.

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Sam Lee, Chairman

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Ellen Shin, Secretary

Confidential

MINUTES OF THE
BOARD OF DIRECTORS
OF
PROSPECT MEDICAL HOLDINGS, INC.
a Delaware corporation

A meeting of the Board of Directors of Prospect Medical Holdings, Inc., a Delaware corporation (the "Company"), was held on February 21, 2017 at 2:00 p.m. pursuant to notice given by Samuel S. Lee, Chairman of the Board and Chief Executive Officer of the Company, and was held at the offices of the Company located at Redacted, Los Angeles, California.

Members of the Board of Directors who were present were Mr. Lee, John Baumer, Alyse Wagner, Michael Solomon and Jeereddi Prasad, M.D. (the "Board"). Also present for the meeting were Redacted a representative of Leonard Green & Partners; David Topper, President of the Company's subsidiary, Alta Hospitals System, LLC; Redacted President; Steve Aleman, Chief Financial Officer; Von Crockett, Senior Vice President, Corporate Development; and Redacted Assistant General Counsel. Mr. Lee acted as Chairman and Asst Gen Counsel acted as Secretary of the meeting. The Chairman called the meeting to order at 2:05 p.m., announced that a quorum of the Board was present and that the Board would proceed with the transaction of business properly brought before it.

Chairman's Remarks

The Chairman opened the meeting with general remarks. He noted certain accomplishments and improvements since the last meeting of the Board.

Approval of Prior Board Minutes

Asst Gen Counsel then asked the Board to review the November 17, 2016 Board minutes. Upon motion duly made, and seconded, the motion passed and the Board unanimously approved those minutes.

Operations Review

Hospital Segment:

CEO - Crozer Chief Executive Officer at Crozer-Keystone Health System ("Crozer), appeared by video conference. CEO - Crozer reviewed with the Board Crozer's preliminary first quarter fiscal 2017, and second quarter to date, adjusted EBITDA, inpatient volume and case mix index trends, and outpatient volume trends. He noted EBITDA and revenue cycle improvements and discussed their contributors. He also noted certain challenges, including a continued shift to high deductible healthcare plans. CEO - Crozer noted that Crozer is on target to meet key 2nd quarter projections.

In response to a question raised by Mr. Baumer, a discussion ensued regarding the status of capital expenditure commitments and related ongoing investments.

Mr. Topper and Mr. Crockett discussed potential government grants related to Crozer's detox and behavioral health units.

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CEO - Crozer exited the meeting.

Redacted Senior Vice President, Hospital Operations, then reviewed with the Board the operational performance for the California hospitals for the first fiscal quarter of 2017 and the second quarter to date. He noted improvements in employee turnover, vacancy rates, admissions and productivity ratios.

SVP Ops - CA also noted that the accreditation for Los Angeles Community Hospital has been converted from DNV to the Joint Commission and the implications of that change.

A discussion ensued regarding reductions in use of nurse registry hours and related efforts.

Ms. Wagner asked how the California hospitals are expected to trend for the second quarter. SVP Ops - CA SVP Ops - CA noted that the Bellflower facility may trend flat, but that the other facilities are expected to have strong second quarter performance on target with projections.

A discussion ensued regarding performance at the Culver City facility. Mr. Topper noted that the recent CMS audit of the facility had made it difficult to recruit and retain nurses and to staff full patient admission. However, Mr. Topper further noted improvements following the facility's successful survey results.

In response to a question from Mr. Baumer, a discussion ensued with Mr. Aleman and Mr. Topper regarding performance against monthly projections. Mr. Aleman noted that they are in line with projections and quality indicators are good.

Redacted then entered the room.

A discussion then ensued regarding future expectations for the California Quality Assurance Fee (QAF) Program and the amount of funds expected to be received under the program.

Mr. Lee and Mr. Topper noted new efforts across all facilities to improve quality performance.

SVP Ops - CA noted management changes made at the Culver City facility and ongoing discussions with the nurses' union at the facility.

A discussion ensued regarding ongoing negotiations with the California Nurses Association (CNA) regarding proposed pay rate increases that will make staff recruitment easier at the Culver City facility. SVP Ops - CA noted a target completion of such negotiations within approximately four weeks.

The meeting participants then discussed issues related to the Culver City's involuntary admission of emergency department psych patients pursuant to its LPS designation with the Los Angeles County's Department of Health. They discussed issues related to the designation and its burdensome requirements, as well as plans to meet with the County and the possibility of a voluntary termination of the LPS designation.

SVP Ops - CA then discussed plans to open an additional 23 beds at Bellflower, which will bring its total to 55.

Plans for a ribbon cutting with Redacted were discussed for the new Foothill Emergency Department. The meeting participants also discussed plans to seek approval for paramedic runs from the facility, issues with its Redacted contract, and its revamped management. Its increasingly positive admissions and financial results were noted.

SVP Ops - CA exited the meeting.

Mr. Crockett then reviewed with the Board the performance of CharterCARE Health Partners ("CCHP") in Rhode Island. Specifically, he went over CCHP's financial performance, major challenges, successes, and risks/opportunities. He noted management changes that have occurred for its facilities as well as its replacement of hospitalist and ED groups. He also noted that its patient volume is increasing. The meeting participants also discussed the status of union negotiations at CCHP.

Mr. Crockett next discussed the performance of the Nix hospitals in San Antonio, Texas. A discussion ensued regarding certain ongoing struggles at its facilities, as well as the effects of its recent flood. Mr. Crockett noted its recent physician group additions.

The meeting participants next discussed the status of ongoing discussions with the Pennsylvania Association of Staff Nurses and Affiliated Professionals (PASNAP) union at Delaware County Memorial Hospital, which has threatened a two-day strike. Management promised to keep the Board members informed regarding the ongoing developments.

As the next agenda item, Mr. Crockett provided an update regarding operations and matters at East Orange General Hospital (EOGH) in New Jersey. He noted recent salary increases and additional staff and physicians. He also discussed a planned new partnership with Rutgers Medical School. He also discussed ongoing efforts to improve nursing staffing and physician relations.

Mr. Crockett then reviewed developments at the Prospect ECHN facilities in Connecticut that were acquired on October 1, 2016. He noted efforts to benefit from integration and economies of scale with the new Waterbury facility, also in Connecticut.

The meeting participants discussed the implications of possible changes to the Connecticut hospital supplemental program that was recently proposed by the Connecticut Governor.

Mr. Crockett noted that ECHN metrics are on pace with year-end targets.

Mr. Crockett then discussed results and developments at the Waterbury Hospital facility that was also acquired on October 1, 2016. He noted its ongoing Emergency Room renovation and discussed ongoing staffing changes. A discussion ensued regarding plans for cardiac program services shared with the nearby unaffiliated St. Mary's facilities.

Medical Group Segment:

Redacted President of the Company, then introduced Redacted, the new Chief Executive Officer of the Company's Medical Group segment who joined the company in September 2016. CEO - Medical Group discussed his background and experience.

CEO - Medical Group then discussed certain key metrics regarding the recent performance of the Company's Medical Group segment, including an increased EBITDA, an improved Medical Loss Ratio and shared risk improvements.

CEO - Medical Group noted certain recent issues with our arrangements with Redacted

In response to a question raised by Mr. Baumer, a discussion ensued regarding ongoing efforts to improve RAF scores of contracted providers. President - PMH noted that all non-RAF drivers are in a much better position than last year.

Redacted and Redacted then left the room.

Coordinated-Regional-Care Segment:

Redacted, the President of the Company's Coordinated Regional Care segment, then provided an overall update to the Board about the Company's performance in the segment. President - CRC noted that the east coast payor market has been in the process of changing and it is becoming more comfortable with risk arrangements.

The meeting participants discussed the implications of recent failed health plan mergers in the Company's east coast markets.

President - CRC noted that the prospects for new Medicare Advantage arrangements is looking even better under the new presidential administration. He noted continuing discussions with payors in Pennsylvania, Rhode Island and Connecticut regarding proposed risk arrangements.

Mr. Topper then left the room.

A discussion ensued regarding improvements in EBITDA for the Coordinated Regional Care segment.

Redacted then re-entered the room and Mr. Crockett and Redacted left the room.

Finance Matters

Mr. Aleman then provided an update regarding the overall financial performance of the Company, as well as its separate segments. He noted that the Company is on target for identified year end targets.

A discussion ensued regarding billing collection delays at some recently acquired entities due to regulatory and credentialing "change of control" requirements. Mr. Aleman noted that they are normal for such acquisitions .

The meeting participants discussed plans for pay down of the Company's revolving credit facilities.

Mr. Aleman provided an update regarding the ongoing sale of certain non-essential medical office buildings (MOBs).

Mr. Solomon, Mr. Aleman and Mr. Lee discussed on-going developments regarding pension obligations at the Company's recently acquired Connecticut and Pennsylvania hospital facilities.

Corporate Development

Redacted the Company's Senior Vice President - Mergers and Acquisitions, then entered the room. He provided an update regarding ongoing, and planned, corporate development activities. He noted that the Company's primary current focus is on integration and optimization of its recent acquisitions.

Mr. Topper then re-entered the room.

SVP - M and A discussed certain tax abatement measures, including a notable one in New Jersey, that are being entered into with local regulators. He also noted a possible cancer center joint venture that is being pursued in connection with Waterbury Hospital.

SVP - M and A also noted ongoing activities related to the sale of excess non-essential real property and discussions regarding the possible sale of identified home health agencies, which are not part of the Company's core line of business.

Redacted and Mr. Topper then left the room.

Executive Session

The Board met with Redacted Mr. Aleman, Redacted and Redacted in executive session.

Adjournment

There being no further business to come before the meeting, the Chairman declared the meeting adjourned at 4:51 p.m.

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Sam Lee, Chairman

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Redacted Assistant Secretary

Confidential LGP-SBC-000003104

MINUTES OF THE
AUDIT & COMPLIANCE COMMITTEE
OF
PROSPECT MEDICAL HOLDINGS, INC.
a Delaware corporation

A telephonic meeting of the Audit & Compliance Committee ("Committee") of Prospect Medical Holdings, Inc., a Delaware corporation (the "Company"), was held on October 7, 2019 at 1:30 p.m. Committee members Alyse Wagner (Chairperson) and Michael Solomon were present. Company participants were Redacted Chief Financial Officer; Redacted Chief Accounting Officer; George Pillari, Chief Performance Improvement Officer; Redacted, VP, Finance & Treasury; Ellen Shin, General Counsel; Von Crockett, SVP, Corporate Development; and Redacted, Chief Compliance & Privacy Officer. Participants from BDO USA, LLP ("BDO") were Redacted and Redacted

Call to Order
Ms. Wagner called the meeting to order.

Approval of Prior Audit & Compliance Committee minutes
Ms. Shin asked the Committee to review the August 16, 2019 Audit & Compliance Committee minutes. Upon motion duly made, and seconded, the Committee unanimously approved those minutes. The motion passed.

Management Audit Committee Report
Mr. Pillari provided an update to the Committee from the last meeting.

BDO Audit Planning Presentation
Mr. Pillari then turned the meeting over to Redacted who walked the Committee through BDO's Audit & Planning Presentation for fiscal year 2019. Specifically, Redacted discussed the members of the client service team, management's responsibilities, the engagement objectives (which are BDO's responsibilities), the overall audit strategy and planned scope, primary areas of focus and audit strategy, overall audit timeline, and the What Could Go Wrong ("WCGW") analysis. Ms. Wagner asked a question about consolidated reporting. Redacted responded to that question.

With respect to BDO's primary areas of focus and audit strategy, Redacted explained some of the high risk considerations, and BDO's planned approach to handling those areas. Redacted noted that for the period significant matters included the sale / leaseback transaction with Medical Properties Trust ("Transaction"), the costs associated with the Transaction, payoff of the Term Loan, and the pending Nix and EOGH transactions.

Redacted asked the Committee if there were any questions, and if the Committee, the Management Audit Committee ("MAC"), and management were aware of any fraud considerations in the Company's financials. Everyone answered in the negative.

A discussion ensued amongst the Committee and Redacted regarding purchase accounting.

Redacted stated that based on the current audit timeline, it was expected that the Company could issue the FY2019 audited financial statements before Christmas. BDO and management are proactively working together to achieve that target deadline.

Redacted then summarized the preliminary results of the WCGW analysis, which was requested by the MAC. In particular, Redacted noted that there had been significant improvements in critical areas, including internal controls, management override, tone at the top, and the consolidation, financial reporting and close process. He did state that his only area of concern is at the Crozer Keystone Health System. Specifically, he stated that his concern relates to a delay in completion of deliverables due to staff turnover. Redacted then asked if there were any comments. Ms. Wagner asked for more specifics about Crozer. Ms. Redacted explained that there were balance account reconciliations that needed to be completed, and that the team is on track for completion by October 28, 2019. Mr. Pillari stated that a great deal of collective work had been put in by the MAC and BDO, and that everyone was working together.

Compliance Program

Redacted then introduced herself to the Committee. She then went over the Company's Compliance Program. Specifically, she went over the elements of an effective Compliance and Ethics Program.

Redacted - Privileged

Redacted - Privileged

Redacted - Privileged

Executive Session

The Committee did not have an executive session.

Adjournment

There being no further business to discuss, the meeting was adjourned at 2:37 p.m.

Ellen Shin
Secretary

Confidential LGP-SBC-000002736

Prospect Medical Holdings, Inc.
Management Audit Committee Meeting Minutes
January 17, 2019; 9:00 – 10:00 a.m. (PT)

Committee Members Attending: George Pillari (Chairperson), Ellen Shin, Esq., [Redacted] Esq., , [Redacted] [Redacted] and [Redacted]

Non-Committee Attendees: Sam Lee

Members Absent: Von Crockett

Agenda	Discussion	Action Points
1.0 Call to Order	Chairperson, George Pillari, SVP, Chief Performance Improvement Officer, called the meeting to order	N/A
2.1 Internal Investigation	**Redacted – Privileged**	
2.2 Fiscal Year 2018 Audit	[Redacted] provided an update on the status of the fiscal year 2018 audit. [Redacted] reported to the Committee that three issues remain: 1) tax provision analysis; 2) going concern analysis (needs to be done); and 3) financial statements (two small adjustments booked together). Anticipating January 21, 2019 deadline, which is also what BDO is indicating as well.	

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3.0 Lenders	George Pillari reported on two lender issues j that triggered defaults: 1) audit not being delivered by January 8, 2019; and 2) failure to provide weekly borrowing base reporting on the ABL when we borrowed above a certain level.	GP following up on issues with defaults
4.0 Remedial Action	Discussion ensued regarding remedial action plans	T/B/D
5.0 Approval of Prior Management Audit Committee minutes	Mr. Pillari asked the Committee to review the January 4, 2019 Management Audit Committee minutes. Upon motion duly made and seconded, the minutes were approved.	N/A
5.0 Round Table Discussion		N/A
6.0 Meeting Adjourned		N/A

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MINUTES OF THE
AUDIT & COMPLIANCE COMMITTEE
OF
PROSPECT MEDICAL HOLDINGS, INC.
a Delaware corporation

A meeting of the Audit & Compliance Committee of Prospect Medical Holdings, Inc., a Delaware corporation (the "Company"), was held on January 22, 2019 at 4:00 p.m.. at LPG's Corporate Office located at [redacted] Los Angeles, CA 90025. Committee members John Baumer, Alyse Wagner, and Michael Solomon were present. Company personnel were present and included George Pillari, Chief Performance Improvement Officer; Ellen Shin, General Counsel; Von Crockett, SVP, Corporate Development; [redacted] Compliance Counsel; and Samuel Lee, Chief Executive Officer (telephonically). Presentors included Bird Marella: [redacted] Esq., [redacted] Esq.; Ernst & Young: [redacted]; BDO: [redacted] and [redacted] (telephonically) and [redacted] (telephonically). Ellen J. Shin acted as Secretary of the meeting.

1.0 Call to Order
Mr. Pillari called the meeting to order.

2.1 Acceptance of Prior Management Audit Committee minutes
Ms. Shin asked the Committee to review the January 4, 2019 minutes. The Committee accepted those minutes.

2.2 Approval of Prior Audit & Compliance Committee minutes
Ms. Shin asked the Committee to review the January 7, 2019 minutes. Upon motion duly made, and seconded, the Committee unanimously approved those minutes.

3.1 Internal Investigation

(ATTORNEY-CLIENT PRIVILEGED AND CONFIDENTIAL)

Redacted – Privileged

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Redacted – Privileged

(Steve Aleman, Redacted and BDO's Redacted , Redacted , and Redacted entered the room)

3.2 and 3.3 Status of Fiscal Year 2018 Audit and BDO Presentation

Redacted Chief Accounting Officer and Mr. Steve Aleman, Chief Financial Officer, Chief Acct'n Off. and Mr. Aleman turned the meeting over to Redacted of BDO to provide a FY2018 Audit Wrap Up Presentation.

BDO distributed to all persons in the room, a copy of the BDO presentation to the Audit Committee entitled "Audit Wrap Up" dated September 30, 2018.

BDO provided an extensive report on the FY2018 year end audit and emphasized that the audit was conducted pursuant to GAAP. BDO went over the current status of the audit, results of the audit, internal control over financial reporting, other requirement communications and independence communication. BDO noted that all information was provided to the auditors by the Company and that the Company's management and employees were available and cooperative with the auditors.

One correction to the BDO audit report was noted by Chief Acct'n Off. Specifically, Chief Acct'n Off. stated that the income tax provision, which is noted as a debit of $7.8M was incorrect. BDO agreed with Chief Acct'n Off.' statement and stated that it would be properly reflected in the audited financial statements. BDO and other members of BDO took turns going through the rest of the audit report to the Committee, and asked if there were any questions or comments. Mr.

Baumer thanked BDO for their diligence and work, and stated that as an Audit Committee member and controlling shareholder of the Company, the Company is committed to improvement

Ms. Wagner asked if the current audit impacts the subsequent Company related stand alone audits. There were 25 subsequent audits noted by BDO. BDO stated that these are on track.

BDO then stated there were few minor open items, including the management representation letters. He also inquired about the status of the capital infusion into the Company following completion of the audit. Mr. Baumer responded to that inquiry.

4.0 Executive Session (BDO and Committee)

The Committee asked for an Executive session between the BDO Audit Team and the Committee.

(Prospect management was excused from the meeting. Minutes were not taken. Following Executive Session, management returned to the meeting).

5.0 Lenders

Mr. Pillari provided an update on the status of the waiver. The Committee asked for a report on the numbers for the first quarter of fiscal year 2019 and Mr. Pillari responded that the Company has been so focused on the audit that management has not had an opportunity to "stress test" the information, and that Crozer needs more work.

Discussion ensued regarding the current cash position of the Company.

Mr. Aleman then reviewed with the Board a financial snapshot of FY2018. A discussion ensued amongst the Board and Mr. Aleman. Mr. Aleman then reported that the earnings release and the remaining lender deliverables, including the audited financials and other certificates will be sent to the full board for review and approval. Ms. Shin clarified that as part of the new process, the outstanding lender deliverables would be sent to the Management Audit Committee for review and recommendation to the Audit & Compliance Committee, who would also review and make a recommendation to the full Board for approval. The Board would then approve the entire set of Lender Deliverables by formal resolution prior to submission to the Lenders. Mr. Baumer emphasized that point.

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7.0 Adjourned

There being no further business to discuss, the meeting was adjourned at 6:30 p.m.

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Ellen Shin
Secretary

Confidential LGP-SBC-000002689

Prospect Medical Holdings, Inc.
Management Audit Committee Meeting Minutes
January 22, 2019; 2:00 – 3:00 p.m. (PT)

DRAFT

Committee Members Attending: George Pillari (Chairperson), Ellen Shin, Esq., [redacted] Esq., , [redacted] and [redacted]

Non-Committee Attendees: Bird Marella: [redacted] Esq., [redacted] Ernst & Young: [redacted] Company: [redacted]

Agenda	Discussion	Action Points
1.0 Call to Order	Chairperson, George Pillari, SVP, Chief Performance Improvement Officer, called the meeting to order.	N/A
2.0 Minutes	One change was recommended to the January 17, 2019 minutes and the minutes will be reviewed and approved at the next MAC meeting.	Review and approve the January 17, 2019 minutes at next MAC meeting
3.1 Internal Investigation	**Redacted – Privileged**	

Confidential

PROSPECT MEDICAL HOLDINGS, INC.

	Redacted – Privileged	
3.2 Fiscal Year 2018 Audit	Steve Aleman and Chief Acct'n Off. eported that:1) representation letter will be completed and signed today; 2)waiver will be signed tomorrow in order to complete the audit; 3) need to pay BDO; and 4) release of the audit by tomorrow night.	MAC to develop and implement a remedial action plan based upon recommendations in BDO audit presentation.
4.0 Lenders	Chairman Pillari stated that the Company appeared to be on track for receipt of an executed waiver with the Lenders by tomorrow.	N/A

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5.0 Round Table Discussion	Redacted – Privileged Redacted - Privileged under the direction of counsel.	Redacted – Privileged Redacted – Privileged under direction of counsel.
6.0 Meeting Adjourned		N/A

Prospect Medical Holdings, Inc.
Management Audit Committee Meeting Minutes
January 30, 2019; 3:30 – 4:30 p.m. (PT)

DRAFT

Committee Members Attending:
(*in person*) George Pillari (Chairperson), Ellen Shin, Esq., [redacted] Esq., Von Crockett and [redacted]
(*via telephone*) [redacted] and [redacted]

Non-Committee Attendees: [redacted]

Agenda	Discussion	Action Points
Call to Order and Review of Meeting Agenda	Chairperson, George Pillari, SVP, Chief Performance Improvement Officer, called the meeting to order. Chairman Pillari informed the committee that there will likely be a call this week - on Friday - to review and submit the FY2018 audit and related items. He stated that the other two main purposes of this MAC meeting today is 1) to review and confirm if appropriate whether or not an overpayment is warranted under the Medicare "60 day rule;"; and 2) discuss in advance the MAC's participation in tomorrow's Prospect Medical Holdings Board meeting. Ms. Ellen Shin added that the agenda for today's MAC meeting contains a few items from the last MAC meeting.	N/A N/A

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MAC training on Medicare Rules and CharterCare – 60 Day Rule	**Redacted - Privileged**	**Redacted - Privileged**

Confidential

PROSPECT MEDICAL HOLDINGS, INC.

	Redacted - Privileged	
Role and Responsibilities of the MAC	The Committee discussed the role and responsibilities of the MAC and Ms. Shin reminded the members of the board meeting tomorrow at the corporate office from 2-5 pm. At 4 pm, the Board will meet with the MAC members. OC members will dial in. Discussion ensued regarding preparation for meeting. Chairman Pillari reported that Prospect received a clean audit. He also emphasized that MAC members should always feel free to speak up at anytime and Prospect will "do what is right." No one should feel pushed around or encumbered. Redacted - Privileged	
	Redacted - Privileged	
Lender Deliverables	Discussion ensued regarding the role of the MAC as an ongoing check and balance in its oversight of the financials and financial reporting process. MAC should monitor standing items, from an oversight perspective. Chief Acct'n Off. and others from the finance department will verify the accuracy of the information. **Redacted - Privileged** **Redacted - Privileged** Redacted - Privileged The Audit & Compliance Committee, which is comprised of non-members of management, expects that level of monitoring. **Redacted – Privileged**	

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	Redacted – Privileged involvement by Chief Acctn Off. Chief Acctn Off. and Latham. **Redacted - Privileged** Chairman Pillari reported that Prospect now has an approved waiver that allows for some near term flexibility. He stated that the waiver cleans up the past issues and gives us additional leeway for 60-90 days. Consent fees are due and additional deliverables are required. Debt covenant compliance will be monitored by SVP Finance	
Restricted Accounts	Chairman Pillari reported on the process for accessing restricted accounts and stated that all restricted accounts will be blocked and appropriate permission will be needed to access the accounts. This requires appropriate paperwork and identification of the accounts. **Redacted - Privileged** Redacted - Privileged under direction of counsel (Attorney/Client Privileged) Redacted - Privileged **Redacted – Privileged**	

Confidential

	Redacted – Privileged	
Remedial Action Plan	Redacted - Privileged	Redacted - Privileged
Minutes	Upon motions duly made, and seconded the January 17 and 22, 2019 MAC minutes were approved.	Draft stamp to be removed from minutes and minutes are approved.
Round Table Discussion	N/A	N/A

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Meeting Adjourned	Motion was made and the meeting was adjourned.	N/A

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MINUTES OF THE
AUDIT & COMPLIANCE COMMITTEE
OF
PROSPECT MEDICAL HOLDINGS, INC.
a Delaware corporation

A telephonic meeting of the Audit & Compliance Committee of Prospect Medical Holdings, Inc., a Delaware corporation (the "Company"), was held on February 7, 2019 at 5:00 p.m. Committee members John Baumer, Alyse Wagner, (Chairperson) and Michael Solomon were present. Company participants were Sam Lee, Chief Executive Officer; Steve Aleman, Chief Financial Officer; Redacted Chief Accounting Officer; George Pillari, Chief Performance Improvement Officer; Ellen Shin, General Counsel; Von Crockett, SVP, Corporate Development; and Redacted Compliance Counsel. Redacted and Redacted of LGP were also in attendance.

1.0 Call to Order
Ms. Wagner called the meeting to order.

2.1 Acceptance of Prior Management Audit Committee ("MAC") minutes
Ms. Shin asked the Committee to review the January 17, 22 and 30, 2019 MAC minutes. The Committee accepted those minutes.

2.2 Approval of Prior Audit & Compliance Committee minutes
Ms. Shin asked the Committee to review the January 22, 2019 Audit & Compliance Committee minutes. Upon motion duly made, and seconded, the Committee unanimously approved those minutes.

3.1 Review and Approval of Lender Deliverables
Mr. Pillari provided the Committee with a report from the MAC and stated that the MAC has reviewed all of the documents that have been sent to the Committee as part of this agenda and has consulted with internal and external experts including legal counsel, Latham & Watkins. Chairperson Wagner requested an explanation of the recent change in the amount of consolidated EBITDA and Mr. Aleman provided an explanation. Mr. Aleman added that the following list of lender deliverables, as set forth below, represents everything that is necessary in order to be in compliance; in addition to the weekly cash forecasts. Mr. Aleman told the Committee that the plan is to submit the lender deliverables tonight and borrow tomorrow morning and that JP Morgan is aware of this action item.

Ms. Shin then reviewed with the Committee, and asked for a motion to adopt the following resolution:

WHEREAS, the Committee has been provided with and has reviewed (i) the Company's audited financial statements prepared by BDO USA, LLP for the fiscal year ended September 30, 2018 (the "2018 Audited Financial Statements"), (ii) a draft of the Company's management discussion and analysis with respect to the 2018 Audited Financial Statements, (iii) a draft of the

Company's compliance certificates (including all exhibits and attachments thereto) relating to the 2018 Audited Financial Statements, (iv) calculations of the Company's EBITDA, fixed charge coverage ratio and total leverage ratio as required under the Company's ABL credit agreement and term loan credit agreement for the period ended September 30, 2018 and (v) a draft summary of revenues, EBITDA, indebtedness and assets for each of the Company's Unrestricted Subsidiaries (as such term is defined in the Company's ABL credit agreement and term loan credit agreement) (the documents listed in the foregoing clauses (i) through (v), collectively, the "Lender Deliverables");

WHEREAS, the Company is required to submit the Lender Deliverables pursuant to its ABL credit agreement and term loan credit agreement;

WHEREAS, the Committee has consulted with appropriate officers of the Company and members of the MAC on the Lender Deliverables;

WHEREAS, the [Management Audit Committee] (the "MAC") has consulted with appropriate officers of the Company charged with the preparation and review of the Lender Deliverables, and are satisfied with their review, which includes review by outside advisors of the Company, including Latham Watkins LLP and members of Leonard Green & Partners;

WHEREAS, the MAC has recommended to the Committee that the Lender Deliverables be approved, authorized and adopted in all respects and be submitted by the Company pursuant to its ABL credit agreement and term loan credit agreement.

NOW, THEREFORE, BE IT RESOLVED, that the Committee does hereby authorize, approve and adopt the Lender Deliverables in all respects and does approve the submission by the Company of the Lender Deliverables pursuant to its ABL credit agreement and term loan credit agreement; and

RESOLVED FURTHER, that the officers of the Company be, and each of them hereby is, with full power of delegation, authorized, empowered, and directed to take any actions reasonably necessary to effectuate the foregoing resolutions

Upon motion duly made, and seconded, the Committee approved the foregoing resolution. The motion passed. Ms. Shin further informed the Committee that approval by the Board was still required, and to that effect, a unanimous written consent would be circulated to the Board for their approval this evening.

4.0 Roundtable Discussion

N/A

5.0 Adjournment

There being no further business to discuss, the meeting was adjourned at 5:30 p.m.

_____

Ellen Shin
Secretary

Confidential LGP-SBC-000002712

MINUTES OF THE
BOARD OF DIRECTORS
OF
PROSPECT MEDICAL HOLDINGS, INC.
a Delaware corporation

A telephonic meeting of the Board of Directors of Prospect Medical Holdings, Inc., a Delaware corporation (the "Company"), was held on June 28, 2019 at 7:00 a.m. Pacific Time pursuant to notice given by Samuel Lee, Chairman of the Board and Chief Executive Officer of the Company.

Redacted counsel from the law firm Ropes & Gray ("Ropes"), took a roll call of attendees, and noted that the following individuals were present from the Board: Mr. Lee, Dr. Jeereddi Prasad, John Baumer, Alyse Wagner, and Michael Solomon. He also noted additional attendees at the Board meeting, including: 1) from the Company: George Pillari, Chief Performance Improvement Officer; Redacted VP, Finance & Treasury; and Ellen Shin, General Counsel, 2) from Ropes: Redacted Redacted Redacted and Redacted and from Leonard Green & Partners ("LGP"), Redacted. Mr. Lee acted as Chairman and Ms. Shin acted as Secretary of the meeting. The Chairman called the meeting to order at 7:00 a.m., noted that all potential attendees are in attendance, and then opened the Board meeting and described how the Board meeting will be structured. Mr. Lee introduced Ropes Rep

Medical Properties Trust Transaction

Ropes Rep described Ropes' role in the instant transaction with Medical Properties Trust ("MPT"). Ropes Rep asked if the Board was comfortable with Redacted a representative at LGP, being present at the meeting. No objections were raised and LGP Rep remained present throughout the Board meeting.

Ropes Rep stated that Ropes & Gray would take minutes from the meeting and Ms. Shin would keep those minutes. Ropes Rep noted that a package of Board materials, including Board resolutions to approve the documents in the materials had been sent to the Board yesterday.

Redacted asked the Board members to confirm a waiver of the 48-hour prior notice requirement of the Board meeting. No Board members were opposed to granting the waiver and the waiver was approved.

Redacted joined the call.

Redacted then turned the meeting over to Redacted, who gave an introduction to the MPT deal.

Mr. Pillari walked the Board through the Board presentation, and provided an overview of the transaction. Mr. Pillari noted that the purchase price of the transaction was $1.55 billion and there was an ability to "earn" an additional $250 million over three years. Mr. Pillari stated that there would be a signing soon and a closing, which is anticipated to occur in August or September 2019.

Mr. Pillari described the structure of the transaction and explained why different properties were receiving different treatments (Traditional Sale-Leaseback, Failed Sale-Leaseback, Mortgage Financing, and Unsecured Note). Mr. Pillari highlighted the Foothill and Rhode Island situations. He stated that there would be no taxable gain on the sale, which was also confirmed by PricewaterhouseCoopers, the Company's tax advisors.

Mr. Pillari reviewed the Lease terms, including initial rent/interest payments, rent contour, annual escalators, term, and rights to purchase upon expiration of the term. Mr. Pillari noted the covenants were similar to what was currently under the ABL and were not particularly stringent or onerous, and that he believed that this is a good deal as compared to what is currently in the market. The Board discussed mechanisms in the documents that addressed adjusting rent payments with the "lumpiness" of governmental reimbursement payments.

Mr. Pillari asked Redacted to walk the Board through the use of proceeds, which would include: repaying the Term Loan, paying gain on sale tax, paying transaction fees and deposit, repaying FILO, making a pension contribution payment, paying working capital and ABL repayment. Redacted stated the total transaction consideration would be $1.55 billion. The Board discussed the timing of the various payments bucketed under use of proceeds.

Mr. Pillari asked Redacted and Redacted to discuss the text of the transaction documents. Redacted provided an overview of the status of documents in order to provide a sense of how close to finalization the documents currently stand.

Redacted stated that the Asset Purchase Agreement is close to being final. The Board discussed the solvency representation in the Asset Purchase Agreement. Redacted stated that as the deal currently stands the solvency representation would be made at signing, closing and either three or five years post-closing. Mr. Pillari noted that a solvency expert would be presenting in the next week or so, but there are no expected issues. Redacted then stated that the Loan Agreement and the Lease Agreement are being distributed to counsel today, and these are expected to soon be the final versions. Redacted noted that there is no release price mechanism built into the documentation and there is no restriction in the loan documents with regard to dividends. Redacted then explained how the change of control provisions had been settled in the documents. Ms. Wagner asked if there were any MPT contingencies. Redacted stated that MPT had no contingencies for closing.

Redacted left the call.

Mr. Pillari went over the status of the ABL amendment and Intercreditor Agreement.

Redacted explained the timing of the signing of an announcement of the deal, which will be delayed due to a public offering that MPT will be initiating around the same time as signing of this deal. Redacted asked if there were any questions.

Ms. Wagner asked if there would be enough liquidity post-transaction to pay rent and meet the Company's obligations. Mr. Pillari noted that the model showed there would be enough liquidity. Ms. Wagner asked who is the company's solvency advisor. Mr. Pillari stated Redacted Redacted

Ms. Shin reminded the Board that the transaction is confidential and non-public, and that all communications regarding the transaction must be kept within this group.

Redacted provided an overview of the Resolutions that were distributed to the Board yesterday. Redacted explained that the Resolutions approve the transaction, key transaction documents, and collateral documents. There were no questions as to the content of the Resolutions.

Redacted asked the Board to move to approve the Resolutions, which are attached as Exhibit A. The Board unanimously approved the Resolutions, with no members abstaining or opposing authorization of the Resolutions.

Adjournment

There being no further business to come before the meeting, the Board meeting concluded at approximately 8:00 a.m. Pacific Time.

_____

Ellen Shin, Secretary

Prospect Medical Holdings, Inc.
Management Audit Committee Meeting Minutes
August 1, 2019 at 9:00 am

Committee Members Attending:
(*in person*) George Pillari (Chairperson), Ellen Shin, Esq., Redacted, Redacted, Von Crockett
(by telephone) Redacted

Non-Committee Attendees: CPA, Redacted (by telephone)

Absent: Redacted

Agenda	Discussion	Action Points
Call to Order and Review of Meeting Agenda	Mr. Pillari, SVP, Chief Performance Improvement Officer, called the meeting to order at 9:03 am, determined that there was a quorum, and the agenda was reviewed.	
Approval of Minutes	Upon motion made and seconded, the minutes of the June 10, 2019 MAC meeting were approved.	Remove draft stamp and file
MAC Work Plan Update	Redacted reported that all the corrective action plan items have been incorporated into the MAC Work Plan. Redacted stated that the Responsible Parties should continue to provide evidence that the corrective action plan items have been completed and/or remediated. Redacted also noted that there are items on the MAC Work Plan that	

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	were not due for completion before August and certain items are not due until September. At Mr. Pillari's request, Redacted will meet before Labor Day with those MAC Members who still need to provide evidence of remediation of the corrective action plan items assigned to them and that are currently due to be completed.	Redacted will schedule meetings with Chief Acct'n Off., Ms. Shin and SVP Finance to meet with them before Labor Day.
Restricted Accounts	Mr. Pillari reminded the MAC members that in connection with the prior internal investigation, EY Redacted – Privileged **Redacted – Privileged**	SVP Finance will review the Redacted – Privileged report his findings to the MAC. Ms. Shin will Redacted - Privileged Redacted - Privileged

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BDO Audit Preparation	Chief Acct'n Off. reported that BDO has begun its preliminary analyses in California, Connecticut and Rhode Island. Their interim work will begin in mid-August for all hospital segments except East Orange General Hospital ("EOGH") and Nix Health ("Nix"). The audit will accelerate in late October when BDO will receive the September Year to Date financial statements and trial balances. BDO will not perform any on-site work at Nix or EOGH but will review revenue and accounts receivable. Interim CFO stated that her office has requested financial certifications from each of the facility CFOs for the Q3 FY2019 financial statements. Mr. Pillari inquired whether financial certifications are required for Nix and EOGH. Interim CFO stated that Nix and EOGH will be expected to complete certifications since the operations of those facilities are incorporated in the FY2019 financial statements. Interim CFO noted that Crozer's finance department may need additional resources to assist them in preparing for the audit. Mr. Pillari agreed that Interim CFO and Chief Acct'n Off. should proceed with providing those resources. In terms of fiscal year end planning for the BDO audit, Chief Acct'n Off. reported that he expects to have the audit completed before the Christmas holidays. This timeline will satisfy the audit completion deadlines in the MPT agreement and ABL covenants. Ms. Shin stated that the Audit and Compliance Committee and Board meetings to	Interim CFO and Chief Acct'n Off. will arrange to provide Crozer's finance department with additional resources to assist them in preparing for the BDO audit.

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	review the audit findings could tentatively be scheduled around December 17 and 18. The MAC members generally agreed to the following schedule between now and the end of the year: • **Week of August 12**: MAC, Audit and Compliance Committee and Board meetings to review and approve Q3 financial statements and lender deliverables • **August 19**: Lender deliverable deadline; DMHC Submission • **Late August**: BDO audit planning presentation; Compliance presentation to Audit and Compliance Committee, Full Board • **Mid-September**: MAC Work Plan status meeting • **Late October and approximately every two weeks until end of year**: MAC meetings to discuss status of BDO audit and address any issues	
Adjournment	The meeting was adjourned at approximately 9:30 am.	

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GIBSON DUNN

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CONFIDENTIAL

December 20, 2023

VIA ELECTRONIC MAIL

The Honorable Sheldon Whitehouse,
Chairman
The Honorable Charles Grassley, Ranking
Member
U.S. Senate Committee on the Budget
624 Dirksen Senate Office Building
Washington, DC 20510

Re: First Response to December 6, 2023 Letter to Leonard Green & Partners, L.P.

Dear Senator Whitehouse and Senator Grassley:

We represent Leonard Green & Partners, L.P. ("LGP" or the "Firm") and are writing in response to your letter, dated December 6, 2023 (the "Letter"), requesting the production of certain documents and information in connection with the United States Senate Committee on the Budget's (the "Committee") inquiry into private equity and health care. First and foremost, LGP shares the Committee's dedication to ensuring that our nation's hospitals are equipped to provide exceptional health care for their patients.

As recognized in your letter, between 2010 and 2021, LGP managed investment funds (the "Funds") that held investments in Prospect Medical Holdings ("PMH" or "Prospect"). PMH is a healthcare system that provides accessible, quality healthcare and physician services. During this time, PMH's business model involved acquiring and rehabilitating closed or failing hospitals at risk of closure. PMH grew 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. In addition, PMH invested tens of millions of dollars in improving hospital operations during that time, and thus made many positive contributions to the communities it served, including access to healthcare and the addition or preservation of jobs at the hospitals it acquired.

In California, for instance, PMH acquired hospitals in Tustin and Bellflower in 2014 that had been closed by their previous owners. PMH 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 PMH bought in 2016 were in serious financial distress and were close to shutting down prior to being acquired by PMH. When no other hospital operators were willing to step up, PMH saved the two hospital systems, preserved thousands of jobs, and secured the systems' existing pension funds, guaranteeing retirement income for many employees. As a result, both systems paid property taxes for the first time ever, which help support schools, fire departments, and other important services in their local communities.

We therefore reject any implication that PMH was operated in a financially irresponsible fashion during the Funds' ownership period or that the Funds have put their financial interests ahead of the interests of the hospital system and the communities they serve.

At the end of the Funds' ownership period, all 17 PMH hospitals were fully accredited by, and in good standing with, the Centers for Medicare and Medicaid Services ("CMS"), as well as other accreditation agencies. In addition, during the Funds' ownership period, PMH facilities achieved numerous awards, recognitions and accreditations, including Get with the Guidelines Gold Plus ratings 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. PMH hospitals have been featured in US News and World Report for best care, and PMH received local and regional awards for its hospitals, physicians and nurses from its communities, which understand and appreciate the high-quality care provided by PMH 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.

The Letter notes a specific sale-leaseback transaction. The primary advantage of sale-leaseback financing for a hospital is that it secures a stable 20- to 30-year financing relationship. For most hospitals, such a relationship is preferable to going in and out of debt markets due to fluctuations in interest rates or market conditions. Since the goal of a sale-leaseback financial partner is to collect rental payments over the life of the lease, the parties are aligned on the success of the hospital. It is also important to note that the sale-leaseback transaction with Medical Properties Trust, Inc. ("MPT") allowed PMH to repay all of its existing term loan debt. At the time of the transaction, Samuel Lee, CEO of Prospect said, *"In*

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

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."[2] Additionally, Moody's noted that "*the transaction is credit positive as it will provide a meaningful liquidity boost to Prospect Medical.*"[3]

In October 2019, the Funds entered into a definitive agreement to sell their interests in PMH to the management team of PMH, who, at the time, were owners of a meaningful portion of PMH with nearly 20 years of experience owning and operating hospitals. As of March 31, 2021, the date of the last PMH financials before the Funds sold their investment in the company, PMH was in strong financial condition with access to over $500 million to support its operations. PMH had ample liquidity available to continue to fund operations, to continue to invest in improving the hospitals it manages and to continue to provide quality care to its patients. That transaction closed in June 2021, after receipt of the various state level regulatory approvals. Therefore, our responses have been drafted based on information pre-dating the Funds' sale of their investment in PMH.

* * *

This letter contains some of the Company's confidential, trade secret, and/or proprietary information. We have marked this letter "Confidential" and request that it not be disclosed beyond the Committee or made public. We ask that you treat this letter as a confidential Committee record in accordance with Standing Rule of the Senate XXIX, clause 5, afford it the maximum protection available to the Committee, and that you inform us of any proposed use by the Committee of the information contained herein and provide LGP with an opportunity to be heard prior to any such proposed use.

The information contained in this response is based on the Firm's best efforts undertaken within the timeframe provided and based on its understanding of the terms of the Letter. The representations made in this response are based on information reasonably available to the Firm and may not reflect all existing relevant information. LGP reserves the opportunity to supplement information in this response. In providing information responsive to the Letter, LGP does not waive any rights or legal options relating to the Committee's inquiry.

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[2] 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

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

LGP does not intend to, and does not, waive any applicable privilege, protection or other legal basis under which information may not be subject to production. If it were found that the information or documents provided constitute disclosure of privileged material, such disclosure would be inadvertent. By the provision of such information, LGP does not waive and has not waived the attorney-client privilege or any other protections.

For your convenience, we have reproduced below the requests to which we are responding in this, the Firm's first response.

Request 1:

Describe the historical (both current and former) financial and operational relationship between Leonard Green and PMH from January 1, 2010, through the time of Leonard Green's divestment. Provide identifying information about all hospitals that were part of the PMH system while controlled by Leonard Green, including name of hospital, geographical location (city, state, and whether urban, rural, or other), primary areas of care offered, and number of beds or patients served.

Response:

LGP and its Funds do not currently have any relationship (financial, operational or otherwise) with PMH, as the Funds fully exited their investment in PMH in 2021. Due to the sale of the Funds' interests in PMH in 2021, LGP and the Funds are not entitled to, and do not have any information rights regarding, the current operations of PMH.

Regarding the former financial and operational relationship between the Funds and PMH, during the Funds' ownership period, from 2010 through the first part of 2021, the Funds owned approximately 60% of the shares in PMH, and management of PMH owned the remaining approximately 40% of the shares. The Funds were entitled to appoint three representatives to the five-person board of directors of PMH. Notably, the Funds did not have the unfettered authority to remove the executive officers of PMH.

Unlike many private equity firms, LGP does not utilize an "operating partner" model and primarily engages with its portfolio companies at the Board of Directors level. This means that LGP acts as a "non-manager shareholder" and is not involved in the day-to-day operations of its portfolio companies. LGP seeks to invest in companies with strong management teams and strong performance and to empower existing PMH management at the Board level to be able to further accelerate growth.

Request 2:

From 2015 through the date of its divestment from PMH, provide the exact dollar amount that Leonard Green invested in PMH and in each individual hospital under PMH's umbrella, whether made directly in the hospital or indirectly through PMH. Produce any documents demonstrating this relationship—including, but not limited to, contracts or written agreements, memoranda of understanding, proofs of investment, investment thesis documents describing or setting out evidence-based rationales for Leonard Green's investments in PMH, any memoranda setting out the reason for Leonard Green's acquisition of or investment in PMH, and operational or administrative procedure manuals.

Response:

The Funds contributed $24 million to Ivy Holdings, Inc., a parent company of PMH during this period. No other contributions or investments were made by the Funds during this time. The contribution was made directly to Ivy Holdings, Inc. and not to any individual hospitals.

Request 3:

Provide the following information, from January 1, 2010 through the time of Leonard Green's divestment of its interest in PMH, about each hospital within PMH's network: (a) number of licensed health care professionals providing care; (b) any available staff-to-patient ratios; (c) any available data from patient experience surveys collected by Leonard Green, PMH, individual hospitals, or third parties; and (d) any data regarding the ratio of outpatient-to-inpatient charges. Produce documents sufficient to demonstrate this information.

Response:

As stated above, LGP was a non-manager shareholder of PMH and does not have sufficient information in its possession to respond to this request. LGP respectfully directs the Committee to PMH for information responsive to this request.**Request 4:**

From January 1, 2010, through Leonard Green's divestment from PMH, describe— and produce documents sufficient to demonstrate—Leonard Green's and PMH's authorities, both individually and collectively, to:

a. Manage PMH's or an individual hospital's care delivery;
b. Manage PMH's or an individual hospital's billing practices;
c. Manage PMH's or an individual hospital's chargemaster;
d. Determine PMH's or an individual hospital's annual net income goals;
e. Determine PMH's or an individual hospital's charge per patient goals;
f. Determine PMH's or an individual hospital's staff-to-patient ratios;
g. Determine PMH's or an individual hospital's charge-to-cost ratios;
h. Enter into contracts for staffing at PMH's or any individual hospital; and
i. Enter into any contracts on behalf of PMH or any individual hospital.

Response:

As a non-manager shareholder of PMH, the Funds were not charged with, or authorized to, manage the activities noted in Requests 4(a) through 4(c) above, to determine the goals or ratios indicated in Requests 4(d) through 4(g) above, or to enter into contracts set forth in 4(h) and 4(i) above. LGP respectfully directs the Committee to the management team of PMH, which was responsible for those items.

Request 6:

Explain Leonard Green's role in the decision-making process for hiring executives and medical directors at PMH. If Leonard Green was not involved in executive or medical director hiring, explain both why it was not and identify the individual(s) or entities who were responsible. Produce documents sufficient to demonstrate Leonard Green's role in this decision-making process.

Response:

Neither LGP nor the Funds drove the decision-making process for hiring executives and medical directors at PMH. This role was performed by the management team of PMH. In their roles as board members, LGP directors would approve the appointment of executive officers of PMH, as recommended by management.

Request 7:

Describe the role of Leonard Green and of PMH in the hiring of non-director level medical and non-medical staff at each hospital within PMH's networks, including policies and procedures for vetting candidates. If an entity played no role in such hiring processes, please explain. Produce documents sufficient to demonstrate both Leonard Green's and PMH's respective roles.

Response:

Neither LGP nor the Funds were involved in the hiring of non-director level medical and non-medical staff at each hospital within PMH's networks.

Request 8:

Did Leonard Green, PMH, and/or any of the individual hospitals within PMH's network use third-party contractors to fill staffing roles of those hospitals? If yes, for what roles? Explain the vetting process that Leonard Green, PMH, and/or any of the individual hospitals within PMH's network used when selecting third-party contractors. Produce documents sufficient to demonstrate this vetting policy.

Response:

Neither LGP nor the Funds were involved in the use of any third-party contractors for this purpose.

Request 12:

How much money did Leonard Green, PMH, and/or any individual hospital under PMH's umbrella receive in COVID-19 stimulus aid, including, but not limited to, PPP and CARES Act dollars and grants? Provide an explanation as to why your company and/or hospitals needed federal stimulus aid. Describe in detail how the funds were allocated and spent.

Response:

Neither LGP nor the Funds received any COVID-19 stimulus aid.

Request 14:

Please list all third-party contractors that Leonard Green and/or PMH used for staffing at its PMH-operated hospitals from to the time of Leonard Green's acquisition of an ownership interest in PMH through the time of its divestment of PMH. For each contractor, list the name, address, type of staffing for which the contractor is used, years in which the contractor is/was used, and the hospitals or medical centers at which the contractor is/was used.

Response:

As stated in response to Request 8, neither LGP nor the Funds engaged third-party contractors used for staffing at PMH-operated hospitals.

Request 16:

Confirm whether Leonard Green currently holds a controlling ownership stake in any hospital operators (not including PMH) and, if it does, provide the names of those hospital operators as well as all identifying information about each hospital, including hospital name, geographical location (city, state, and whether urban, rural, or other), primary areas of care offered, and number of beds or patients served.

Response:

Neither LGP nor any of its investment funds currently hold an ownership stake in PMH or in any other hospital operator.

* * *

Please feel free to have your staff contact me with any questions concerning this response.

Sincerely,

Redacted

GIBSON DUNN

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CONFIDENTIAL

November 8, 2024

VIA ELECTRONIC MAIL

The Honorable Sheldon Whitehouse, Chairman
The Honorable Charles Grassley, Ranking Member
U.S. Senate Committee on the Budget
624 Dirksen Senate Office Building
Washington, DC 20510

Re: Sixteenth Response to December 6, 2023 Letter and October 22, 2024 Supplemental Requests to Leonard Green & Partners, L.P.

Dear Chairman Whitehouse and Ranking Member Grassley:

We represent Leonard Green & Partners, L.P. ("LGP" or the "Firm") and are writing in response to your letter dated December 6, 2023 (the "Letter") requesting the production of certain documents and information in connection with the United States Senate Committee on the Budget's (the "Committee's") inquiry into private equity and health care, and Supplemental Requests posed by your staff on October 22, 2024 (the "Supplemental Request(s)").

We are pleased to provide you with this sixteenth response to your Letter and Supplemental Requests. We hope that the Committee finds this response helpful to its review.

* * *

This response contains some of the Firm's confidential, trade secret, and/or proprietary information. We have marked this response "Confidential" and request that it not be disclosed beyond the Committee or made public. We ask that you treat this response and the accompanying documents as confidential Committee records in accordance with Standing Rule of the Senate XXIX, clause 5, afford them the maximum protection available to the Committee, and that you inform us of any proposed use by the Committee of the information contained herein or the accompanying documents and provide LGP with an opportunity to be heard prior to any such proposed use.

The information contained in this response is based on the Firm's best efforts undertaken within the timeframe provided and based on its understanding of the terms of the Letter. The representations made in this response are based on information reasonably available to the Firm and may not reflect all existing relevant information. LGP reserves the opportunity to supplement information in this response. In providing information responsive

to the Letter, LGP does not waive any rights or legal options relating to the Committee's inquiry.

LGP does not intend to, and does not, waive any applicable privilege, protection or other legal basis under which information may not be subject to production. If it were found that the information or documents provided constitute disclosure of privileged material, such disclosure would be inadvertent. By the provision of such information, LGP does not waive and has not waived the attorney-client privilege or any other protections.

For your convenience, we have reproduced below the requests to which we are responding in this, the Firm's sixteenth response.

* * *

October 22, 2024 Supplemental Request 1:

Provide any and all documents—including memoranda, PowerPoints, third-party reports, correspondence, or communications—containing proposals, discussions or analyses regarding potential and/or actual strategic planning by or among LGP, Medical Properties Trust (MPT), PMH, or their subsidiaries or affiliates relating to closure or sale of any of PMH's hospitals.

Response:

Please find at Bates Numbers LGP-SBC-000002038, LGP-SBC-000002713, LGP-SBC-000002729, LGP-SBC-000002734, LGP-SBC-000002749, LGP-SBC-000002769, LGP-SBC-000002937, and LGP-SBC-000002961 board meeting minutes relating to this Request. Please find at Bates Numbers LGP-SBC-000000189, LGP-SBC-000000218, and LGP-SBC-000000743 financial reports relating to this Request.

During the eleven-year period in which the Green Equity Investors V funds held an investment in Prospect Medical Holdings ("PMH" or "Prospect"), PMH sold East Orange General Hospital ("EOGH") and closed Nix Health Care System ("Nix"). EOGH, which PMH sold in 2021 and which still operates as a hospital today, is a smaller facility in New Jersey that PMH acquired out of bankruptcy with the hope that it would able to acquire other hospitals in the state and build a meaningful local presence. When other acquisitions did not materialize, PMH determined that it made more sense to sell the hospital than continue to operate a small single hospital in the state.

PMH acquired Nix in San Antonio in February 2012 from private equity firm Willis Stein. The main medical surgical hospital of Nix was built in the 1930s and was thus exempt from having a full-service emergency room. Prospect added an emergency room to Nix during its ownership. Prospect closed Nix in the fourth quarter of 2019 as the hospital had become financially unviable. The San Antonio market for hospital services is highly competitive, and declining volumes and a change to certain reimbursement programs in Texas rendered the hospital unprofitable. The 10-mile radius around Nix contains numerous health care facilities, including five full-service hospitals with 24-hour emergency rooms, that met the health care needs of San Antonio's residents. Prospect attempted to sell Nix to another healthcare provider in order to keep it operating. More than 40 potential buyers were contacted to purchase the entire system, the medical surgical hospital, or the behavioral health program. No bids were received for the entire system or the medical surgical hospital. While five buyers expressed initial interest in the behavioral health program, potential acquirors of the program could not get assurances from regulatory authorities and insurance companies that the licenses and insurance contracts could be transferred seamlessly. Ultimately, no one offered to purchase the behavioral health program. Given no other health care company was willing to continue operating Nix, the hospital was ultimately shut down. We understand that the community continues to have a number of alternative health care facilities available to its residents.

October 22, 2024 Supplemental Request 2:

According to the 2010 Stock Option Plan of Ivy Holdings Inc., an "independent director" was eligible for [stock] options" of Ivy Holdings—the parent company of PMH. An independent director was a member of the Board but not an employee of Ivy Holdings or its subsidiaries. Therefore, the independent directors were Michael Solomon, Alyse Wagner, and John Baumer (collectively "LGP Directors")—the three members of the five-member PMH Board of Directors. The Board determined the number of shares, along with the terms and conditions of the stock options for independent directors. Given the previous information, please provide the following:

a. **For each instance that an LGP Director received dividends—either directly or indirectly—from Ivy Holdings, PMH, or its affiliates, list the recipient, the dollar amount, and the date received.**

b. **List the type, cash value, and date of receipt for any and all compensation that the LGP Directors received from LGP for managing and overseeing LGP's investment in Ivy Holdings, PMH, its subsidiaries, and affiliates.**

Response:

LGP partners on the PMH Board of Directors did not receive dividends from Ivy Holdings, PMH, or its affiliates. As we indicated in our Eighth Response, Green Equity Investors V did receive dividends from PMH. LGP directors did not receive any additional compensation for managing and overseeing the Firm's investment in PMH.

October 22, 2024 Supplemental Request 3:

According to the December 4, 2013, minutes of the Compensation Committee of Ivy Holdings, Inc. and Prospect Medical Holdings, Inc.— the members of which were LGP Directors—the Compensation Committee, "in consultation with senior management, is responsible for overseeing [PMH's] compensation program." Please describe in detail the consultation that took place between the Compensation Committee and senior management regarding the compensation of PMH's C-suite executives from 2010 through the date of LGP's divestment. Provide documents and meeting minutes sufficient to support this information.

a. **What factors were used to determine the salary and compensation of C-suite executives? Were the same factors used for each executive? Who determined these factors? How was the performance of C-suite executives reviewed, who was responsible for reviewing it, and how often was it reviewed? Provide documents and meeting minutes sufficient to support this information.**

b. **Which individuals and bodies were required to approve the salaries and compensation of C-suite executives? What was the process for approving the salary and compensation of C-suite executives? Provide documents and meeting minutes sufficient to support this information.**

c. **Were other committees, the Board of Directors, senior management, or other individuals notified or briefed on decisions regarding the salary and compensation of C-suite executives? Provide documents and meeting minutes sufficient to support this information.**

Response:

The Compensation Committee, in consultation with PMH's senior management, was responsible for overseeing PMH's compensation program and for approving the proposed compensation amounts during Compensation Committee meetings. *See, e.g.*, LGP-SBC-000003024. In accordance with LGP's "non-manager shareholder" model of investment, the

Board of Directors approved the compensation amounts proposed by PMH's senior management, as the proposals were seen as reasonable and necessary to attract and retain talented C-Suite executives. LGP respectfully directs the Committee to PMH for more detailed records regarding the factors upon which the compensation amounts proposed by PMH's senior management were based.

October 22, 2024 Supplemental Request 4:

In the same December 4, 2013, minutes referenced above, Exhibit B noted the 2010 Stock Option Plan of Ivy Holdings, Inc., which contained a vesting schedule based on employees satisfying certain conditions. Up to "5% of the option [would] vest upon the satisfaction or partial satisfaction of a specified Prospect Medical EBITDA target; and up to 10% of the option [would] vest upon the satisfaction or partial satisfaction of a specified business unit EBITDA target" with respect to fiscal year 2013.

a. **Provide any amended versions of the 2010 Stock Option Plan of Ivy Holdings, Inc. that was approved on December 15, 2010.**

b. **What were the "specified Prospect Medical EBITDA target" and the "specified business unit EBIDTA target"? Were the targets partially or fully satisfied by any of the employees? If so, when, which targets, and by whom? Provide documents and meeting minutes sufficient to support this information.**

Response:

Please find at Bates Numbers LGP-SBC-000003243 - LGP-SBC-000003247 documents responsive to this Request.

October 22, 2024 Supplemental Request 5:

Provide any and all internal and third-party reports, Powerpoints, presentations, scorecards, guidance, action plans, and the like prepared for corporate review by and/or at the request of LGP and/or PMH, their subsidiaries, affiliates, and facilities related to assessing, assuring, and improving the quality and/or patient safety at any or all PMH facilities from 2010 through the date of LGP's divestment.

Response:

As explained in our Seventh Response, LGP did not monitor PMH's quality of care directly but was routinely apprised of PMH's quality performance in a variety of ways. *See* LGP-SBC-

000001043 to LGP-SBC-000001121. LGP conducted diligence before the Green Equity Investors V funds invested in PMH, including diligence to measure the quality of care provided by PMH. For instance, Bates Number LGP-SBC-000003248 is a benchmarking analysis prepared by LGP comparing various PMH "hospital quality metrics" including mortality rates, readmission rates, and patient satisfaction to comparable hospitals based on CMS data. The data shows that PMH's quality metrics were similar to those of comparable hospitals.

October 22, 2024 Supplemental Request 6:

Provide LGP's investment thesis and value creation plan regarding PMH and its affiliates pre-acquisition and any amended theses or plans thereafter.

Response:

LGP's investment strategy across the Green Equity Investors V funds is to invest in companies with market-leading franchises and defensible competitive positions, attractive growth prospects, and leading management teams.

October 22, 2024 Supplemental Request 7:

What were LGP's short and long-term goals for PMH hospitals and facilities? Provide documents and meeting minutes sufficient to support this information.

Response:

Consistent with its investment thesis, LGP's investment in PMH provided the Firm with the opportunity to partner with a leading management team with a proven track record of turning around troubled health care assets through strategic acquisitions. *See* LGP-SBC-000000414 at LGP-SBC-000000418. Throughout the tenure of its investment in the Funds, LGP's goal was, in partnership with PMH's management, to use PMH's efficient operating model and established infrastructure to provide high quality, efficient health care to the communities that PMH served. *Id.* at LGP-SBC-000000418-19.

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Please feel free to have your staff contact me with any questions concerning this response.

Sincerely,

Redacted

Prospect Medical Holdings, Inc. ("PMH")
Board Meeting
Location: Dial in Number: [redacted]

Agenda
March 11, 2020

10:00 am — Chairman's Remarks (PMH Chairman: Sam Lee)

Approval of Prior PMH Board minutes [redacted]

10:05 am — Merger Transaction (George Pillari, [redacted])

10:20 am — Business Units Operations Review
- Hospitals (Von Crockett)
  - QAF discussion
  - Regulatory Update
  - Union Activity Update
  - Corporate Development (EOGH & Nix)
- Medical Groups [redacted]

10:45 am — Finance ([redacted] George Pillari)
- FY2020-Q1
- Pension
- Cash Flow, Historical/Projected

11:00 am — Adjournment

MINUTES OF THE
BOARD OF DIRECTORS OF
PROSPECT MEDICAL HOLDINGS, INC.
A Delaware corporation

A meeting of the Board of Directors of Prospect Medical Holdings, Inc., a Delaware corporation, a Delaware corporation (collectively the "Company"), was held on November 14, 2019 at 10:00 a.m. pursuant to notice given by Samuel S. Lee, Chairman of the Board and Chief Executive Officer of the Company, and was held at the offices located at [redacted] Los Angeles, California.

Members of the Board of Directors who were present were Mr. Lee, John Baumer, Alyse Wagner and Michael Solomon (the "Board"). Also present for the meeting were [redacted], Interim-Chief Financial Officer; [redacted] Associate General Counsel and Acting Corporate Secretary; and George Pillari, Chief Performance Improvement Officer. Mr. Lee acted as Chairman and [redacted] acted as Secretary of the meeting. The Chairman called the meeting to order at 10:00 a.m., announced that a quorum of the Board was present and that the Board would proceed with the transaction of business properly brought before it.

Von Crockett, SVP, Corporate Development, and [redacted], President, entered the room.

Acceptance of Prior Management Audit Committee Minutes

[redacted] asked the Board to review the prior Management Audit Committee minutes from August 15 and October 2, 2019. The Board accepted those minutes.

Acceptance of Prior Audit & Compliance Committee Minutes

[redacted] asked the Board to review the prior Audit & Compliance Committee minutes from August 16 and October 7, 2019. The Board accepted those minutes.

Approval of Prior Board Minutes

[redacted] asked the Board to review the August 29, 2019 and September 24, 2019 Board minutes. Upon motion duly made, and seconded, the Board approved those minutes. The motion passed.

Management Discussion

Mr. Pillari provided an update to the Board on the status of shareholder consents that had been collected so far. He reported to the Board that the Company had received requests for appraisal from shareholders and the response to those shareholders was provided by Ropes and Gray. Mr. Pillari reported on the status of the regulatory filings in various states for approval of the merger transaction. Mr. Pillari then gave a pension update to the Board on upcoming payments in 2020.

Operations Review

Regulatory/Accreditation Update

Mr. Crockett, Senior Vice President, Corporate Development, gave an update to the Board about the three previous hospitals who had received termination notices from CMS. He explained that one hospital: Rockville General Hospital in Connecticut have been resolved and Southern California Hospital at Culver City is still on the termination track due to issues in the pharmacy

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going back to 2015. He said there was no harm to patients due to the issues that were identified. He explained that we expect the termination to extend to February and could take 6-9 months to resolve and could include a substantial fine. We expect a survey at Our Lady of Fatima in the next several months.

Hospital Segment:
Mr. Crockett, then reviewed with the Board the performance of Waterbury for the fourth quarter of fiscal 2019. He stated that the fourth quarter was strong, discussed the provider tax legislation, and that the facility is on track to meet its performance goals.

Mr. Crockett then went over the performance of Eastern Connecticut Health Network for the fourth quarter of fiscal 2019 and stated that volume as down slightly. Mr. Crockett stated the new CEO started on October 1, 2019– [redacted] who is familiar with the New England area. He discussed that we filed an application for a cath lab and got an unusual ruling from the DOH and are appealing it.

Mr. Crockett then went over the performance of CharterCARE Health Partners for the fourth quarter of fiscal 2019. He informed the Board that they opened a new emergency department for Roger William Medical Center and are seeing increased traffic. He discussed that Our Lady of Fatima is slightly down for the quarter. Mr. Crockett stated that they would receive some rate relief associated with behavioral health.

Mr. Crockett then provided a summary of the performance at Crozer for the fourth quarter of fiscal 2019. Mr. Crockett explained that they received a supplemental payment from the State during this quarter. He informed the Board that the system is outsourcing both the ED and hospitalist service lines because of the lack of management and oversight. He said that Crozer opened a neurology emergency department because of an increase in trauma needs and that the ICU beds are fully utilized and they are looking for a solution. He stated that there should be large increases in EBDITA from managed care negotiations and dish money. Corporate has redirected resources to support local management in dealing with legacy issues such as the replacement of 45 year old software with the new Cerner implementation scheduled for June 2020 and Oracle going live January 2020.

Mr. Crockett then reviewed with the Board a summary of the performance at Los Angeles Community Hospital, Los Angeles Community Hospital at Norwalk ("Norwalk"), Southern California Hospital at Hollywood ("Hollywood"), Southern California Hospital at Van Nuys ("Van Nuys"), Southern California Hospital at Culver City ("Culver City") and Foothill Regional Medical Center ("Foothill) for the fourth quarter of fiscal year 2019. Specifically, he went over their respective financial performance, what worked for the quarter, what underperformed for the quarter, measures taken to address underperformance, trends that may impact performance through year end, and what we have done to address those trends. Mr. Crockett explained that payments under California's Quality Assurance Fee ("QAF") program has ended and any revenue that might come in representing this fiscal quarter would not be booked until realized. He explained that the new QAF rates would not be announced until March 2020 and payments received 3-4 months following. Mr. Baumer asked questions about dollars received historically under QAF and whether we had any understanding of what the next QAF

revenue would be and Mr. Crockett responded to that question. Mr. Crockett also discussed the current status of the licensing survey issue with CMS, and the Culver City's current plan of correction. Mr. Crockett also informed the Board that there was an adjustment in the fourth quarter due to a capitated pool correction between Prospect Medical Group and the hospital.

Medical Group segment:

[redacted] provided a summary to the Board of the performance of the Medical Groups segment and the Coordinated-Regional-Care ("CRC") through the fourth quarter of fiscal 2019. He went over what worked, what underperformed, what we have done to address underperformance, what trends that will impact performance through year-end, and what we have done to address those trends. [redacted] then noted that it would likely be a down year but we are pursuing growth in certain areas that would improve financial performance. [redacted] asked the Board if there were any questions. There were none.

Finance Matters

[redacted] reviewed with the Board the highlights for the fourth quarter of fiscal 2019. She noted that it was a good quarter despite some volume challenges. [redacted] reported that revenue increased over 3% from prior year same quarter and cash collections improved from focus on revenue cycle and implementation of software that helps realize revenue. [redacted] specifically went over some expense management initiatives that decreased expenses 3% and medical group operating expenses decreased while revenue increased. [redacted] then informed the Board about cash, restricted cash and the availability of the revolver. She reported on payments to 401(k) plans, cash from the sale of a building in the Nix winddown. [redacted] discussed the implementation of a standardized budgeting process across the organization and was asked by Mr. Baumer if the budget is achievable and she answered yes. She then reported on the 2019 audit status and informed the Board that it is on track to be complete by December 20. Mr. Pillari reported that he received a call from BDO who reported the audit was going well. [redacted] asked if there were any further questions. There were none.

Corporate Development

Mr. Crockett then gave an update on the sale of EOGH with the currently identified buyer. Mr. Crockett then discussed the timing and reported that the buyer had retained Deloitte to advise them on the transaction and discussed the state's certificate of need process estimating closing to be anywhere from four to six months. Mr. Crockett also stated that the Company has back up buyers if this one falls through and that the Company is still moving toward a conversion to a non-profit for this asset.

Mr. Crockett then gave an update on the sale of the Nix Health System. He stated that the Company is closing down the behavioral care side of the business on November 15, 2019 because the potential buyers for that line of business backed out. He discussed potential buyers of the owned buildings and reported that the agreement with a buyer for the downtown building was scheduled to close on December 12, 2019 and the buyer for the Vance Jackson building should be within ninety days. Mr. Crockett reported that the Company is negotiating with landlords of leased buildings to either try to get out of the existing leases or help find a new

tenant. There was some discussion about the behavioral health sale. Mr. Crockett asked if there were any further questions. There were none.

Adjournment

Mr. Lee then asked if there were any further questions. There being no further business to come before the meeting, the Chairman declared the meeting adjourned at 11:48 a.m.

Redacted Secretary

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MINUTES OF THE JOINT MEETING
OF
THE BOARDS OF DIRECTORS
OF
PROSPECT MEDICAL HOLDINGS, INC.
&
IVY HOLDINGS INC.

A special telephonic meeting of the Boards of Directors (the "Boards") of Prospect Medical Holdings, Inc., a Delaware corporation ("PMH") and Ivy Holdings Inc. ("Ivy" and together with PMH, the "Companies"), was held on November 22, 2019 at 2:30 p.m. pursuant to notice given by Samuel Lee, Chief Executive Officer of the Companies and the Chairman of the Boards. All Directors on the Boards signed and delivered a waiver of notice of the meeting in compliance with the notice requirements of the Companies' Bylaws.

The following Directors, who constitute all members of the Boards, attended the meeting:

- Samuel S. Lee (Chairman)
- John Baumer
- Michael S. Solomon
- Alyse Wagner
- Jeereddi A. Prasad, M.D.

Also present for the meeting were:

- George Pillari, Chief Integration and Performance Improvement Officer
- Redacted Treasurer
- Redacted Assistant General Counsel & Assistant Secretary
- Redacted Partner with Ropes & Gray LLP
- Redacted Partner with Latham & Watkins LLP

Mr. Lee acted as Chairperson of the meeting and Redacted acted as Secretary of the meeting.

Call to Order

Mr. Lee called the meeting to order at 2:32 pm PST, announced that a quorum of the Boards was present and that the Boards would proceed with the meeting.

Confirmation of Receipt of Meeting Materials

Upon the inquiry of SVP Finance, all Directors confirmed that, prior to this meeting, they have received and reviewed (1) the Offer to Purchase Ivy Holdings, Inc. (Prospect Medical Holdings, Inc.), dated November 19, 2019 (the "Offer Letter"), and received from McDermott Will & Emery LLP on behalf of its client, Prime Healthcare Companies ("Prime") and (2) the proposed draft response letter (the "Response Letter").

Review of the Offer Letter

Mr. Lee asked the other Directors whether they have any questions or comments regarding the Offer Letter.

Redacted - Privileged

Redacted - Privileged that is the conclusion of the Companies' management and legal counsel (including external legal counsel in attendance for the meeting) Redacted - Privileged

Redacted - Privileged

Status of Shareholder Consent to Merger

Ms. Wagner inquired about the status of receipt of shareholder consents to the transactions contemplated in the Agreement and Plan of Merger, dated September 25, 2019, among the Companies, Chamber Merger Sub Inc., and solely for purposes of Section 6.03(b) thereto, Green Equity Investors V, L.P. and Green Equity Investors Side V, L.P. (the "Merger Agreement").

Mr. Lee confirmed that, as of the date of this meeting, signed consents have been received from shareholders representing ownership of 97.4% of the outstanding stock of Ivy.

Advice of Counsel Regarding Director Obligations

Ropes and Gray summarized existing obligations of the Companies under the Merger Agreement. He noted that contractual conditions have been satisfied and the Companies are now contractually bound to proceed to its transaction closing. Ropes and Gray further stated that the Companies have no contractual flexibility regarding such obligations. He further noted that the Directors are under no legal obligation to consider, or take any action related to, the Offer Letter and the matters set forth therein.

Review of the Response Letter

Mr. Lee asked the other Directors whether they have any questions or comments regarding the Response Letter. After a short discussion, with no objections or proposed changes, the Directors unanimously approved the Response Letter and its delivery to Prime and its counsel promptly following the meeting.

Other Matters

Upon Mr. Lee's inquiry, the other Directors confirmed that they have no other questions, concerns or other matters that they would like to discuss regarding the subject matter of this meeting.

Adjournment

There being no further business to come before the meeting, Mr. Lee declared the meeting adjourned at 2:52 p.m.

Redacted Assistant Secretary

MINUTES OF THE
BOARD OF DIRECTORS
OF
PROSPECT MEDICAL HOLDINGS, INC.
a Delaware corporation

A meeting of the Board of Directors of Prospect Medical Holdings, Inc., a Delaware corporation (the "Company"), was held on March 4, 2014 at 9:00 a.m. pursuant to notice given by Samuel S. Lee, Chairman of the Board and Chief Executive Officer of the Company, and was held at the offices of the Company located at Redacted Los Angeles, California.

Members of the Board of Directors who were present were Mr. Lee, Dr. Jeereddi Prasad, John Baumer, Alyse Wagner, and Michael Solomon (the "Board"). Also present for the meeting were Redacted of Leonard Green & Partners, L.P.; and Ellen J. Shin, General Counsel. Mr. Lee acted as Chairman and Ms. Shin acted as Secretary of the meeting. The Chairman called the meeting to order, announced that a quorum of the Board was present and that the Board would proceed with the transaction of business properly brought before it.

Chairman's Remarks
The Chairman opened the meeting with general remarks.

Acceptance of Prior Committee Minutes
Ms. Shin asked the Board to review the December 4, 2013 minutes of the Ivy Holdings Inc. and Prospect Medical Holdings, Inc. Compensation Committee. The Board accepted those minutes.

Approval of Prior Board Minutes
Ms. Shin asked the Board to review the December 4, 2013 Board minutes. Upon motion duly made, and seconded, the Board unanimously approved the December 4, 2013 Board minutes. The motion passed.

Redacted entered the room.

Operations Review
Redacted, Senior Vice President, Hospital Operations of Alta Hospitals System ("Alta") reviewed with the Board the consolidated financial summary for the month and year to date through December 31, 2013 of the core Alta facilities. Specifically, SVP Ops - Alta went through changes in volume, revenue, cost management, EBITDA from the prior year period. SVP Ops - Alta also explained the various operational initiatives, and that some initiatives had resulted in notable increases in expense in the areas of information technology, utilization review, clinical documentation improvement, and Corporate hospital management staffing. SVP Ops - Alta also stated that the Company had recently cleared regulatory and licensing surveys that were conducted at the California hospitals.

Redacted entered the room.

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SVP Ops - Alta then went over the impact of the change in the all patient refined diagnosis related groups ("APR DRG") system. A discussion ensued amongst management and the Board. SVP Ops - Alta SVP Ops - Alta then reviewed with the Board the continued challenges and risks given the current federal and state reimbursement environment, and other material changes in the industry, including the transition from international classification of diseases ("ICD") 9 to ICD 10. Mr. Baumer asked for further explanation as to what the change involved. SVP Ops - Alta responded to that question.

SVP Ops - Alta then reviewed with the Board the financial operational performance of Southern California Hospital at Culver City ("Culver City") for the month and year to date through December 31, 2013. SVP Ops - Alta went over the significant improvement in volume, revenue, cost management, other financial drivers, and EBITDA from the prior year period. SVP Ops - Alta SVP Ops - Alta noted, however, that this quarter also reflected an expected Medicare Disproportionate Share ("DSH") cut of approximately $2.5 million. SVP Ops - Alta also went over a number of operational initiatives for the remainder of the year, including expansion of the psychiatric unit and obstetrics unit. Mr. Baumer asked about the timeline for those expected initiatives. Subject to any regulatory hurdles, SVP Ops - Alta estimated completion of those particular initiatives by the middle of 2014.

Mr. Baumer then asked about the estimated financial performance of Culver City. Mr. Aleman stated that the Company currently estimated that Culver City will be around the same amount as last year given the projected Medicare DSH cuts. Mr. Baumer then asked for the expected Medicare DSH impact to the entire Company. Mr. Aleman stated approximately $13 million. Mr. Lee then gave some further context as to how the Medicare DSH cuts were affecting all hospitals in the industry.

SVP Ops - Alta then provided a review of the first quarter of 2014 at the Nix Health system ("Nix"). Specifically, SVP Ops - Alta went over the changes to volume, revenue, expenses, and EBITDA from the prior year period. He also went over Nix's forward financial operations, which included a number of key operational initiatives with the psychiatric expansion and the rural health initiative. SVP Ops - Alta also explained some of the risks and challenges facing Nix, including competition in the area and reimbursement reductions.

Mr. Baumer then inquired about Nix's last year performance. SVP Ops - Alta stated that it was approximately $14 million, but that he and the rest of the management team expected a marked improvement due to the initiatives referenced previously, among others. Mr. Lee gave a further explanation regarding Nix's financial performance, including a notation that the financial performance of Nix Community General Hospital had not met the Company's internal expectations.

Redacted Chief Executive Officer of Prospect Medical Systems, then proceeded to go over the operations and financial summary of the consolidated Medical Groups through January 31, 2014. Specifically, Redacted went over changes in membership, revenue, cost of revenue, operating expenses, and year to date EBITDA. In particular, Redacted noted that the Medical Groups had picked up an additional 27,000 new members due to member sign-ups in the Health Net Health Insurance Exchange. Mr. Baumer asked about the impact of the Medicare Advantage

reductions. Redacted went over the projected negative impact through the remainder of the fiscal year, and the projected negative impact for fiscal year 2015. In sum, Redacted noted that despite all of the various government reductions, he expected the financial performance of the Medical Groups segment to remain approximately the same. He attributed the ability to withstand the significant rate reductions to other initiatives by the Medical Group segment, including some expected improvement in performance monies.

Mr. Lee left the room.

Coordinated-Regional-Care

Redacted, Senior Vice President, Coordinated Regional Care, provided an update to the Board about the Company's Coordinated-Regional-Care ("CRC") activities in California, Texas, Rhode Island, and New Jersey. In particular, SVP - CRC informed the Board that the Company had entered into a letter of intent with Blue Cross of Blue Shield of Rhode Island, with a goal of introducing a joint sponsored product by the middle of 2014 to the Rhode Island community. A discussion ensued amongst management and the Board.

Mr. Lee returned to the room.

SVP - CRC then explained about the Company's efforts to date in building a provider network in New Jersey. Dr. Prasad explained to the Board that the normal timeline to build a sufficient provider network is approximately one year. Mr. Baumer asked about the financial impact of the CRC segment. Mr. Lee and Mr. Aleman responded to those questions.

Redacted left the room.

Finance Matters

Mr. Aleman the reviewed with the Board the financial statements for the Company's consolidated entities through December 31, 2013. Specifically, Mr. Aleman noted that the lumpiness of the quarter was due to the inability of the Company to recognize revenue from the California Quality Assurance Fee Program. He also estimated that the delay in recognition of those funds would not be realized until the middle of 2014. Mr. Aleman then reviewed with the Board a summary of the Company's available cash at February 1, 2014, and expectations through year end given the Company's anticipated transaction activity.

Redacted entered the room.

Corporate Development

Redacted gave an update to the Board about the status of the CharterCARE transaction. He noted certain key upcoming regulatory Hearing dates, but that the Company is still on track to close in the May or June 2014 timeframe. Mr. Lee gave some further context of the transaction process. Co-Gen. Counsel, Hosp-Outpatient then reviewed with the Board the status of the acquisition of Bellflower Medical Center, Tustin Medical Center, and Redacted - Business Sensitive Specifically, [redacted], Co-Gen. Counsel, Hosp-Outpatient explained the significant regulatory and licensing hurdles that had been presented during the diligence period, negotiation of the Asset Purchase Agreement and related agreements (the

"APA"), and post-signing of the APA. Redacted noted that such items had reflected in a downward purchase price adjustment.

Mr. Aleman then provided the Board with an overview of a potential transaction with East Orange General Hospital, which is located in New Jersey, key attributes of the hospital, growth opportunities, and a potential transaction structure. Mr. Aleman also gave an update on the potential transaction with Redacted - Business Sensitive which is another hospital located in New Jersey.

Finally, Redacted went over the Company's current pipeline of potential acquisition opportunities.

Adjournment

Mr. Lee asked if there were any further questions. There being no further business to come before the meeting, the Chairman declared the meeting adjourned at 11:46 a.m.

_____

Sam Lee, Chairman

_____

Ellen Shin, Secretary

MINUTES OF THE
BOARD OF DIRECTORS
OF
PROSPECT MEDICAL HOLDINGS, INC.
a Delaware corporation

A meeting of the Board of Directors of Prospect Medical Holdings, Inc., a Delaware corporation (the "Company"), was held on May 28, 2014 at 10:00 a.m. pursuant to notice given by Samuel S. Lee, Chairman of the Board and Chief Executive Officer of the Company, and was held at the offices of the Company located at Redacted, Los Angeles, California.

Members of the Board of Directors who were present were Mr. Lee, Dr. Jeereddi Prasad, John Baumer, Alyse Wagner, and Michael Solomon (the "Board"). Also present for the meeting were Redacted Redacted of Leonard Green & Partners, L.P.; Steve Aleman, Chief Financial Officer, and Ellen J. Shin, General Counsel. Mr. Lee acted as Chairman and Ms. Shin acted as Secretary of the meeting. The Chairman called the meeting to order, announced that a quorum of the Board was present and that the Board would proceed with the transaction of business properly brought before it.

Chairman's Remarks
The Chairman opened the meeting with general remarks.

Approval of Prior Board Minutes
Ms. Shin asked the Board to review the March 4, 2014 and May 22, 2014 Board minutes. Upon motion duly made, and seconded, the Board unanimously approved the motion to approve those minutes. The motion passed.

Approval of Revised Prospect Hospitals System Corporate Compliance Program
Ms. Shin reviewed with the Board the Company's updated Prospect Hospitals System Corporate Compliance Program ("Program"). Ms. Shin then reviewed with the Board the resolutions to approve the Program. A copy of which is attached as Exhibit A. Upon motion duly made, and seconded, the Board unanimously approved the motion to approve the Program as of May 28, 2014, and instructed the Company's management to provide for the distribution of the Program in a manner consistent with past practices.

Redacted Redacted w, Redacted Redacted and Von Crockett entered the room.

Operations Review
Mr. Lee then turned the meeting to SVP Hosp Ops to provide the Board with a business operations review of the California hospitals. SVP Hosp Ops reviewed with the Board the core Alta hospitals' financial performance for the second quarter of 2014. In his presentation, SVP Hosp Ops SVP Hosp Ops went through changes in volume, revenue, cost management, and EBITDA. He noted that on the cost management side, there was a significant increase in registry hours given the volume increases. SVP Hosp Ops also went through forward financial operations, which included operational initiatives and risks. SVP Hosp Ops also provided an update regarding the Bellflower Medical Center ("Bellflower") and Newport Specialty Hospital ("Newport")

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transactions. Mr. Baumer asked SVP Hosp Ops a question about the current status of opening both facilities. SVP Hosp Ops responded to those questions. Mr. Baumer then asked a question about the current reimbursement cuts affecting the hospital segment. Mr. Aleman responded to that question, and explained that the Company expected reimbursement cuts of approximately $9 million on a go forward basis. Mr. Baumer asked another follow up question regarding the governmental process and personnel involved with reopening the Bellflower and Newport facilities. SVP Hosp Ops responded to that question.

SVP Hosp Ops then reviewed with the Board the second quarter 2014 highlights for Southern California Hospital at Culver City. Specifically, SVP Hosp Ops went over changes in the volume, revenue, cost management, and EBITDA performance. Once again, SVP Hosp Ops noted a significant increase in registry hours given the volume increases. Similarly, SVP Hosp Ops also pointed out to the Board increases in supplies due to increases in surgeries at the facility. SVP Hosp Ops then went over a number of operational initiatives for 2014, including CBO collections, ER throughput, acute rehab and detox program growth, SNF/sub-acute growth, additional payor contracts, emergency room relocation and rebuild, bariatric program, spine program, psychiatric expansion, and obstetrics program development. Mr. Baumer asked about the impact of reimbursement cuts at the facility. Mr. Lee answered that question. Mr. Solomon asked a question about a competitor. Mr. Lee and Mr. Aleman answered that question. Mr. Baumer then asked management to provide a status update regarding the Quality Assurance Fee program. Mr. Aleman responded to that question, and a discussion ensued amongst the Board and management. Mr. Lee also informed the Board that the Company had spent time and resources into developing some additional executives in operations.

Mr. Crockett then reviewed with the Board the second quarter 2014 consolidated financial summary for the Nix Hospitals System, LLC ("Nix"). In particular, Mr. Crockett noted some of the major initiatives at Nix, including the opening of the psychiatric program at the Babcock facility. Mr. Baumer asked a question related to the volume increases. Mr. Crockett answered that question by going over the competitive landscape in the area.

Redacted then provided a consolidated financial summary for the Medical Group segment through the quarter ending March 31, 2014. Specifically, Redacted went over changes in EBITDA, senior and commercial membership, revenue, cost of revenue, and operating expenses. Redacted also went over opportunities and key initiatives in finance and operations. Mr. Baumer asked a question about the status of the Company's Coordinated-Regional-Care ("CRC") efforts outside of California. Mr. Aleman stated that all states have been receptive to the Company's CRC model. He added that much of the work in the states outside of California is to lay the groundwork for this year in infrastructure and program development. Mr. Baumer then asked a follow up question regarding any associated risks with the Company's CRC model. Mr. Lee and Mr. Aleman responded to that question. Mr. Lee then emphasized to the Board that 2014 is a turnaround year for the Company given the various government cuts affecting the Medical Group and Hospital segments. Mr. Lee went through the various cuts, and along those same line also went through various programs the Company had either completed or initiated to combat those various cuts. Mr. Baumer then asked some questions regarding the Company's out of state corporate development activities. Mr. Aleman answered those questions.

Redacted, Mr. Crockett, and Redacted left the room.

Finance Matters

Mr. Aleman reviewed with the Board the financial statements for the Company's consolidated entities through March 31, 2014. Mr. Aleman then reviewed with the Board the Company's consolidated balance sheet and income statement through March 31, 2014, the Adjusted EBITDA fifteen month trend, and cash projections. Mr. Aleman also provided the Board with an update on the QAF program (and its expected timeline for approval) and receipt of electronic health record ("EHR") monies. With respect to funding of the pending transactions, Mr. Aleman stated that existing cash on hand could fund those transactions. Ms. Wagner asked a question about the profitability of the CharterCARE system at closing of the transaction. Mr. Aleman responded to that question.

Redacted entered the room.

Corporate Development

Co-Gen. Counsel, Hosp-Outpatient provided an update to the Board about the pending CharterCARE transaction. [redacted] then went over the current status of the East Orange General Hospital transaction, noting that the Asset Purchase Agreement and related agreements were executed on May 28, 2014, and the regulatory process would take approximately 9-12 months. Co-Gen. Counsel, Hosp-Outpatient then went through the list of potential transaction activities, which included Redacted – Business Sensitive Redacted - Business Sensitive A discussion ensued amongst the Board and management.

Adjournment

There being no further business to come before the meeting, the Chairman declared the meeting adjourned at 12:15 p.m.

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Ellen Shin, Secretary

EXHIBIT A

Resolutions re Approval of Prospect Hospitals System Corporate Compliance Program

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MINUTES OF THE
BOARD OF DIRECTORS
OF
PROSPECT MEDICAL HOLDINGS, INC.
a Delaware corporation

A meeting of the Board of Directors of Prospect Medical Holdings, Inc., a Delaware corporation (the "Company"), was held on May 15, 2017 at 2:00 p.m. pursuant to notice given by Samuel S. Lee, Chairman of the Board and Chief Executive Officer of the Company, and was held at the offices of the Company located at Redacted, Los Angeles, California.

Members of the Board of Directors who were present were Mr. Lee, John Baumer, Alyse Wagner, Michael Solomon and Jeereddi Prasad, M.D. (the "Board"). Also present for the meeting were Redacted a representative of Leonard Green & Partners; Steve Aleman, Chief Financial Officer; and Ellen Shin, General Counsel. Mr. Lee acted as Chairman and Ms. Shin acted as Secretary of the meeting. The Chairman called the meeting to order at 2:07 p.m., announced that a quorum of the Board was present and that the Board would proceed with the transaction of business properly brought before it.

Chairman's Remarks

The Chairman opened the meeting with general remarks regarding which entities were performing, and which entities were not performing to the satisfaction of management. He also gave an overview of cash savings in the Company.

Approval of Prior Board Minutes

Ms. Shin then asked the Board to review the February 21, 2017 Board minutes. Upon motion duly made, and seconded, the motion passed and the Board unanimously approved those minutes.

Redacted, Von Crockett, Redacted entered the room.

Operations Review

Medical Group Segment:

Redacted, Chief Executive Officer of Prospect Medical Systems, went through the Medical Group's financial performance, including year to date adjusted EBITDA for the six month ended March 31, 2016 compared to the prior year. Mr. Baumer asked what the revenue was during that same time period. Mr. Aleman answered that question.

Redacted then went over the quarter's successes and key challenges. Mr. Baumer asked for an explanation of the performance for the quarter despite the improvements that had been made. Mr. Aleman responded to that question. Dr. Prasad asked if the revenue would pick up later in the year. Mr. Aleman stated that this should be the case. Despite the challenges the Medical Groups were facing, Redacted stated that the core operations were improving.

Redacted left the room.

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Hospital Segment:

Redacted Senior Vice President, Hospital Operations of Alta Hospitals System, LLC, then reviewed with the Board the operational performance for the California hospitals for the second fiscal quarter of 2017 and the second quarter to date. He noted improvements in Adjusted EBITDA performance from the comparative prior year period, excluding Quality Assurance Fee recognized for that period.

Redacted first went through the operational performance of Los Angeles Community Hospital ("LA"), Norwalk Community Hospital ("Norwalk"), Southern California Hospital at Van Nuys ("Van Nuys"), and Southern California Hospital at Hollywood ("Hollywood"). He noted improvements in quality, infrastructure, management, and registry reduction at both LA and Norwalk. At Van Nuys, Redacted noted that improved documentation had led to a reduction in denials. At Hollywood, Redacted noted an improvement in volume and reduction in registry hours.

Redacted then went through the financial performance of Southern California Hospital at Culver City ("Culver City") through the end of March 2017 as compared to the prior year period. Redacted noted that Culver City had terminated its LPS designation. Mr. Baumer asked where patients were now going as result of the termination. Redacted answered that question. Mr. Baumer then asked about the status of relationships between Culver City and the regulatory agencies. Redacted stated that relationships had improved and were currently good. Redacted then reviewed with the Board the major challenges and successes of Culver City for the quarter. A discussion ensued amongst the Board and management.

Redacted then went over the financial performance of Los Angeles Community Hospital at Bellflower ("Bellflower") through the end of March 2017 as compared to the prior year period. He also shared that the facility was running an capacity, expansion plans were in progress, and the appointment of a new Medical Director.

Redacted then went over the financial performance for the quarter ended March 2017 as compared to the prior year period. He also went through the major challenges and successes for the quarter.

Redacted left the room.

Mr. Crockett, Senior Vice President of Corporate Development, then reviewed with the Board the performance of Nix Healthcare ("Nix") in Texas for the second fiscal quarter of 2017. Specifically, he went over Nix's financial performance, major challenges, successes, and risks/opportunities. He noted that volumes had dropped from the period of time prior to the flood at Nix, but over a dozen new physicians are in the pipeline at Nix.

Mr. Crockett next discussed the performance of CharterCARE Health Partners in Rhode Island for the second fiscal quarter of 2017. Specifically, Mr. Crockett went over the major challenges, successes, and risks/opportunities. Mr. Baumer asked how the entity is expected to perform for the year. Mr. Aleman answered that question.

As the next agenda item, Mr. Crockett provided an update regarding the performance at East Orange General Hospital ("EOGH") in New Jersey. In particular, he noted declines in performance in the quarter and fiscal year to date Adjusted EBITDA. Despite some successes for the quarter, Mr. Crockett also explained there were ongoing risks, which included significant reductions in charity care funds. Mr. Baumer asked a series of follow up questions. Mr. Crockett and Mr. Aleman responded to those questions.

Mr. Crockett then reviewed the financial performance, major challenges, successes, and risks/opportunities at Eastern Connecticut Health Network ("ECHN"). He noted favorable improvements in labor management, operational processes, and expansion efforts in the Behavioral Health Day Program.

Mr. Crockett then reviewed with the Board the financial performance for the quarter ended March 2017, and the year to date Adjusted EBITDA. He noted the competitive landscape, improvements in labor management, replacement of the prior Chief Executive Officer, and revenue opportunities. A discussed ensued amongst the Board and management.

Mr. Crockett then explained to the Board the Company's overall labor strategy, which covers 26 collective bargaining agreements across the organization. He stated that two unions continued to present some ongoing challenges.

Redacted, Chief Executive Officer at Crozer-Keystone Health System ("Crozer), appeared by video conference. Redacted reviewed with the Board Crozer's financial performance for the second quarter fiscal 2017, and fiscal year to date. He stated that there were some labor challenges in the quarter, coupled with some notable successes, including the opening of a new drug and alcohol unit in March 2017. Redacted noted that Crozer is on target to exceed year end projections.

Redacted left the meeting.
entered the room.

Coordinated-Regional-Care Segment

Redacted, the President of the Company's Coordinated Regional Care ("CRC") segment, then provided a first and second quarter CRC new markets update to the Board. He also went over core CRC incremental initiatives for the past two quarters, core value base risk capabilities in the east coast and opportunities and risks for the segment. A discussion ensued regarding improvements in EBITDA for the CRC segment.

Redacted left the room.

Finance Matters

Mr. Aleman then provided an update regarding the overall financial performance of the Company for the quarter ended March 2017, as well as its separate segments. He explained the timing of expected Quality Assurance Fee ("QAF') payments, meetings with rating agencies, and current cash projections with and without QAF.

Mr. Aleman then gave an update on the pension obligations for Crozer, ECHN, and Waterbury. Mr. Baumer and Mr. Solomon asked a series of questions regarding what the cost would be to

terminate certain pension obligations today. Mr. Aleman stated that he would look into the questions further and follow up.

Corporate Development

Mr. Aleman then provided a Corporate Development update, including post-closing updates at Crozer and Waterbury, cash collections, favorable property tax stabilization agreements in New Jersey and Connecticut, tax appeals in PA, and solutions for Waterbury joint ventures. He also discussed divestiture of excess real estate, and a current market watch in California and Texas.

Mr. Crockett left the room.

Executive Session

The Board met with Redacted Mr. Aleman, Ms. Shin and Redacted in executive session.

Adjournment

There being no further business to come before the meeting, the Chairman declared the meeting adjourned at 4:58 p.m.

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Sam Lee, Chairman

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Ellen Shin, Secretary

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MINUTES OF THE
BOARD OF DIRECTORS OF
PROSPECT MEDICAL HOLDINGS, INC.
A Delaware corporation

A meeting of the Board of Directors of Prospect Medical Holdings, Inc., a Delaware corporation, a Delaware corporation (collectively the "Company"), was held on August 29, 2019 at 10:00 a.m. pursuant to notice given by Samuel S. Lee, Chairman of the Board and Chief Executive Officer of the Company, and was held at the offices of the Company located at Redacted Redacted Los Angeles, California.

Members of the Board of Directors who were present were Mr. Lee, John Baumer, Alyse Wagner, Dr. Prasad, and Michael Solomon (the "Board"). Also present for the meeting were Redacted Interim-Chief Financial Officer; Ellen J. Shin, General Counsel and Corporate Secretary; George Pillari, Chief Performance Improvement Officer; and Redacted VP, Finance & Treasury. Mr. Lee acted as Chairman and Ms. Shin acted as Secretary of the meeting. The Chairman called the meeting to order at 10:35 a.m., announced that a quorum of the Board was present and that the Board would proceed with the transaction of business properly brought before it.

Von Crockett, SVP, Corporate Development, and Redacted President, entered the room.

Acceptance of Prior Management Audit Committee Minutes
Ms. Shin asked the Board to review the prior Management Audit Committee minutes from May 16, 17, 31, June 10, and August 1, 2019. The Board accepted those minutes.

Acceptance of Prior Audit & Compliance Committee Minutes
Ms. Shin asked the Board to review the prior Audit & Compliance Committee minutes from May 17, 2019. The Board accepted those minutes.

Approval of Prior Board Minutes
Ms. Shin asked the Board to review the May 23, 2019 and June 28, 2019 Board minutes. Upon motion duly made, and seconded, the Board approved those minutes. The motion passed.

Finance Matters
Redacted reviewed with the Board the highlights for the third quarter ending June 30, 2019. She noted that it was a good quarter despite some volume challenges. Mr. Baumer asked how the financial performance compared to the same period last year. Redacted answered that it was the same. Redacted specifically went over some items on the balance sheet as compared with the second quarter period, and provided some forward looking guidance for the months of July and August 2019.

Redacted then informed the Board that she had put into place some additional controls. Specifically, she had included a requirement for the subsidiary CEOs and CFOs to provide quarterly certifications, and a budget process throughout all of the business units. She also informed the Board that the audit planning process was underway and that she did not anticipate

any adjustments. Mr. Baumer stated that he had spoken to Redacted at BDO USA, LLP ("BDO"), who had indicated that the Finance team is doing well, and way ahead of prior years. Redacted asked if there were any further questions. There were none.

Dr. Prasad entered the room.

Treasury Update

Pension Update:

Redacted gave a pension update to the Board. Specifically, he went through the current pension underfunded status, and the change from Q2 to Q3. The plans he reviewed were at Crozer Keystone Health System ("Crozer"), Eastern Connecticut Health Network ("ECHN"), and Waterbury Hospital ("Waterbury").

Medical Properties Trust ("MPT") Transaction:

Redacted provided a summary of the MPT Transaction, which closed on August 23, 2019. He noted that proceeds from the MPT Transaction were utilized to pay the TLB, FILO, transfer and title fees, outstanding mortgage at one hospital, ABL repayment, pension paydown, and payment of prior year ERISA obligations related to 401k matching obligations.

He also went over the annual rent payments (which includes 2% escalators), and the two required financial covenants that must be followed.

Debt Summary

Redacted reviewed the list of debt outstanding as of June 30, 2019, and as of August 28, 2019. Mr. Pillari stated that the Company would lose some additional availability on the line of credit following the sales and/or closures of the Nix Health System, and East Orange General Hospital ("EOGH"). A discussion ensued amongst the Board and management.

Operations Review

Hospital Segment:

Mr. Crockett, Senior Vice President, Corporate Development, then reviewed with the Board the performance of Waterbury for the third quarter of fiscal 2019. He stated that the third quarter was strong, the CMS Medicare issue had been resolved, and that the facility is on track to surpass last year's performance.

Mr. Baumer asked for an update on the electronic medical records ("EMR") system implementation. Mr. Crockett responded to that question for both Waterbury and EOGH. Mr. Baumer then asked when Crozer would start with its EMR system implementation. Redacted stated that the implementation had already started.

Mr. Crockett then went over the performance of Eastern Connecticut Health Network for the third quarter of fiscal 2019. Mr. Crockett stated the current CEO would be retiring on October 1, 2019, and that the facility had hired a new CEO – Redacted who is familiar with the New England area. Mr. Baumer asked about the expected performance by the fiscal year end. Redacted answered that question.

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Mr. Crockett then went over the performance of CharterCARE Health Partners for the third quarter of fiscal year 2019. He also informed the Board that the facility had closed its nursing school and outpatient center. Mr. Crockett then gave an update on the status of the licensing survey issue before CMS. Mr. Baumer asked for an update on the rate increases from the State. Mr. Crockett stated that they would receive an incremental increase for 2020. Redacted stated that discussions were still ongoing.

Mr. Crockett then provided a summary of the performance at Crozer for the third quarter of fiscal year 2019. Mr. Crockett shared with the Board that one of Crozer's competitors, Hahnemann had closed, and that as a result, certain physicians were shifting their practice over to Crozer. A discussion ensued amongst Mr. Baumer and management.

Mr. Crockett then reviewed with the Board a summary of the performance at Los Angeles Community Hospital, Los Angeles Community Hospital at Norwalk ("Norwalk"), Southern California Hospital at Hollywood ("Hollywood"), and Southern California Hospital at Van Nuys ("Van Nuys") for the third quarter of fiscal year 2019. Specifically, he went over their respective financial performance, what worked for the quarter, what underperformed for the quarter, measures taken to address underperformance, trends that may impact performance through year end, and what we have done to address those trends. Mr. Crockett explained that some supplemental monies are expected for the fourth quarter of fiscal year 2019. Mr. Baumer asked a question about whether fiscal year 2018 had an out of period payment under California's Quality Assurance Fee ("QAF") program. Mr. Crockett responded to that question.

Mr. Crockett next discussed the performance of Southern California Hospital at Culver City ("Culver City") for the third quarter of fiscal year 2019. He also discussed the current status of the licensing survey issue with CMS, and the hospital's current plan of correction. He noted that the current affiliation with UCLA is working well, as reflected in the additional volume and financial performance of the hospital.

Mr. Crockett then provided a performance update of Foothill Regional Medical Center ("Foothill) for the third quarter of fiscal year 2019. He stated that the hospital had a good quarter in terms of volume. Mr. Crockett then informed the Board that there will be an adjustment in the fourth quarter due to a misunderstanding how to record the capitated pool between Prospect Medical Group and the hospital.

Mr. Crockett then went over the financial performance of Los Angeles Community Hospital at Bellflower ("Bellflower") for the third quarter of fiscal year 2019. He stated that the overall performance for the quarter was steady.

Medical Group segment:

Redacted provided a summary to the Board of the performance of the Medical Groups segment through the third quarter of fiscal year 2019. He also compared the current performance with the performance from the same prior year period. He also went over what worked, what underperformed, what we have done to address underperformance, what trends that will impact performance through year-end, and what we have done to address those trends. Redacted then provide an estimate for the fiscal year end, and noted that it would likely be a flat year.

Coordinated-Regional-Care

Redacted then provided a Coordinated-Regional-Care ("CRC") update for the third quarter of fiscal year 2019. He went over certain matters that had exceeded and not exceeded expectations this quarter. He noted that there is room for improvement next year, especially in the area of quality. Redacted asked the Board if there were any questions. There were none.

Corporate Development

Mr. Crockett then gave an update on the sale of EOGH. Mr. Baumer asked a question about the identity of the buyer. Mr. Crockett answered that question. Ms. Wagner then asked a question about the timing of closing the transaction. Mr. Crockett stated that he was unsure given the state's certificate of need process, but estimated anywhere from four to six months. A discussion ensued amongst the Board and Mr. Pillari and Mr. Crockett regarding the approval process in New Jersey. Mr. Baumer asked for an update on how much of a cash drain EOGH is at this point. Redacted responded to that question. Mr. Crockett also stated that the Company is working on a conversion from for profit to not for profit for EOGH.

Mr. Crockett then gave an update on the sale of the Nix Health System. He stated that an announcement had been made that the Company is closing down the acute care side of the business, which is a 30 day process. He then stated that he anticipated an agreement with a buyer for the downtown building within the next seven days, and that the transaction should close before the end of the year. Mr. Baumer asked for the identity of the buyer. Mr. Lee responded to that question. With respect to the behavioral side of the business, Mr. Crockett stated that the Company is three to five days away from signing a deal with a potential buyer. He also went over the terms of the deal. Mr. Baumer asked about the status of diligence. Mr. Crockett responded to that question.

Mr. Baumer asked for an update on the Home Health business. Mr. Crockett stated that any potential transactions are on hold. Mr. Lee provided further context.

Adjournment

Mr. Lee then asked if there were any further questions. There being no further business to come before the meeting, the Chairman declared the meeting adjourned at 11:09 a.m.

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Ellen Shin, Secretary

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MINUTES OF THE
BOARD OF DIRECTORS
OF
PROSPECT MEDICAL HOLDINGS, INC.
a Delaware corporation

A meeting of the Board of Directors of Prospect Medical Holdings, Inc., a Delaware corporation (the "Company"), was held on September 3, 2014 at 9:00 a.m. pursuant to notice given by Ellen J. Shin, General Counsel and Secretary of the Company, and was held at the offices of the Company located at Redacted Los Angeles, California.

Members of the Board of Directors who were present were Mr. Lee, Dr. Jeereddi Prasad, John Baumer, Alyse Wagner, and Michael Solomon. Also present for the meeting were Redacted Redacted of Leonard Green & Partners, L.P. ("Leonard Green"); Steve Aleman, CFO; and Ms. Shin. Mr. Lee acted as Chairman and Ms. Shin acted as Secretary of the meeting. The Chairman called the meeting to order, announced that a quorum of the Board was present and that the Board would proceed with the transaction of business properly brought before it.

Chairman's Remarks
The Chairman opened the meeting with general remarks.

Redacted, Von Crockett, and Redacted entered the room.

Acceptance of Prior Committee Minutes
Ms. Shin asked the Board to review the prior Compensation Committee minutes, dated July 31, 2014. The Board reviewed and accepted those minutes.

Acceptance of Prior Board Minutes
Ms. Shin asked the Board to review the May 28, 2014 Board minutes. Upon motion duly made, and seconded, the Board unanimously approved the May 28, 2014 Board minutes.

Operations Review
Redacted, CEO of Prospect Medical Systems provided an operations and financial summary of the Medical Groups through July 31, 2014. With respect to the Prospect Medical Group operations, Redacted went over positive changes in year to date of EBITDA, membership, revenue, cost of revenue, and operating expenses. Redacted noted that despite Medicare Advantage cuts to the business, the Medical Group segment had continued to grow in all lines of business. Some of the successes he highlighted for the recent quarter were the positive improvements in full risk arrangements, and in RAF and HCC scores. Redacted also informed the Board that membership had increased in all areas, including 32,000 new Health Net members as a result of a new joint product with Health Net on the California Health Insurance Exchange. Redacted also stated that revenue had increased in a variety of areas, including capitation, full risk performance, Health Net Health Insurance Exchange and management services. Mr. Baumer asked how much money the Company was making on the management services organization ("MSO") line of business. Redacted responded to that question, and pointed out that the line of business was profitable and also provided a nice balance to the other revenue streams.

With all of the growth in business, Redacted stated that the cost of revenue had also increased by 12%, and that operating expenses had increased by $5 million, all of which were related to increases in staffing to handle the growth. Redacted then went over forward looking financial operations. These included opportunities and key initiatives in areas of membership, revenue, cost of revenue, and operations. Some of those highlighted areas of concentration are the dual eligible program, more products on the Health Insurance Exchange, wellness programs, new MSO client membership, care management programs, and Coordinated-Regional-Care ("CRC") execution in all states.

Dr. Prasad entered the room.

From an administration perspective, Redacted reminded the Board that the Medical Group segment planned to downsize and consolidate its operations in Ontario to Orange, California. Mr. Baumer asked about the status of the information technology system migration from EZ Cap to IDX. Redacted answered that question.

Redacted also noted some of the ongoing risks, including additional Medicare Advantage cuts, and increased competition. Redacted stated that the current climate has forced the smaller player to lose their respective health plan contracts, and risk being picked off by others in the marketplace. Finally, Redacted stated where he expected the Medical Group segment to end at September 30. Mr. Baumer asked for a comparison with last year's actual fiscal year end EBITDA number. Redacted responded to that question. Mr. Baumer asked about the Affordable Care Act tax, and whether those amounts had passed onto the Medical Group segment. Redacted stated that some of the amounts had been absorbed, but that any losses were made up in growth in business, and increase in volume.

Mr. Lee then interjected and stated that he and others would elaborate further in the CRC discussion. That discussion, among other things, would go over our: (1) traditional business (Hospital and Medical Group segments); (2) Company's continued efforts on accountable care collaboration, and (3) efforts in markets out of California – risk model, health plan model, and population management. Dr. Lee then turned the meeting over to Dr. Prasad to provide an update on Chaparral Medical Group ("CMG").

Dr. Prasad proceeded to explain that it is a constant balancing act of interests between the Medical Group, health maintenance organization, and the hospital. He also stated that certain physicians are unhappy, and that this is a concern because of potential network instability. Dr. Prasad also added that CMG's financials had been negative for several years because most of the capital had been spent on establishing a leading specialty network.

Mr. Lee then pointed out that there is a very little supply of primary care physicians. For the benefit of the Board, Mr. Lee reminded them that the recent CharterCARE transaction, including a teaching hospital in Rhode Island. Mr. Lee stated that the Company is considering whether that teaching hospital could serve as potential teaching and breeding ground for residents that could be utilized at the Company's hospitals. A discussion ensued amongst management and the Board.

[redacted] CEO of the license for Alta Los Angeles Hospitals, Inc. then reviewed with the Board the financial performance for the core Alta facilities, month and year to date of June 30, 2014. In his presentation, [redacted] also included a comparison with the prior year period. [redacted] also went through changes in volume, revenue, cost management, and EBITDA. Mr. Baumer asked whether the financial data provided included the disproportionate share ("DSH") cuts. Mr. Aleman answered that question. [redacted] then reviewed with the Board various forward financial operations, including updates in initiatives with additional Medi-Cal managed care contracts, arrangements with the Company's Medical Group, quality programs, APR-DRG reimbursement, adoption of electronic medical records, DSH reductions, transition from ICD 9 to ICD 10, sequestration, and RAC audits.

[redacted] then reviewed with the Board the financial performance for Southern California Hospital at Culver City ("Culver City") for the month and year to date of June 30, 2014. Specifically, he covered changes in volume, revenue, cost management, and EBITDA. Mr. Baumer asked about the status of the quality assurance fee at Culver City. Mr. Aleman stated that the number is slightly negative because of the number of Medi-Cal Days. [redacted] also went over the forward financial operations, and highlighted a number of operational initiatives for 2014. He noted that a few initiatives had been delayed due to licensing and regulatory approvals. Mr. Baumer asked if Culver City had obtained the new beds. [redacted] stated that the hospital had not received its new sub-acute unit beds because the State had still not conducted its survey of the unit. Mr. Baumer then asked if the various program initiatives would commence by next calendar year. [redacted] and Mr. Aleman responded in the affirmative. Mr. Aleman then reminded the Board that the unexpected DSH cuts at Culver City amounted to $8 million. A further discussion then ensued amongst Mr. Aleman and Mr. Baumer.

[redacted] then reviewed with the Board the financial performance of Newport Specialty Hospital ("Newport") and Bellflower Medical Center ("Bellflower") for the month and year to date end June 30, 2014. [redacted] reminded the Board that the acquisitions of Newport and Bellflower occurred on May 6, 2014, and that the only operational unit is the pediatric sub-acute unit at Newport. [redacted] then explained to the Board the list of initiatives over the next six months to open up Bellflower and fully open Newport. He noted, however, that regulatory hurdles could potentially delay both openings by a few months.

Mr. Crockett, Senior Vice President, Corporate Development at Company then provided a review of the financial performance of Nix Hospitals System ("Nix") for the quarter ending June 30, 2014 and the month of July 2014. Mr. Crockett stated that volume continues to be strong on all fronts, reflecting an 18% increase from the same period in the prior year. He noted that the increase was driven by the expansion of behavioral health services. Mr. Crockett also went over changes in revenue, cost management, and expected EBITDA for the fiscal year end, and taking into account any adjustment as a result of the Section 1115 uncompensated care formula. For the month of July 2014, Mr. Crockett stated that the financial performance was particularly strong. Mr. Crockett stated that the performance came in slightly less than what was expected at the beginning of the year due to a delay in the construction on the Babcock facility.

Mr. Crockett then provided an update on forward financial operations, which included an increase in the number of beds, emergency room update, new County contract, and continued operational initiatives with the behavior health program expansion.

Mr. Baumer asked a follow up question related to the financial performance of Nix. Mr. Crockett answered that question. Mr. Lee added that this number also included the burden of corporate expenses of approximately $3 million. He also stated that the performance of Community General Hospital is not currently meeting the expectation of the Company.

Mr. Crockett then gave an update on the CharterCARE transaction, which closed on June 20, 2014. Mr. Crockett stated that given the short stub period, the information being provided was mixed and in some cases difficult to decipher, but that generally volume had increased from the prior year period, but there were some losses due to changes attributed from converting to a non-profit health system to a for-profit health system. Mr. Crockett also noted that there some management changes had occurred, including the departure of the CEO and CFO, but that there are replacements in place. Mr. Solomon asked what is the expected capital expenditure expense at the health system on an annual basis. Mr. Aleman stated that under the terms of the transaction, there is no allocated set amount in a given year.

CRC

Mr. Aleman then stated that given Redacted is in Rhode Island this week; he would provide a CRC update to the Board. Redacted is out of town in RI this week. Mr. Aleman went over changes as a result of the CRC platform. These included improvements in volume, efficiency metrics, and quality metrics. Redacted provided some specific examples that the Company is implementing over at the hospital segment of the Company. Mr. Baumer asked a question as to the benefits of the CRC model. Redacted explained the interplay between better quality scores, and better negotiated rates from health plans. He noted that Anthem Blue Cross only picked high performing medical groups, and that Prospect Medical Group was one of them.

Mr. Aleman then covered a development summary by region – Los Angeles, Texas, Rhode Island, and New Jersey. Mr. Aleman then went over dual eligible enrollment trends in California over the past year. Mr. Baumer asked for further clarification about the program. Redacted provided an explanation.

Redacted, and Mr. Crockett left the room.
A break occurred at 10:29 am.
The meeting resumed at 10:35 am.

Financial Review

Mr. Aleman then went over the financial statements for the third quarter of 2014. He noted that no update had yet been provided with respect to CMS' approval of the Quality Assurance Fee program, but that it still appeared that federal approval would be received by the end of this year. He also noted that Medicare Advantage and DSH cuts amounted to approximately $13 million. Mr. Baumer asked a clarifying question related to the financial performance from last year. Mr. Aleman responded to that question.

Mr. Aleman then went over certain EBITDA expectations between now and year end, based on an assumption of QAF. A discussion ensued amongst the Board and management. Mr. Aleman then went over the Company's current cash projections. He highlighted the balance of cash available to fund remaining transactions.

Redacted entered to the room.

Corporate Development

Redacted, Vice President of Corporate Development at Company, then reviewed with the Board the potential acquisition of six not for profit hospitals, also known as Redacted - Business Sensitive Redacted - Business Sensitive Redacted went through each hospital, explained the notable assets of the system, and also presented significant challenges, including substantial pension liabilities and labor contracts. He also explained to the Board some of the growth opportunities and structure of the transaction. Mr. Baumer inquired about the competitive landscape of those interested in the transaction. A discussion ensued amongst the Board and management.

Mr. Baumer then asked about the timing of the transaction. Redacted stated that several parties were actively engaged in due diligence, but that Redacted - Business Sensitive expected a response within the next two to three weeks. Mr. Baumer pointedly stated that the timeframe was inadequate and unrealistic given the size of the transaction. Mr. Lee stated that the Company would not consider submitting a final proposal until there is clear visibility on the material items. A further discussion ensued amongst the Board and management. .

Redacted then went over the current pipeline of potential acquisition opportunities of hospitals and physician practices, locally and outside of California.

Adjournment

There being no further business to come before the meeting, the Chairman declared the meeting adjourned at 11:05 am.

_____

Sam Lee, Chairman

_____

Ellen Shin, Secretary

Prospect Medical Holdings, Inc. ("PMH")
Committee Meetings & Board Meeting

Agenda
February 25, 2011

10:30 am — Chairman's Remarks (PMH Chairman: Sam Lee)

Approval of Prior PMH Audit Committee minutes

Review and Acceptance of Prior Ivy Compensation Committee Reports

Legal Items:
- Litigation Matters (Ellen Shin)

11:00 am — Business Units Operations Review
- Hospitals
  - Alta Hospitals System [Redacted]
  - Brotman Medical Center [Redacted]
- Medical Groups
  - ProMed IPA Operations (Dr. Prasad)
  - Prospect IPA Operations; IPA Consolidated ([Redacted])

12:00 pm — Finance (PMH CFO: Mike Heather)
- Financial Statements Review
- Status of SEC Filings; Audits; Tax; SOX
- Public Filings Requirement

12:30 pm — Corporate Development/Related-Matters
- Acquisitions/External Development

1:00 pm — Adjournment
Lunch

GIBSON DUNN

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CONFIDENTIAL

January 19, 2024

VIA ELECTRONIC MAIL

The Honorable Sheldon Whitehouse, Chairman
The Honorable Charles Grassley, Ranking Member
U.S. Senate Committee on the Budget
624 Dirksen Senate Office Building
Washington, DC 20510

Re: Second Response to December 6, 2023 Letter to Leonard Green & Partners, L.P.

Dear Chairman Whitehouse and Ranking Member Grassley:

We represent Leonard Green & Partners, L.P. ("LGP" or the "Firm") and are writing in response to your letter, dated December 6, 2023 (the "Letter"), requesting the production of certain documents and information in connection with the United States Senate Committee on the Budget's (the "Committee") inquiry into private equity and health care.

We are pleased to provide you with this second response to your Letter. We hope that the Committee finds this response helpful to its review.

* * *

This letter and the accompanying documents contain some of the Firm's confidential, trade secret, and/or proprietary information. We have marked this letter and the accompanying documents "Confidential" and request that they not be disclosed beyond the Committee or made public. We have made limited redactions to certain documents to protect personally identifiable information and the confidential, business-sensitive information of third parties. We ask that you treat this letter and the documents as confidential Committee records in accordance with Standing Rule of the Senate XXIX, clause 5, afford them the maximum protection available to the Committee, and that you inform us of any proposed use by the Committee of the information contained herein or in the documents and provide LGP with an opportunity to be heard prior to any such proposed use.

The information contained in this response is based on the Firm's best efforts undertaken within the timeframe provided and based on its understanding of the terms of the Letter. The representations made in this response are based on information reasonably available to the Firm and may not reflect all existing relevant information. LGP reserves the opportunity to supplement information in this response. In providing information responsive

to the Letter, LGP does not waive any rights or legal options relating to the Committee's inquiry.

LGP does not intend to, and does not, waive any applicable privilege, protection or other legal basis under which information may not be subject to production. If it were found that the information or documents provided constitute disclosure of privileged material, such disclosure would be inadvertent. By the provision of such information, LGP does not waive and has not waived the attorney-client privilege or any other protections.

For your convenience, we have reproduced below the requests to which we are responding in this, the Firm's second response.

Request 2:

From 2015 through the date of its divestment from PMH, provide the exact dollar amount that Leonard Green invested in PMH and in each individual hospital under PMH's umbrella, whether made directly in the hospital or indirectly through PMH. Produce any documents demonstrating this relationship—including, but not limited to, contracts or written agreements, memoranda of understanding, proofs of investment, investment thesis documents describing or setting out evidence-based rationales for Leonard Green's investments in PMH, any memoranda setting out the reason for Leonard Green's acquisition of or investment in PMH, and operational or administrative procedure manuals.

Response:

The Funds contributed $24 million to Ivy Holdings, Inc., a parent company of PMH, during this period. No other contributions or investments were made by the Funds during this time. The contribution was made directly to Ivy Holdings, Inc. and not to any individual hospitals. Please find documents responsive to this Request at Bates Numbers LGP-SBC-00000001 to LGP-SBC-00000031.

Request 4:

From January 1, 2010, through Leonard Green's divestment from PMH, describe—and produce documents sufficient to demonstrate—Leonard Green's and PMH's authorities, both individually and collectively, to:

a. **Manage PMH's or an individual hospital's care delivery;**
b. **Manage PMH's or an individual hospital's billing practices;**
c. **Manage PMH's or an individual hospital's chargemaster;**
d. **Determine PMH's or an individual hospital's annual net income goals;**
e. **Determine PMH's or an individual hospital's charge per patient goals;**
f. **Determine PMH's or an individual hospital's staff-to-patient ratios;**
g. **Determine PMH's or an individual hospital's charge-to-cost ratios;**
h. **Enter into contracts for staffing at PMH's or any individual hospital; and**
i. **Enter into any contracts on behalf of PMH or any individual hospital.**

Response:

As stated in LGP's December 20, 2023 Response, as a non-manager shareholder of PMH, the Funds were not charged with, or authorized to, manage the daily operations of PMH. Documents found at Bates Numbers LGP-SBC-00000032 to LGP-SBC-00000117 further describe LGP's role, which consists mainly of advising and consulting regarding the management of PMH's operations.

Specifically, the Ivy Holdings Management Services Agreement § 4 outlines the "decisions/authority" of LGP in relation to PMH, noting that PMH "reserves the right to make all decisions with regard to any matter upon which [LGP] has rendered its advice and consultation . . . ." LGP-SBC-00000034.

Further, the Stockholders Agreement outlines the Board of Directors' role and authority in business decisions concerning PMH. Section 9.10 provides a list of actions that the Board of Directors must approve, which each require the approval of either Samuel Lee (Chairman and CEO of PMH and Management Director of the Board) or Dr. Jeereddi A. Prasad (Management Director of the Board). Effectively, this gave PMH management veto authority over Board decisions. *See* LGP-SBC-00000085 to LGP-SBC-00000087.

Section 9.10 also makes it clear that PMH was free to undertake, without Board of Director approval, many operational business decisions that were made "in the ordinary course of business consistent with past practice." *Id.*

Request 5:

What provisions related to liability for activities that occurred at PMH-operated facilities did Leonard Green include in any or all of its written agreements with PMH? Provide examples of contracts or similar documents sufficient to demonstrate all types of such provisions.

Response:

Please find at Bates Numbers LGP-SBC-00000032 to LGP-SBC-00000117 documents responsive to this Request.

Request 6:

Explain Leonard Green's role in the decision-making process for hiring executives and medical directors at PMH. If Leonard Green was not involved in executive or medical director hiring, explain both why it was not and identify the individual(s) or entities who were responsible. Produce documents sufficient to demonstrate Leonard Green's role in this decision-making process.

Response:

Neither LGP nor the Funds drove the decision-making process for hiring executives and medical directors at PMH. This role was performed by the management team of PMH. In their roles as board members, LGP directors would approve the appointment of executive officers of PMH as recommended by management. Please find responsive documents at Bates Numbers LGP-SBC-00000039 to LGP-SBC-00000117.

Request 15:

Produce all documents between and among PMH and Leonard Green regarding the 2019 sale-leaseback transaction.

Response:

Please find at Bates Numbers LGP-SBC-00000118 to LGP-SBC-00000148 documents responsive to this Request.

Request 17:

Explain why Leonard Green divested its ownership stake in PMH. Provide documents sufficient to support that explanation, including, but not limited to, financial documentation, presentations to Leonard Green's management team and/or Board of Directors, and the like.

Response:

LGP caused the Funds to enter into an agreement sell their interest in PMH in 2019 because the investment in PMH had already exceeded the Fund's targeted holding period and the Funds were nearing the expiration of their term. The Funds are required to use efforts to sell their final remaining investments once the term has expired. The closing of the sale occurred two years later, after regulatory approval was received.

Request 20:

Produce all documents between and among MPT and Leonard Green regarding the 2019 sale-leaseback transaction.

Response:

Please find at Bates Numbers LGP-SBC-00000118 to LGP-SBC-00000148 documents responsive to this Request.

* * *

Please feel free to have your staff contact me with any questions concerning this response.

Sincerely,

Redacted

Board Presentation

Prospect Medical Holdings

Summary of Proposed Transaction with:

Medical Properties Trust

June 28, 2019

PROSPECT MEDICAL HOLDINGS, INC.

Summary of Proposed Transaction

Transaction Overview

- Acquisition from and master lease to Prospect of the Prospect Properties. Properties include all hospitals (except for EOGH and Nix). PMS earnings included in consolidated numbers.
- Purchase Price of $1.55 billion on a debt-free, cash-free basis.
  - Ability to "earn" an additional $250 million based on achieving earnings milestones
  - Full performance and payment guaranty of Leases and loans provided by PMH
- CT notice period of up to 90 days (notice only), certain other consents
- Anticipated closing before October 31, 2019
- Proceeds used to extinguish term loan, FILO, and replenish working capital (see Sources & Uses table)
- ABL remains intact, intercreditor agreement in place

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Summary of Proposed Transaction

Structure

• **Traditional Sale-Leaseback**	$403
– ECHN, Springfield, Taylor, DCMH, Rockville, and Manchester	
• **Failed Sale-Leaseback**	$956
– CA (except Foothill), CCMC, and Waterbury	
• **Mortgage Financing**	$51
– Foothill	
• **Unsecured Note**	$140
– PMH, 3-years, 7.5% IO	
	$1.55bb

Foothill Situation

- $96 million valuation
- $51 million mortgage
- $45 million to be pledged as collateral to satisfy DMHC requirement

Rhode Island Situation

- No direct loan or SLB in RI
- Three-year window for resolution of minority ownership and litigation
- Move into FSLB after resolution

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Summary of Proposed Transaction

Failed Sale Leaseback

- Different from True Sale Leaseback in the following ways:
  - Benefits and burdens stay with Prospect (appreciation, depreciation)
  - Prospect has option to purchase at a fixed price at end of lease term
  - No gain on sale since this is treated as a financing transaction
  - Treatment confirmed by PWC

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Summary of Proposed Transaction

Lease Terms

- Initial amount equal to 7.50% of Purchase Price
  - Initial Rent/Interest payments of approximately $9.7 million/month, compared with current TLB debt service of approximately $8.5 to $9.0 million/month.
  - Rent contour to accommodate timing of QAF receipts. Prospect to retain all QAF receipts.
  - Annual escalators of CPI with an annual floor of 2.0% and a ceiling of 4.0%.
- Absolute net master lease with Prospect responsible for all costs of ownership, including capital expenditures structural, HVAC, foundation and other costs.
- 15-year term, with two five-year renewals, and one 57-month renewal
- At expiration of the Lease Term, Lessee will have the right to purchase the Hospitals at the greater of fair market value or MPT's total capital invested to date.

Covenants
• FCCR 1.20x • Rent Coverage 1.50x • Capex minimum of $1,000/staffed bed/year (Approx $18 mm/year) • Standard monthly, quarterly, and annual reporting

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Summary of Proposed Transaction

Use of Proceeds

Sale Leaseback / Financing Consideration	
Sources	
Transaction Consideration	$ 1,550,000,000
Total Sources	**$ 1,550,000,000**
Uses	
Repay TLB	$ 1,108,800,000
Gain on Sale Tax [(1)]	125,000,000
Trans. Fees, Deposit & Misc. [(2)]	31,795,047
Repay FILO [(3)]	40,000,000
Pension Contribution	70,000,000
Working Capital / ABL Repayment [(4)]	174,404,953
Total Uses	**$ 1,550,000,000**
Notes (as of 6/26/2019):	
1) Assumes ~$125mm NOL and DMHC TNE	
2) Assumes $10mm trans fees, $15mm deposit and $6.7mm dividend recap obligation	
3) Assumes $40mm FILO balance	
4) Assumes $194mm ABL balance	

MEDICAL PROPERTIES TRUST



MPT / Sam Lee Acquisition of Prospect Medical

Analysis

November 2018

Scenario 1 – EV Multiple Sensitivity

Scenario 1 – MPT Values Real Estate at 2.50x Coverage & 8.00% Cap Rate ($1.50BN)

($ in Millions)	Purchase Price Multiple						
	8.00x	**8.25x**	**8.50x**	**8.75x**	**9.00x**	**9.25x**	**9.50x**
Real Estate Valuation	$ 1,500.0	$ 1,500.0	$ 1,500.0	$ 1,500.0	$ 1,500.0	$ 1,500.0	$ 1,500.0
New Debt (5.0x Adjusted Leverage)	840.0	840.0	840.0	840.0	840.0	840.0	840.0
Sam Lee Rollover	540.0	630.0	704.0	740.0	776.0	812.0	848.0
Additional Equity Needed	-	-	16.0	70.0	124.0	178.0	232.0
Total Sources	**$ 2,880.0**	**$ 2,970.0**	**$ 3,060.0**	**$ 3,150.0**	**$ 3,240.0**	**$ 3,330.0**	**$ 3,420.0**
Total Enterprise Value	$ 2,880.0	$ 2,970.0	$ 3,060.0	$ 3,150.0	$ 3,240.0	$ 3,330.0	$ 3,420.0
Less: Outstanding Debt	(1,300.0)	(1,300.0)	(1,300.0)	(1,300.0)	(1,300.0)	(1,300.0)	(1,300.0)
Total Equity Value	**$ 1,580.0**	**$ 1,670.0**	**$ 1,760.0**	**$ 1,850.0**	**$ 1,940.0**	**$ 2,030.0**	**$ 2,120.0**
Equity Waterfall							
Leonard Green Proceeds - 60%	$ 948.0	$ 1,002.0	$ 1,056.0	$ 1,110.0	$ 1,164.0	$ 1,218.0	$ 1,272.0
Sam Lee Proceeds - 40%	632.0	668.0	704.0	740.0	776.0	812.0	848.0
Rollover	*540.0*	*630.0*	*704.0*	*740.0*	*776.0*	*812.0*	*848.0*
Take Home	*92.0*	*38.0*	-	-	-	-	-

Real Estate Valuation

Est. Hospital EBITDAR (~85%)	$	300.0
Coverage Multiple		2.50x
Rent Expense	$	120.0
Cap Rate		8.00%
Real Estate Valuation	**$**	**1,500.0**

Leverage Calculation

Rent Expense	$	120.0
Capitalized at		8.0x
Lease Adjusted Debt	**$**	**960.0**
Total Adjusted Leverage Multiple [1]		5.0x
Total Adjusted Leverage Available		1,800.0
Additional Debt Available	**$**	**840.0**

[1] Based on EBITDAR

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Scenario 2 – EV Multiple Sensitivity

Scenario 2 – MPT Values Real Estate at 2.25x Coverage & 7.75% Cap Rate ($1.72BN)

($ in Millions)	Purchase Price Multiple						
	8.00x	**8.25x**	**8.50x**	**8.75x**	**9.00x**	**9.25x**	**9.50x**
Real Estate Valuation	$ 1,720.4	$ 1,720.4	$ 1,720.4	$ 1,720.4	$ 1,720.4	$ 1,720.4	$ 1,720.4
New Debt (5.0x Adjusted Leverage)	733.3	733.3	733.3	733.3	733.3	733.3	733.3
Sam Lee Rollover	426.2	516.2	606.2	696.2	776.0	812.0	848.0
Additional Equity Needed	-	-	-	-	10.2	64.2	118.2
Total Sources	**$ 2,880.0**	**$ 2,970.0**	**$ 3,060.0**	**$ 3,150.0**	**$ 3,240.0**	**$ 3,330.0**	**$ 3,420.0**
Total Enterprise Value	$ 2,880.0	$ 2,970.0	$ 3,060.0	$ 3,150.0	$ 3,240.0	$ 3,330.0	$ 3,420.0
Less: Outstanding Debt	(1,300.0)	(1,300.0)	(1,300.0)	(1,300.0)	(1,300.0)	(1,300.0)	(1,300.0)
Total Equity Value	**$ 1,580.0**	**$ 1,670.0**	**$ 1,760.0**	**$ 1,850.0**	**$ 1,940.0**	**$ 2,030.0**	**$ 2,120.0**
Equity Waterfall							
Leonard Green Proceeds - 60%	$ 948.0	$ 1,002.0	$ 1,056.0	$ 1,110.0	$ 1,164.0	$ 1,218.0	$ 1,272.0
Sam Lee Proceeds - 40%	632.0	668.0	704.0	740.0	776.0	812.0	848.0
Rollover	*426.2*	*516.2*	*606.2*	*696.2*	*776.0*	*812.0*	*848.0*
Take Home	*205.8*	*151.8*	*97.8*	*43.8*	-	-	-

Real Estate Valuation

Est. Hospital EBITDAR (~85%)	$	300.0
Coverage Multiple		2.25x
Rent Expense	$	133.3
Cap Rate		7.75%
Real Estate Valuation	**$**	**1,720.4**

Leverage Calculation

Rent Expense	$	133.3
Capitalized at		8.0x
Lease Adjusted Debt	**$**	**1,066.7**
Total Adjusted Leverage Multiple [1]		5.0x
Total Adjusted Leverage Available		1,800.0
Additional Debt Available	**$**	**733.3**

[1] Based on EBITDAR

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Scenario 3 – EV Multiple Sensitivity

Scenario 2 – MPT Values Real Estate at 2.00x Coverage & 7.50% Cap Rate ($2.00BN)

($ in Millions)	Purchase Price Multiple						
	8.00x	**8.25x**	**8.50x**	**8.75x**	**9.00x**	**9.25x**	**9.50x**
Real Estate Valuation	$ 2,000.0	$ 2,000.0	$ 2,000.0	$ 2,000.0	$ 2,000.0	$ 2,000.0	$ 2,000.0
New Debt (5.0x Adjusted Leverage)	600.0	600.0	600.0	600.0	600.0	600.0	600.0
Sam Lee Rollover	280.0	370.0	460.0	550.0	640.0	730.0	820.0
Additional Equity Needed	-	-	-	-	-	-	-
Total Sources	**$ 2,880.0**	**$ 2,970.0**	**$ 3,060.0**	**$ 3,150.0**	**$ 3,240.0**	**$ 3,330.0**	**$ 3,420.0**
Total Enterprise Value	$ 2,880.0	$ 2,970.0	$ 3,060.0	$ 3,150.0	$ 3,240.0	$ 3,330.0	$ 3,420.0
Less: Outstanding Debt	(1,300.0)	(1,300.0)	(1,300.0)	(1,300.0)	(1,300.0)	(1,300.0)	(1,300.0)
Total Equity Value	**$ 1,580.0**	**$ 1,670.0**	**$ 1,760.0**	**$ 1,850.0**	**$ 1,940.0**	**$ 2,030.0**	**$ 2,120.0**
Equity Waterfall							
Leonard Green Proceeds - 60%	$ 948.0	$ 1,002.0	$ 1,056.0	$ 1,110.0	$ 1,164.0	$ 1,218.0	$ 1,272.0
Sam Lee Proceeds - 40%	632.0	668.0	704.0	740.0	776.0	812.0	848.0
Rollover	*280.0*	*370.0*	*460.0*	*550.0*	*640.0*	*730.0*	*820.0*
Take Home	*352.0*	*298.0*	*244.0*	*190.0*	*136.0*	*82.0*	*28.0*

Real Estate Valuation

Est. Hospital EBITDAR (~85%)	$	300.0
Coverage Multiple		2.00x
Rent Expense	$	150.0
Cap Rate		7.50%
Real Estate Valuation	**$**	**2,000.0**

Leverage Calculation

Rent Expense	$	150.0
Capitalized at		8.0x
Lease Adjusted Debt	**$**	**1,200.0**
Total Adjusted Leverage Multiple [(1)]		5.0x
Total Adjusted Leverage Available		1,800.0
Additional Debt Available	**$**	**600.0**

[(1)] Based on EBITDAR

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Illustrative Buyout Structure of MPT / Sam Lee Partnership

Commentary

- As shown below, based on high level assumptions around leverage and valuation, ***MPT supporting a Sam Lee in a buyout of Prospect is likely structurally achievable***
  - **Assumes Enterprise Value of $2,880MM**, based on $360MM of EBITDAR and 8.0x valuation multiple
  - Illustrative **Real Estate Valuation of $2,000MM** is derived by applying a 2.0x Rent Coverage Multiple (assuming $300MM of hospital EBITDAR) and a 7.5% Cap Rate
- With an initial real estate valuation of $2,000MM and 5.0x total leverage (excluding the $175MM pension liability), a total equity check of $280MM could be achieved via Sam Lee's rollover equity and a minority investment by MPT
  - At 8.0x EV / EBITDA, Sam Lee's rollover equity is ~$280MM (assuming 40% ownership, which several sources have corroborated)

Capital Structure Overview

	Existing Capital Structure		Pro Forma Capital Structure	
($ in Millions)	$'s	Leverage [1]	$'s	Leverage [2]
Cash & Equivalents	$ -		$ -	
Existing Debt				
Senior Debt	$ 1,300.0	3.6x	$ -	-
Pension Obligations	175.0	4.1x	175.0	0.5x
New Debt				
New LBO Debt	$ -	4.1x	$ 600.0	2.2x
MPT Sale Leaseback [3]	-	4.1x	1,200.0	5.5x
Total Debt	$ 1,475.0	4.1x	$ 1,975.0	5.5x
Equity Value @ 8.0x	1,405.0		905.0	
Total Capitalization	$ 2,880.0		$ 2,880.0	

[1] Based on Assumed 2018E EBITDAR of ---------- $ 360.0

[2] Based on Assumed 2018E EBITDAR of ---------- $ 360.0

[3] Lease debt assumes rent is capitalized at 8.0x

Sources

($ in Millions)	$'s	%
Sam Lee Equity	$ 280.0	9.7%
MPT Equity / Equity Shortfall	-	***0.0%***
Additional Debt [1]	600.0	20.8%
MPT Sale Leaseback	***2,000.0***	***69.4%***
Total	**$ 2,880.0**	**100.0%**

Uses

($ in Millions)	$'s	%
LGP Equity (60%)	$ 948.0	32.9%
Sam Equity Rollover	280.0	9.7%
Sam Equity Cash Out	352.0	12.2%
Outstanding Debt	1,300.0	45.1%
Transaction Expenses	TBD	-
Total	**$ 2,880.0**	**100.0%**

[1] Assumes $150MM of Rent is capitalized at 8.0x and total adjusted leverage is 5.0x EBITDAR; excludes $175MM rollover pension liability from max leverage calculation

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Prospect Medical Real Estate Valuation Estimate

Commentary

- MPT Acquisitions attained the information used in the valuation herein from conversations with Leonard Green and Redacted
  - Leonard Green quoted **total consolidated EBITDAR of ~$360MM** *(Credit Suisse estimates Hospital Services contribution to be ~85%)*
  - Redacted who was involved in the 2016 sale process (which was pulled due to ongoing Prospect acquisitions) relayed that Redacted were the two final bidders, **each with a valuation in the high 7x's**
- Based on this information, the tables below sensitize enterprise value and real estate valuation based on (1) a midpoint EV / EBITDAR multiple of 8.0x and (2) midpoint real estate valuation at an 7.5% cap rate and 2.00x coverage

Illustrative Real Estate Valuation

($ in Millions)		
Total Prospect EBITDAR [1]	$	360.0
Purchase Multiple [2]		8.0x
Total Enterprise Value	**$**	**2,880.0**
Est. Hospital EBITDAR (~85%)	$	300.0
Coverage Multiple		2.0x
Rent Expense	$	150.0
Cap Rate		7.5%
Real Estate Valuation	**$**	**2,000.0**

[1] Per Leonard Green estimate

Total Enterprise Value

($ in Millions)

EBITDA Multiple & Valuation						
7.0x	7.5x	8.0x	8.5x	9.0x	9.5x	10.0x
$2,520	$2,700	$2,880	$3,060	$3,240	$3,420	$3,600

Real Estate Valuation Sensitivity

($ in Millions)

Cap Rate	Implied Rent to MPT				
	$200	$171	***$150***	$133	$120
	Hospital EBITDAR Coverage				
	1.50x	1.75x	***2.00x***	2.25x	2.50x
6.50%	$3,077	$2,637	***$2,308***	$2,051	$1,846
7.00%	$2,857	$2,449	***$2,143***	$1,905	$1,714
7.50%	***$2,667***	***$2,286***	***$2,000***	***$1,778***	***$1,600***
8.00%	$2,500	$2,143	***$1,875***	$1,667	$1,500
8.50%	$2,353	$2,017	***$1,765***	$1,569	$1,412

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AT THE VERY **HEART** OF HEALTHCARE

MEDICAL PROPERTIES TRUST



Prospect Medical

Profile

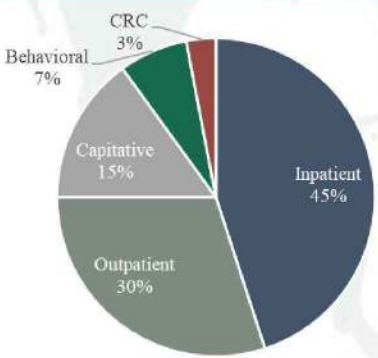
July 2018

Prospect Medical (Owned by Leonard Green & Partners)

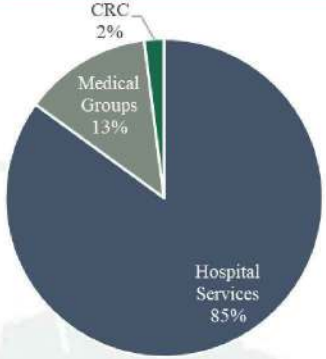
Prospect Highlights

- Prospect, headquartered in Los Angeles, CA, operates 20 hospitals in six states (CA, TX, PA, NJ, CT, and RI)
  - **Acquired by Leonard Green in 2011 for $363MM (6.4x EBITDA); several bankers have communicated their expectation for this to be marketed in Q4 2018**
  - Real estate remains 100% owned
  - IPAs of over 1,000 affiliated physicians
  - 180 outpatient facilities
  - ~750 employed physicians
  - ~450,000 members managed
- **Attractive financial profile:**

~$3BN Revenue



~$360MM EBITDA (1)



- Experienced management team
  - Samuel ("Sam") Lee – CEO & Chairman
  - Steve Aleman - CFO

(1) *Per Leonard Green Partner during June meeting with MPT Acquisitions*

Geographic Overview



- 7 hospitals and 5 clinics
- 15 IPAs
- ~275k members capitated



- 3 hospitals and 12 clinics
- 1 IPA



- 2 hospitals and 35 clinics
- 1 IPA
- ~50k members capitated



- 1 hospital and 5 clinics
- 1 IPA
- ~10k members capitated



- 3 hospitals and 51 clinics
- 2 IPAs
- ~50k members capitated



- 4 hospitals and 72 clinics
- 1 IPA
- ~60k members capitated

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Prospect Medical Valuation Overview

Commentary

- MPT Acquisitions attained the information used in the valuation herein from conversations with Leonard Green and Redacted
  - Leonard Green quoted **total consolidated EBITDAR of ~$360MM**
  - Redacted who was involved in the 2016 sale process (which was pulled due to ongoing Prospect acquisitions) relayed that Redacted were the two final bidders, **each with a valuation in the high 7x's**
- Based on this information, the tables below sensitize enterprise value and real estate valuation based on (1) a midpoint EV / EBITDAR multiple of 8.0x and (2) midpoint real estate valuation at an 8.0% cap rate and 2.50x coverage

Potential Real Estate Valuation Summary

($ in Millions)		
Total Prospect EBITDAR [1]	$	360.0
Purchase Multiple [2]		8.0x
Total Enterprise Value	**$**	**2,880.0**
Est. Hospital EBITDAR (~85%)	$	300.0
Coverage Multiple		2.5x
Rent Expense	$	120.0
Cap Rate		8.0%
Real Estate Valuation	**$**	**1,500.0**

[1] Per Leonard Green Partner during June meeting with MPT Acquisitions

[2] Redacted conveyed that the 2016 sale process garnered interest in the "high 7x range"

Total Enterprise Value

($ in Millions)

EBITDA Multiple & Valuation						
7.0x	7.5x	**8.0x**	8.5x	9.0x	9.5x	10.0x
$2,520	$2,700	**$2,880**	$3,060	$3,240	$3,420	$3,600

Based on a midpoint enterprise value of $2.9BN, MPT's preliminary real estate valuation of $1.5BN (and up to $2.0BN+) could provide in excess of 50% of the total enterprise valuation, leaving $900MM - $1.4BN to be accounted for by the sponsor, management rollover equity, and 3rd party leverage

Potential Total Real Estate Value

($ in Millions)

		Implied Rent to MPT				
		$150	$133	***$120***	$109	$100
		Hospital EBITDAR Coverage				
		2.00x	2.25x	***2.50x***	2.75x	3.00x
Cap Rate	7.00%	$2,143	$1,905	***$1,714***	$1,558	$1,429
	7.50%	$2,000	$1,778	***$1,600***	$1,455	$1,333
	8.00%	***$1,875***	***$1,667***	***$1,500***	***$1,364***	***$1,250***
	8.50%	$1,765	$1,569	***$1,412***	$1,283	$1,176
	9.00%	$1,667	$1,481	***$1,333***	$1,212	$1,111

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Prospect Medical Management Bios

Sam Lee Bio



Samuel Lee ("Sam")
Chairman & CEO

- Joined Prospect in 2008 as CEO (Age 50)
  - 2002-2007 – co-founder & CEO of Alta Hospitals System (merged with Prospect in 2007)
  - Previously General Partner of Kline Hawkes & Co., a $500MM private equity firm
  - Previously founded SFS, Inc., a software and services company focused in the healthcare financial sector
- BS in Industrial & Systems Engineering from Georgia Tech; MBA from Harvard Business School
- Serves on BoD and of Search123.com, Inc., and previously served as Director of Realm Connect Corporation
- Member of Young Presidents Organization of LA

Redacted

Steve Adelman Bio

Steve Adelman
CFO

- Joined Prospect in 2009
- No biography (or LinkedIn page) available online

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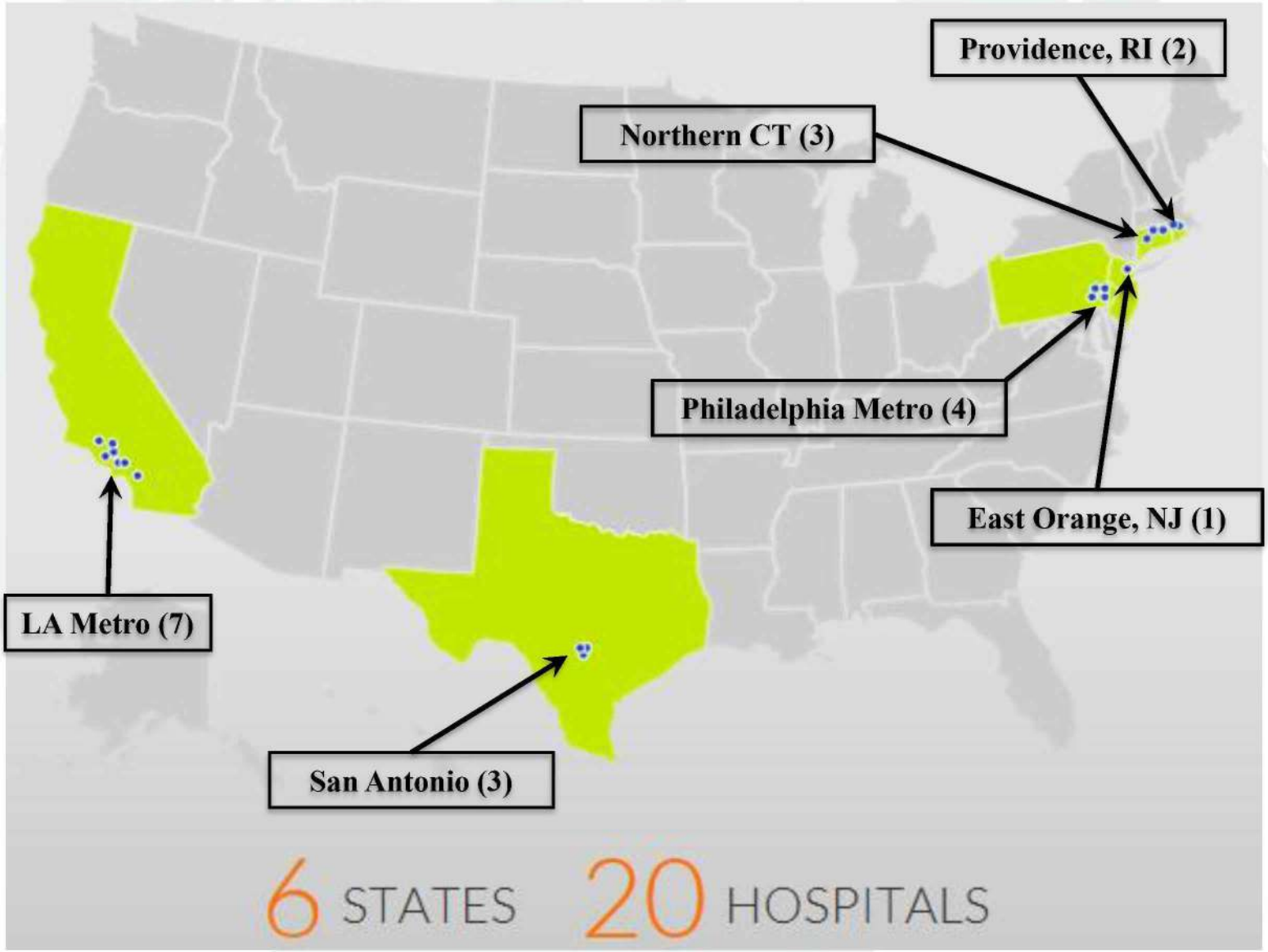
Prospect Geographical Footprint



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Prospect Facility Overview

#	Property	City	State	Facility Type	# of Beds
1	Southern California Hospital at Van Nuys	Van Nuys	California	Behavioral	57
2	Southern California Hospital at Hollywood	Los Angeles	California	Acute Care	100
3	Los Angeles Community Hospital	Los Angeles	California	Acute Care	130
4	Southern California Hospital at Culver City	Culver City	California	Acute Care	420
5	Los Angeles Community Hospital at Bellflower	Bellflower	California	Behavioral	32
6	Los Angeles Community Hospital at Norwalk	Norwalk	California	Acute Care	50
7	Foothill Regional Medical Center	Tustin	California	Acute Care	177
8	Nix Behavioral Health Center	San Antonio	Texas	Behavioral	n/a
9	Nix Medical Center	San Antonio	Texas	Acute Care	252
10	Nix Specialty Health Center	San Antonio	Texas	Behavioral	n/a
11	Springfield Hospital	Springfield	Pennsylvania	Acute Care	25
12	Crozer-Chester Medical Center	Chester	Pennsylvania	Acute Care (Teaching)	300
13	Taylor Hospital	Ridley Park	Pennsylvania	Acute Care	105
14	Delaware County Memorial Hospital	Drexel Hill	Pennsylvania	Acute Care	168
15	East Orange General Hospital	East Orange	New Jersey	Acute Care	196
16	Waterbury Hospital	Waterbury	Connecticut	Acute Care	246
17	Rockville General Hospital	Vernon	Connecticut	Acute Care	232
18	Manchester Memorial Hospital	Manchester	Connecticut	Acute Care	171
19	Our Lady of Fatima Hospital	North Providence	Rhode Island	Acute Care	229
20	CharterCARE Health Partners at Roger Williams	Providence	Rhode Island	Acute Care	160

Prospect has over 3,700 licensed beds and a network of >165 primary and specialty clinics to support the hospitals. Hospitals maintain leading market positions in the communities they serve

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AT THE VERY **HEART** OF HEALTHCARE

MEDICAL PROPERTIES TRUST



Prospect Medical Holdings, Inc.
April 2019

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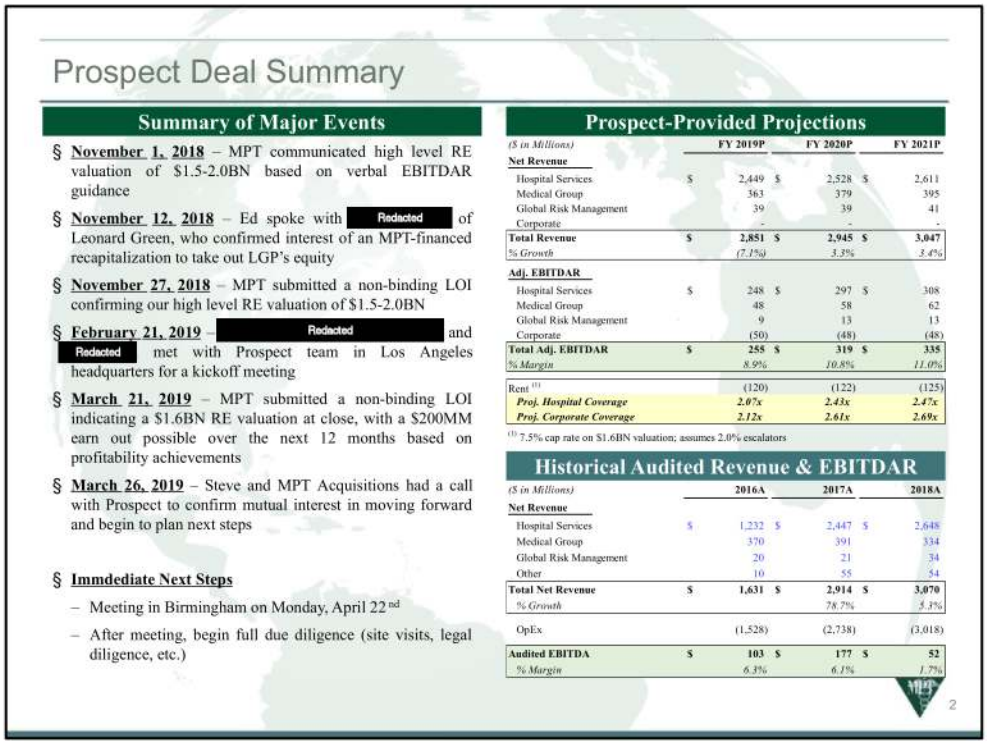
1

-Do we want a new picture?



Prospect Deal Summary

Summary of Major Events

§ **November 1, 2018** – MPT communicated high level RE valuation of $1.5-2.0BN based on verbal EBITDAR guidance

§ **November 12, 2018** – Ed spoke with [Redacted] of Leonard Green, who confirmed interest of an MPT-financed recapitalization to take out LGP's equity

§ **November 27, 2018** – MPT submitted a non-binding LOI confirming our high level RE valuation of $1.5-2.0BN

§ **February 21, 2019** – [Redacted] and [Redacted] met with Prospect team in Los Angeles headquarters for a kickoff meeting

§ **March 21, 2019** – MPT submitted a non-binding LOI indicating a $1.6BN RE valuation at close, with a $200MM earn out possible over the next 12 months based on profitability achievements

§ **March 26, 2019** – Steve and MPT Acquisitions had a call with Prospect to confirm mutual interest in moving forward and begin to plan next steps

§ **Immdediate Next Steps**

- Meeting in Birmingham on Monday, April 22nd
- After meeting, begin full due diligence (site visits, legal diligence, etc.)

Prospect-Provided Projections

($ in Millions)	FY 2019P	FY 2020P	FY 2021P
Net Revenue			
Hospital Services	$ 2,449	$ 2,528	$ 2,611
Medical Group	363	379	395
Global Risk Management	39	39	41
Corporate	-	-	-
Total Revenue	**$ 2,851**	**$ 2,945**	**$ 3,047**
% Growth	*(7.1%)*	*3.3%*	*3.4%*
Adj. EBITDAR			
Hospital Services	$ 248	$ 297	$ 308
Medical Group	48	58	62
Global Risk Management	9	13	13
Corporate	(50)	(48)	(48)
Total Adj. EBITDAR	**$ 255**	**$ 319**	**$ 335**
% Margin	*8.9%*	*10.8%*	*11.0%*
Rent [1]	(120)	(122)	(125)
Proj. Hospital Coverage	***2.07x***	***2.43x***	***2.47x***
Proj. Corporate Coverage	***2.12x***	***2.61x***	***2.69x***

[1] 7.5% cap rate on $1.6BN valuation; assumes 2.0% escalators

Historical Audited Revenue & EBITDAR

($ in Millions)	2016A	2017A	2018A
Net Revenue			
Hospital Services	$ 1,232	$ 2,447	$ 2,648
Medical Group	370	391	334
Global Risk Management	20	21	34
Other	10	55	54
Total Net Revenue	**$ 1,631**	**$ 2,914**	**$ 3,070**
% Growth		*78.7%*	*5.3%*
OpEx	(1,528)	(2,738)	(3,018)
Audited EBITDA	**$ 103**	**$ 177**	**$ 52**
% Margin	*6.3%*	*6.1%*	*1.7%*

2

- **Plan B:** Lease/sell to Mercy Health
  - **Pro:** Mercy is a major operator in OH and KY markets
  - **Con:** Lengthy decision-making process as Mercy is a large non-profit system

- **Plan C:** Lease/Sell Northside/Trumbull/Hillside package to LifePoint
  - **Pro:** Market size aligns with LifePoint business model
  - **Con:** LifePoint does not currently have a geographic footprint in the area

- **Plan D:** Lease/Sell to University of Pittsburgh Medical Center ("UPMC")
  - **Pro:** Serve as a feeder hospital to large Pittsburgh based system
  - **Con:** Lengthy decision-making process as UPMC is a large non-profit system

- **Plan E:** Lease/Sell to Prime Healthcare
  - **Pro:** Further expand presence within Ohio/Pennsylvania market

- **Con:** Ongoing Prime liquidity/DOJ challenges/ Prime not currently pursuing acquisitions

From: MPT employee /O=EXCHANGELABS/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN=9F72250D4BF94E16A280804A68B2E465- Redacted
Sent: 5/20/2019 3:52:00 PM
To: Redacted @prospectmedical.com]; Redacted @Prospectmedical.com]
CC: Prospect [Redacted @medicalpropertiestrust.com]; Redacted @medicalpropertiestrust.com]; Redacted Redacted @medicalpropertiestrust.com]; Redacted @medicalpropertiestrust.com]
Subject: Prospect Financial Model - Questions.docx
Attachments: Prospect Financial Model - Questions.docx

Redacted ,

Our team is working through the financial model in order to provide our Execs an update by EOD today. During our review, we had a number of questions we would like to run through this afternoon to help clarify some of the projections.

Attached are the questions. Please let us know when you have availability this afternoon.

Best regards,

Redacted | Senior Analyst, Asset Management and Underwriting
Medical Properties Trust, Inc.
Redacted
Direct: Redacted | Main: Redacted | Fax: Redacted
www.medicalpropertiestrust.com | NYSE: MPW

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From: Lee, Sam [Redacted m]
Sent: 7/20/2018 12:37:00 PM
To: Steve Hamner [Redacted medicalpropertiestrust.com]
CC: [Redacted @medicalpropertiestrust.com]; [Redacted @prospectmedical.com]
Subject: Re: Catch up with MPT

Great. See you then.
Sam.

Samuel S. Lee
Chief Executive Officer
Prospect Medical Holdings, Inc.
www.pmh.com
www.prospectmedicalholdings.com
[Redacted] phone
[Redacted] fax
[Redacted] n

On Jul 20, 2018, at 8:41 AM, Steve Hamner <[Redacted] n> wrote:

Let's plan to meet in your office at 2:00 pm next Thursday.

R. Steven Hamner | Executive Vice President & CFO
Medical Properties Trust, Inc.
[Redacted]
Tel: [Redacted] | Cell: [Redacted] | Fax: [Redacted]
www.medicalpropertiestrust.com | NYSE: MPW

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From: Lee, Sam [Redacted]
Sent: Thursday, July 19, 2018 6:50 PM
To: Steve Hamner <[Redacted]
Cc: [Redacted @medicalpropertiestrust.com>; [Redacted @prospectmedical.com>
Subject: Re: Catch up with MPT

Anytime after 1pm works for me. Let us know what is best for you.

[Redacted]: please send Steve our address.

See you next week!

Samuel S. Lee
Chief Executive Officer
Prospect Medical Holdings, Inc.
www.pmh.com
www.prospectmedicalholdings.com
[Redacted] phone

[redacted] fax
[redacted]

On Jul 19, 2018, at 10:56 AM, Steve Hamner <[redacted]> wrote:

Sam, either Thursday afternoon or Friday morning would work well for me. Please let me know the best time for you and I will arrange my schedule accordingly. What is your office address?

R. Steven Hamner | Executive Vice President & CFO
Medical Properties Trust, Inc.
[redacted]
Tel: [redacted] | Cell: [redacted] | Fax: [redacted]
www.medicalpropertiestrust.com | NYSE: MPW

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-----Original Message-----
From: Lee, Sam [redacted]
Sent: Thursday, July 19, 2018 12:23 PM
To: Steve Hamner <[redacted]>
Subject: RE: Catch up with MPT

Hi Steve.
Great to hear from you... Thanks for reaching out!

I will be on the east coast next week -- I will be available in LA next Thu afternoon or Friday. How long are you in LA? (If we miss, it would be great if you could meet with my senior execs, e.g. my CFO...)

Best Regards, Sam

Samuel S. Lee
Chief Executive Officer
Prospect Medical Holdings, Inc.
www.pmh.com
www.prospectmedicalholdings.com
[redacted] phone
[redacted] fax
[redacted]

From: Steve Hamner [redacted]
Sent: Thursday, July 19, 2018 6:46 AM
To: [redacted]
Subject: Catch up with MPT

Sam, we met several years ago. You may be aware that MPT has provided real estate financing to help hospital management teams maximize ownership in their operating companies when their private equity sponsors consider exits/IPOs....we have done this with Ernest, Capella/RCCH, Steward and others.

I would appreciate the opportunity to visit you in your office to describe how we have done this. It is our understanding that Prospect may consider strategic transactions in the near term. A real estate transaction may significantly increase your post-deal control and ownership.

I expect to be in LA next week and will be happy to arrange my schedule to meet at your convenience. Please let me know if we can get together.

R. Steven Hamner | Executive Vice President & CFO Medical Properties Trust, Inc.
Redacted
Tel: Redacted <tel: Redacted > | Cell: Redacted <tel Redacted | Fax: Redacted <tel Redacted > www.medicalpropertiestrust.com<http://www.medicalpropertiestrust.com/> | NYSE: MPW

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From: Steve Aleman [redacted]
Sent: 11/8/2018 12:30:18 PM
To: Steve Hamner [redacted]
Subject: RE: Prospect Medical Holdings
Attachments: PMH - Template NDA (REIT) (11-7-18).docx

Steve,

As referenced yesterday, please see attached draft NDA for your review. Please let me know if it is acceptable or what edits may be required.

Thank You

Steve Aleman
Chief Financial Officer
[redacted]
Los Angeles, CA 90034
Office: [redacted] */ Cell:* [redacted]

From: Steve Hamner <[redacted]>
Sent: Wednesday, November 7, 2018 12:54 PM
To: Steve Aleman <[redacted]>
Subject: Re: Prospect Medical Holdings

Can I call you at 1:30 your time?

R. Steven Hamner | Executive Vice President & CFO
Medical Properties Trust, Inc.
[redacted]
Tel: [redacted] | Cell: [redacted] Fax: [redacted]
www.medicalpropertiestrust.com | NYSE: MPW

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On Nov 7, 2018, at 11:22 AM, Steve Aleman <[redacted]> wrote:

Steve,

Let me know if you may have availability to catch-up today or if later in the week is best for you.

I am preparing for an upcoming BOD meeting and would like to touch base with you regarding introduction and possible transaction scenarios.

Thank You

Steve Aleman
Chief Financial Officer
Redacted
Los Angeles, CA 90034
Office: Redacted *Cell:* Redacted

From: Steve Hamner <Redacted>
Sent: Tuesday, November 6, 2018 2:28 PM
To: Steve Aleman <Redacted>
Subject: Re: Prospect Medical Holdings

Hello, Steve. I am in the air but will touch base with you tomorrow.

R. Steven Hamner | Executive Vice President & CFO
Medical Properties Trust, Inc.
Redacted
Tel: Redacted | Cell: Redacted Fax: Redacted
www.medicalpropertiestrust.com | NYSE: MPW

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On Nov 6, 2018, at 3:33 PM, Steve Aleman <Redacted> wrote:

Steven,

I am following up with you related to a meeting you had a few weeks ago with Sam Lee.

As Sam referenced, we are currently evaluating a number of transaction scenarios for Prospect and would like to get a better understanding on how Medical Properties Trust may factor into those scenarios.

Please let me know your availability for a call and I will make it work on my end.

Thank You

Steve Aleman
Chief Financial Officer
Redacted
Los Angeles, CA 90034
Office: Redacted / *Cell:* Redacted

From: Lee, Sam <[Redacted]n>
Sent: Tuesday, November 6, 2018 8:14 AM
To: Steve Aleman <[Redacted]n>
Subject:

R. Steven Hamner | Executive Vice President & CFO
Medical Properties Trust, Inc.
[Redacted]
Tel: [Redacted] | Cell: [Redacted] | Fax: [Redacted]
www.medicalpropertiestrust.com | NYSE: MPW

Samuel S. Lee
Chief Executive Officer
Prospect Medical Holdings, Inc.
www.pmh.com
www.prospectmedicalholdings.com
[Redacted]phone
[Redacted] fax
[Redacted]m

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From: MPT employee [/O=EXCHANGELABS/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN=5EFAE452EE824E7584BF79323F8DC0CB-Redacted]
Sent: 11/9/2018 1:26:54 PM
To: Steve.Aleman[Redacted]
CC: Steve Hamner [Redacted]
Subject: Prospect / MPT Confidentiality Agreement
Attachments: Copier_20181109_142059.pdf

Mr. Aleman,

Attached you will find the confidentiality agreement which has been signed on behalf of Steve Hamner.

Please let us know if you have any comments.

Thanks,

Redacted

Redacted | Executive Assistant
Medical Properties Trust, Inc.
Redacted
Direct: Redacted | Tel: Redacted | Cell: Redacted Fax: Redacted
www.medicalpropertiestrust.com | NYSE: MPW

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From: Steve Hamner [/O=EXCHANGELABS/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN=DD1229FB94254E30B183650A012D361E-STEVE HAMNE]
Sent: 11/27/2018 4:26:44 PM
To: [redacted]@leonardgreen.com; Steve Aleman [redacted]
CC: Edward K. Aldag, Jr. [redacted]m]; [redacted]@medicalpropertiestrust.com]
Subject: MPT Letter of Interest
Attachments: Executed Prospect LOI 11-27.pdf

[redacted] and Steve, thank you for your patience. Attached is a letter expressing our strong interest in a transaction with Prospect Medical under the general framework of an acquisition from and leaseback to Prospect of certain or all of your real estate interests. We will make ourselves available to you at your convenience to convene by phone or in person to answer your questions and discuss next steps. Please feel free to contact me at any time to schedule such a meeting.

Regards, steve

R. Steven Hamner | Executive Vice President & CFO
Medical Properties Trust, Inc.
[redacted]
Tel: [redacted] | Cell: [redacted] | Fax: [redacted]
www.medicalpropertiestrust.com | NYSE: MPW

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Medical Properties Trust

November 27, 2018

Redacted
Partner
Leonard Green & Partners, LP
Redacted
Los Angeles, CA 90025

Mr. Steve Aleman
Chief Financial Officer
Redacted
Los Angeles, CA 90034

Via email: Redacted
Redacted

Dear Redacted and Aleman:

We are pleased to provide this response as a follow up to our recent conversations with regard to a possible sale/leaseback transaction between Medical Properties Trust, Inc. or one or more of its affiliates (collectively, "MPT"), and Prospect Medical Holdings, Inc. ("Prospect"). We are excited about the opportunity and look forward to developing a long-term strategic relationship with Prospect, its senior leadership team, and Leonard Green & Partners, LP ("Leonard Green", together with Prospect, the "Parties").

We understand that as a preliminary step to MPT presenting a detailed proposed term sheet, you have certain questions about our process that we answer below. We suggest that you consider our responses in light of the high level value indication that we orally provided to you earlier this month around a range of $1.5 billion to $2.0 billion on a cash and debt free asset acquisition basis, subject to diligence.

Will MPT Consider a Lease Payment Structure that Contemplates the Sometimes Unpredictable Timing of Prospect's Receipt of "Provider Tax" and Other Supplemental Reimbursement?

Yes. We are very familiar with the arrangements in certain states that in at least one instance in our history has led to our tenant being paid in State IOUs. Moreover, we believe that even if these types of programs are significantly altered from their current structures, State and federal governments and society as a whole will not leave the patients for whom these reimbursements are made with no provision for hospital care.

Medical Properties Trust, Inc.
Redacted
Redacted Redacted Fax Redacted www.medicalpropertiestrust.com

Accordingly, we are willing to structure a master lease to take into account the uncertainty of this reimbursement timing.

What will be MPT's Diligence Process to Assess Supplemental Reimbursement Sustainability?

To the extent that we are not already knowledgeable about the State (and other) programs that reimburse Prospect, we will promptly gain an understanding of how each such program is governed, funded and otherwise managed. Importantly, we will discuss with Prospect management how it makes investment and operating decisions subject to these systems.

How Will Such a Possible Payment Structure Impact MPT's Assessment of Valuation?

Subject of course to our diligence, we believe it unlikely that we will determine that hospitals that heavily rely on these payments will suffer material revenue loss in the foreseeable future. Again, these programs reimburse providers for individuals who might otherwise be turned away from hospital care, and we do not believe our society will allow that to happen – this belief is a bedrock principle of our investing philosophy.

Accordingly, unless our underlying assumptions about these reimbursement programs are proved unreliable, and if we confirm our belief that Prospect has the specialized knowledge and experience to continue to operate profitably in this environment, we believe the potential for variability in the timing of reimbursement will have limited, if any, effect on our assessment of real estate value.

What are the Other Major Components of Our Diligence Process?

As the global leaders in hospital real estate finance, our underwriting team does not need to be educated about the business of operating hospitals. The majority of our diligence will be completed utilizing in-house resources and our outside counsel, Baker Donelson, who has advised us on almost every U.S. hospital acquisition we have completed. Our diligence requirements will generally consist of the following:

- Meeting with Prospect's senior management team in California; our people will be well prepared to discuss Prospect's strategies, operations and future plans and forecasts.
- Site visits to major facilities, including tours and access to local hospital management and physicians.
- In-depth review of individual facility and parent level historical and projected financials (along with review of KPIs, volume trends, etc.).
- Analysis of future capex requirements.
- Individual market reviews, including local competition and bed need analyses.
- Technical real estate due diligence (property condition reports, phase 1 environmental, title and survey).
- Legal review of material contracts.
- Other confirmatory real estate and legal items.

What are MPT's Timing Expectations?

The majority of our team comes from a healthcare operating background, which makes us much more efficient than less-experienced purchasers when it comes to hospital due diligence and underwriting. This translates to a shorter due diligence timeframe, a faster and more certain closing, and fewer distractions for management. We have unmatched expertise regarding the economic, tax, legal, governance and regulatory challenges that may affect the execution of a large hospital real estate transaction. We have closed similarly sized portfolio transactions in the recent past with comprehensive diligence processes in less than 45 days. We foresee no impediment to achieving the same outcome with Prospect.

Based on more than 15 years experience in underwriting and closing more than 300 hospital transactions, we believe that absent unforeseen and unusual circumstances, we would meet the following timetable even allowing for interruption during the year-end holidays.

1. Completion of diligence of Provider Tax and Supplemental Payment programs and affirmative confirmation to Prospect of any impact on MPT's valuation or willingness to complete the transaction....15 days from Prospect's instruction to commence.

2. Site visits, facility and parent financial review and market reviews....45 days from Prospect's instruction to commence and provision of materials; can be performed concurrently with item 1 above.

3. Technical real estate reviews....as soon as possible after ordering from consultants. MPT will accept updated reports if reasonably recent prior reports are available from Prospect. Estimate 30 days from Prospect's instruction to commence and provision of materials; can be performed concurrently with items 1 and 2 above.

4. Legal review and other....30 days from Prospect's instruction to commence and provision of materials; can be performed concurrently with items 1, 2 and 3 above.

5. Completion of fully negotiated definitive documentation (primarily Purchase and Sale Agreement, Master Lease Agreement, and other related transaction documents)....45 days from Prospect's instruction to commence; can be performed concurrently with all other diligence processes.

At present, MPT has more than $2.0 billion in immediately available liquidity, a $750 million "at the market" equity offering in place and a substantial history of being able to access capital markets for multiple $1.0 billion-plus transactions. **There will be no financing condition or contingency related to any offer that MPT makes.**

Additional Considerations

Acquisition Liquidity: We anticipate that Prospect's plan is to continue growing, through both acquisition and development and expansion. MPT will help facilitate that in two ways:

- We underwrite and price based on facility level EBITDAR potential. In other words, what a competent operator should be able to generate at each facility without regard to other corporate activities. Accordingly, we do not constrain the parent operator by liming the amount of parent level debt, nor do we attempt to place other growth restraints on the operator. We want our tenants to grow, and we hope to grow with them.

- We will firmly commit to fund a significant amount of de novo developments and acquisitions that meet broad, general criteria – the same type of criteria that we expect management and ownership will impose on their own investment decisions. Prospect will have 100% certainty of acquisition and development funding at predetermined pricing in order to move quickly when opportunities arise.

Change of Control: We appreciate and understand the characteristics of investor owned businesses; that they cannot be "handcuffed" with restrictive change of control provisions. There would be no limitation on a public equity offering. A sale to another hospital operator would not be of concern to MPT. The sale of assets not within our lease would not be prohibited, assuming the corporate credit profile is not severely impaired. Finally, a sale to another private equity investor (or similar type investor) would not create a problem. MPT would be committed to working with the Parties to address any potential change of control issues.

Corporate Level Leverage: Additionally, we recognize that leverage is often a component and key value driver of sponsor-backed businesses. Accordingly, we understand that lenders will need certainty as to their rights to collateral, including receivables, equipment, intangibles and cure rights. We have never been unable to satisfy even the most demanding of leveraged lenders who provide financing to our sponsor-backed lessees. These include virtually all the major Wall Street banks and private equity firms such as Apollo, Cerberus, OneEquity and others.

MPT is more than a transient capital provider because we consider an initial investment as the beginning of a long-term relationship with our hospital operators. We are a financing source that has significantly more flexibility than most sources of capital. We can tailor a solution to fit the particular needs of a client. Please do not hesitate to contact me with any questions. We would be happy to come to Los Angeles at your convenience to discuss the transaction in more detail. We look forward to working with you and helping Prospect fulfill its growth plans.

Regards,

R. Steven Hamner
Executive Vice President and CFO

From: Steve Hamner [/O=EXCHANGELABS/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN=DD1229FB94254E30B183650A012D361E-STEVE HAMNE]
Sent: 5/30/2019 11:30:54 AM
To: [redacted]@prospectmedical.com]; [redacted]
[redacted]@prospectmedical.com]
CC: Lee, Sam [redacted], Edward K. Aldag, Jr. [redacted]]
Subject: MPT Real Estate Acquisition

George and [redacted], we have analyzed your EBITDAR projections and have estimated your next 12 months EBITDAR to approximate up to $270,000,000 - [redacted] of MPT has discussed this with you. This is compared to the $300,000,000 estimate that our $1.6 billion Letter of Intent was based on. Accordingly, we are prepared to complete the transaction based on the following revised proposal:

1. We will not reduce the total potential proceeds of $1.8 billion we proposed in the LOI;

2. The initial closing proceeds will be $1.5 billion instead of the $1.6 billion that was based on the $300,000,000 of estimated Forward 12 Month EBITDAR; this will also reduce Prospect's initial rent from $120 million to $112.5 million and MPT's coverage level from 2.5 to 2.4 times EBITDAR

3. If Prospect's sustainable EBITDAR for the 12 months following closing equals $300,000,000, MPT will advance an additional purchase price of $100,000,000; if Prospect's sustainable EBITDAR for the 12th through the 24th months after closing equals at least $350,000,000, MPT will advance additional purchase price of up to $300,000,000 (such that aggregate purchase price equals $1.8 billion). During completion of definitive documentation, we will negotiate interim mileposts such that MPT will pay purchase price in excess of $1.6 billion in relation to increases in EBITDAR up to $350,000,000.

If this is acceptable to you, we are prepared to immediately complete all remaining diligence and documentation such that we can close by June 30. It is my understanding that (a) Prospect does not desire an equity investment by MPT, and (b) Prospect is refining its tax modeling to consider how best to allocate the real estate proceeds to mortgages based on recent discussions with MPT.

Please feel free to call me with any questions.

R. Steven Hamner | Executive Vice President & CFO
Medical Properties Trust, Inc.
[redacted]
Tel: [redacted] | Cell: [redacted] | Fax: [redacted]
www.medicalpropertiestrust.com | NYSE: MPW

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From: [redacted]@prospectmedical.com]
Sent: 6/18/2019 10:00:46 AM
To: Steve Hamner [redacted]
CC: George Pillari [redacted]
Subject: RE: Friday call
Attachments: image001.wmz; oledata.mso

Hi Steve,

Please see enclosed proposed 60% sale-leaseback ($930M) / 40% mortgage ($620M) structure allocation:

Sale-leaseback split:

Legal Entity	Jurisdiction	City	Proceeds
Prospect CCMC	Pennsylvania	Delaware County	$323,296,811
Prospect Crozer, LLC	Pennsylvania	Delaware County	$ 12,398,376
Prospect DCMH	Pennsylvania	Delaware County	$ 90,025,530
Prospect CT Medical Foundation	Connecticut	Manchester	$ 1,957,477
Prospect Haynes Street Property Management	Connecticut	Manchester	$ 1,224,600
Prospect Manchester Hospital	Connecticut	Manchester	$233,022,617
Prospect Rockville Hospital	Connecticut	Vernon	$152,501,825
Prospect Waterbury	Connecticut	Waterbury	$115,572,765
TOTAL			**$930,000,000**

Separately, is there an update on the intercreditor agreement? It seems to be languishing in Baker's court. Thank you.

Best,
[redacted]

From: Steve Hamner <[redacted]>
Sent: Monday, June 17, 2019 8:52 AM
To: [redacted]@prospectmedical.com>
Cc: George Pillari <[redacted]>; [redacted]@medicalpropertiestrust.com>
Subject: RE: Friday call

[redacted] I apologize but I need to push this back to tomorrow. In the interim, can you send me your proposed allocation between lease and mortgage structure?

R. Steven Hamner | Executive Vice President & CFO
Medical Properties Trust, Inc.
[redacted]
Tel: [redacted] | Cell: [redacted] | Fax: [redacted]
www.medicalpropertiestrust.com | NYSE: MPW

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From: [redacted]@prospectmedical.com>
Sent: Monday, June 17, 2019 10:49 AM
To: Steve Hamner <[redacted]>
Cc: George Pillari <[redacted]>; [redacted]@medicalpropertiestrust.com>
Subject: RE: Friday call

Hi Steve,

Hope all is well.
Following up to see if this morning at 9am (PT) is still convenient for you.

Best,
[redacted]

From: Steve Hamner <[redacted]>
Sent: Friday, June 14, 2019 7:53 AM
To: [redacted]@prospectmedical.com>
Cc: George Pillari <[redacted]>; [redacted]@medicalpropertiestrust.com>
Subject: RE: Friday call

Noon your time (2:00 pm Central) works for me. I will have a dial-in circulated

R. Steven Hamner | Executive Vice President & CFO
Medical Properties Trust, Inc.
1000 Urban Center Drive ¦ Suite 501 ¦ Birmingham, AL 35242
Tel: [redacted] | Cell: [redacted] | Fax: [redacted]
www.medicalpropertiestrust.com | NYSE: MPW

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From: [redacted]@prospectmedical.com>
Sent: Thursday, June 13, 2019 7:10 PM
To: Steve Hamner <[redacted]>
Cc: George Pillari <[redacted]>
Subject: Friday call

Hi Steve,

Hope all is well.
Please let us know your availability for a call tomorrow.
We are available from 12-1pm and any time after 2pm (PT) per your convenience. Thank you.

Best,

[redacted]
[redacted]

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Consolidated Financial Statements and Supplementary Information

As of and for the Years Ended
September 30, 2022 and 2021

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.



Prospect Medical Holdings, Inc.

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Tel: Redacted
Fax: Redacted
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Redacted
Costa Mesa, CA 92626

Independent Auditor's Report

Board of Directors
Prospect Medical Holdings, Inc.
Los Angeles, California

Opinion

We have audited the consolidated financial statements of Prospect Medical Holdings, Inc. and its subsidiaries (the Company), which comprise the consolidated balance sheets as of September 30, 2021 and 2020, and the related consolidated statements of operations and comprehensive loss, changes in stockholders' deficit, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

BDO USA, LLP

May 25, 2023

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Prospect Medical Holdings, Inc.

Consolidated Balance Sheets
(in thousands, except par value and share amounts)

September 30,	**2022**	2021
Assets		
Current assets		
Cash and cash equivalents	**$ 56,084**	$ 58,993
Restricted cash	**35,743**	47,063
Restricted investments	**33,298**	34,283
Patient accounts receivable, net	**264,274**	254,908
Due from government payers	**21,797**	17,297
Other receivables, prepaid expenses and other current assets	**167,088**	144,947
Inventories	**9,822**	7,233
Hospital fee program receivable	**180,228**	178,042
Current assets held for sale	**115,614**	127,609
Total current assets	**883,948**	870,375
Property, improvements and equipment, net	**163,831**	175,666
Goodwill, net	**113,352**	129,515
Intangible assets, net	**2,351**	3,355
Other assets	**53,973**	60,659
Long term assets held for sale	**607,159**	575,597
Total assets	**$ 1,824,614**	$ 1,815,167

See accompanying notes to the consolidated financial statements.

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Prospect Medical Holdings, Inc.

Consolidated Balance Sheets
(in thousands, except par value and share amounts)

September 30,	2022	2021
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accrued medical claims and other healthcare costs payable	$ 120,218	$ 93,619
Accounts payable and other accrued liabilities	386,508	311,038
Accrued salaries, wages and benefits	136,831	149,966
Hospital fee program liability	96,813	71,197
Due to government payers	45,385	16,359
Refund liability, current portion	23,638	206,397
Revolving line of credit, net	196,300	45,000
Debt, current portion	4,082	14,667
MPT liabilities, current portion	81,976	50,978
Other current liabilities	12,819	9,074
Current liabilities held for sale	125,742	152,182
Total current liabilities	1,230,312	1,120,477
Debt, net of current portion	296,814	158,942
Malpractice reserves	132,257	121,691
Refund liability, net of current portion	45,231	-
Pension obligations	235,184	284,674
MPT liabilities, net of current portion	1,184,347	1,240,348
Other long-term liabilities	60,215	62,231
Long term liabilities held for sale	98,395	101,194
Total liabilities	3,282,755	3,089,557
Commitments, contingencies (Note 11) and subsequent events (Note 13)		
Stockholders' deficit:		
Common stock, $0.01 par value; 100 shares authorized, issued and outstanding	1	1
Additional paid-in capital	57,675	57,765
Accumulated other comprehensive loss	(14,087)	(63,848)
Accumulated deficit	(1,505,641)	(1,272,303)
Total stockholders' deficit attributable to Prospect Medical Holdings, Inc.	(1,462,052)	(1,278,385)
Non-controlling interests	3,911	3,995
Total stockholders' deficit	(1,458,141)	(1,274,390)
Total liabilities and stockholders' deficit	$ 1,824,614	$ 1,815,167

See accompanying notes to the consolidated financial statements.

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Prospect Medical Holdings, Inc.

Consolidated Statements of Operations
(in thousands)

For the Years Ended September 30,	**2022**	2021
Revenues:		
Net Hospital Services revenues	$ **819,954**	$ 736,217
Medical Group revenues	**528,387**	471,296
Global Risk Management revenues	**191,925**	100,154
Corporate revenues	**4,655**	3,171
Total net revenues	**1,544,921**	1,310,838
Operating Expenses:		
Hospital operating expenses	**674,535**	577,159
Medical Group cost of revenues	**380,751**	344,275
Global Risk Management cost of revenues	**155,457**	67,297
General and administrative	**292,037**	270,081
Depreciation and amortization	**18,505**	22,050
Goodwill amortization	**16,163**	16,163
Total operating expenses	**1,537,448**	1,297,025
Operating (loss) income from unconsolidated joint ventures	**(71)**	20
Operating income	**7,402**	13,833
Other expense:		
Interest expense and amortization of deferred financing costs, net	**35,723**	38,472
Net period benefit cost	**12,973**	12,217
Other expense (income), net	**2,771**	(2,172)
Total other expense, net	**51,467**	48,517
loss before income taxes	**(44,065)**	(34,684)
Income tax benefit	**(2,671)**	(2,265)
Loss from continuing operations	**(41,394)**	(32,419)
Loss from discontinued operations, net of income taxes	**(190,907)**	(116,703)
Net loss	**(232,301)**	(149,122)
Net income (loss) attributable to non-controlling interests	**928**	(5,777)
Net loss attributable to Prospect Medical Holdings, Inc.	$ **(233,229)**	$ (143,345)

See accompanying notes to the consolidated financial statements.

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Prospect Medical Holdings, Inc.

Consolidated Statements of Comprehensive Loss
(in thousands)

For the Years Ended September 30,	**2022**	2021
Net loss attributable to Prospect Medical Holdings, Inc.	**$ (233,229)**	$ (143,345)
Other comprehensive income (expense), net of tax:		
Pension obligation and other post-retirement benefits adjustment, net - discontinued operations	**59,324**	(48,498)
Debt and equity securities, unrealized (loss) gain	**(9,672)**	264
Total other comprehensive income (loss), net of tax	**49,652**	(48,234)
Total comprehensive loss	**$ (183,577)**	$ (191,579)

See accompanying notes to the consolidated financial statements.

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Prospect Medical Holdings, Inc.

Consolidated Statements of Stockholders' Deficit
(in thousands, except share amounts)

	Number of Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Prospect Medical Holdings, Inc. Stockholders' Deficit	Non-controlling Interests	Total Stockholders' Deficit
Balance at September 30, 2020	100	$ 1	$ 64,961	$ (15,614)	$ (1,116,992)	$ (1,067,644)	$ 8,029	$ (1,059,615)
Non-controlling interest attributed to minority shareholders	-	-	-	-	-	-	(453)	(453)
Net loss	-	-	-	-	(143,345)	(143,345)	(5,777)	(149,122)
Other comprehensive loss, net of tax	-	-	-	(48,234)	-	(48,234)	-	(48,234)
Distribution to Ivy Holdings, Inc. (see Note 10)	-	-	-	-	(11,966)	(11,966)	-	(11,966)
Purchase of non-controlling interest (see Note 3)	-	-	(7,196)	-	-	(7,196)	2,196	(5,000)
Balance at September 30, 2021	100	$ 1	57,765	(63,848)	(1,272,303)	(1,278,385)	3,995	(1,274,390)
Non-controlling interest attributed to minority shareholders	-	-	-	-	-	-	(1,012)	(1,012)
Net loss	-	-	-	-	(233,229)	(233,229)	928	(232,301)
Other comprehensive income, net of tax	-	-	-	49,652	-	49,652	-	49,652
PMG Share repurchase	-	-	(90)	-	-	(90)	-	(90)
CHIC reclassification	-	-	-	109	(109)	-	-	-
Balance at September 30, 2022	100	$ 1	$ 57,675	$ (14,087)	$ (1,505,641)	$ (1,462,052)	$ 3,911	$ (1,458,141)

See accompanying notes to the consolidated financial statements.

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Prospect Medical Holdings, Inc.

Consolidated Statements of Cash Flows
(in thousands)

For the Years Ended September 30,	2022	2021
Cash flows from operating activities		
Net loss	$ (232,301)	$ (149,122)
Less: Loss from discontinued operations	(190,907)	(116,703)
Net loss from continuing operations	(41,394)	(32,419)
Adjustments to reconcile net loss to net cash and cash equivalents used in operating activities:		
Depreciation and amortization	34,668	38,213
Amortization of deferred financing costs, net	2,086	1,970
Pension obligation net periodic benefit cost	11,994	13,028
Excess contribution to pension plan	(3,433)	(8,399)
Undistributed earnings from unconsolidated joint ventures	71	(20)
Loss on disposal of assets	-	605
Changes in operating assets and liabilities:		
Patient accounts receivable	(9,366)	(972)
Due to/from government payers, net	(113,002)	(56,732)
Other receivables, prepaid expenses and other current assets	(17,814)	(55,286)
Hospital fee program receivable	(2,186)	11,899
Hospital fee program liability	25,616	537
Inventories	(2,589)	(208)
Income taxes payable/receivable, net	7,643	(4,381)
Other assets	4,900	(5,395)
Accrued medical claims and other healthcare costs payable	26,599	17,162
Accounts payable, other accrued liabilities and other long term liabilities	119,005	(33,521)
Net cash and cash equivalents provided by operating activities - continuing operations	42,798	(113,919)
Net cash and cash equivalents used in by operating activities - discontinued operations	(188,683)	(58,293)
Net cash and cash equivalents used in operating activities	(145,885)	(172,212)
Cash flows from investing activities		
Purchases of property, improvements and equipment	(3,357)	(9,925)
Distributions received from equity and cost method investments	-	17,000
Cash paid for acquisition of noncontrolling interest and equity method investment	(90)	(5,053)
Increase in investments	(8,687)	(2,666)
Net cash and cash equivalents used in by investing activities - continuing operations	(12,134)	(644)
Net cash and cash equivalents used in by investing activities - discontinued operations	(33,829)	(44,853)
Net cash and cash equivalents used in investing activities	(45,963)	(45,497)

(Continued on next page)

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Prospect Medical Holdings, Inc.

Consolidated Statements of Cash Flows (Continued)
(in thousands)

For the Years Ended September 30,	2022	2021
Cash flows from financing activities		
Borrowings on line of credit	**207,000**	45,000
Repayments on line of credit	**(55,700)**	-
Proceeds of debt	**101,295**	-
Repayments of debt	**(17,945)**	(17,357)
Repayment of financing leases	**-**	(1,934)
Repayments of capital leases	**(1,556)**	(1,554)
Cash paid for deferred financing costs	**(371)**	(4,736)
Repayments of insurance premium financing	**(12,750)**	(10,781)
Dividend paid to stockholder	**-**	(11,650)
Borrowings of MPT liability transactions	**3,750**	-
Repayment of MPT liability transactions	**(29,801)**	(47,785)
Net cash and cash equivalents provided by (used in) financing activities - continuing operations	**193,922**	(50,797)
Net cash and cash equivalents used in by financing activities - discontinued operations	**(16,303)**	(14,162)
Net cash and cash equivalents provided by (used in) financing activities	**177,619**	(64,959)
Net decrease in cash, cash equivalents and restricted cash	**(14,229)**	(282,666)
Cash, cash equivalents and restricted cash, beginning of year	**106,056**	388,722
Cash, cash equivalents and restricted cash, end of year	**$ 91,827**	$ 106,056
Supplemental disclosure of cash flow information		
Interest paid	**$ 76,683**	$ 66,130
Income taxes received	**$ 1,267**	519
Schedule of non-cash investing and financing activities		
Equipment acquired under capital leases	**$ 3,782**	$ 1,734
Insurance premium financed	**$ 11,970**	$ 11,560
Accrual of dividends	**$ -**	$ 316
Equipment acquired under PACE financing	**$ 8,751**	$ 9,005
Accrual of property, improvements and equipment	**$ 1,622**	$ 6,227
Accounts payable converted to Cerner promissory note	**$ $44,410**	$ -

See accompanying notes to the consolidated financial statements.

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1. Significant Accounting Policies

Description of Business

Prospect Medical Holdings, Inc. ("Prospect" or the "Company" or the "Parent Entity") is a Delaware corporation and a wholly owned indirect subsidiary of Ivy Holdings Inc. ("Ivy Holdings") and its new parent company, Chamber Inc. ("Chamber"). In June 2021, Green Equity Investments V, LP, Green Equity Investments Side V, LP and other shareholders sold their shares of Ivy Holdings. As a result of the sale, the Company became indirectly wholly-owned by two shareholders that were previously the two largest individual shareholders in Ivy Holdings.

Our business consists of four primary reportable segments: Hospital Services, Medical Group, Global Risk Management and Corporate. Our Hospital Services segment is comprised of 16 acute care and behavioral hospitals in Southern California, Rhode Island, Pennsylvania and Connecticut with approximately 3,000 licensed beds, and a network of specialty and primary care clinics. Our Medical Group segment is a healthcare management services organization that provides management services to affiliated physician organizations that operate as independent physician associations ("Medical Groups" or "IPAs"). Our Global Risk Management ("GRM") segment exists in pursuit of Prospect's coordinated regional care ("CRC") operating model and risk management platform. During the first quarter of 2022, following a strategic review of the company's growth strategies and structure, our management approved a plan to sell the hospital operations, Rhode Island, Pennsylvania and Connecticut. See Note 4 – "*Discontinued Operations*" for further information.

Basis of Presentation

Our Consolidated Financial Statements include the accounts of Prospect and its wholly owned and majority-owned subsidiaries. We eliminate intercompany accounts and transactions in consolidation and we include the results of operations of businesses that are newly acquired in purchase transactions from their dates of acquisition. We account for significant investments in other affiliated companies using the equity method. We also utilize the equity method when we have the ability to exercise significant influence over the affiliated company, despite not holding a significant percentage of its ownership interest. The Company has a variable interest in various entities under the Medical Group segment due to the existence of two call options, under which the Company has the ability to require the holders of all of the voting common stock of the underlying subsidiaries to sell their shares at a fixed nominal price to another designated physician chosen by the Company. This call option agreement represents rights provided through a variable interest other than the equity interest itself that limits the returns that could be earned by the equity holders. In addition, the Company has management agreements with the physician organizations under the Medical Group segment which allows the Company to direct the activities of such physician organizations that most significantly impact their economic performance, retain the right to receive expected residual returns and assume the obligation to absorb losses. Accordingly, the Company is considered to be the primary beneficiary and these entities are consolidated within the accompanying consolidated financial statements. Operating results for acquisitions are consolidated with the Company's consolidated financial statements from their acquisition dates. All significant intercompany balances and transactions have been eliminated in consolidation. Unless otherwise indicated, all financial and statistical data included in these notes to our Consolidated Financial Statements relate to our continuing operations.

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The consolidation of these entities does not change any legal ownership, and does not change the assets or the liabilities and equity of the Parent Entity as a stand-alone entity. These entities had total revenues of approximately $423.3 million and $391.7 million and total net income of approximately $33.2 million and $39.8 million for the years ended September 30, 2022 and 2021, respectively. The assets and liabilities of the variable interest entities are as follows (in thousands):

September 30,	**2022**	2021
Assets		
Total current assets	$ **209,298**	$ 155,767
Total non-current assets	**92,154**	110,050
Total assets	$ **301,452**	$ 265,817
Liabilities		
Total current liabilities	$ **76,192**	$ 69,258
Total long-term liabilities	**720**	730
Total liabilities	$ **76,912**	$ 69,988

Noncontrolling Interests in Consolidated Entities

The consolidated financial statements include all assets, liabilities, revenues and expenses of less than 100% owned entities that we control. For certain less than 100% owned entities, non-controlling interest is shown as a component of stockholders' equity on the consolidated balance sheets and the share of income (loss) attributable to non-controlling interest is shown as a component of income (loss) in the consolidated statements of operations.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation. These reclassifications did not affect net loss, revenues and stockholders' equity. See Note 4 – "*Discontinued Operations*" for further information.

COVID-19 Pandemic

In response to the COVID-19 pandemic, federal, state and local authorities have taken several administrative actions intended to assist healthcare providers in providing care during the outbreak of the novel coronavirus ("COVID-19") public health emergency. Sources of relief include the Coronavirus Aid, Relief and Economic Security Act, the Paycheck Protection Program and Health Care Enhancement Act (the "PPPHCE Act"), the Continuing Appropriations Act, 2021 and Other Extensions Act, and the Consolidated Appropriations Act, 2021 (collectively, (the "COVID Acts"). With the COVID Acts, the federal government authorized funding to be distributed through the Public Health and

Social Services Emergency Fund ("Provider Relief Fund" or "PRF"). U.S. Department of Health and Human Services ("HHS") will recoup PRF grant funds not utilized by the established deadlines. The COVID Acts also revised the Medicare accelerated payment program in an attempt to disburse payments to hospitals and other care providers more quickly and permitted employers to defer payment of the 6.2% employer Social Security tax beginning March 27, 2020 through December 31, 2020.

PRF Fund— As a condition to receiving distributions, providers must agree to certain terms and conditions, including, among other things, that the funds are being used for lost revenues and unreimbursed COVID-related costs as defined by HHS, and that the providers will not seek collection of out-of-pocket payments from a COVID-19 patient that are greater than what the patient would have otherwise been required to pay if the care had been provided by an in-network provider. All recipients of PRF payments are required to comply with the reporting requirements described in the terms and conditions and as determined by the Secretary of the U.S. Department of Health and Human Services ("HHS"). In June 2021, HHS established new deadlines for when recipients of PRF grants must use the funding received, generally 12 to 18 months after receipt of the grant funds. HHS will recoup PRF grant funds not utilized by the established deadlines.

During the years ended September 30, 2022 and 2021, we, including our discontinued operations, received approximately $20.8 million and $11.9 million, respectively, from the PRF. At September 30, 2022 and 2021, we had unrecognized funds balances of $0 and $0, respectively.

Medicare Accelerated Payment Program— In certain circumstances, when a hospital is experiencing financial difficulty due to delays in receiving payment for the Medicare services it provided, it may be eligible for an accelerated or advance payment pursuant to the Medicare accelerated payment program. The COVID Acts revised the Medicare accelerated payment program to disburse payments to healthcare providers more quickly. Recipients may retain the accelerated payments for one year from the date of receipt before recoupment commences, which is effectuated by a 25% offset of claims payments for 11 months, followed by a 50% offset for the succeeding six months. At the end of the 29-month period, interest on the unrecouped balance will be assessed at 4.00% per annum. The initial 11-month recoupment period began in April 2021.

The Company, including discontinued operations, received advance payments from the Medicare accelerated payment program during 2020. As of September 30, 2021, the Company had received Medicare accelerated and advance payments of approximately $276 million, of which approximately $49 million had been recouped through a reduction of those affiliates' Medicare claims payments during year ended September 30, 2021. During the year ended September 30, 2022, approximately $158 million was recouped through a reduction of our Medicare claims payments and no additional advances were received. We have the option to submit a Request for Extended Repayment Schedule ("ERS") Form and ERS can be requested with a minimum of 6 months to the maximum of 60 months.

Liquidity

The Company had a net working capital deficit of approximately $346.4 million as of September 30, 2022 compared to net working capital deficit of approximately $250.1 million as of September 30, 2021, respectively. Additionally, the Company had a net loss of approximately $233.2 million for the year ended September 30, 2022 compared to net loss of approximately $143.3 million for the year ended September 30, 2021. As of September 30, 2022, the Company has a stockholders' deficit of approximately $1,458.1 million compared to stockholders' deficit of approximately $1,274.4 million as of September 30, 2021. Cash and cash equivalents used in operations declined from cash used in operating activities of approximately $172.2 million during the year ended September 30, 2021 to

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cash used in operating activities of approximately $145.9 million during the year ended September 30, 2022. Total change in cash, cash equivalents and restricted cash decreased year on year from a decrease of approximately $282.7 million for the year ended September 30, 2021 to a decline of approximately $14.2 million for the year ended September 30, 2022.

Total debt (including MPT liabilities) increased to approximately $1,763.5 million at September 30, 2022 compared to approximately $1,509.9 million at September 30, 2021, and the balance outstanding on the Company's revolving line of credit increased from $45.0 million at September 30, 2021 to $196.3 million at September 30, 2022. Cash and cash equivalents declined from approximately $59.0 million at September 30, 2021 to approximately $56.1 million at September 30, 2022. See Note 8 – "*Debt*" for further information.

The Company has undertaken a number of actions, including approximately $1.2 billion restructuring of debt and new term loans with Medical Properties Trust, Inc. ("MPT"), Centerbridge Credit CS, L.P. and Blue Torch Capital LP (see Note 13 - "*Subsequent Events*"), and the planned divestiture of the hospital operations at Rhode Island, Pennsylvania, and Connecticut. The Company has executed APAs for both Connecticut and Rhode Island and continues to solicit sale proposals for Pennsylvania (see Note 4 - *"Discontinued Operations"*). The Company also has various initiatives in place to generate positive cash flows from operations. From a revenue generating perspective, these include a focus on improving charge capture, improving the success rate on denials, and increasing reimbursements through rate negotiations with managed care payors, as well as improving volumes. From a cost cutting perspective, the initiatives include improvements to labor productivity and the reduction in overtime and use of registry, driven by the use of an internal registry, as well as better controls on supply and pharmacy contracts. Further, there are initiatives to focus on improving both productivity and volumes from the Company's physician groups. The Company believes that it will have sufficient cash flows from operations and available borrowing facilities to provide sufficient capital resources to sustain operations, investing activities and financing for at least the next twelve months from the date these consolidated financial statements were available to be issued.

Revenues

On October 1, 2020, the Company adopted the new revenue recognition standard, Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)", using a modified retrospective method of application to all contracts existing on October 1, 2020. The core principle of the guidance in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. For the Hospital Segment, the adoption of ASU 2014-09 resulted in changes to the presentation and disclosure of revenue primarily related to uninsured or underinsured patients. Prior to the adoption of ASU 2014-09, a significant portion of the provision for doubtful accounts related to self-pay patients, as well as co-pays, co-insurance amounts and deductibles owed by patients with insurance. Under ASU 2014-09, the estimated uncollectable amounts due from these patients are generally considered implicit price concessions that are a direct reduction to net operating revenues, with a corresponding reduction in the amounts presented as provision for doubtful accounts.

The Company recognizes net operating revenues in the period in which performance obligations under contracts by transferring our services to customers are satisfied. Net operating revenues are recognized in the amounts to which the Company expects to be entitled, which are the transaction prices allocated to the distinct services.

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Revenues by reportable segment are comprised of the following amounts (in thousands):

For the Years Ended September 30,	**2022**	2021
Net Hospital Services		
Inpatient	**$ 544,580**	$ 545,307
Outpatient	**42,397**	40,321
Capitation	**229,278**	154,511
Other	**3,699**	(3,922)
Total Hospital Services revenues	**819,954**	736,217
Medical Group		
Capitation	**454,221**	397,670
Management fees	**13,438**	16,393
Other	**60,728**	57,233
Total Medical Group revenues	**528,387**	471,296
Global Risk Management		
Capitation	**167,418**	73,151
Other	**24,507**	27,003
Total Global Risk Management revenues	**191,925**	100,154
Corporate revenues	**4,655**	3,171
Total net revenues	**$ 1,544,921**	$ 1,310,838

Hospital Services operating revenues— We report Fee-For-Service ("FFS") net patient service revenues at the amounts that reflect the consideration we expect to be entitled to in exchange for providing patient care. These amounts are due from patients, third-party payers (including managed care payers and government programs) and others, and they include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, the Company bills patients and third-party payers several days after the services are performed or shortly after discharge. Revenues are recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided and revenues are recognized when performance obligations satisfied over time based on actual charges incurred in relation to total expected charges. This method provides a faithful depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations. Generally, performance obligations satisfied over time relate to patients in the Company's hospitals receiving inpatient acute care services. The Company measures the performance obligation from admission into the hospital, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Patient encounters and related episodes of care and procedures qualify as distinct goods and services, provided simultaneously together with other readily available resources, in a single instance of service, and thereby constitute a single performance obligation for each patient encounter and, in most instances, occur at readily determinable transaction prices. All services provided are expected to result in cash flows and are therefore reflected as net revenue in the consolidated financial statements.

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The transaction price is determined based on gross charges for services provided, reduced by contractual adjustments provided to third-party payers, discounts provided to uninsured patients, and implicit price concessions provided primarily to uninsured patients. The estimates of contractual adjustments and discounts are based on contractual agreements, discount policies and historical cash collection experience. As a practical expedient, the Company adopted a portfolio approach for the FFS revenue stream to group together contracts with similar characteristics and analyze historical cash collections trends. The contracts within the portfolio share the characteristics conducive to ensuring that the results do not materially differ under the new standard if it were to be applied to individual patient contracts related to each patient encounter.

Gross charges are retail charges. They are not the same as actual pricing, and they generally do not reflect what a hospital is ultimately paid and, therefore, are not displayed in our consolidated statements of operations. Hospitals are typically paid amounts that are negotiated with insurance companies or are set by the government. Gross charges are used to calculate Medicare outlier payments and to determine certain elements of payment under managed care contracts (such as stop-loss payments). Because Medicare requires that a hospital's gross charges be the same for all patients (regardless of payer category), gross charges are what hospitals charge all patients prior to the application of discounts and allowances.

The Company is responsible for confirming member eligibility, performing program utilization review, potentially directing payment to the provider and accepting the financial risk of loss associated with services rendered, as specified within the Company's patient contracts. The Company has the ability to adjust contractual fees with patients and possess the financial risk of loss in certain contractual obligations. These factors indicate the Company is the principal and, as such, the Company records gross fees contracted with patient in revenues.

Revenues under the traditional FFS service Medicare and Medicaid programs are based primarily on prospective payment systems. Retrospectively determined cost-based revenues under these programs, which were more prevalent in earlier periods, and certain other payments, such as disproportionate share hospital and bad debt expense reimbursement, which are based on our hospitals' cost reports, are estimated using historical trends and current factors. Cost report settlements under these programs are subject to audit by Medicare and Medicaid auditors and administrative and judicial review, and it can take several years until final settlement of such matters is determined and completely resolved. The Company records accruals to reflect the expected final settlements on cost reports. For filed cost reports, the accrual is recorded based on those cost reports and subsequent activity. The accrual for periods for which a cost report is yet to be filed is recorded based on estimates of what the Company expects to report on the filed cost reports. After the cost report is filed, the accrual may need to be adjusted and these accrual are adjusted in future periods as they become known.

Hospital Services operating revenues primarily consist of net patient service revenues, principally for patients covered by Medicare, Medicaid, managed care and other health plans, as well as certain uninsured patients and other uninsured discount and charity programs. Additionally, Hospital Services operating revenues include revenues from capitation arrangements that are made directly made with various managed care providers.

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The following is a summary of sources of patient service revenues in the Hospital Segment (in thousands):

Years Ended September 30,	2022	2021
Medicare	$ 156,873	$ 164,240
Medi-Cal	380,548	377,937
Managed Care/Commercial	38,288	35,090
Self-Pay/Other	11,268	8,361
Capitation	229,278	154,511
Other	3,699	(3,922)
Total patient service revenue	$ 819,954	$ 736,217

Patients who are covered by third-party payers are responsible for related co-pays, co-insurance and deductibles, which vary in amount. The Company estimates the transaction price for patients with co-pays, co-insurance and deductibles and for those who are uninsured based on historical collection experience and current market conditions. The discount offered to certain uninsured patients is recognized as a contractual allowance, which reduces net operating revenues at the time the self-pay accounts are recorded. The uninsured patient accounts, net of contractual allowances recorded, are further reduced to their net realizable value at the time they are recorded through implicit price concessions based on historical collection trends for self-pay accounts and other factors that affect the estimation process. Although outcomes vary, the Company's policy is to attempt to collect amounts due from patients, including co-pays, co-insurance and deductibles due from patients with insurance, at the time of service while complying with all federal and state statutes and regulations. All of the Company's hospital facilities are subject to Emergency Medical Treatment and Active Labor Act ("EMTALA"). This federal law and accompanying regulations require any hospital that participates in the Medicare program to conduct an appropriate medical screening examination of every person who comes to the hospital's emergency department for treatment and, if the patient is suffering from an emergency medical condition, to either stabilize that condition or make an appropriate transfer of the patient to a facility that can treat the condition. The obligation to screen and stabilize emergency medical conditions exists regardless of a patient's ability to pay for treatment. There are severe penalties under EMTALA for violations of the law and regulations, including if a hospital fails to screen or appropriately stabilize or transfer a patient or if the hospital delays appropriate treatment in order to first inquire about the patient's ability to pay. Penalties for violations of EMTALA include civil monetary penalties and exclusion from participation in the Medicare program.

The Company provides charity care to patients who lack financial resources and are deemed to be medically indigent based on criteria established under the Company's charity care policy. This care is provided without charge or at amounts less than the Company's established rates. Because the Company does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as net operating revenues. Direct and indirect costs for providing charity care are estimated by calculating a ratio of cost to gross charges and then multiplying that ratio by the gross uncompensated charges associated with providing care to charity patients.

The various states in which the Company operates have additional programs in which certain of the Company's facilities participate in, related to medical facilities serving a disproportionate number of low-income patients. The Company recognizes revenues related to supplemental Medicaid payments under using the most likely outcome method, and the estimates also consider whether it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

The Company recognizes revenues related to supplemental Medi-Cal payments under California provider fee programs using the most likely outcome method, which is based on formulas contained in the legislation as well as modeling performed by the California Hospital Association ("CHA"). The estimates also consider whether it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. These programs are funded by quality assurance fees paid by participating hospitals and matching federal funds.

The Company recognized supplemental payments, included in net patient service revenue, and quality assurance fee expense, included in general and administrative in the accompanying consolidated statements of operations as follows (in thousands):

Years Ended September 30,	**2022**	2021
Hospital services revenues	**$ 146,828**	$ 137,926
General and administrative	**77,028**	73,720
Net pre-tax impact	**$ 69,800**	$ 64,206

Medical Group revenues— the revenues consist primarily of payments for medical services procured by certain entities included within the Medical Group segment ("Affiliates") under capitated contracts with various managed care providers including HMOs. Capitation revenue under HMO contracts is prepaid monthly to the Affiliates based on the number of enrollees electing any one of the Affiliates as their health care provider.

Global Risk Management revenues— the revenues consist primarily of payments for medical services procured under global capitation arrangements from third-party health plans. Capitation revenue under these global capitation contracts is prepaid monthly to the Global Risk Management segment based on the number of enrollees.

Capitation Revenues

Capitation revenue (net of capitation withheld to fund risk share deficits) is recognized in the month in which the providers are obligated to provide services (stand ready obligation). Minor ongoing adjustments to prior months' capitation, primarily arising from contracted HMOs' finalizing of monthly patient eligibility data for additions or subtractions of enrollees, are recognized in the month they are communicated to the Company. Additionally, Medicare pays capitation using a "Risk Adjustment model," which compensates managed care organizations and providers based on the health status (acuity) of each enrollee. Under Risk Adjustment, capitation is determined based on health severity, measured using patient encounter data. Capitation is paid on an interim basis based on data submitted for the enrollee for the preceding year and is adjusted in subsequent periods the final data is compiled. Positive or negative capitation adjustments are made for Medicare enrollees with conditions requiring more or less healthcare services than assumed in the interim payments. Since the Company cannot reliably predict these adjustments, periodic changes in capitation amounts earned as a result of Risk Adjustment are recognized generally in the fourth quarter when those changes are communicated by the health plans to the Company.

Per Member Per Month ("PMPM") managed care contracts generally have a term of one year or longer. All managed care contracts have a single performance obligation that constitutes a series for the provision of managed healthcare services for a population of enrolled members for the duration of the contract. The transaction price for PMPM contracts is variable as it primarily includes PMPM fees associated with unspecified membership that fluctuates throughout the contract. In certain

contracts, PMPM fees also include adjustments for items such as performance incentives, performance guarantees and risk sharing. The Company generally estimates the transaction price using the most likely amount methodology and amounts are only included in the net transaction price to the extent that it is probable that a significant reversal of cumulative revenue will not occur once any uncertainty is resolved. The majority of the Company's net PMPM transaction price relates specifically to the Company's efforts to transfer the service for a distinct increment of the series (e.g. month) and is recognized as revenue in the month in which members are entitled to service.

Risk Pool Settlements and Incentives

HMO contracts also include provisions to share in the risk for hospitalization, whereby the physician organization can earn additional incentive revenue or incur penalties based upon the utilization of hospital services. Typically, any shared risk deficits are not payable until and unless the Company generates future risk sharing surpluses, or if the HMO withholds a portion of the capitation revenue to fund any risk share deficits. At the termination of the HMO contract, any accumulated risk share deficit is typically extinguished. Due to the lack of access to information necessary to estimate the related costs, shared-risk amounts receivable from the HMOs are only recognized, using the most likely methodology, and only included in revenue to the extent that it is probable that a significant reversal of cumulative revenue will not occur. Risk pools for the prior contract years are generally final settled in the third or fourth quarter of the following fiscal year.

The Company also receives incentives under "pay-for-performance" programs for quality medical care, based on various criteria. The incentive programs track specific performance measures and calculate payments to the Company based on the performance measures. The Company's incentives under "pay-for-performance" programs are recognized using the most likely methodology. However, as the Company does not have sufficient insight from the health plans on the amount and timing of the shared risk pool and incentive payments these amounts are considered to be fully constrained and only recorded when such payments are known and/or received. Management fee revenue is earned in the month the services are rendered.

Management fee arrangements with unaffiliated entities provide for compensation ranging from 6.5% to 10% of revenues. Consideration from management contracts is variable in nature because the majority of the fees are generally based on revenue or collections, which can vary from period to period. The Company has control over pricing. Contractual fees are invoiced to the Company's clients generally monthly and payment terms are typically due within 30 days. The variable consideration in the Company's management contracts meets the criteria to be allocated to the distinct period of time to which it relates because (i) it is due to the activities performed to satisfy the performance obligation during that period and (ii) it represents the consideration to which the Company expects to be entitled.

Contract Assets and Contract Liabilities

The receivables and payables related to the California Hospital Fee Program are the most significant contract assets and liabilities in the Company's consolidated financial statements. As of September 30, 2022 and 2021, the Company had receivables related to the California Hospital Fee Program of approximately $180.2 million and $178.0 million, respectively, and had liabilities related to the California Hospital Fee Program of approximately $96.8 million and $71.2 million, respectively, in the accompanying consolidated balance sheets.

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Patient Accounts Receivable, Net

Patient accounts receivable, include billed accounts and unbilled accounts for which there is the unconditional right to payment, and estimated amounts due from third-party payers for retroactive adjustments, are receivables if the right to consideration is unconditional and only the passage of time is required before payment of that consideration is due.

Receivables from government agencies are significant to our operations, but are not a significant credit risk. We do not believe there are any other significant concentrations of revenues from any particular payer that would subject us to any significant credit risks in the collection of our accounts receivable.

Changes in general economic conditions, patient accounting service center operations, payer mix, or federal or state governmental health care coverage could affect our collection of accounts receivable, cash flows and results of operations.

Estimated uncollectable amounts are generally considered implicit price concessions that are a direct reduction to patient accounts receivable. Such implicit price concessions may be caused by denials for payments for services due to issues over patient eligibility for medical coverage, the Company's ability to demonstrate medical necessity for services rendered and payer authorization of hospitalization.

Property, Improvements and Equipment

Property, improvements and equipment are stated on the basis of cost or, in the case of acquisitions, at their acquisition date fair values. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, and amortization of leasehold improvements is provided using the straight-line basis over the shorter of the remaining lease period or the estimated useful lives of the leasehold improvements. Leasehold improvements are generally depreciated over 5 to 40 years, buildings and improvements are depreciated over 5 to 40 years, equipment is depreciated over 2 to 15 years and furniture and fixtures are depreciated over 2 to 20 years. Equipment capitalized under capital lease obligations are amortized over the lesser of the life of the lease or the useful life of the asset.

Impairment of Long lived Assets

We review our long-lived assets, including intangible assets, for impairment whenever events or circumstances indicate that the carrying value of these assets may not be recoverable. The assessment of possible impairment is based on our ability to recover the carrying value of our asset based on our estimate of its undiscounted future cash flows. If the analysis indicates that the carrying value is not recoverable from future cash flows, the asset is written down to its estimated fair value and an impairment loss is recognized. Fair values are determined based on estimated future cash flows using appropriate discount rates.

Long-lived assets to be disposed of are reported at the lower of their carrying amounts or fair value less costs to sell or close. The estimates of fair value are usually based upon recent sales of similar assets and market responses based upon discussions with and offers received from potential buyers. There were no impairments recorded during the years ended September 30, 2022 and 2021.

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Goodwill

Goodwill is measured as the excess of consideration transferred and the net of the acquisition date fair value of assets acquired, and liabilities assumed in a business acquisition.

We follow the private company alternative, under which private companies can elect to amortize goodwill on a straight-line basis over 10 years, or less than 10 years if the entity demonstrates that another useful life is more appropriate. It also permits a private company to apply a simplified impairment model to goodwill, allowing impairment analysis to be evaluated at the entity level. Accordingly, the Company amortizes goodwill on a straight-line basis over 10 years. The Company evaluates goodwill for impairment at the entity level when a triggering event occurs that indicates that the fair value of the entity may be below its carrying amount. When a triggering event occurs, the Company first assesses qualitative factors to determine whether the quantitative impairment test is necessary. If that qualitative assessment indicates that it is more likely than not that goodwill is impaired, the Company performs the quantitative test to compare the entity's fair value with its carrying amount, including goodwill. The goodwill impairment loss, if any, represents the excess of the carrying amount of the entity over its fair value. The Company has negative carrying value as of September 30, 2022 and 2021, respectively. Since the Company adopted ASU 2017-04, Goodwill generally will not be impaired as the fair value of an entity is rarely negative. Accordingly, there was no goodwill impairment recorded during the years ended September 30, 2022 and 2021.

Intangible Assets

Intangible assets include customer relationships, trade names, and favorable leaseholds. The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The Company considers assets to be impaired and writes them down to fair value if estimated undiscounted cash flows associated with those assets are less than their carrying amounts. Fair value is based upon the present value of the associated cash flows. Changes in circumstances (for example, changes in laws or regulations, technological advances or changes in strategies) may also reduce the useful lives from initial estimates. Changes in planned use of intangibles may result from changes in customer base, contractual agreements, or regulatory requirements. In such circumstances, management will revise the useful life of the long-lived asset and amortize the remaining net book value over the adjusted remaining useful life. There were no impairments recorded during the years ended September 30, 2022 and 2021.

Insurance Reserves

The Company has two captive insurance companies, Prospect Medical Holding Risk Retention Group, Inc. ("RRG"), based in Vermont, and Connecticut Healthcare Insurance Company ("CHIC"), based in the Cayman Islands. RRG was formed to provide primary insurance coverage for hospital and physician professional and general liability risks for the Company's subsidiary health care organizations located in Pennsylvania. CHIC provides hospital and physician professional and general liability coverage to all of the Company's hospitals and affiliated subsidiaries outside of Pennsylvania.

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Medical Malpractice Reserves

The individual physicians who contract with the physician organizations carry their own medical malpractice insurance, some of which may be purchased from RRG or CHIC. In the Hospital Services segment, the Company's hospitals carry professional and general liability insurance to cover medical malpractice claims under claims-made policies. Under the policies, insurance premiums cover only those claims actually reported during the policy term. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims related to occurrences during the policy term but reported subsequent to the policy's termination may be uninsured. The Company's hospitals have a consolidated policy for professional and general liability insurance with a retention that applies per claim.

Prospect RRG & Prospect Crozer, LLC ("Crozer")

During the years ended September 30, 2022 and 2021 at Crozer, RRG provided primary malpractice insurance ($500,000 per occurrence and $1,500,000 in the aggregate for physicians, and $500,000 per occurrence and $2,500,000 in the aggregate for the hospitals) and general liability ($1,000,000 per occurrence and $2,000,000 in the aggregate). The Pennsylvania MCARE fund provides the $500,000 in excess of $500,000 RRG malpractice coverage for physicians, hospitals, and certain professional corporations. For the year ended September 30, 2021, excess coverage was provided by CHIC for limits up to $80,000,000 over entity retentions, which was 100% reinsured by third party carriers. Additionally, RRG provides $1,000,000 per occurrence and $3,000,000 in the aggregate) coverage for non-healthcare provider professional liability. For the year ending September 30, 2022 and 2021, excess coverage was provided by CHIC for limits up to $80M over entity retentions which was 100% reinsured by third party carriers. Additionally, RRG provides $1,000,000 per occurrence and $3,000,000 in the aggregate) coverage for non-healthcare provider professional liability.

CHIC

For the year ended September 30, 2022 and 2021, the malpractice and general liability risk was retained by the Company's hospitals and affiliated subsidiaries subject to a $7,500,000 retention, except for Crozer subject to $12,500,000 retention. For the years ended September 30, 2022 and 2021, CHIC also provided an excess healthcare professional liability and umbrella liability insurance policy on a claims-made basis covering healthcare professional liability, general liability, automobile liability, employers' liability, helipad liability and non-owned aircraft liability. The limit provided was $80,000,000 during the years ended September 30, 2022 and 2021, for each loss event and in the annual aggregate excess of the primary coverage layers described above. This coverage was fully reinsured by third party carriers.

GAAP requires that a health care organization record and disclose the estimated costs of medical malpractice claims in the period of the incident of malpractice, if it is reasonably possible that liabilities may be incurred and losses can be reasonably estimated. The Company has recognized an estimated liability for incurred but not reported claims and the self-insured risks (including deductibles and potential claims in excess of policy limits) based upon an actuarial valuation of the Company's historical claims experience of its hospitals. At September 30, 2022 and 2021, the total gross claims liability, including our discontinued operations, was approximately $126.9 million and $121.7 million and reinsurance recoverable on unpaid losses were approximately $14.6 million and $16.1 million, respectively, included in other assets on the accompanying consolidated balance sheets, and were estimated using a discount factor ranging from 3.50% to 4.00%.

Workers' Compensation Insurance

For the year ended September 30, 2022, the workers' compensation program provides the statutory benefits required by law through a qualified and approved self-insurance program for the Company's entities located in California and Connecticut. A large deductible program is purchased for entities in Pennsylvania and for remote employees in other states. In both programs, the entities retain the first $500,000 of each claim. For any claim amount in excess of $500,000, workers compensation coverage is purchased from a commercial insurer. The entities in Rhode Island were fully insured for workers' compensation claims with no deductible in a guaranteed cost program.

At September 30, 2022 and 2021, included in accrued salaries, wages and benefits are accruals for uninsured claims and claims incurred but not reported of approximately $30.4 million and $29.1 million, including our discontinued operations, and reinsurance recoverable on unpaid losses of $4.9 million and $5.0 million, respectively, included in other assets on the accompanying consolidated balance sheets. The amounts are estimated based upon an actuarial valuation of claims experience, using a discount factor of 4%.

Reserve Methodology

The claims reserve is based on the best data available to the Company. The estimate, however, is subject to a significant degree of inherent variability. The estimate is continually monitored and reviewed, and as the reserve is adjusted, the difference is reflected in current operations. While the ultimate amount of the medical malpractice and workers' compensation claims liability is dependent on future developments, management is of the opinion that the associated liabilities recognized in the accompanying consolidated financial statements are adequate to cover such claims. Management is not aware of any potential claims whose settlement, if any, would have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Cash and Cash Equivalents

The Company considers highly liquid investments with insignificant interest rate risk and original maturities to the Company of three months or less to be cash equivalents.

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits of $250,000 per depositor of each financial institution. The Company has not experienced any losses to date related to these balances.

Restricted Cash

Some of the Company's cash is restricted for various purposes including research, regulatory requirements and letters of credit. The Company is also required to keep restricted deposits by certain HMOs for the payment of claims. Such restricted deposits are classified as a current asset in the accompanying consolidated balance sheets, as they are restricted for payment of current liabilities. Restricted cash also include certificates of deposit with maturity dates of more than 90 days when purchased.

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Restricted Investments

Investments in marketable securities, primarily mutual funds, are classified as available for sale and are stated at fair value. Unrealized gains and losses are recorded in the statements of other comprehensive income. Investment securities are exposed to various risk, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in values of investment securities could occur in the near term and such changes could materially affect investment. These investments are held in the Company's captive insurance companies and are shown as restricted because the state/local regulators require their approval before dividends or return of capital to the Parent Entity.

Inventories

Inventories of supplies are valued at the lower of amounts that approximate the weighted average cost or net realizable value. Inventories consist primarily of medical and surgical supplies and pharmaceuticals.

Internal Use Software & Hosted Software

Capitalized costs for hosting arrangements are accounted for as service contracts that was in the development stage and amortization is scheduled to commence once the project is complete and ready for its intended use. Included within other receivables, prepaid expenses and other current assets are hosting arrangements related to the Oracle suite of products and Cerner, which are accounted for as service contracts. The gross carrying amount of capitalized service costs was approximately $95,853,000 and $32,416,000 at September 30, 2022 and 2021, respectively. The estimated amortization period is 10 years. Amortization expense was approximately $11,323,000 and $6,747,000 during the years ended September 30, 2022 and 2021, respectively.

Deferred Financing charges

Deferred financing costs are amortized over the period in which the related debt is outstanding using the effective interest method and are classified as a deduction from the carrying amount of the related debt. As it relates to MPT liabilities, deferred financing costs are classified in other assets in the accompanying consolidated balance sheets.

Income Taxes

Deferred income tax assets and liabilities are recognized for differences between financial and income tax reporting bases of assets and liabilities based on enacted tax rates and laws. To the extent a deferred tax asset cannot be recognized under the preceding criteria, allowances must be established. The impact on deferred taxes of changes in tax rates and laws, if any, are applied to the years during which temporary differences are expected to be settled and reflected in the financial statements in the period of enactment.

We consider many factors when evaluating our uncertain tax positions, and such judgments are subject to periodic review. Tax benefits associated with uncertain tax positions are recognized in the period in which one of the following conditions is satisfied: (1) the more likely than not recognition threshold is satisfied; (2) the position is ultimately settled through negotiation or litigation; or (3) the statute of limitations for the taxing authority to examine and challenge the position has expired. Tax benefits associated with an uncertain tax position are derecognized in the period in which the more likely than not recognition threshold is no longer satisfied.

Sale-Leaseback Transactions

The Company evaluates sale-leaseback transactions by determining whether the transaction meets the qualifying criteria to be recognized as a sale-leaseback, including the transfer of risk and rewards of ownership as well as the absence of continuing involvement of the Company. When the qualifying criteria for a sale-leaseback transaction are not met, the Company accounts for the transaction as a financing (see Notes 8 and 9).

Comprehensive Income (Loss)

Comprehensive income consists of net income and other gains and losses affecting stockholders' deficit that, under generally accepted accounting principles, are excluded from net income (loss) attributable to the Company. For the Company, such items consist primarily of unrealized gains or losses on restricted investments as well as changes related to pension and other postretirement liabilities that are not recognized immediately in net periodic benefit costs.

Fair Value Measurement

The Company measures at fair value certain of its financial and non-financial assets and liabilities by using a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, essentially an exit price, based on the highest and best use of the asset or liability. The levels of the fair value hierarchy are:

Level 1 — Quoted market prices in active markets for identical assets or liabilities;

Level 2 — Significant other observable inputs (e.g., quoted prices for similar items in active markets, quoted prices for identical or similar items in markets that are not active, inputs other than quoted prices that are observable, such as interest rate and yield curves, and market-corroborated inputs); and

Level 3 — Unobservable inputs in which there is little or no market data, which require the reporting unit to develop its own assumptions.

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis and where they are classified within the hierarchy (in thousands):

September 30, 2022	Total	Level 1	Level 2	Level 3
Mutual funds	**$ 33,298**	**$ 33,298**	**$ -**	**$ -**
September 30, 2021				
Mutual funds	$ 34,283	$ 34,283	$ -	$ -

The Company's investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices. The Company's defined benefit pension plan assets are also measured at fair value (see Note 11).

Concentration of Risks

For the years ended September 30, 2022 and 2021, the Hospital Services segment received a total of 65% and 73% of its net patient revenues from Medicare and Medicaid programs, respectively, and the Medical Group segment received a total of 48% and 59% for the years ended September 30, 2022 and 2021, respectively, of their capitation revenues from its five largest HMOs, as follows (in thousands):

Years Ended September 30,		2022	% of Total Revenue		2021	% of Total Revenue
Hospital Services:						
Government Payers:						
Medicare	$	**156,873**	**19%**	$	164,240	22%
Medicaid		**380,548**	**46%**		377,937	51%
Total	$	**537,421**	**65%**	$	547,177	73%
Medical Group:						
HMO A	$	**58,464**	**11%**	HMO A	53,780	14%
HMO G		**56,734**	**11%**	HMO C	51,208	13%
HMO E		**53,026**	**10%**	HMO E	48,304	12%
HMO C		**48,613**	**9%**	HMO D	41,996	11%
HMO B		**38,547**	**7%**	HMO H	35,090	9%
Total	$	**255,384**	**48%**	$	230,378	59%

Recently Issued Accounting Standards

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" with effective dates deferred for all entities by ASU 2019-10, and further deferred for nonpublic entities by ASU 2020-05. The core principle of ASU 2016-02 is that a lessee should recognize the assets and liabilities that arise from leases, including operating leases. Under the new requirements, a lessee will recognize in the statement of financial position a liability to make lease payments (the lease liability) and the right-of-use asset representing the right to the underlying asset for the lease term. For leases with a term of 12 months or less, the lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous GAAP. Nonpublic entities will apply the new standard for annual periods beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The Company is currently evaluating the standard and the impact on its consolidated financial statements and footnote disclosures.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments". The amendments in this standard require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. In addition, this standard amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendment is effective for nonpublic entities for annual reporting periods beginning after December 15, 2022. Early adoption is permitted.

The Company is currently evaluating the standard and the impact on its consolidated financial statements and footnote disclosures.

In November 2021, the FASB issued ASU 2021-10, "Government Assistance (Topic 832)" ("ASU 2021-10"). The amendments in this update require additional disclosures regarding government grants and money contributions, including information on the nature of transactions and related accounting policies used to account for transactions, detail on the line items on the balance sheet and income statement affected by these transactions, and significant terms and conditions of the transactions. ASU 2021-10 is effective for all entities within their scope for financial statements issued for annual periods beginning after December 15, 2021, with early adoption permitted. The adoption of this guidance will not impact our financial position, results of operations or cash flows.

In November 2021, the FASB issued ASU 2021-09, "Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities". The amendments in this update allow those lessees to make the risk-free rate election by class of underlying asset, rather than at the entity-wide level. Entities that have not yet adopted Topic 842 as of November 11, 2021, are required to adopt the amendments in this Update at the same time that they adopt Topic 842. The Company is currently evaluating the provision of ASU 2018-14 and its impact on its consolidated financial statements and related disclosures.

2. Property, Improvements and Equipment

Property, improvements and equipment, consisted of the following (in thousands):

September 30,	**2022**	2021
Land and land improvements	**$ 33,621**	$ 34,698
Buildings and improvements	**105,458**	104,115
Leasehold improvements	**4,541**	4,436
Equipment and Software	**149,658**	143,366
Furniture and fixtures	**6,026**	5,957
	299,304	292,572
Less: accumulated depreciation	**(178,164)**	(162,145)
	121,140	130,427
Construction in Progress	**42,691**	45,239
Property, improvements and equipment, net	**$ 163,831**	$ 175,666

At September 30, 2022 and 2021, the Company had assets under capitalized leases of approximately $6.0 million and $4.3 million, respectively, and related accumulated depreciation of $1.2 million and $2.3 million, respectively.

Depreciation expense was approximately $17.5 million and $19.3 million for the years ended September 30, 2022 and 2021, respectively.

3. Acquisition of Noncontrolling Interest in CharterCARE

In June 2014, the Company, through a newly formed subsidiary, Prospect CharterCARE, LLC ("CCHP"), acquired substantially all of the assets of CharterCARE Health Partners and its subsidiaries, in exchange for an 85% interest in CCHP, $43.3 million in cash and a commitment to invest at least $50

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million in CCHP and its subsidiaries for strategic business development and capital improvements over the next four years (the "CharterCARE acquisition"). As a result of the acquisition, the Company had an 85% ownership interest in CCHP, with the remaining 15% being owned by the prior owner of the selling entities, CharterCARE Health Partners, which was subsequently renamed CharterCARE Community Board ("CCCB").

CCHP, through wholly owned subsidiaries, operates both Roger Williams Medical Center and St. Joseph Health Services of Rhode Island, dba Our Lady of Fatima Hospital. One of the seller entities, St. Joseph Health Services of Rhode Island, had a Retirement Plan (the "Retirement Plan") which is a defined benefit pension plan and was set up for the benefit of employees of Our Lady of Fatima Hospital when the hospital was a standalone hospital owned by a religious institution. The Company and CCHP did not acquire the Retirement Plan as part of the CharterCARE acquisition, and $14 million of the proceeds from the sale were contributed to the Retirement Plan in exchange for the Company and its subsidiaries, including CCHP, not having any liabilities related to the Retirement Plan. In August 2017, a petition was filed to place the Retirement Plan into receivership by its administrators because it was underfunded. In June 2018, the receiver for the Retirement Plan (along with various named participants) filed a lawsuit on behalf of all participants against various defendants which included CCCB, the Company, CCHP, the subsidiary which holds the Company's ownership interest in CCHP, and the two subsidiaries which own Roger Williams Medical Center and Our Lady of Fatima Hospital, along with the administrators of the Retirement Plan, The Angell Pension Group, Inc., among others. Also, in March 2019, CCCB sued the Company and various directors of the Company, and certain subsidiaries. The suits involved allegations related to the valuation of CCCB's 15% ownership interest in CCHP. In December 2019, CCCB and its subsidiaries settled with the receiver of the Retirement Plan. As a result, in January 2020 the receiver took control of CCCB's noncash assets, including its ownership interest in CCHP. In December 2019, the Company sued CCCB on the basis that CCCB had breached the original terms of the acquisition by entering into the settlement agreement with the receiver and seeking indemnity against the receiver's June 2018 lawsuit.

The Company entered into a Settlement Agreement in December 2020 to release the Company and its directors and subsidiaries from all of the various claims under the aforementioned litigation. The Settlement Agreement also provided for the Company to purchase the noncontrolling interest. Under the terms of the settlement, the Company paid $27.3 million, of which $22.3 million was to settle all of the outstanding cases between the parties, including the Company, which was subsequently released of their related claims, and $5 million was for the acquisition of the noncontrolling interest. The buyout of the noncontrolling interest was treated as an equity transaction. The payment of the settlement was conditioned upon State and Federal Court approvals, which was obtained in March 2021 and August 2021, respectively. Accordingly, the Company paid $27.3 million in August 2021, and the buyout of CCCB's noncontrolling interest in CCHP was effective on August 18, 2021.

The Company received recoveries from its insurance policies of approximately $12 million. A receivable was recorded for this amount at September 30, 2021 and received subsequent to September 30, 2021.

4. Discontinued Operations

As of and for the year ended September 30, 2021, the operations of East Orange General Hospital ("EOGH") in New Jersey met the criteria under applicable accounting standards to be presented as discontinued operations and as assets held for sale. In October 2020, the Company entered into an Asset Purchase Agreement to sell substantially all of the assets of EOGH for a sale price of $6.2 million. That sale closed effective January 1, 2022. We have classified the results of EOGH as discontinued operations in our consolidated statement of operations for all periods presented.

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Additionally, the related assets and liabilities associated with the discontinued operations in the prior year consolidated balance sheet are classified as discontinued operations.

In addition to the sale of the EOGH and Nix Health, we are actively marketing for sale the businesses in our operations in Pennsylvania, Rhode Island, and Connecticut. The Company's plan is to refocus its operations in the hospitals, managed care operations and health system in California.

During the first quarter of 2022, our management approved a plan to sell the operations of Crozer-Keystone Health System ("Crozer"), Eastern Connecticut Health Network, Inc. ("ECHN"), Greater Waterbury Health Network, Inc. ("Waterbury"), and CharterCARE Health Partners ("CharterCare"), respectively. On January 11, 2022, we signed a non-binding Letter of Intent ("LOI") for Centurion Foundation, Inc. to acquire CharterCare. On February 3, 2022, we signed a non-binding LOI for Christiana Care Health System, Inc. to acquire Crozer. However, that LOI was later terminated effective August 8, 2022. Crozer is still actively being marketed for sale and solicitations are being entertained. On February 4, 2022, we signed a non-binding LOI for Yale New Haven Health to acquire ECHN and Waterbury. We have classified the results as discontinued operations in our consolidated statement of operations for all periods presented. Additionally, the related assets and liabilities associated with the discontinued operations in the prior year consolidated balance sheet are classified as discontinued operations. Refer to Note 13, "*Subsequent events*" of the Consolidated Financial Statements for additional information related to the sale of these operations.

The following table presents the aggregate carrying amounts of the classes of assets and liabilities held for sale related to discontinued operations of businesses (in thousands):

September 30,	**2022**	2021
Patient accounts receivable, net and other receivables	**$ 38,258**	$ 57,628
Other receivables, prepaid expenses and other current assets	**45,763**	39,683
Inventories	**31,593**	30,298
Total current assets	**115,614**	127,609
Property, improvements and equipment, net	**449,993**	410,931
Intangible assets, net	**10,718**	13,070
Goodwill	**110,380**	114,552
Other assets	**36,068**	37,044
Total assets of the disposal groups classified as held for sale in the consolidated balance sheets	**$ 722,773**	$ 703,206
Accounts payable and other accrued liabilities	**$ 41,087**	$ 41,732
Accrued salaries, wages and benefits	**64,411**	72,265
Current portion of capital leases	**15,388**	11,946
Refund liability, current portion	**336**	20,935
Other current liabilities	**4,520**	5,304
Total current liabilities	**125,742**	152,182
Capital leases, net of current portion	**44,222**	48,862
Other long-term liabilities	**54,173**	52,332
Total liabilities of the disposal groups classified as held for sale in the consolidated balance sheets	**$ 224,137**	$ 253,376

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Operating results for the discontinued operations were comprised of the following (in thousands):

For the Years Ended September 30,	**2022**	2021
Total revenues	**$ 1,633,791**	$ 1,805,623
Hospital operating expenses	**1,464,823**	1,483,876
General and administrative	**299,652**	312,912
Depreciation and amortization	**23,233**	59,915
Goodwill amortization	**4,778**	14,309
Impairment expense	**-**	10,865
Total operating expenses	**1,792,486**	1,881,877
Operating income from unconsolidated joint ventures	**1,878**	4,046
Operating loss	**(156,817)**	(72,208)
Interest expense, net	**44,429**	43,642
Other expense (income), net	**(10,405)**	792
Total other expense, net	**34,024**	44,434
Loss on discontinued operations before income taxes	**(190,841)**	(116,642)
Income tax provision	**66**	61
Loss on discontinued operations, net of taxes	**$ (190,907)**	$ (116,703)

5. Goodwill and Intangible Assets

The net carrying value of goodwill by reporting unit is as follows (in thousands):

September 30, 2022	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Book Value**
Southern California Hospitals	**$ 130,912**	**$ (39,274)**	**$ 91,638**
California Medical Groups	**30,722**	**(9,008)**	**21,714**
Total	**$ 161,634**	**$ (48,282)**	**$ 113,352**

September 30, 2021	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Southern California Hospitals	$ 130,912	$ (26,182)	$ 104,730
California Medical Groups	30,722	(5,937)	24,785
Total	$ 161,634	$ (32,119)	$ 129,515

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The changes in the net carrying amount of goodwill for the years ended September 30 are as follows (amounts in thousands):

September 30,	**2022**	2021
Balance, beginning of year	**$ 129,515**	$ 145,678
Acquisitions	**-**	-
Disposition	**-**	-
Amortization	**(16,163)**	(16,163)
Balance, end of year	**$ 113,352**	$ 129,515

Amortization expense was $16.2 million and $16.2 million for the year ended September 30, 2022 and 2021, respectively, and is included in goodwill amortization expense in the accompanying consolidated statements of operations. Goodwill included in discontinued operations is $110.3 million and $114.5 million, respectively, as of September 30, 2022 and 2021.

Estimated amortization expense for each fiscal year of goodwill is as follows (in thousands):

Years ending September 30,	
2023	$ 16,163
2024	16,163
2025	16,163
2026	16,163
2027	16,163
Thereafter	32,535
Total future amortization expense	$ 113,352

The weighted-average remaining useful life for the goodwill was approximately seven years as of September 30, 2022.

Identifiable intangible assets are comprised of the following (in thousands):

September 30,	Useful lives	2022	2021
HMO membership	14 years	$ -	25,200
Trade names, net of impairment	3 - 20 years	9,690	18,100
Gross carrying value		9,690	43,300
Accumulated amortization		(7,339)	(39,945)
Intangible assets, net		$ 2,351	$ 3,355

Amortization is recognized on a straight-line basis (management's best estimate of the period of economic benefit) over the respective useful lives and expense for the years ended September 30, 2022 and 2021 was $1.0 million and $2.8 million, respectively, and is included in depreciation and amortization expense in the accompanying consolidated statements of operations. There are no expected residual values related to these intangible assets.

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Estimated amortization expense for each future fiscal year of intangible assets is as follows (in thousands):

Years ending September 30,	
2023	$ 485
2024	485
2025	485
2026	485
2027	411
Thereafter	-
	$ 2,351

The weighted-average remaining useful life for the intangible assets was approximately five years as of September 30, 2022.

6. Related Party Transactions

Through June 1, 2021, Jeereddi Prasad, M.D. was a shareholder of Ivy Holdings, a director of Ivy Holdings and the Company, and an officer of the Upland Medical Group, a Professional Medical Group and Pomona Valley Medical Group, Inc. (collectively "ProMed Entities"). Dr. Prasad has ownership interests in physician medical groups that provide medical services to ProMed members, previously including Chaparral Medical Group, Inc.("CMG"), an entity in which the Company beneficially owned a 13.2% interest. Effective February 28, 2022, Akido Labs, Inc. ("Akido") purchased CMG and the Company's ownership interest was exchanged for a 2.45% ownership interest in Akido. For the period from October 1, 2020 to June 1, 2021, a date of Chamber Transaction, the ProMed Entities paid these groups approximately $16.4 million.

Pursuant to a Management Services Agreement, dated December 15, 2010 and amended on May 3, 2012 (the "LGP Management Agreement"), between the Company and Leonard Green & Partners, L.P. ("LGP"), a private equity fund with affiliated funds that collectively constituted the majority shareholder of Ivy Holdings, LGP provided to the Company, (a) certain investment banking services, (b) management, consulting and financial planning services and (c) financial advisory and investment banking services in connection with major financial transactions from time to time. In connection with the Chamber Transaction, the LGP Management Agreement was terminated on June 1, 2021.

The Company is a wholly owned indirect subsidiary of Chamber. Therefore, Chamber is the parent of an affiliated group of corporations within the meaning of Section 1504(a) of the Internal Revenue Code of 1986. On December 15, 2010, Ivy Holdings, Ivy Intermediate and the Company entered into a Tax Sharing Agreement. The Tax Sharing Agreement allows the Company to make payments to Chamber as necessary to fund their payment of any required taxes incurred due to such parent status.

7. Income Taxes

The components of the income taxes are as follows (in thousands):

Year Ended September 30,	2022	2021
Current:		
Federal	$ 2,482	$ -
State	(5,153)	(2,265)
	(2,671)	(2,265)
Deferred:		
Federal	-	-
State	-	-
	-	-
Total:		
Federal	2,482	-
State	(5,153)	(2,265)
	$ (2,671)	$ (2,265)

Temporary differences and carry forward items that result in deferred income tax balances as of September 30, are as follows (in thousands):

September 30,	2022	2021
Deferred tax assets:		
Accrued medical claims	$ 6,711	$ 6,566
Malpractice reserves	10,982	3,911
Accounts receivable	21	617
Accrued salaries & wages	12,943	15,471
Pension obligation	65,689	70,725
Tax Attributes (Net operating losses, credits, and 163j)	122,002	145,617
Other comprehensive income	320	-
Lease liability	127,306	125,316
Deferred revenue	865	3,858
Deferred FICA tax	771	7,215
Outside basis differences	2,549	-
Other	2,265	-
Deferred tax assets	352,424	379,296
Valuation allowance	(315,161)	(291,559)
Net deferred tax assets	37,263	87,737
Deferred tax liabilities:		
Property, plant & equipment	(29,839)	(76,939)
Intangible assets	(1,494)	(4,667)
Prepaid expenses	(5,930)	(4,075)
Outside basis differences	-	(905)
Other	-	(1,150)
Deferred tax liabilities	(37,263)	(87,737)
Net deferred tax assets	$ -	$ -

Deferred income taxes are based on the estimated future tax effects of differences between the financial statement and tax bases of assets and liabilities under the provisions of the enacted tax laws.

Management assesses the available positive and negative evidence to estimate whether sufficient future pretax income will be generated to permit use of the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative pretax loss incurred over the three-year period ending September 30, 2022. Such objective evidence limits the ability to consider other positive subjective evidence, such as the Company's projections for future growth. Based on this evaluation, on September 30, 2022, and 2021, a valuation allowance of approximately $315.2 million and $291.6 million, respectively, was recorded. The amount of the deferred tax asset considered realizable, however, could be adjusted if negative objective evidence in the form of a three-year cumulative loss is no longer present and additional weight is given to subjective positive evidence.

A consolidated federal income tax return is filed for Chamber, Inc., except for Nuestra Familia Medical Group Inc. ("Nuestra"), which has filed its own federal tax return. The Company files combined state income tax returns in Arizona, California, Connecticut, New Jersey, Rhode Island, and Texas. The Company files separate standalone state income tax returns in Alabama, Florida, and Pennsylvania. We operate in multiple jurisdictions with varying tax laws. Our federal income tax returns have been examined by the Internal Revenue Service through the year ended September 30, 2016. We are subject to audits by any of these taxing authorities. Tax years 2017 to 2021 remain subject to future examination by taxing authorities in jurisdictions in which we are subject to tax.

As of September 30, 2022, The Company has $394 million of gross federal and $2,188 million of gross state net operating loss carryforwards which expire in various years beginning in 2022 or carry forward indefinitely. We believe that it is more likely than not that the benefit from federal and state net operating loss carryforwards will not be realized. In recognition of this assessment, we have provided a valuation allowance on the deferred tax assets related to net operating loss carryforwards. The annual benefit of net operating losses could be subject to limitation.

On October 4, 2022, the Company settled its examination by the California Franchise Tax Board (FTB) for the tax year ended September 30, 2017. In addition to finalizing the audit, the FTB allowed the inclusion of Prospect Medical Group, Inc & Subsidiaries and New Genesis Medical Associates, Inc. & Subsidiaries in the California unitary group filed by Ivy Holdings, Inc & Subsidiaries. An incremental benefit of $5.7 million was recorded to state income tax expense in the current period because the Company closed its proceedings with the FTB. To date the Company has received $6 million in cash refunds from the FTB.

For the tax years that remain open under the applicable statutes of limitations, the Company considered potential unrecognized tax consequences and determined there are no material unrecognized tax positions that would impact income tax.

The CARES Act did not materially impact our effective tax rate for the years ending September 30, 2022, and 2021, although it has impacted the timing of cash payments for tax.

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The differences between the income tax provision at the federal statutory rate and that reflected in the accompanying consolidated statements of operations are summarized as follows:

Years Ended September 30,	**2022**	2021
Tax provision at statutory rate	**21%**	21%
State taxes, net of federal benefit	**(1)%**	14%
Return to provision adjustments	**17%**	(1)%
Goodwill amortization	**(8)%**	(4)%
Deferred tax adjustments	**-%**	2%
Valuation allowance	**(31)%**	(33)%
UTP	**13%**	(1)%
Change in State Tax Rate	**-%**	6%
Other	**-5%**	(2)%
	6%	2%

8. Debt

Debt consists of the following (in thousands) excluding the impact of debt to be assumed on sale:

September 30,	**2022**	2021
MPT TRS loan *(1)*	$ **91,025**	$ 98,606
MPT Foothill loan *(1)*	**151,260**	51,267
Senior Secured and Revolving Credit Facilities	**196,300**	45,000
Other *(2)*	**58,611**	23,736
Total debt	**497,196**	218,609
Less: Debt, current portion	**(200,382)**	(59,667)
Debt, net of current portion	$ **296,814**	$ 158,942

(1) See Note 9 for more information related to MPT transactions.
(2) Other debt is comprised of sale-leaseback financing obligations, building, equipment and software loans.

Promissory Note - Foothill Loan

On August 23, 2019, MPT provided the Company with a $51,266,700 mortgage on the Foothill property. This mortgage is secured by the buildings at Foothill. The interest on this mortgage is 7.5% per annum and is subject to annual escalation of consumer price index, limited to a minimum of 2% and a maximum of 4%. The maturity date of this loan is August 2034. MPT can purchase the property in the event of default or at end of term. The Company is required to provide MPT with the option to purchase the Foothill property and lease it back to the Company under the second master lease agreement, for an amount equal to the outstanding principal balance. We entered into the amendment agreement that provides for an additional $50,000,000 mortgage on May 2, 2022 and a $50,000,000 mortgage on May 31, 2022, respectively. The maturity date of this loan is on January 31, 2023. In February and March 2023, the Company and MPT signed Forbearance agreements, where each of the MPT Parties agrees to temporarily forbear from further enforcing or exercising its rights or remedies with respect to each specified event of default during the forbearance period and ending on May 31, 2023. As of September 30, 2022 and 2021, the balances due under this note are

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$151,260,000 and $51,267,000, respectively, and are reflected in long term debt in the accompanying consolidated financial statements.

Promissory Note – TRS Loan

On August 23, 2019, the Company entered into a promissory note (the "TRS Note"), under which MPT has advanced to the Company $112,937,000. The interest on this note is 7.5% per annum and is subject to annual escalation of the consumer price index, limited to a minimum of 2% and a maximum of 4%. The maturity date of this note was originally scheduled to be the earlier of July 2022 or, if it occurs, a sale-leaseback of the properties in Rhode Island. In connection with the Chamber Transaction, and the approval of such transaction by the Rhode Island Attorney General, the maturity date of the TRS Note was extended to April 30, 2026. A sale-leaseback of the properties in Rhode Island is prohibited to occur before the extended maturity date. As of September 30, 2022 and 2021, the balances due under this loan are $91,025,000 and $98,606,000, respectively, and are reflected in long term debt in the accompanying consolidated financial statements.

All of the agreements referenced in this footnote are cross-collateralized and cross defaulted among the parties and the assets included therein (which do not include any of the hospital operating entities or real properties in Rhode Island, Texas or New Jersey).

The MPT transaction documents contain certain customary covenants and restrictions and a financial covenant based on EBITDAR performance. The Company was in compliance with all such covenants at September 30, 2022 and 2021. Based on annualized Adjusted EBITDA (as defined) achieved over the three years from the transaction date, additional amounts between $50 million to $250 million will be payable to the Company. As of September 30, 2022 and 2021, there has been no accounting for these amounts in the consolidated financial statements.

In connection with the transactions with MPT, the Company incurred deferred financing costs of $28.1 million. Amortization expense was approximately $1.8 million and $1.7 million during the year ended September 30, 2022 and 2021, respectively.

On May 23, 2023, the Company, PHPH and Prospect Healthcare Facilities Management, LLC (a Company subsidiary) entered into an Amended and Restated Master Restructuring Agreement (the "MRA") with MPT Picasso Investors TRS, LLC ("MPT Picasso") that provides for the restructuring of certain current rights and obligations of the parties. In accordance with the terms of the MRA, in exchange for the corresponding cancelation of obligations, including the promissory notes of Foothill and TRS Loan, of the Company and its subsidiaries to MPT and its subsidiaries, MPT Picasso was issued non-voting Series A-1 Preferred Units ("Preferred Units") constituting 49% of the issued and outstanding equity ownership in PHPH (the "MPT Units") plus a Convertible Promissory Note (the "MPT Convertible Note") convertible into additional Preferred Units determinable based upon certain future calculations described in the MRA and the MPT Convertible Note. The maturity date of the MPT Convertible Note is November 20, 2026. See Note 13 – "Subsequent Events" for further information.

Senior Secured and Revolving Credit Facilities

On February 22, 2018, the Company entered into an ABL Credit Agreement (the "ABL Agreement"), by and among the Company (as the borrower), the lenders party thereto and JPMorgan Chase Bank, N.A. ("JPMorgan"), as administrative agent and collateral agent. Under the ABL Agreement, the initial maximum revolving commitment was $250.0 million with ability to expand the facility to $325.0 million (the "ABL Facility"), and the ABL facility bears interest at a variable base rate plus an applicable spread that is based on excess availability under the ABL Facility, as further described in

the ABL Agreement, which was 7.25% and 3.75% as of September 30, 2022 and 2021, respectively. Through various amendments and the sale of Nix Health, the maximum commitment under the ABL Agreement was $275.0 million at September 30, 2021. This commitment decreased by $15.0 million in the month after the sale of EOGH and by a further $10.0 million when the remaining building at Nix Health is sold.

The ABL Facility matured on February 22, 2023. As of September 30, 2022 and 2021, the outstanding balance on the ABL facility was $196.3 million and $45.0 million, respectively. On February 22, 2023, the Company entered into an Amended and Restated Forbearance Agreement with JPMorgan Chase Bank, N.A. ("JPMC") related to the Amended and Restated ABL Credit Agreement, dated as of February 22, 2018 and amended from time to time thereafter (the "ABL Facility"). Under this agreement, JPMC, as the Administrative Agent, and other lenders party agreed to forbear from exercising any rights and remedies arising from or related to the occurrence and continuation of certain defaults until March 24, 2023. Accordingly, the ABL Facility's required repayment date was extended to March 24, 2023. On March 24, 2023, the Company entered into an Amended and Restated Forbearance Agreement with JPMC. JPMC, as the Administrative Agent, and the other lenders party thereto, agreed to forbear from exercising any rights and remedies arising from or related to the occurrence and continuation of certain defaults until May 31, 2023. Accordingly, the ABL Facility's required repayment date was extended to May 31, 2023.

The ABL Facility is secured by a first priority security interest on the working capital assets of the Company and its wholly owned subsidiaries except Prospect Health Plan, Inc., CHIC, RRG, Prospect Health Access Network, Inc. and certain immaterial subsidiaries and a second priority security interest on their fixed assets. The ABL Agreement does not have any financial maintenance covenants. The ABL Agreement has a "springing" fixed charge ratio covenant that applies if excess availability is less than the greater of 10% of the maximum borrowing amount and $22,000,000.

As of September 30, 2022 and 2021, the outstanding letter of credit is $52.9 million and $26.6 million, respectively.

Other

Cerner Promissory Note

Included in Other debt was a $44.4 million promissory note with a third-party creditor entered into on May 31, 2022, by the Company. The promissory note accrues interest at a rate of 4.15% per annum. Payments of interest and principal are being payable in quarterly payments in accordance with the payment plan with such payments commencing on June 1, 2022 and recurring through May 31, 2028. As of September 30, 2022, there was the promissory note outstanding of approximately $41.0 million.

Other debt is comprised of building, equipment and software financing obligation. At September 30, 2022 and 2021, other debt is $17.6 million and $23.7 million, respectively.

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The aggregate scheduled maturities of our total debt outstanding as of September 30, 2022 are as follows (in thousands):

Years ending September 30,	
2023	$ 200,382
2024	18,102
2025	16,945
2026	17,500
2027	125,606
Thereafter	118,661
	$ 497,196

9. Transactions with MPT

Master Lease I and II

On August 23, 2019, the Company closed a series of transactions with affiliates of MPT, a publicly traded Real Estate Investment Trust ("REIT"). Under these transactions, the Company sold to MPT the Company's hospital buildings in California (excluding Foothill Regional Medical Center ("Foothill")), Connecticut and Pennsylvania for an aggregate purchase price of $1.39 billion. Concurrent with the sale transactions, the Company entered into two master lease agreements whereby the hospital properties and related medical office buildings were leased back for an initial 15 year term, with options to extend twice for an additional 5 years each and for a further 4.75 year extension. Monthly rent is defined as 7.5% of the lease base, subject to annual escalation of consumer price index, limited to a minimum of 2% and a maximum of 4%. For the first master lease, the Company has the option to buy the properties at their fair value at the end of the lease term. For the second master lease, the Company has the option to purchase at a price that is fixed at the time of entering into the lease (the "Option Price"). If the Company chooses not to exercise this option, and the fair value at the end of the lease is below the Option Price, then the Company must pay MPT a sum equal to the difference between the fair value and the Option Price. These transactions do not qualify for sale leaseback accounting because of the Company's deemed continuing involvement with the buyer-lessor, including the requirements to pay reserves for major repairs, and the option to purchase included in the lease, which are considered a form of contingent collateral and results in the transaction being recorded under the financing method. All of the legal entities that are parties to the master lease agreement (which are the hospital entities in California, Connecticut and Pennsylvania) provide cross guarantees on all of the obligations to MPT, which guarantees include both lease payments under the master lease as well as indebtedness due to MPT. As of September 30, 2022 and 2021, the balances due under the leases are approximately $1.27 billion and $1.29 billion, respectively, and are reflected in MPT liabilities in the accompanying consolidated financial statements.

See Note 11 - "*Commitments and Contingencies*" for future minimum lease payments related to MPT Master Lease I and II commitments as of September 30, 2022 and Note 13 - "*Subsequent Events*".

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10. Stockholders' Equity

Chamber Transaction

In June 2021, Green Equity Investments V, LP, Green Equity Investments Side V, LP and other minority shareholders sold their shares of Ivy Holdings for a purchase price of approximately $11,900,000. As a result of the sale, the Company became indirectly wholly-owned by two shareholders that were previously the two largest individual shareholders in Ivy Holdings. The transaction, among other things, (i) merged Ivy Holdings with Chamber Merger Sub Inc., a wholly-owned subsidiary of Chamber Inc. ("Chamber") which is owned by the referenced two ultimate shareholders, and Ivy Holdings, as the surviving entity in such merger, became a wholly-owned direct subsidiary of Chamber, (ii) bought out all of the other stockholders of Ivy Holdings, (iii) terminated all stock options that have not previously been exercised.

Equity Based Compensation Plans

In December 2010, the Board of Directors of Ivy Holdings adopted the Ivy Plan that initially authorized the issuance of options exercisable for up to 155,110 shares of the common stock of Ivy Holdings ("Initial Options") to employees, certain consultants and independent members of the boards of directors, of Ivy Holdings and its subsidiaries (including the Company and its subsidiaries). These options were exercisable into Ivy Holdings stock and vested based on a number of criteria, including time, Company and Business Unit performance based on EBITDA targets and CEO and Compensation Committee discretion. Since the Ivy Holdings stock options were granted to Company employees for their services related to the Company, the related compensation cost has been recorded in the Company's consolidated financial statements. In June 2015, the Board of Directors of Ivy Holdings adopted the First Amendment to the Ivy Plan. Under the First Amendment, and subsequent amendments, a further 63,704 shares of common stock of Ivy Holdings ("New Options") could be issued.

The New Options were exercisable into Ivy Holdings stock and vested based on a number of criteria, including the same criteria as the Initial Options. However, they only became exercisable on the occurrence of certain corporate transactions, including a change in control of Ivy Holdings, as defined in the Incentive Stock Option Agreements. At the time that the Merger Agreement was executed, all options were "underwater." Accordingly, the Company determined to terminate these options and not allow them to be exercised, prior to the Chamber Transaction occurring. In May 2021, the Board of Directors agreed to terminate the options on the Effective Date, as defined in the Merger Agreement. There were no options granted or vested during the years ended September 30, 2022 and 2021. No compensation cost has been recorded in the Company's consolidated financial statements for the years then ended.

Dividends

The Company distributed approximately $11.9 million in connection with the Chamber Transaction during the year ended September 30, 2021, which was recorded against retained earnings, and was ultimately paid to the common stockholders of Ivy Holdings, Inc. There were no distributions during the year ended September 30, 2022.

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11. Commitments and Contingencies

Leases

The Company leases various office facilities and equipment from third parties under non-cancelable operating and capital lease arrangements expiring at various dates through 2034. Certain operating leases contain rent escalation clauses and renewal options, which have been factored into determining rent expense on a straight-line basis over the lease terms. Capital leases bear interest at rates ranging from 2.6% to 9.9% per annum.

The future minimum annual lease payments required under leases in effect at September 30, 2022, are as follows (in thousands):

For the Years ending September 30,	Capital Leases	Operating Leases	MPT Lease Liability
2023	$ 1,487	$ 3,471	$ 112,322
2024	1,340	2,336	114,568
2025	1,260	1,994	116,859
2026	666	1,847	119,197
2027	477	1,719	121,581
Thereafter	-	3,208	1,272,834
Total minimum lease payments	5,231	$ 14,575	1,857,361
Less: amounts representing interest	(522)		(638,214)
Add: amounts representing land	-		47,176
	4,708		1,266,323
Less: current portion	(1,225)		(81,976)
	$ 3,483		$ 1,184,347

Rent expense related to operating leases for the years ended September 30, 2022 and 2021, was approximately $9.0 million and $9.2 million, respectively.

Litigation

We operate in a highly regulated and litigious industry. As a result, various lawsuits, claims and legal and regulatory proceedings have been and can be expected to be instituted by or asserted against us. We are also subject to claims and suits arising in the ordinary course of business, including claims for personal injuries or wrongful restriction of, or interference with, physicians' staff privileges. In certain of these actions the claimants may seek punitive damages against us, which may not be covered by insurance. We are also subject to claims by various taxing authorities for additional taxes and related interest and penalties. The resolution of any such lawsuits, claims or legal and regulatory proceedings could have a material, adverse effect on our results of operations, financial position or liquidity.

Health care companies are subject to numerous investigations by various governmental agencies. Under the federal False Claims Act ("FCA"), private parties have the right to bring qui tam, or whistleblower," suits against companies that submit false claims for payments to, or improperly retain overpayments from, the government. Some states have adopted similar state whistleblower and false claims provisions. Certain of our individual facilities have received, and from time to time,

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other facilities may receive, government inquiries from, and may be subject to investigation by, federal and state agencies. Depending on whether the underlying conduct in these or future inquiries or investigations could be considered systemic, their resolution could have a material, adverse effect on our results of operations, financial position or liquidity. While the Company's management currently believes that resolving all of these matters, individually or in the aggregate, will not have a material adverse impact on the Company's consolidated financial position or results of operations, the litigation and other claims that the Company faces are subject to inherent uncertainties and management's view of these matters may change in the future.

Seismic Standards

The Company's California Hospitals (with the exception of Bellflower and Van Nuys, which currently only provide psychiatric services) are required to comply with laws that regulate the seismic performance of all aspects of hospital facilities in California and imposes near-term and long-term compliance deadlines for seismic safety assessment, submission of corrective plans, and retrofitting or replacement of medical facilities to comply with current seismic standards. These laws and regulations require hospitals to meet seismic performance standards to ensure that they are capable of providing medical services to the public after an earthquake.

These requirements can result in significant operational changes and capital outlays. Management is continuing to assess its options and the methods of financing the required retrofits. Based on management's evaluation, the costs of renovation needed to comply with the California seismic safety standards for its acute-care facilities, including asbestos abatement, are not estimable at this time.

Legislation and HIPAA

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

The Company believes that it is in compliance with fraud and abuse regulations as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

The Health Insurance Portability and Accountability Act ("HIPAA") assures health insurance portability, reduces healthcare fraud and abuse, guarantees security and privacy of health information, and enforces standards for health information. The Health Information Technology for Economic and Clinical Health Act ("HITECH Act") expanded upon HIPAA in a number of ways, including establishing notification requirements for certain breaches of protected health information. In addition to these federal rules, California and Connecticut have developed strict standards for the privacy and security of health and other personal information as well as for reporting certain violations and breaches. The Company may be subject to significant fines and penalties if found not to be compliant with these state or federal provisions.

Collective Bargaining Agreements

As of September 30, 2022, the Company had approximately 15,200 employees, of whom approximately 5,470 employees or 36% are represented by various labor organizations. Of those, none of the Company's employees are employed under union contracts that have expired or will expire before September 30, 2023.

As of September 30, 2021, the Company had approximately 17,000 employees, of whom approximately 3,700 employees or 22% are represented by various labor organizations. Of those, approximately 3,300 employees or 19% of the Company's employees are employed under union contracts that have expired or will expire before September 30, 2022.

Tangible Net Equity ("TNE") Requirement

The Company's affiliated California physician organizations and licensed healthcare service plans may be subject to one or more of the following requirements: minimum working capital, Tangible Net Equity, cash-to-claims ratio and claims payment requirements as prescribed by the California Department of Managed Health Care ("DMHC"). TNE is defined as net assets, less intangibles and amounts due from affiliates, plus subordinated obligations. As of September 30, 2022 and 2021, the Company's affiliated California physician organizations and licensed healthcare service plan were in compliance with these regulatory requirements.

PACE financing

In August 2019 the Company entered into an agreement with a third party that specializes in property assessed clean energy ("PACE") financing to finance approximately $49.0 million for qualifying renovations for the properties in California. The full amount of the funds was deposited into an escrow account managed by a third party administrator, less deductions for the first year of prepaid interest of approximately $3.2 million and deferred financing fees totaling approximately $2.6 million. The Company received cash from the escrow account of approximately $13.5 million which was used to refinance related completed qualifying expenditures under the PACE program and invoices for construction in progress that had been paid. The amount financed is subject to an annual interest rate of 6.0% and the financing has a maturity date of September 2, 2045. Payments are collected through property tax bills as a non-ad valorem assessment. Payments commenced in July 2020. At September 30, 2022, the Company had a related financing liability of approximately $35.0 million, of which $1.1 million and $33.9 million is classified within other current liabilities and other long-term liabilities, respectively, in the accompanying consolidated balance sheets. At September 30, 2021, the Company had a related financing liability of approximately $34.5 million, of which $1.2 million and $33.3 million is classified within other current liabilities and other long-term liabilities, respectively, in the accompanying consolidated balance sheets. At September 30, 2022 and 2021, there was approximately $10.8 million and $18.7 million, respectively, left in escrow required to be spent on qualifying renovations.

Retirement Benefits

The Company sponsors various employee non-contributory, defined benefit pension plans (the "DB Plan") covering certain full-time employees of Crozer, ECHN and Waterbury.

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In connection with the acquisition of Crozer, its plan was frozen with all benefits accruals ceased as of July 1, 2016. With respect to each Represented Employee who is a member of the Laborers' International Union of North America, the Monthly Compensation (as defined), the Credited Service (as defined), the Eligibility Service (as defined) and the accrued benefit was frozen and determined as of July 1, 2016. No benefits accrue since that date. The plan was amended to provide for determination of Vesting Service (as defined) for employees who were employed with the Company before July 1, 2016, such that years of service shall include all periods of employment completed on and after July 1, 2016, subject to the Break in Service rules (as defined). The plan was further amended on September 3, 2016 to provide certain Qualifying Participants (as defined) the right to make a Special Benefit Election (as defined) during "2016 Lump Sum Option Window" period from October 15, 2016 through November 30, 2016 to receive or commence receiving his or her vested Accrued Benefit as of December 1, 2016 in accordance with procedures adopted by the Committee. Further, the Company will adopt a plan amendment to terminate the plan effective within such five year period and will liquidate, fully fund and satisfy, and pay all benefits owed to participants and beneficiaries of the plan by providing lump sum distributions to participants, purchasing annuities for participants who do not elect a lump sum distribution, subject to applicable filing and authorization by the applicable government agency or entity. The five-year period can be extended in the event certain discount rates fall below certain defined thresholds. Presently the discount rates are below those thresholds and the Company intends to delay the termination of the Crozer DB plan.

Crozer also sponsors a postretirement benefit program (the "OPEB Plan") which is an unfunded medical care and life insurance benefit program, and a supplemental executive retirement plan (the "SERP Plan") which is an unfunded retirement plan that covers a group of current and former executives. These plans were frozen and all benefit accruals ceased as of July 1, 2016. No benefits will accrue since that date. The SERP plan was terminated and all funds paid out. With respect to each Represented Employee who is a member of the Laborers' International Union of North America, benefits will continue to accrue until a settlement of an ongoing union contract negotiation is reached for the OPEB Plan.

ECHN sponsors a DB Plan that covered substantially all of its employees. The benefits were based upon years of service and compensation for the five highest years during the employee's last 10 years of service. On December 31, 2008, ECHN implemented a soft freeze on the plan. All qualified employees were eligible to enter into the defined contribution plan, ECHN contributed 3% of eligible employees' salaries. This contribution was non-guaranteed for all employees, except certain union workers covered under a collective bargaining agreement. Effective December 31, 2013, ECHN froze the plan for all remaining participants. During September 2013, the Board passed a resolution to freeze all benefits related to the plan.

ECHN also sponsors an OPEB Plan that provides health care benefits to vested, retired employees, who are age 55 or older and start collecting under the defined benefit plan described above once retired. The retiree must be enrolled into the medical plan on the date of retirement to be eligible for the continuation. Full-time registered nurse retirees from ECHN's Manchester facility (retired prior to October 1, 2005 and were eligible per the collective bargaining agreement) were grandfathered and required to pay at least 50% of the total cost of the medical and dental coverage they elect for themselves under the OPEB Plan.

Waterbury has a noncontributory defined benefit cash balance plan. The plan was frozen to non-union participants effective June 30, 2015. Participants who are part of the Connecticut Healthcare Associates Technical Unit remain active in the plan. Non-union employees no longer accrue additional employer contribution credits in the plan. These participants will continue to receive interest credits based on their account balances in accordance with the terms of the plan. They will be entitled to their account balance (the retirement benefit they have earned up to June 30, 2015) plus applicable

interest credits after the Plan were frozen. Cash balance interest crediting rate is 1.50% compounded annually.

For all plans, the Company has made contributions sufficient to meet the minimum funding requirements of applicable laws and regulations.

The changes in the benefit obligation for September 30, 2022 is mainly due to an actuarial gain from an increase in the discount rate. The activity of the pension plans for the years ended September 30, 2022 and 2021 is as follows:

(in thousands):

September 30,	**2022**	2021
Changes in benefit obligations		
Projected benefit obligations, beginning of period	**$ 773,873**	$ 797,145
Service cost	**99**	126
Interest cost	**22,192**	22,527
Plan participant contributions	**-**	-
Actuarial gain	**(191,829)**	(1,879)
Benefits paid	**(26,132)**	(24,780)
Lump sum benefits paid and annuity purchase	**(26,055)**	(19,266)
Other	**(622)**	-
Projected benefit obligation, end of year	**$ 551,526**	$ 773,873
Changes in plan assets		
Fair value of plan assets, beginning of year	**$ 483,462**	$ 559,213
Actual return on plan assets	**(123,566)**	(40,002)
Contributions by plan sponsor	**3,960**	8,297
Plan participant contributions	**-**	-
Benefits paid	**(26,132)**	(24,780)
Lump sum benefits paid and annuity purchase	**(26,055)**	(19,266)
Fair value of plan assets, end of year	**$ 311,669**	$ 483,462
Funded status of the plan, end of year	**$ (239,857)**	$ (290,411)
Accumulated benefit obligation, end of year	**$ (239,857)**	$ (290,411)

The funded status of the pension plans as of September 30, 2022 and 2021 is as follows (in thousands), split between the pension plans and the post retirement plans:

	2022 Pensions	**2022 OPEBs**	**2022 Total**	2021 Pensions	2021 OPEBs	2021 Total
Current liability	**$ -**	**$ 310**	**$ 310**	$ -	$ 430	$ 430
Non-current liability	**235,184**	**4,363**	**239,547**	284,674	5,307	289,981
	$ 235,184	**$ 4,673**	**$ 239,857**	$ 284,674	$ 5,737	$ 290,411

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The components of net periodic benefit cost for the years ended September 30, 2022 and 2021 are as follows (in thousands):

September 30,	**2022**	2021
Components of net periodic benefit cost:		
Service cost	**$ 99**	$ 126
Interest cost	**22,192**	22,551
Expected return on plan assets	**(9,244)**	(10,292)
Amortization of net loss	**456**	(30)
Effect of settlement	**(1,458)**	724
Amortization of prior service credit	**(51)**	(51)
Total net periodic benefit cost	**$ 11,994**	$ 13,028

Service cost is recorded in Hospital operating expenses on the consolidated statements of operations. All other components of net periodic benefit costs are recorded in other expense on the consolidated statements of operations.

	2022	2021
Other change in benefit obligations recognized in accumulated other comprehensive loss:		
Loss due to participant experience	**$ -**	$ 143
Amortization of net gain	**(456)**	(8)
Asset return (gain) loss	**(59,755)**	49,035
Prior service (cost)/credit	**(622)**	-
Amortization of prior service (cost)/credit	**51**	51
Amount recognized due to settlement	**1,458**	(723)
Total recognized in other comprehensive (income) loss and accumulated other comprehensive (income) loss	**$ (59,324)**	$ 48,498

The assumptions used in determining the actuarial present value of the projected benefit obligations for pension plans as of September 30, 2022 and 2021 and for the years then ended are as follows:

	2022	2021
Weighted average assumptions used to determine benefit obligations at end of period		
Discount rate	**5.63-5.90%**	2.65-3.01%
Rate of compensation increase	**0.00-3.00%**	0.00-2.00%
Weighted average assumptions used to determine net periodic benefit cost for the period ended		
Discount rate	**2.65-3.01%**	2.55-2.97%
Rate of compensation increase	**0.00-2.00%**	0.00-2.00%
Expected return on the plan assets	**0.00-3.50%**	0.00-3.25%

The asset allocation percentage by major asset class for the plans and the target allocation for 2022 follows:

	Target	2022
Asset class:		
Cash and cash equivalents	0% - 20%	1 %
Fixed income	10% - 100%	98 %
Alternative investments and hedge funds	0% - 30%	1 %
		100 %

The investment objectives of the plans are to invest consistently with the fiduciary standards of ERISA, to provide for the funding and anticipated withdrawals on an ongoing basis, conserve and enhance the capital value of the plans in real terms while maintaining a moderate risk profile, to minimize principal fluctuations over the investment cycle, and achieve a long-term level of return commensurate with contemporary economic conditions. The expected long-term rate of return with respect to the plans is based on an aggregate of expected capital market returns within each asset category.

The following tables set forth the assets in the plans measured at fair value, by input level (in thousands):

September 30, 2022	Level 1	Level 2	Level 3	Net asset value	Total
Fixed income securities:					
Short-Term Duration	$ -	$ 35,401	$ -	$ -	$ 35,401
Extended Duration	-	134,619	-	-	134,619
Interim Duration	-	51,606	-	-	51,606
Long-Term Duration	-	82,608	-	-	82,608
Real estate	-	-	332	-	332
Alternative investments	-	-	4,244	-	4,244
Cash and cash equivalents	-	-	-	2,859	2,859
Total	$	$ 304,234	$ 4,576	$ 2,859	$ 311,669

September 30, 2021	Level 1	Level 2	Level 3	Net asset value	Total
Fixed income securities:					
Short-Term Duration	$ -	$ 40,502	$ -	$ -	$ 40,502
Extended Duration	-	201,527	-	-	201,527
Interim Duration	-	60,320	-	-	60,320
Long-Term Duration	-	166,901	-	-	166,901
Real estate	-	-	928	-	928
Alternative investments	-	-	10,423	-	10,423
Cash and cash equivalents	-	-	-	2,861	2,861
Total	$ -	$ 469,250	$ 11,351	$ 2,861	$ 483,462

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Pension plan assets classified as Level 3 in the fair value hierarchy represent investments in which the trustee has used significant unobservable inputs in the valuation model. The hedge funds consist of equity/long/short funds and multi-strategy funds in which fair values have been estimated using the net asset value per share of the investment. The alternative investments primarily consist of investments in limited partnerships that invest in the Public-Private Investment Program which fair values have been estimated using the net asset value per share of the investment.

On an annual basis, the Company assesses the valuation hierarchy for pension assets recorded at fair value. From time to time, assets will be transferred within the fair value hierarchy as a result of changes in, among other things, inputs used, liquidity, or valuation methodologies. During the years ended September 30, 2022 and 2021, there were no transfers in classification within the fair value hierarchy.

The following table is a rollforward of the plans' assets classified within Level 3 of the fair value hierarchy (in thousands):

September 30,	**2022**	2021
Balance, beginning of year	**$ 11,351**	$ 13,697
Actual return on plan assets:		
Unrealized loss	**(6,775)**	(2,346)
Balance, end of year	**$ 4,576**	$ 11,351

The expected long-term future benefit payments to retirees with respect to the plans and are as follows (in thousands):

2023	$ 47,100
2024	42,040
2025	42,280
2026	42,690
2027	42,860
2028 - Thereafter	207,430
	$ 424,400

Waterbury participates in multi-employer pension plans that cover substantially all union employees. Contributions to the plans are based upon a percentage of each participant's total salary. The risks of participating in these multi-employer plans are different from single employer plans in the following aspects:

- Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of another participating employer.

- If a participating employer stops contributing to the plan, the unfunded obligation of the plan may be borne by the remaining participating employers.

- If Waterbury chose to stop participating in the multi-employer plans, Waterbury may be required to pay those plans an amount based on the underfunded status of the plans, referred to as a withdrawal liability.

The following table presents Waterbury's participation in these plans as of and for the years ended September 30, 2022 and 2021.

Pension Trust Fund	EIN / Pension Plan	Pension Protection Act ("PPA") Certified Zone Status *(1)* 2022	2021	FIP / RP Status Pending / Implemented *(2)*	Contributions 2022	2021	Surcharge Imposed	Exp. Date of CBA
Connecticut Health Care Associates Pension Fund	06-1313462	**Green**	Red	Pending	**$ 2,026,216**	$ 2,168,769	No	7/1/25
New England Health Care Employees Pension Fund	22-3071963	**Frozen Green**	Green	NA	**1,139,701**	783,560	No	3/15/25
Total contributions					**$ 3,165,917**	$ 2,952,329		

(1) The most recent PPA Certified Zone Status available for each Fund is for the 2022 plan year. The Zone Status is based on information received from each Fund and is certified by the Fund's actuary. Among other factors: Funds in the Red Zone are generally less than 65 percent funded or have a projected Funding Deficiency in the Fund's Minimum Funding Standard Account within the next 4 years, Funds in the Endangered (Yellow) Zone are generally less than 80 percent funded and don't have a projected Funding Deficiency within the next 7 years, and Funds not in the Red or Yellow Zones are in the Green Zone.

(2) The "FIP/RP Status Pending/Implemented" column indicates Funds for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented (if applicable). For the 2022 plan year, this column was not applicable for either Fund.

During the years ended September 30, 2022 and 2021, Waterbury's contributions to the CHCA Pension Plan and the New England Health Care Employees Pension Plan represented 81.5% and 3.3% and 81.9% and 2.5% of the total contributions made to the plans by all participating employers, respectively.

Governmental regulations impose certain requirements relative to union-sponsored pension plans. In the event of plan termination or employer withdrawal, an employer may be liable for a portion of the plan's unfunded vested benefits. As of September 30, 2022 and 2021, Waterbury has not recorded any liabilities for future withdrawal obligations related to the multi-employer plans.

Defined contribution plans

The Company sponsors two defined contribution plans covering substantially all employees who meet certain eligibility requirements, which are segregated between union and non-union employees. Under these plans, employees can contribute up to 50% of their compensation up to the IRS deferred annual maximum. There is currently no company match offered under the plans, except at certain facilities in Rhode Island and Pennsylvania, for which the expense for the employer match was $16,117,000 and $16,070,000 for the years ended September 30, 2022 and 2021, respectively.

12. Accrued Medical Claims and Other Healthcare Costs Payable

Below is a schedule showing the changes in our accrued medical claims and other healthcare costs payable (Medical Group segment, Global Risk Management segment, and full risk contracts) during the two years ended September 30, 2022 (in thousands) excluding the impact of discontinued operations:

September 30,	**2022**	2021
IBNR as of beginning of year	**$ 93,619**	$ 76,374
Claim expenses incurred during the year:		
Related to current year	**447,597**	352,288
Related to prior year	**7,446**	(6,715)
Total incurred	**455,043**	345,573
Claims paid during the year:		
Related to current year	**(344,704)**	(274,447)
Related to prior year	**(83,740)**	(53,881)
Total paid	**(428,444)**	(328,328)
IBNR as of end of year	**$ 120,218**	$ 93,619

Following is a table showing the details of the Medical Group and Global Risk Management segments cost of revenues per the consolidated statements of operations (in thousands):

Years Ended September 30,	**2022**	2021
Capitation expense	**$ 153,785**	$ 133,786
Fee-for-service claims expense	**338,298**	232,103
Other physician compensation	**24,558**	28,428
Other cost of revenues	**19,567**	17,255
Total cost of revenues	**$ 536,208**	$ 411,572

13. Subsequent Events

Subsequent events have been evaluated through to May 25, 2023, the date the Company's consolidated financial statements were available for issuance.

On October 5, 2022, the Company entered into an asset purchase agreement with Yale New Haven Health Services Corporation, a Connecticut nonstock corporation, pursuant to which the Company agreed to sell, and the buyer agreed to purchase, substantially all of the assets and liabilities of the Company related to the Company's ECHN and Waterbury hospital systems in Connecticut. The Company's pension obligation is not assumed by the buyer.

On November 18, 2022, the Company entered into an asset purchase agreement with Centurion Foundation, Inc., pursuant to which the Company agreed to sell, and the buyer agreed to purchase, substantially all of the assets and liabilities of the Company related to the Company's CharterCARE hospital system in Rhode Island. The Company's pension obligation is not assumed by the buyer.

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Effective December 1, 2022, the Company became the indirect 100% beneficial owner of Nuestra Familia Medical Group, Inc. ("Nuestra") after Nuestra repurchased the 3.66% ownership interest held by a contracted physician provider in accordance with the terms of Nuestra's Agreement Concerning Shares of the Company, dated September 19, 1995, due to the termination of the physician's contracted services.

On February 22, 2023, the Company entered into a Forbearance Agreement with JPMC related to the Amended and Restated ABL Credit Agreement, dated as of February 22, 2018 and amended from time to time thereafter (the "ABL Facility"). JPMC, as the Administrative Agent, and the other lenders party thereto, agreed to forbear from exercising any rights and remedies arising from or related to the occurrence and continuation of certain defaults until March 24, 2023. On March 24, 2023, the Company and JPMC entered into an Amended and Restated Forbearance Agreement that extended the forbearance period until May 31, 2023.

On February 16, 2023, a Forbearance Agreement was signed between the Company and the MPT Parties. Under this agreement, each of the MPT Parties agreed to temporarily forbear from further enforcing or exercising its rights or remedies with respect to each specified event of default during the forbearance period commencing on the agreement effective date and ending on February 23, 2023. On February 23, 2023, the Company and the MPT Parties signed an Amended and Restated Forbearance Agreement that extended the forbearance period until March 24, 2023. On March 24, 2023, the Company and the MPT Parties entered into a Second Amended and Restated Forbearance Agreement that extended the forbearance period until May 31, 2023.

Such March 24th MPT forbearance was provided in connection with a larger endeavor to restructure the obligations owed by the Company and its affiliates to MPT's affiliates. For that purpose, the Company and MPT also entered into a Term Sheet, dated March 30, 2023, pursuant to which the parties agreed to terms regarding certain rent and debt relief and the payment of certain Company obligations through the issuance to MPT of equity, and/or debt convertible into equity, in the Company's Medical Group segment operating in California, Arizona and Texas (the "PhysicianCo Business"). In connection with the forgoing, MPT Picasso, an MPT affiliate, loaned $50 million to PHP Holdings, LLC, a Company subsidiary, pursuant to a Convertible Promissory Note dated March 31, 2023. The maturity date of the note was March 31, 2026, if not earlier repaid or converted into equity in the PhysicianCo Business.

On May 23, 2023, a Financing Agreement (the "PhysicianCo Loan Agreement") was executed by and among (1) PHP Holdings, LLC, ("PHPH"), two of its subsidiaries as borrowers, and its other subsidiaries (excluding Prospect Health Plan, Inc. ("PHP")) as guarantors, all of which (together with PHP, which is not a borrower or guarantor) collectively comprise the PhysicianCo Business, (2) the Company and its California hospital subsidiaries at guarantors, (3) Wilmington Trust, National Association, as administrative agent and collateral agent, (4) Centerbridge Entity, as a lender and (5) Blue Torch entity, as a lender. Additionally on May 23, 2023, the Company and its subsidiaries comprising the Company's Hospital segment (the "HospitalCo Business") entered into a Loan Agreement (the "HospitalCo Loan Agreement") with MPT TRS Lender PMH, LLC, as administrative agent and collateral agent, and other lenders from time to time party thereto. The proceeds of the two financing transactions are used to refinance the ABL Facility (see Note 8), to pay certain expenses associated with the refinancing, to provide cash required for compliance with certain minimum regulatory capital requirements for certain California subsidiaries of PHPH, and to finance certain working capital and other operational needs of the Company and its subsidiaries. The maturity date of both loans is May 23, 2026. The principal amount of the PhysicianCo Loan is $375.0 million and it bears interest at a rate determined through an adjusted secured overnight financing rate (SOFR) calculation

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set forth in the PhysicianCo Loan Agreement plus 13.00%. Interest on the loans shall be payable every 3 months from the date of the making of the loan.

Additionally, on May 23, 2023, the Company and its subsidiaries comprising the Company's Hospital segment (the "HospitalCo Business") entered into a Loan Agreement (the "HospitalCo Loan Agreement") with MPT TRS Lender PMH, LLC, as administrative agent and collateral agent, and other lenders from time to time party thereto. The initial principal amount of the loan (the "HospitalCo Loan") is $25.0 million with an additional $50.0 million in delayed draw loans (for an aggregate of $75.0 million). The Hospital Loan bears interest at a rate determined through an adjusted SOFR calculation set forth in the HospitalCo Loan Agreement plus 5.00% and interest on the loans shall be payable quarterly. The maturity date is May 23, 2026. The proceeds of the HospitalCo Loan are used to finance certain working capital and other operational needs of the Company and its subsidiaries.
In connection with the closing of the PhysicianCo Loan and the HospitalCo Loan, on May 23, 2023, the Company, PHPH and Prospect Healthcare Facilities Management, LLC (a Company subsidiary) entered into an Amended and Restated Master Restructuring Agreement (the "MRA") with MPT Picasso that provides for the restructuring of certain current rights and obligations of the parties. In accordance with the terms of the MRA, certain obligations of the Company and its subsidiaries to MPT and its subsidiaries were cancelled. Such obligations mainly include $103 million of MPT's Connecticut real estate, $100 million of MPT's Pennsylvania real estate, the loans aggregating approximately $264 million and accrued rent and interest of approximately $56 million, along with the previous $50 million Convertible Promissory Note and future rent deferral. In exchange for the corresponding cancelation of these obligations of the Company and its subsidiaries to MPT and its subsidiaries, MPT Picasso was issued non-voting Series A-1 Preferred Units ("Preferred Units") by PHPH and a Convertible Promissory Note in the amount of $646.3 million (the "MPT Convertible Note") convertible into additional Preferred Units determinable based upon certain future calculations described in the MRA and the MPT Convertible Note. The MPT Convertible Note bears interest at a rate of 8.00% per annum and all principal, interests, and other amounts payable under the MPT Convertible Note may then be converted. MPT may elect at any time voluntarily to convert all or any portion of the outstanding convertible amount. The maturity date of the MPT Convertible Note is November 20, 2026.

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Supplementary Information

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Independent Auditor's Report on Supplementary Information

Our audits of the consolidated financial statements included in the preceding section of this report were conducted for the purpose of forming an opinion on those statements as a whole. The supplementary information presented in the following section of this report is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

BDO USA, LLP

May 25, 2023

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Prospect Medical Holdings, Inc.

Consolidating Balance Sheets
As of September 30, 2022

	Hospital Segment																									
	Alta-California								CCHP			Waterbury		ECHN			Crozer		EOSH	MIA						
	Los Angeles	Norwalk	Van Nuys	Hollywood	Foothill	Bellflower	Culver	Corporate	Rodger Williams	Fatima	Non-hospital entities combined	Waterbury	Non-hospital entities combined	Rockville	Manchester	Non-hospital entities combined	Crozer Hospital Entities	Non-Hospital Entities Combined	Hospital and Non-Hospital Entities Combined	Hospital and Non-Hospital Entities Combined	PHHH	Medical Group Segment	CRC Segment	Corporate Segment	Eliminations	Total
Assets																										
Current assets																										
Cash and cash equivalents	(346)	(891)	(27)	529	(1,967)	6	(3,085)	(2,979)	(85)	(202)	(3,592)	(1,053)	5,544	110	(4,150)	1,200	846	(5,434)	415	1,597	1,519	35,845	28,219	6,855	-	56,084
Cash held in escrow	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Restricted cash	-	-	-	-	-	-	-	-	872	26	-	-	-	-	-	-	-	-	5,430	-	-	-	1,309	28,106	-	35,743
Restricted investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	33,298	-	33,298
Patient accounts receivable, net of allowance for doubtful accounts	15,889	7,254	2,955	16,447	11,082	1,519	33,240	-	17,729	18,784	2,337	22,000	6,176	1,490	12,827	911	(122,915)	205,688	(6,954)	(11)	10,585	41,956	(1,968)	-	6,310	302,581
Due from government payers	5,339	964	2,183	1,277	1,635	872	6,641	-	4,457	2,928	-	-	-	-	-	-	1,108	-	1,226	1,511	-	-	-	-	-	27,914
Other receivables, prepaid expenses and other current assets	478,080	118,277	96,753	260,056	203,617	46,543	33,905	(107,304)	96,196	(2,735)	(39,554)	159,090	(104,802)	(26,518)	101,308	(41,690)	191,849	(286,462)	(98,521)	(77,507)	5,892	976,342	(23,367)	(955,227)	(418)	205,842
Income tax receivable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	892	-	892
Inventories	700	330	71	630	1,797	951	2,975	-	4,541	5,235	199	3,677	496	566	4,650	85	11,596	2,533	-	-	15	-	-	2,169	-	41,416
Hospital fee program receivable	38,666	8,130	14,615	21,225	15,913	9,271	36,858	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	280,228
Current Assets Held for Sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total current assets	**554,328**	**134,264**	**116,552**	**300,264**	**231,695**	**54,562**	**128,732**	**(210,283)**	**63,610**	**21,836**	**(40,150)**	**157,714**	**(92,586)**	**(24,352)**	**114,635**	**(39,454)**	**82,879**	**(93,675)**	**(97,804)**	**(74,410)**	**19,011**	**454,143**	**103**	**(883,007)**	**5,891**	**883,048**
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Property, improvements and equipment, net	17,431	12,834	6,263	16,680	24,030	17,842	33,056	30,401	42,195	26,928	1,423	48,580	9,778	23,219	38,774	1,139	118,475	83,669	-	-	1,775	2,009	-	1,224	58,239	613,826
Deferred income taxes, net	-	-	-	-	-	-	-	-	-	-	-	(11,086)	-	-	-	(3,853)	88,946	(580)	-	-	-	14,193	124	(84,284)	-	-
Goodwill	-	-	-	-	-	-	17,081	74,577	17	8	346	-	2,600	-	-	375	-	97,449	-	-	-	21,714	-	-	9,585	225,752
Intangible assets, net	-	-	-	-	-	-	-	2,351	-	-	-	1,148	-	-	-	1,376	-	6,600	-	-	-	-	-	-	1,594	13,069
Other assets	-	-	-	-	-	-	-	-	3,560	50	689	10,393	150	550	1,385	11,844	223	(1,385)	-	-	6,445	74,439	-	548,066	(561,572)	80,039
Long-Term Assets Held for Sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	**571,759**	**147,098**	**122,817**	**316,924**	**255,725**	**72,404**	**183,869**	**(102,954)**	**109,462**	**48,822**	**(37,692)**	**206,551**	**(80,058)**	**(583)**	**155,994**	**(30,573)**	**289,523**	**92,278**	**(97,804)**	**(74,410)**	**27,231**	**566,838**	**317**	**(423,901)**	**(486,203)**	**1,824,614**
Liabilities and Stockholder's (Deficit) Equity																										
Current liabilities:																										
Accrued medical claims and other healthcare costs payable	-	-	-	-	21,976	-	19,450	21,604	-	-	-	-	-	-	-	-	-	(7)	-	53	36	45,108	19,980	-	-	120,300
Accounts payable and other accrued liabilities	13,770	8,993	1,563	11,523	13,875	2,156	33,746	2,244	17,790	17,523	5,775	37,211	6,315	5,540	27,829	(820)	83,957	18,886	(4,112)	5,061	1,509	92,699	9,221	72,501	(1,107)	427,598
Accrued salaries, wages and benefits	6,978	3,304	2,017	4,152	5,898	1,490	16,186	4,142	7,624	4,689	5,573	12,861	4,517	1,175	10,140	1,057	34,130	31,578	627	115	6,511	7,796	1,623	26,078	-	201,141
Hospital fee program liability	19,626	4,825	8,374	15,671	4,230	5,545	38,542	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	96,813
Due to government payers	(35)	-	-	(234)	823	-	(2)	-	2,253	1,715	378	12,411	-	3,882	10,869	338	16,469	-	131	-	(1)	-	-	-	-	49,017
Refund liability, current portion	5,617	-	-	11,129	1,108	-	-	-	179	157	-	1,233	3	1,102	839	12	2,164	-	-	-	313	-	-	-	-	23,976
Income taxes payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Revolving line of credit, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	196,500	-	196,500
Current portion of capital leases	119	38	31	122	477	28	342	45	1,129	988	82	1,803	188	320	1,372	84	7,389	2,090	-	-	-	10	-	-	-	16,613
Current portion of long-term debt	-	-	-	-	101	-	-	-	-	-	-	-	-	500	307	-	-	-	-	-	-	-	-	73,947	(69,967)	4,888
Current portion of MPT liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	81,976	-	81,976
Other current liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,833	5,894	3,041	-	11,590
Current Liabilities Held for Sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total current liabilities	**48,069**	**16,380**	**11,987**	**42,363**	**48,286**	**9,150**	**106,264**	**28,035**	**28,075**	**25,067**	**11,808**	**65,561**	**10,978**	**12,719**	**51,356**	**691**	**146,109**	**52,547**	**(3,354)**	**5,229**	**8,368**	**88,248**	**30,718**	**455,843**	**(71,074)**	**1,230,312**
Long-term debt, net of current portion	-	-	-	-	152,501	-	7,762	(7,762)	-	-	-	-	-	4,592	9,181	-	-	-	892	-	-	-	-	143,421	-	304,587
Deferred income taxes, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Malpractice reserves	363	1,424	56	595	1,218	4	6,947	-	18,995	5,419	3,243	12,028	2,015	5,721	5,430	3,900	17,450	15,571	2,475	45	-	-	-	53,758	-	132,254
Refund liability, net of current portion	2,830	-	-	24,954	2,251	-	-	-	-	-	-	-	-	1,886	317	-	7,835	-	5,128	-	-	-	-	-	-	45,251
Capital leases, net of current portion	304	155	80	315	1,847	75	640	68	3,146	2,280	6	4,047	385	819	869	181	16,737	15,753	-	-	-	-	-	-	-	47,706
Asset retirement obligations	-	-	-	-	-	-	-	-	677	2,347	-	3,296	-	192	280	-	113	-	-	-	-	-	-	-	-	6,845
Other long-term liabilities	-	2,801	1,082	10,082	5,113	1	14,916	-	33,856	5,708	-	-	114	-	956	-	1,905	17,133	-	-	(911)	720	-	2,221	-	96,289
Pension obligations	-	-	-	-	-	-	-	-	-	-	-	7,142	-	14,803	14,200	-	162,039	-	-	-	-	-	-	-	-	235,184
MPT Liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,184,547	-	1,184,547
Long-Term Liabilities Held for Sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	**51,566**	**20,760**	**13,205**	**78,287**	**211,214**	**9,230**	**136,529**	**20,341**	**85,643**	**40,819**	**15,057**	**92,052**	**13,492**	**38,674**	**115,589**	**4,372**	**350,238**	**99,003**	**5,141**	**5,274**	**8,057**	**88,968**	**30,718**	**1,819,591**	**(71,074)**	**3,282,755**
Commitments and contingencies																										
Stockholder's (deficit) equity:																										
Common stock, $0.01 par value; 100 shares authorized, issued and outstanding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	1
Additional paid-in capital	-	-	-	-	13,020	20,548	15,967	138,968	33,760	28,535	40,251	-	-	1,281	19,276	6,117	103,010	79,635	52,719	43,410	-	167	2,500	59,274	(361,311)	57,675
Accumulated other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	1,820	-	(5,703)	(12,614)	-	22,341	-	-	-	-	-	-	(21,991)	-	(14,087)
(Accumulated deficit) retained earnings	520,192	126,339	109,614	238,637	29,570	43,020	28,355	(262,283)	(9,941)	(20,732)	(92,801)	110,041	(103,144)	(36,636)	93,745	(45,384)	(183,057)	(86,534)	(133,683)	(123,096)	18,174	477,557	(32,701)	(2,280,838)	166,520	(1,569,641)
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total stockholder's (deficit) equity attributable to Prospect Medical Holdings, Inc.	**520,192**	**126,339**	**109,614**	**238,637**	**44,570**	**63,568**	**44,322**	**(123,295)**	**23,819**	**7,803**	**(52,750)**	**111,861**	**(100,164)**	**(39,258)**	**40,407**	**(35,677)**	**(60,716)**	**(6,724)**	**(102,944)**	**(79,686)**	**18,174**	**477,724**	**(30,401)**	**(2,243,494)**	**(415,191)**	**(1,482,052)**
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	2,640	599	-	-	532	-	-	-	-	-	146	-	-	-	3,911
Total stockholder's (deficit) equity	520,192	126,339	109,614	238,637	44,570	63,568	44,322	(123,295)	23,819	7,803	(52,750)	114,501	(99,565)	(39,258)	40,407	(34,945)	(60,716)	(6,724)	(102,944)	(79,686)	18,174	477,870	(30,401)	(2,243,494)	(415,191)	(1,478,141)
Total liabilities and stockholder's (deficit) equity	**571,758**	**147,099**	**122,819**	**316,924**	**255,784**	**72,805**	**180,851**	**(102,954)**	**109,462**	**48,622**	**(37,693)**	**206,553**	**(86,059)**	**(584)**	**155,996**	**(30,573)**	**289,522**	**92,279**	**(97,803)**	**(74,412)**	**27,231**	**566,838**	**317**	**(423,903)**	**(486,265)**	**1,824,614**

The headers above are defined as follows: Alta Hospitals System, LLC ("Alta-California"), Southern California Healthcare System, Inc. (dba "Hollywood," "Van Nuys," and "Culver"), Alta Los Angeles Hospitals, Inc. (dba "Los Angeles," "Norwalk," and "Bellflower"), Alta Newport Hospital, Inc. ("Foothill"), Prospect CharterCARE, LLC ("CCHP" dba "Roger Williams" and "Fatima"), Prospect Waterbury, Inc. ("Waterbury"), Prospect ECHN, Inc. ("ECHN" dba "Rockville" and "Manchester"), Prospect Crozer, LLC ("Crozer"), and Prospect Home Health and Hospice, LLC ("PHHH").

Reclassifications related to MPT Interest and Pension not included in above schedule.

MPT CONFIDENTIAL

Prospect Medical Holdings, Inc.

Consolidating Balance Sheets
As of September 30, 2022

	Crozer					
Assets	Crozer Chester Medical Center	Springfield Hospital	Taylor Hospital	Delaware County Memorial Hospital	Non-hospital entities combined	Hospital and Non-Hospital Entities Combined
Current assets						
Cash and cash equivalents	505	-	-	141	(5,434)	(4,788)
Cash held in escrow	-	-	-	-	-	-
Restricted cash	-	-	-	-	-	-
Restricted investments	-	-	-	-	-	-
Patient accounts receivable, net of allowance for doubtful accounts	(281,110)	26,366	195,227	(62,798)	205,688	83,373
Due from government payers	1,103	-	-	-	-	1,103
Other receivables, prepaid expenses and other current assets	257,999	(14,216)	(47,058)	(4,876)	(296,462)	(104,613)
Income tax receivable	-	-	-	-	-	-
Inventories	9,214	-	1,240	1,142	2,533	14,129
Hospital fee program receivable	-	-	-	-	-	-
Current Assets Held for Sale	-	-	-	-	-	-
Total current assets	**(12,289)**	**12,150**	**149,409**	**(66,391)**	**(93,675)**	**(10,796)**
Property, improvements and equipment, net	70,211	10,732	12,686	25,846	83,669	203,144
Deferred income taxes, net	71,296	-	-	15,650	(380)	86,566
Goodwill	-	-	-	-	97,449	97,449
Intangible assets, net	-	-	-	-	6,600	6,600
Other assets	-	-	-	223	(1,385)	(1,162)
Long-Term Assets Held for Sale	-	-	-	-	-	-
Total assets	**129,218**	**22,882**	**162,095**	**(24,672)**	**92,278**	**381,801**
Liabilities and Stockholder's (Deficit) Equity						
Current liabilities:						
Accrued medical claims and other healthcare costs payable	-	-	-	-	(7)	(7)
Accounts payable and other accrued liabilities	57,339	2,307	12,314	13,997	18,886	104,843
Accrued salaries, wages and benefits	24,128	1,008	3,239	5,755	31,578	65,708
Hospital fee program liability	-	-	-	-	-	-
Due to government payers	10,332	-	-	6,137	-	16,469
Refund liability, current portion	2,164	-	-	-	-	2,164
Income taxes payable	-	-	-	-	-	-
Revolving line of credit, net	-	-	-	-	-	-
Current portion of capital leases	5,983	-	-	1,406	2,090	9,479
Current portion of long-term debt	-	-	-	-	-	-
Current portion of MPT liability	-	-	-	-	-	-
Other current liabilities	-	-	-	-	-	-
Current Liabilities Held for Sale	-	-	-	-	-	-
Total current liabilities	**99,946**	**3,315**	**15,553**	**27,295**	**52,547**	**198,656**
Long-term debt, net of current portion	-	-	-	-	-	-
Deferred income taxes, net	-	-	-	-	-	-
Malpractice reserves	13,621	-	-	3,829	13,571	31,021
Refund liability, net of current portion	7,885	-	-	-	-	7,885
Capital leases, net of current portion	15,621	-	-	1,116	15,752	32,489
Asset retirement obligations	113	-	-	-	-	113
Other long-term liabilities	1,658	-	-	247	17,133	19,038
Pension obligations	131,320	-	-	28,719	-	160,039
MPT Liability	-	-	-	-	-	-
Long-Term Liabilities Held for Sale	-	-	-	-	-	-
Total liabilities	**270,164**	**3,315**	**15,553**	**61,206**	**99,003**	**449,241**
Commitments and contingencies						
Stockholder's (deficit) equity:						
Common stock, $0.01 par value; 100 shares authorized, issued and outstan	-	-	-	-	-	-
Additional paid-in capital	82,000	-	-	18,000	79,635	179,635
Accumulated other comprehensive income	19,291	-	-	3,050	-	22,341
(Accumulated deficit) retained earnings	(242,237)	19,566	146,542	(106,928)	(86,359)	(269,416)
-	-	-	-	-	-	-
Total stockholder's (deficit) equity attributable to Prospect Medical Holdi	**(140,946)**	**19,566**	**146,542**	**(85,878)**	**(6,724)**	**(67,440)**
Non-controlling interests	-	-	-	-	-	-
Total stockholder's (deficit) equity	(140,946)	19,566	146,542	(85,878)	(6,724)	(67,440)
Total liabilities and stockholder's (deficit) equity	**129,218**	**22,881**	**162,095**	**(24,672)**	**92,279**	**381,801**

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Reclassifications related to MPT interest and Pension not included in above schedule.

MPT CONFIDENTIAL

Prospect Medical Holdings, Inc.

Consolidating Balance Sheets
As of September 30, 2021

	Hospital Segment																								
	Alta-California								CCHP			Waterbury		ECHN			Crozer		EDGH	NIX						
	Los Angeles	Norwalk	Van Nuys	Hollywood	Foothill	Bellflower	Culver	Corporate	Roger Williams	Fatima	Non-hospital entities combined	Waterbury	Non-hospital entities combined	Rockville	Manchester	Non-hospital entities combined	Crozer Hospital Entities	Non-Hospital Entities Combined	Hospital and Non-Hospital Entities Combined	Hospital and Non-Hospital Entities Combined	PHHH	Medical Group Segment	CRC Segment	Corporate Segment	Eliminations	Total
Assets																										
Current assets																										
Cash and cash equivalents	404	(745)	4	198	(1,981)	(1)	(591)	(2,584)	17	(110)	(2,224)	(2,810)	7,219	(62)	(2,718)	1,512	(1,586)	(9,024)	(484)	1,527	2,220	51,245	30,720	8,850	-	58,992
Cash held in escrow	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Restricted cash	-	-	-	-	-	-	-	-	449	35	3	-	-	-	-	-	-	-	(1)	-	-	-	1,509	45,270	-	47,065
Restricted investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	34,283	-	34,283
Patient accounts receivable, net of allowance for doubtful accounts	16,224	6,309	3,038	7,720	9,949	1,514	91,589	-	20,008	17,441	3,112	32,615	6,139	2,360	21,296	1,080	(54,691)	132,287	10,951	-	12,575	32,028	(2,169)	-	1,003	312,594
Due from government payers	3,384	603	1,630	1,017	371	723	5,759	-	4,727	2,059	-	-	-	-	-	-	380	-	993	1,511	31	-	-	-	-	23,298
Other receivables, prepaid expenses and other current assets	432,410	114,047	80,063	259,157	94,466	46,886	7,745	(156,780)	17,379	5,678	(24,742)	134,196	(91,700)	(26,468)	82,977	(27,918)	256,371	(224,079)	(89,836)	(79,178)	4,418	331,309	(40,587)	(875,957)	(5,942)	170,095
Income tax receivable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,335	-	8,335
Inventories	617	304	66	557	1,499	1,009	2,981	-	4,344	2,492	961	3,324	630	851	4,390	33	9,738	2,466	1,596	-	13	-	-	-	-	37,339
Hospital fee program receivable	73,431	-	-	38,936	14,143	2,996	48,334	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	178,042
Current Assets Held for Sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total current assets	**526,490**	**120,720**	**84,801**	**304,205**	**58,349**	**52,487**	**86,017**	**(161,364)**	**46,924**	**27,533**	**(23,493)**	**167,325**	**(77,718)**	**(23,118)**	**106,145**	**(25,343)**	**210,422**	**(98,350)**	**(76,861)**	**(76,140)**	**19,259**	**396,582**	**(10,525)**	**(779,015)**	**(2,035)**	**870,375**
Property, improvements and equipment, net	15,957	9,320	6,642	17,149	21,648	18,755	95,963	12,054	34,964	29,321	2,812	59,359	3,776	22,794	47,337	1,480	128,758	84,525	4,481	2,950	1,936	2,450	97	39,962	-	586,599
Deferred income taxes, net	-	-	-	-	-	-	-	-	-	-	-	(11,086)	-	-	-	(3,859)	86,946	(380)	-	-	-	14,193	124	(84,284)	-	-
Goodwill	-	-	-	-	-	-	19,499	83,231	19	9	592	-	2,939	-	-	428	-	111,971	-	-	-	14,786	-	-	-	244,068
Intangible assets, net	-	-	-	-	-	-	-	2,836	-	-	-	1,486	-	-	-	1,720	-	8,360	1,555	-	-	319	-	-	-	16,425
Other assets	-	-	-	-	-	-	-	-	3,442	30	689	9,357	150	665	4,116	11,408	228	904	164	-	6,192	74,484	-	347,428	(961,572)	97,700
Long-Term Assets Held for Sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	**542,447**	**130,040**	**101,443**	**321,354**	**79,997**	**71,242**	**150,879**	**(61,243)**	**84,749**	**52,913**	**(19,597)**	**220,364**	**(71,459)**	**340**	**157,598**	**(16,160)**	**426,344**	**106,430**	**(70,661)**	**(73,190)**	**27,387**	**511,354**	**(10,360)**	**(281,915)**	**(964,511)**	**1,815,167**
Liabilities and Stockholder's (Deficit) Equity																										
Current liabilities:																										
Accrued medical claims and other healthcare costs payable	-	-	-	-	20,150	-	15,261	10,459	-	-	-	-	-	-	-	-	-	(7)	-	53	57	36,802	10,946	-	-	93,701
Accounts payable and other accrued liabilities	10,289	5,844	1,165	6,592	10,308	1,529	29,411	6,169	9,823	10,494	7,645	25,175	3,127	4,290	19,709	3,372	51,722	14,465	12,722	5,963	1,652	93,896	8,175	75,489	(1,703)	392,771
Accrued salaries, wages and benefits	7,428	3,233	3,361	(1,149)	3,623	1,498	24,163	4,491	7,374	3,355	6,865	10,993	4,799	1,370	8,684	2,799	28,893	41,390	6,138	115	4,750	8,724	1,805	89,406	-	222,230
Hospital fee program liability	19,457	-	-	18,996	2,251	3,146	29,345	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	71,195
Due to government payers	18,212	(17,592)	-	608	593	-	174	-	2,695	1,659	(582)	4,255	(1,628)	674	3,288	1,285	2,877	2,009	89	-	1,404	-	-	-	-	20,219
Refund liability, current portion	-	17,592	-	67,332	9,007	-	-	-	11,994	8,187	1,030	23,012	2,200	4,215	13,365	-	61,092	-	7,435	-	841	-	-	-	-	227,332
Income taxes payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Revolving line of credit, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	45,000	-	45,000
Current portion of capital leases	12	6	-	37	241	-	324	6	938	505	96	1,932	115	209	1,101	117	6,262	1,630	230	-	-	109	-	320	-	13,198
Current portion of long-term debt	-	-	-	-	-	-	-	-	-	-	13	-	-	528	723	6	-	-	-	-	99	-	-	84,933	(69,867)	16,032
Current portion of MPT liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	50,978	-	50,978
Other current liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,256	2,179	5,925	(2,927)	7,827
Current Liabilities Held for Sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total current liabilities	**55,392**	**9,083**	**4,526**	**92,231**	**46,213**	**8,113**	**98,680**	**21,119**	**32,222**	**26,399**	**15,267**	**64,147**	**8,613**	**11,481**	**46,870**	**7,779**	**150,846**	**60,027**	**26,634**	**5,531**	**8,819**	**82,841**	**22,899**	**295,351**	**(74,597)**	**1,120,477**
Long-term debt, net of current portion	-	-	-	-	-	-	7,762	(7,762)	-	-	-	-	-	5,179	1,589	-	-	-	898	-	1,973	-	-	158,942	-	168,581
Deferred income taxes, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Malpractice reserves	772	1,023	94	294	1,637	6	6,607	-	6,910	8,381	6,465	9,594	1,776	3,935	9,182	4,406	13,655	10,592	2,475	47	-	-	-	33,890	-	121,691
Refund liability, net of current portion	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital leases, net of current portion	-	-	-	106	174	-	933	10	663	1,360	96	3,802	479	681	1,591	149	22,459	17,387	-	-	-	10	-	-	-	50,095
Asset retirement obligations	-	-	-	-	-	-	-	-	672	2,359	-	3,420	-	132	280	-	115	-	-	-	-	-	-	-	-	6,978
Other long-term liabilities	-	-	-	-	1	4	92	-	265	-	-	-	114	-	965	-	2,026	16,789	-	-	(311)	730	-	77,056	-	96,715
Pension obligations	-	-	-	-	-	-	-	-	-	-	-	9,753	-	17,779	65,868	-	189,280	-	-	-	-	-	-	-	-	284,674
MPT Liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,240,348	-	1,240,348
Long-Term Liabilities Held for Sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	**56,164**	**10,106**	**4,620**	**92,630**	**50,025**	**8,123**	**106,074**	**13,357**	**40,732**	**38,640**	**21,828**	**90,716**	**10,976**	**39,181**	**124,395**	**12,334**	**382,379**	**105,789**	**30,007**	**5,578**	**10,481**	**83,581**	**22,899**	**1,805,589**	**(74,597)**	**3,089,557**
Commitments and contingencies																										
Stockholder's (deficit) equity:																										
Common stock, $0.01 par value; 100 shares authorized, issued and outstanding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	1
Additional paid-in capital	-	-	-	-	15,000	20,546	15,967	138,968	39,760	28,395	40,231	-	-	1,281	19,276	6,117	100,000	79,635	32,719	45,410	-	256	2,300	39,275	(581,511)	57,765
Accumulated other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	(892)	-	(6,989)	(24,201)	-	(19,201)	-	-	-	-	-	-	(12,571)	-	(63,848)
(Accumulated deficit) retained earnings	486,283	119,934	96,823	228,722	14,971	42,553	28,837	(213,380)	10,257	(14,264)	(81,635)	128,672	(83,852)	(33,139)	36,188	(33,145)	(96,895)	(76,994)	(133,386)	(124,778)	16,906	427,341	(33,557)	(2,134,201)	91,596	(1,272,309)
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total stockholder's (deficit) equity attributable to Prospect Medical Holdings, Inc.	**486,283**	**119,934**	**96,823**	**228,722**	**29,971**	**63,099**	**44,804**	**(74,412)**	**44,017**	**14,271**	**(41,424)**	**127,780**	**(83,852)**	**(38,841)**	**31,263**	**(29,028)**	**43,904**	**2,641**	**(100,667)**	**(79,368)**	**16,906**	**427,597**	**(33,257)**	**(2,087,496)**	**(489,915)**	**(1,278,385)**
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	1,868	1,417	-	-	594	-	-	-	-	-	175	-	-	-	3,995
Total stockholder's (deficit) equity	486,283	119,934	96,823	228,722	29,971	63,099	44,804	(74,612)	44,017	14,271	(41,424)	129,648	(82,435)	(38,841)	33,263	(28,434)	43,904	2,641	(100,667)	(79,368)	16,906	427,772	(33,257)	(2,087,496)	(489,915)	(1,274,390)
Total liabilities and stockholder's (deficit) equity	**542,447**	**130,040**	**101,443**	**321,352**	**79,996**	**71,222**	**150,878**	**(61,245)**	**84,749**	**52,911**	**(19,596)**	**220,365**	**(71,459)**	**340**	**157,598**	**(16,160)**	**426,343**	**106,430**	**(70,660)**	**(73,790)**	**27,387**	**511,353**	**(10,358)**	**(281,907)**	**(964,512)**	**1,815,167**

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Reclassifications related to MPT Interest and Pension not included in above schedule.

MPT CONFIDENTIAL

Prospect Medical Holdings, Inc.

Consolidating Balance Sheets
As of September 30, 2021

	Crozer					
	Crozer Chester Medical Center	Springfield Hospital	Taylor Hospital	Delaware County Memorial Hospital	Non-hospital entities combined	Hospital and Non-Hospital Entities Combined
Assets						
Current assets						
Cash and cash equivalents	(1,162)	-	-	(424)	(9,024)	(10,610)
Cash held in escrow	-	-	-	-	-	-
Restricted cash	-	-	-	-	-	-
Restricted investments	-	-	-	-	-	-
Patient accounts receivable, net of allowance for doubtful accounts	(159,478)	20,757	120,347	(36,317)	132,287	77,596
Due from government payers	590	-	-	-	-	590
Other receivables, prepaid expenses and other current assets	249,802	(658)	1,853	5,374	(224,079)	32,292
Income tax receivable	-	-	-	-	-	-
Inventories	7,005	38	1,275	1,420	2,466	12,204
Hospital fee program receivable	-	-	-	-	-	-
Current Assets Held for Sale	-	-	-	-	-	-
Total current assets	**96,757**	**20,137**	**123,475**	**(29,947)**	**(98,350)**	**112,072**
	-	-	-	-	-	-
Property, improvements and equipment, net	76,160	12,086	14,126	26,381	84,525	213,278
Deferred income taxes, net	71,296	-	-	15,650	(380)	86,566
Goodwill	-	-	-	-	111,371	111,371
Intangible assets, net	-	-	-	-	8,360	8,360
Other assets	-	-	-	223	904	1,127
Long-Term Assets Held for Sale	-	-	-	-	-	-
Total assets	**244,213**	**32,223**	**137,601**	**12,307**	**106,430**	**532,774**
Liabilities and Stockholder's (Deficit) Equity						
Current liabilities:						
Accrued medical claims and other healthcare costs payable	-	-	-	-	(7)	(7)
Accounts payable and other accrued liabilities	36,103	1,654	4,679	9,286	14,465	66,187
Accrued salaries, wages and benefits	19,645	584	1,762	6,902	41,930	70,823
Hospital fee program liability	-	-	-	-	-	-
Due to government payers	(9,457)	-	-	12,334	2,009	4,886
Refund liability, current portion	61,092	-	-	-	-	61,092
Income taxes payable	-	-	-	-	-	-
Revolving line of credit, net	-	-	-	-	-	-
Current portion of capital leases	5,294	-	-	968	1,630	7,892
Current portion of long-term debt	-	-	-	-	-	-
Current portion of MPT liability	-	-	-	-	-	-
Other current liabilities	-	-	-	-	-	-
Current Liabilities Held for Sale	-	-	-	-	-	-
Total current liabilities	**112,677**	**2,238**	**6,441**	**29,490**	**60,027**	**210,873**
Long-term debt, net of current portion	-	-	-	-	-	-
Deferred income taxes, net	-	-	-	-	-	-
Malpractice reserves	10,659	-	-	2,996	10,592	24,247
Refund liability, net of current portion	-	-	-	-	-	-
Capital leases, net of current portion	19,492	-	-	2,967	17,387	39,846
Asset retirement obligations	113	-	-	-	-	113
Other long-term liabilities	1,780	-	-	245	15,783	17,809
Pension obligations	158,582	-	-	34,698	-	193,280
MPT Liability	-	-	-	-	-	-
Long-Term Liabilities Held for Sale	-	-	-	-	-	-
Total liabilities	**303,303**	**2,238**	**6,441**	**70,397**	**103,789**	**486,168**
Commitments and contingencies						
Stockholder's (deficit) equity:	-	-	-	-	-	-
Common stock, $0.01 par value; 100 shares authorized, issued and outstan	-	-	-	-	-	-
Additional paid-in capital	82,000	-	-	18,000	79,635	179,635
Accumulated other comprehensive income	(14,778)	-	-	(4,423)	-	(19,201)
(Accumulated deficit) retained earnings	(126,312)	29,986	131,161	(71,670)	(76,994)	(113,829)
Total stockholder's (deficit) equity attributable to Prospect Medical Holdi	**(59,090)**	**29,986**	**131,161**	**(58,093)**	**2,641**	**46,605**
Non-controlling interests	-	-	-	-	-	-
Total stockholder's (deficit) equity	(59,090)	29,986	131,161	(58,093)	2,641	46,605
Total liabilities and stockholder's (deficit) equity	**244,213**	**32,224**	**137,602**	**12,304**	**106,430**	**532,773**

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Reclassifications related to MPT Interest and Pension not included in above schedule.

MPT CONFIDENTIAL

Prospect Medical Holdings, Inc.

Consolidated Statement of Operations
For the Year Ended September 30, 2022

	Hospital Segment																						
	Alta-California								CCHP			Waterbury		ECHN			Crozer	EOGH	NIX					
	Los Angeles	Norwalk	Van Nuys	Hollywood	Foothill	Bellflower	Culver	Corporate	Fatima	Roger Williams	Non-hospital entities combined	Waterbury	Non-hospital entities combined	Rockville	Manchester	Non-hospital entities combined	Hospital and Non-Hospital Entities Combined	Hospital and Non-Hospital Entities Combined	Hospital and Non-Hospital Entities Combined	PHHH	Corporate Segment	CRC Segment	Medical Group Segment	Eliminations	Total
Revenues:																								
Net Hospital Services revenues	118,368	52,828	41,801	70,113	183,783	18,489	313,898	20,227	139,969	179,575	30,588	243,890	73,301	36,376	211,078	20,478	641,872	25,346	339	34,216	-	-	-	(2,790)	2,453,745
Provision for bad debts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Hospital Services revenues less provision for bad debts	118,368	52,828	41,801	70,113	183,783	18,489	313,898	20,227	139,969	179,575	30,588	243,890	73,301	36,376	211,078	20,478	641,872	25,346	339	34,216	-	-	-	(2,790)	2,453,745
Other non-patient revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total net hospital services revenue	118,368	52,828	41,801	70,113	183,783	18,489	313,898	20,227	139,969	179,575	30,588	243,890	73,301	36,376	211,078	20,478	641,872	25,346	339	34,216	-	-	-	(2,790)	2,453,745
Medical Group revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	528,387	-	528,387
Net Global Risk Management revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	191,925	-	-	191,925
Corporate revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,655	-	-	-	4,655
Total net revenues	118,368	52,828	41,801	70,113	183,783	18,489	313,898	20,227	139,969	179,575	30,588	243,890	73,301	36,376	211,078	20,478	641,872	25,346	339	34,216	4,655	191,925	528,387	(2,790)	3,178,712
Operating Expenses:																									
Hospital operating expenses	72,831	39,916	24,611	49,726	157,217	13,565	271,910	46,573	114,663	147,014	41,584	222,003	78,604	27,475	167,898	32,218	586,061	22,507	527	28,481	-	-	-	(6,026)	2,139,358
Medical Group cost of revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	380,751	-	380,751
Global Risk Management cost of revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	155,457	-	-	155,457
General and administrative	10,442	5,279	3,886	8,774	8,816	3,323	35,829	10,546	26,037	45,663	(21)	30,391	8,009	8,304	34,245	(6,430)	143,810	3,086	814	3,534	86,792	20,849	97,501	-	591,689
Depreciation and amortization	1,122	1,068	419	1,001	2,641	1,114	2,980	(1,937)	4,229	6,335	333	10,500	936	3,175	10,167	312	56,482	-	-	183	5,536	7	4,554	(69,418)	41,739
Goodwill Amortization	-	-	-	-	-	-	2,437	13,726	-	-	12	-	107	-	-	18	4,640	-	-	-	-	-	-	-	20,940
Impairment Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total operating expenses	84,395	46,263	28,916	59,501	168,674	18,002	313,156	68,908	144,929	199,012	41,908	262,894	87,656	39,154	212,310	26,118	790,993	27,603	1,341	32,198	92,328	176,313	482,806	(75,444)	3,329,934
Pandemic relief grant income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating income from unconsolidated joint ventures	-	-	-	-	-	-	-	-	-	117	-	(109)	-	94	734	-	789	-	-	253	-	-	(71)	-	1,807
Operating (loss) income	**33,973**	**6,565**	**12,885**	**10,612**	**15,109**	**487**	**742**	**(48,681)**	**(4,960)**	**(19,320)**	**(11,320)**	**(19,113)**	**(14,355)**	**(2,684)**	**(498)**	**(5,640)**	**(148,332)**	**(2,257)**	**(1,002)**	**2,271**	**(87,673)**	**15,612**	**45,510**	**72,654**	**(149,415)**
Other (income) expense:																									
Interest expense and amortization of deferred financing costs	64	160	95	696	510	20	1,224	2	1,516	959	7	740	78	553	1,010	13	3,248	9	14	-	71,956	-	(2,722)	-	80,152
Net Periodic benefit cost	-	-	-	-	-	-	-	-	-	-	-	1,104	-	743	2,696	-	8,430	-	-	-	-	-	-	-	12,973
Loss on early extinguishment of debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other expense (income), net	-	-	-	-	-	-	-	-	(9)	(80)	-	(1,251)	11	(149)	372	366	(4,422)	(8,727)	(698)	1	2,468	(2,571)	2,874	4,181	(7,634)
Total other expense, net	64	160	95	696	510	20	1,224	2	1,507	879	7	593	89	1,147	4,078	379	7,256	(8,718)	(684)	1	74,424	(2,571)	152	4,181	85,491
(Loss) income before income taxes	**33,909**	**6,405**	**12,790**	**9,916**	**14,599**	**467**	**(482)**	**(48,683)**	**(6,467)**	**(20,199)**	**(11,327)**	**(19,706)**	**(14,444)**	**(3,831)**	**(4,576)**	**(6,019)**	**(155,588)**	**6,461**	**(318)**	**2,270**	**(162,097)**	**18,183**	**45,358**	**68,473**	**(234,906)**
Income tax provision	-	-	-	-	-	-	-	-	-	-	11	8	1	2	7	5	23	7	-	2	(2,671)	-	-	-	(2,605)
Net (loss) income from continuing operations	**33,909**	**6,405**	**12,790**	**9,916**	**14,599**	**467**	**(482)**	**(48,683)**	**(6,467)**	**(20,199)**	**(11,338)**	**(19,714)**	**(14,445)**	**(3,833)**	**(4,583)**	**(6,024)**	**(155,611)**	**6,454**	**(318)**	**2,268**	**(159,426)**	**18,183**	**45,358**	**68,473**	**(232,301)**
Income from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Income from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Income tax provision	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Income on discontinued operations, net of taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net (loss) income before allocation to non-controlling interes	**33,909**	**6,405**	**12,790**	**9,916**	**14,599**	**467**	**(482)**	**(48,683)**	**(6,467)**	**(20,199)**	**(11,338)**	**(19,714)**	**(14,445)**	**(3,833)**	**(4,583)**	**(6,024)**	**(155,611)**	**6,454**	**(318)**	**2,268**	**(159,426)**	**18,183**	**45,358**	**68,473**	**(232,301)**
Net (loss) income attributable to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**928**	**928**
Net (loss) income attributable to Prospect Medical Holdings,	**33,909**	**6,405**	**12,790**	**9,916**	**14,599**	**467**	**(482)**	**(48,683)**	**(6,467)**	**(20,199)**	**(11,338)**	**(19,714)**	**(14,445)**	**(3,833)**	**(4,583)**	**(6,024)**	**(155,611)**	**6,454**	**(318)**	**2,268**	**(159,426)**	**18,183**	**45,358**	**67,545**	**(233,229)**
Other comprehensive income, net of tax:																									
Pension obligation and other post-retirement benefits adjustn	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	59,324	59,324
Debt and equity securities, unrealized gain	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(9,672)	(9,672)
Total other comprehensive income (loss), net of tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**49,652**	**49,652**
Total comprehensive (loss) income	**33,909**	**6,405**	**12,790**	**9,916**	**14,599**	**467**	**(482)**	**(48,683)**	**(6,467)**	**(20,199)**	**(11,338)**	**(19,714)**	**(14,445)**	**(3,833)**	**(4,583)**	**(6,024)**	**(155,611)**	**6,454**	**(318)**	**2,268**	**(159,426)**	**18,183**	**45,358**	**117,197**	**(183,577)**

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Reclassifications related to MPT Interest and Pension not included in above schedule.

MPT CONFIDENTIAL

Prospect Medical Holdings, Inc.

Consolidated Statement of Operations
For the Year Ended September 30, 2022

	Crozer					
	Crozer Chester Medical Center	Springfield Hospital	Taylor Hospital	Delaware County Memorial Hospital	Non-hospital entities combined	Hospital and Non-Hospital Entities Combined
Revenues:						
Net Hospital Services revenues	298,885	7,687	90,997	71,576	172,727	641,872
Provision for bad debts	-	-	-	-	-	-
Net Hospital Services revenues less provision for bad debts	298,885	7,687	90,997	71,576	172,727	641,872
Other non-patient revenue	-	-	-	-	-	-
Total net hospital services revenue	298,885	7,687	90,997	71,576	172,727	641,872
Medical Group revenues	-	-	-	-	-	-
Net Global Risk Management revenues	-	-	-	-	-	-
Corporate revenues	-	-	-	-	-	-
						-
Total net revenues	298,885	7,687	90,997	71,576	172,727	641,872
						-
Operating Expenses:						-
Hospital operating expenses	347,568	12,778	59,043	82,425	84,246	586,060
Medical Group cost of revenues	-	-	-	-	-	-
Global Risk Management cost of revenues	-	-	-	-	-	-
General and administrative	51,718	3,948	14,498	19,251	54,396	143,811
Depreciation and amortization	10,326	1,355	1,974	4,559	38,269	56,483
Goodwill Amortization	-	-	-	-	4,640	4,640
Impairment Expenses	-	-	-	-	-	-
Total operating expenses	409,612	18,081	75,515	106,235	181,551	790,994
Pandemic relief grant income	-	-	-	-	-	-
Operating income from unconsolidated joint ventures	-	-	-	-	789	789
Operating (loss) income	**(110,727)**	**(10,394)**	**15,482**	**(34,659)**	**(8,035)**	**(148,333)**
Other (income) expense:						
Interest expense and amortization of deferred financing costs, net	1,471	27	101	99	1,551	3,249
Net Periodic benefit cost	6,935	-	-	1,494	-	8,429
Loss on early extinguishment of debt	-	-	-	-	-	-
Other expense (income), net	(3,208)	-	-	(992)	(222)	(4,422)
Total other expense, net	5,198	27	101	601	1,329	7,256
(Loss) income before income taxes	**(115,925)**	**(10,421)**	**15,381**	**(35,260)**	**(9,364)**	**(155,589)**
Income tax provision	16	-	-	4	2	22
Net (loss) income from continuing operations	**(115,941)**	**(10,421)**	**15,381**	**(35,264)**	**(9,366)**	**(155,611)**
Income from discontinued operations:						
Income from discontinued operations	-	-	-	-	-	-
Income tax provision	-	-	-	-	-	-
Income on discontinued operations, net of taxes	-	-	-	-	-	-
Net (loss) income before allocation to non-controlling interests	**(115,941)**	**(10,421)**	**15,381**	**(35,264)**	**(9,366)**	**(155,611)**
Net (loss) income attributable to non-controlling interests	-	-	-	-	-	-
	-	-	-	-	-	-
Net (loss) income attributable to Prospect Medical Holdings, Inc.	**(115,941)**	**(10,421)**	**15,381**	**(35,264)**	**(9,366)**	**(155,611)**
Other comprehensive income, net of tax:						
Pension obligation and other post-retirement benefits adjustment (net of tax)	-	-	-	-	-	-
Debt and equity securities, unrealized gain	-	-	-	-	-	-
Total other comprehensive income (loss), net of tax	-	-	-	-	-	-
	-	-	-	-	-	-
Total comprehensive (loss) income	**(115,941)**	**(10,421)**	**15,381**	**(35,264)**	**(9,366)**	**(155,611)**

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Reclassifications related to MPT Interest and Pension not included in above schedule.

MPT CONFIDENTIAL

Prospect Medical Holdings, Inc.

Consolidated Statement of Operations
For the Year Ended September 30, 2021

	Hospital Segment																						
	Alta-California								CCHP			Waterbury		ECHN			Crozer	EOGH	NIX					
	Los Angeles	Norwalk	Van Nuys	Hollywood	Foothill	Bellflower	Culver	Corporate	Fatima	Roger Williams	Non-hospital entities combined	Waterbury	Non-hospital entities combined	Rockville	Manchester	Non-hospital entities combined	Hospital and Non-Hospital Entities Combined	Hospital and Non-Hospital Entities Combined	Hospital and Non-Hospital Entities Combined	PHHH	Corporate Segment	CRC Segment	Medical Group Segment	Eliminations	Total
Revenues:																								
Net Hospital Services revenues	140,189	37,377	21,330	78,044	169,145	15,906	239,639	34,078	131,474	182,889	33,556	249,787	67,572	32,323	205,411	28,729	742,551	98,619	(4,090)	40,913	-	-	-	(3,602)	2,541,840
Provision for bad debts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Hospital Services revenues less provision for bad debts	140,189	37,377	21,330	78,044	169,145	15,906	239,639	34,078	131,474	182,889	33,556	249,787	67,572	32,323	205,411	28,729	742,551	98,619	(4,090)	40,913	-	-	-	(3,602)	2,541,840
Other non-patient revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total net hospital services revenue	140,189	37,377	21,330	78,044	169,145	15,906	239,639	34,078	131,474	182,889	33,556	249,787	67,572	32,323	205,411	28,729	742,551	98,619	(4,090)	40,913	-	-	-	(3,602)	2,541,840
Medical Group revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	471,296	-	471,296
Net Global Risk Management revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	100,154	-	-	100,154
Corporate revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,171	-	-	-	3,171
Total net revenues	140,189	37,377	21,330	78,044	169,145	15,906	239,639	34,078	131,474	182,889	33,556	249,787	67,572	32,323	205,411	28,729	742,551	98,619	(4,090)	40,913	3,171	100,154	471,296	(3,602)	3,116,461
Operating Expenses:																									
Hospital operating expenses	70,928	27,064	12,047	57,773	141,697	13,848	192,680	61,771	101,526	142,189	43,146	194,087	72,532	24,300	147,938	41,381	605,246	78,867	(4,928)	32,789	-	-	-	4,154	2,061,035
Medical Group cost of revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	344,275	-	344,275
Global Risk Management cost of revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	67,297	-	-	67,297
General and administrative	7,181	5,038	3,621	6,929	8,331	3,358	33,238	11,615	42,240	34,850	6,664	28,823	7,460	11,305	38,038	(3,295)	123,724	18,040	1,250	3,813	73,925	21,569	89,276	-	582,993
Depreciation and amortization	1,283	704	426	1,067	3,151	1,190	3,333	(722)	3,175	7,073	569	9,527	1,093	2,848	10,537	824	23,910	-	-	360	4,784	84	6,749	-	81,965
Goodwill Amortization	-	-	-	-	-	-	2,437	13,726	-	-	48	-	286	-	-	54	13,921	-	-	-	-	-	-	-	30,472
Impairment Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10,865	-	-	-	-	-	-	10,865
Total operating expenses	79,392	32,806	16,094	65,769	153,179	18,396	231,688	86,390	146,941	184,112	50,427	232,437	81,371	38,453	196,513	38,964	766,801	107,772	(3,678)	36,962	84,709	88,950	440,300	4,154	3,178,902
Pandemic relief grant income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating income from unconsolidated joint ventures	-	-	-	-	-	-	-	-	-	304	-	951	-	316	1,549	11	609	-	-	306	-	-	20	-	4,066
Operating (loss) income	**60,797**	**4,571**	**5,236**	**12,275**	**15,966**	**(2,490)**	**7,951**	**(52,312)**	**(15,467)**	**(919)**	**(16,871)**	**18,301**	**(13,799)**	**(5,814)**	**10,447**	**(10,224)**	**(23,641)**	**(9,153)**	**(412)**	**4,257**	**(81,538)**	**11,204**	**31,016**	**(7,756)**	**(58,375)**
Other (income) expense:																									
Interest expense and amortization of deferred financing costs,	13	5	3	4	41	-	155	4	1,057	29	10	74	104	317	327	205	3,257	153	37	23	78,890	-	(2,594)	-	82,114
Net Periodic benefit cost	-	-	-	-	-	-	-	-	-	-	-	1,254	(8)	610	2,216	-	8,145	-	-	-	-	-	-	-	12,217
Loss on early extinguishment of debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other expense (income), net	-	-	-	-	2	-	(1,881)	-	1,536	1,953	348	(566)	17	(246)	(207)	3,269	(5,920)	9	(2,365)	50	2,713	(2,711)	(293)	2,912	(1,380)
Total other expense, net	13	5	3	4	43	-	(1,726)	4	2,593	1,982	358	762	113	681	2,336	3,474	5,482	162	(2,328)	73	81,603	(2,711)	(2,887)	2,912	92,951
(Loss) income before income taxes	**60,784**	**4,566**	**5,233**	**12,271**	**15,923**	**(2,490)**	**9,677**	**(52,316)**	**(18,060)**	**(2,901)**	**(17,229)**	**17,539**	**(13,912)**	**(6,495)**	**8,111**	**(13,698)**	**(29,123)**	**(9,315)**	**1,916**	**4,184**	**(163,141)**	**13,915**	**33,903**	**(10,668)**	**(151,326)**
Income tax provision	-	-	-	-	-	-	-	-	-	1	12	7	1	2	6	4	22	5	-	1	(2,265)	-	-	-	(2,204)
Net (loss) income from continuing operations	**60,784**	**4,566**	**5,233**	**12,271**	**15,923**	**(2,490)**	**9,677**	**(52,316)**	**(18,060)**	**(2,902)**	**(17,241)**	**17,532**	**(13,913)**	**(6,497)**	**8,105**	**(13,702)**	**(29,145)**	**(9,320)**	**1,916**	**4,183**	**(160,876)**	**13,915**	**33,903**	**(10,668)**	**(149,122)**
Income from discontinued operations:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Income from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Income tax provision	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Income on discontinued operations, net of taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net (loss) income before allocation to non-controlling interes	**60,784**	**4,566**	**5,233**	**12,271**	**15,923**	**(2,490)**	**9,677**	**(52,316)**	**(18,060)**	**(2,902)**	**(17,241)**	**17,532**	**(13,913)**	**(6,497)**	**8,105**	**(13,702)**	**(29,145)**	**(9,320)**	**1,916**	**4,183**	**(160,876)**	**13,915**	**33,903**	**(10,668)**	**(149,122)**
Net (loss) income attributable to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**(5,777)**	**(5,777)**
Net (loss) income attributable to Prospect Medical Holdings,	**60,784**	**4,566**	**5,233**	**12,271**	**15,923**	**(2,490)**	**9,677**	**(52,316)**	**(18,060)**	**(2,902)**	**(17,241)**	**17,532**	**(13,913)**	**(6,497)**	**8,105**	**(13,702)**	**(29,145)**	**(9,320)**	**1,916**	**4,183**	**(160,876)**	**13,915**	**33,903**	**(4,891)**	**(143,345)**
Other comprehensive income, net of tax:																									
Pension obligation and other post-retirement benefits adjustr	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(48,498)	(48,498)
Debt and equity securities, unrealized gain	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	264	264
Total other comprehensive income (loss), net of tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**(48,234)**	**(48,234)**
Total comprehensive (loss) income	**60,784**	**4,566**	**5,233**	**12,271**	**15,923**	**(2,490)**	**9,677**	**(52,316)**	**(18,060)**	**(2,902)**	**(17,241)**	**17,532**	**(13,913)**	**(6,497)**	**8,105**	**(13,702)**	**(29,145)**	**(9,320)**	**1,916**	**4,183**	**(160,876)**	**13,915**	**33,903**	**(53,125)**	**(191,579)**

The headers above are defined as follows: Alta Hospitals System, LLC ("Alta-California"), Southern California Healthcare System, Inc. (dba "Hollywood," "Van Nuys," and "Culver"), Alta Los Angeles Hospitals, Inc. (dba "Los Angeles," "Norwalk," and "Bellflower"), Alta Newport Hospital, Inc. ("Foothill"), Prospect CharterCARE, LLC ("CCHP" dba "Roger Williams" and "Fatima"), Prospect Waterbury, Inc. ("Waterbury"), Prospect ECHN, Inc. ("ECHN" dba "Rockville" and "Manchester"), Prospect Crozer, LLC ("Crozer"), and Prospect Home Health and Hospice, LLC ("PHHH").

Reclassifications related to MPT Interest and Pension not included in above schedule.

MPT CONFIDENTIAL

Prospect Medical Holdings, Inc.

Consolidated Statement of Operations
For the Year Ended September 30, 2021

	Crozer					
	Crozer Chester Medical Center	Springfield Hospital	Taylor Hospital	Delaware County Memorial Hospital	Non-hospital entities combined	Hospital and Non-Hospital Entities Combined
Revenues:						
Net Hospital Services revenues	368,309	12,910	86,542	112,906	161,884	742,551
Provision for bad debts	-	-	-	-	-	-
Net Hospital Services revenues less provision for bad debts	368,309	12,910	86,542	112,906	161,884	742,551
Other non-patient revenue	-	-	-	-	-	-
Total net hospital services revenue	368,309	12,910	86,542	112,906	161,884	742,551
Medical Group revenues	-	-	-	-	-	-
Net Global Risk Management revenues	-	-	-	-	-	-
Corporate revenues	-	-	-	-	-	-
Total net revenues	368,309	12,910	86,542	112,906	161,884	742,551
Operating Expenses:						
Hospital operating expenses	347,981	15,910	52,938	102,015	86,402	605,246
Medical Group cost of revenues	-	-	-	-	-	-
Global Risk Management cost of revenues	-	-	-	-	-	-
General and administrative	43,536	3,585	12,396	18,823	45,383	123,723
Depreciation and amortization	11,039	1,420	1,604	4,512	5,336	23,911
Goodwill Amortization	-	-	-	-	13,921	13,921
Impairment Expenses	-	-	-	-	-	-
Total operating expenses	402,556	20,915	66,938	125,350	151,042	766,801
Pandemic relief grant income	-	-	-	-	-	-
Operating income from unconsolidated joint ventures	-	-	-	-	609	609
Operating (loss) income	**(34,247)**	**(8,005)**	**19,604**	**(12,444)**	**11,451**	**(23,641)**
Other (income) expense:						
Interest expense and amortization of deferred financing costs, net	1,390	19	26	98	1,724	3,257
Net Periodic benefit cost	6,702	-	-	1,443	-	8,145
Loss on early extinguishment of debt	-	-	-	-	-	-
Other expense (income), net	(3,546)	-	-	(1,604)	(770)	(5,920)
Total other expense, net	4,546	19	26	(63)	954	5,482
(Loss) income before income taxes	**(38,793)**	**(8,024)**	**19,578**	**(12,381)**	**10,497**	**(29,123)**
Income tax provision	13	-	-	4	5	22
Net (loss) income from continuing operations	**(38,806)**	**(8,024)**	**19,578**	**(12,385)**	**10,492**	**(29,145)**
Income from discontinued operations:	-	-	-	-	-	-
Income from discontinued operations	-	-	-	-	-	-
Income tax provision	-	-	-	-	-	-
Income on discontinued operations, net of taxes	-	-	-	-	-	-
Net (loss) income before allocation to non-controlling interests	**(38,806)**	**(8,024)**	**19,578**	**(12,385)**	**10,492**	**(29,145)**
Net (loss) income attributable to non-controlling interests	-	-	-	-	-	-
Net (loss) income attributable to Prospect Medical Holdings, Inc.	**(38,806)**	**(8,024)**	**19,578**	**(12,385)**	**10,492**	**(29,145)**
Other comprehensive income, net of tax:	-	-	-	-	-	-
Pension obligation and other post-retirement benefits adjustment (net of tax)	-	-	-	-	-	-
Debt and equity securities, unrealized gain	-	-	-	-	-	-
Total other comprehensive income (loss), net of tax	-	-	-	-	-	-
Total comprehensive (loss) income	**(38,806)**	**(8,024)**	**19,578**	**(12,385)**	**10,492**	**(29,145)**

The headers above are defined as follows: Alta Hospitals System, LLC ("Alta-California"), Southern California Healthcare System, Inc. (dba "Hollywood," "Van Nuys," and "Culver"), Alta Los Angeles Hospitals, Inc. (dba "Los Angeles," "Norwalk," and "Bellflower"), Alta Newport Hospital, Inc. ("Foothill"), Prospect CharterCARE, LLC ("CCHP" dba "Roger Williams" and "Fatima"), Prospect Waterbury, Inc. ("Waterbury"), Prospect ECHN, Inc. ("ECHN" dba "Rockville" and "Manchester"), Prospect Crozer, LLC ("Crozer"), and Prospect Home Health and Hospice, LLC ("PHHH").

Reclassifications related to MPT Interest and Pension not included in above schedule.

MPT CONFIDENTIAL

PROSPECT MEDICAL HOLDINGS, INC.

CONTACT:
Redacted Corporate Finance and Treasury
Redacted
Redacted

PROSPECT MEDICAL HOLDINGS REPORTS FISCAL 2019 THIRD QUARTER FINANCIAL RESULTS

Q3 FY 2019 Highlights

- **Revenue was $730.4 million**
- **Adjusted EBITDA was $57.0 million for Q3 2019**
- **Net revenue per adjusted admission increased by 3%**
- **Net revenue per adjusted patient day increased by 4%**
- **Surgeries increased by 5%**
- **Nix Health and East Orange General Hospital results have been classified as discontinued operations and assets classified as held for sale and are not included in the information above.**

Los Angeles, CA - August 19, 2019 - Prospect Medical Holdings, Inc. ("Prospect" or the "Company") today announced financial results for its fiscal 2019 third quarter ended June 30, 2019. The Company will host a conference call on September 3, 2019 at 1:00 pm PDT / 4:00 pm EDT to discuss these results - details at page 3 of this release.

CONSOLIDATED RESULTS OVERVIEW

The following results exclude the operations of Nix Hospital System ("Nix Health") and East Orange General Hospital ("EOGH"), as these were classified as discontinued operations and assets held for sale as of June 30, 2019. Consolidated revenues were $730.4 million for the fiscal quarter ended June 30, 2019. The Hospital Segment reported $615.9 million in revenues, while the Medical Group reported $93.5 million in revenues and the Global Risk Management segment reported $9.9 million in revenues. This is an increase of $3.3 million when compared to consolidated revenues of $727.1 million in the quarter ended June 30, 2018. Compared with the prior year's third quarter, Hospital Segment Revenue decreased 1.0%, Medical Group Revenue increased 10.8%, and Global Risk Management Segment Revenue increased 9.3% for the fiscal quarter ended June 30, 2019.

Adjusted EBITDA was $57.0 million, a sequential increase of 12.5% from $50.7 million for the fiscal quarter ended March 31, 2019. Trailing Twelve Month ("TTM") Adjusted EBITDA totaled $117.7 million, including approximately $62.0 million of out-of-period adjustments. When these out-of-period adjustments are excluded, the TTM Adjusted EBITDA at June 30, 2019 would have been $179.7 million. Adjusted EBITDA for the nine months ended June 30, 2019 was $146.8 million.

During the three months ended March 31, 2019, the Company made the determination to sell the operations of Nix Health in Texas and EOGH in New Jersey and has an active program to identify buyers for both of these operations.

This document should be read in conjunction with the audited consolidated financial statements for the year ended September 30, 2018, as well as the earnings releases for the first and second quarters of fiscal 2019.

USE OF NON-GAAP MEASURES

This document contains "non-GAAP financial measures," that is, financial measures that either exclude or include amounts that are not excluded or included in the most directly comparable measure calculated and presented in accordance with generally accepted accounting principles. Specifically, we make use of the non-GAAP measures "EBITDA" and "Adjusted EBITDA." We also make use of ratios based on these non-GAAP measures.

We define EBITDA as net income (loss) plus (i) income (loss) from discontinued operations, (ii) provision for income taxes, (iii) interest expense, net (including amortization of deferred financing costs), (iv) depreciation, and (v) amortization. In addition, we define Adjusted EBITDA as EBITDA as further adjusted to eliminate the impact of certain items that we do not consider indicative of our ongoing operating performance, including transaction costs, certain legal expenses, stock-based compensation, sponsor structuring and management fees, go-private transaction costs, purchase price adjustments and pre-acquisition items, other unusual and non-recurring charges, and other noncash charges. Management believes that EBITDA and Adjusted EBITDA are useful tools for investors and other users of our financial statements in assessing our ability to service and/or incur indebtedness, maintain current operating levels of capital assets and acquire additional operations and businesses. A reconciliation of EBITDA and Adjusted EBITDA to our net income (loss) under generally accepted accounting principles, or GAAP, for certain periods presented in our financial statements is included in this document. However, EBITDA and Adjusted EBITDA are not necessarily comparable to other similarly titled financial measures of other companies due to the potential inconsistencies in the method of calculation. EBITDA and Adjusted EBITDA have limitations as analytical tools and should not be considered in isolation or as substitutes for analyzing the Company's results as reported under GAAP. Some of these limitations are:

- They do not reflect cash outlays for capital expenditures or future contractual commitments;
- They do not reflect changes in, or cash requirements for, working capital;
- They do not reflect interest expense, or the cash requirement necessary to service interest, or principal payments, on indebtedness;
- They do not reflect income tax expense or the cash necessary to pay income taxes;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA and Adjusted EBITDA do not reflect cash requirements for such replacements; and
- Other companies, including other companies in our industry, may not use such measures or may calculate the measures differently than as presented in this earnings release, limiting their usefulness as a comparative measure.

Because of these limitations, EBITDA and Adjusted EBITDA or any related ratio using such measures should be considered only as a supplemental measure in addition to, and not in lieu of, our GAAP income and cash flow statements, and not as a measure of discretionary cash available to invest in business growth or reduce indebtedness.

EQUITY CONTRIBUTION AND DEBT AMENDMENTS IN SECOND QUARTER FISCAL 2019

During Q2 FY19, Ivy Holdings Inc., the ultimate parent company of the Company, made an equity contribution in the amount of $41 million to Ivy Intermediate Holding Inc., which was then contributed as equity to the Company.

Additionally, during Q2 FY19, we entered into three amendments to our Amended and Restated ABL Credit Agreement, by and among Prospect (as the borrower), the lenders party thereto and JPMorgan, as administrative agent and collateral agent (as amended, the "ABL Agreement"). Under these amendments, the maximum revolving commitment increased initially from $250.0 million to $280.0 million, and then to $285.0 million. As part of this, the maximum expansion of the facility has been reduced from $325.0 million to $285.0 million. Additionally, the first amendment provides for $40.0 million of a "first in first out" revolving facility, which bears interest at either 2.5% or 3.5% per annum depending on whether they are Eurodollar loans or ABR loans.

SUBSEQUENT EVENTS

On July 10, 2019, we entered into a Real Property Asset Purchase Agreement with affiliates of Medical Properties Trust, Inc. ("MPT"), a publicly traded Real Estate Investment Trust ("REIT"), which provides for sale-leaseback transactions involving of our properties in California, Connecticut and Pennsylvania. Upon closing of the transactions contemplated in the agreement we will receive $1.55 billion, which will be used to retire our existing term loans and for working capital purposes. The transaction is expected to close in the second half of calendar 2019.

On July 24, 2019, we entered into a fourth amendment to the ABL Agreement that will become effective upon the closing of the aforementioned MPT transactions. Under the amendment, various changes will be made to the ABL Agreement to reflect the closure of the MPT transactions and retirement of our term loans. Additionally, the maximum revolving commitment of $285.0 million will decrease by a total of $20.0 million and $10.0 million related to the future planned dispositions of Nix Health and EOGH, respectively, at the time that we cease to own a majority interest in those facilities.

RECLASSIFICATIONS

During the three months ended March 31, 2019, the Company made the determination to sell the operations of Nix Health in Texas and EOGH in New Jersey. Both are reported in the Hospital Services segment. We have determined that as of June 30, 2019, under applicable accounting literature, both continue to qualify as "held for sale." Accordingly, as of June 30, 2019 and September 30, 2018, the assets and liabilities of these businesses have been classified as held for sale, and the operations (as it relates to revenues and expenses that will no longer continue post sale) have been shown within discontinued operations.

Additionally, certain additional reclassifications have been made to the prior year consolidated financial statements to conform to current year presentation.

CONFERENCE CALL

Management will host a conference call on Tuesday, September 3, 2019 at 1:00 pm PDT / 4:00 pm EDT to discuss these results. Interested parties may participate in the call by dialing Redacted (Domestic) or Redacted (Toll) approximately 10 minutes before the call is scheduled to begin and ask to be connected to the Prospect Medical Holdings conference call. The conference call will be broadcast live over the internet at the following link: Redacted To listen to the live call on the internet, go to the website at least 15 minutes early to register, and download and install any necessary audio software. A replay of the call will be available for 30 days at this link, or by dialing Redacted (Toll-Free) or Redacted (Toll).

MPT CONFIDENTIAL MPT_PROSPECT_00007009

PROSPECT MEDICAL HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par value and share amounts)

	June 30, 2019 (unaudited)	September 30, 2018
ASSETS		
Current assets		
Cash and cash equivalents	$ -	$ 2,831
Restricted cash	1,618	1,742
Restricted investments	29,156	23,779
Patient accounts receivable, net of allowance for doubtful accounts of $149,241 and $151,279	338,120	317,411
Due from government payers	26,059	21,409
Other receivables, prepaid expenses and other current assets	80,433	117,028
Income taxes receivable, net	31,238	2,737
Inventories	34,793	32,624
Hospital fee program receivable	184,354	211,454
Current assets held for sale	68,488	65,852
Total current assets	794,259	796,867
Property, improvements and equipment, net	533,118	513,690
Deferred income taxes, net	1,181	1,975
Goodwill	302,311	301,988
Intangible assets, net	26,822	31,822
Other assets	63,002	56,922
Long-term assets held for sale	115,803	115,369
Total assets	$ 1,836,496	$ 1,818,633
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities		
Accrued medical claims and other healthcare costs payable	$ 71,818	$ 62,887
Outstanding checks in excess of bank balance	2,786	-
Accounts payable and other accrued liabilities	311,692	298,996
Accrued salaries, wages and benefits	167,196	167,705
Hospital fee program liability	57,296	65,967
Due to government payors	45,728	29,137
Revolving lines of credit	209,318	207,645
Current portion of capital leases	10,240	12,933
Current portion of long-term debt	20,662	18,429
Other current liabilities	11,398	27,831
Current liabilities held for sale	39,690	42,224
Total current liabilities	947,824	933,753
Long-term debt, net of current portion	1,102,803	1,098,441
Malpractice reserves	92,126	73,532
Capital leases, net of current portion	26,031	29,230
Asset retirement obligations	6,307	6,179
Other long-term liabilities	43,939	32,949
Pension obligations	258,858	254,121
Long-term liabilities held for sale	12,048	12,777
Total liabilities	2,489,936	2,440,982
Stockholder's deficit		
Common stock, $0.01 par value; 100 shares authorized, issued and outstanding	1	1
Additional paid-in capital	64,961	23,961
Accumulated other comprehensive income	22,390	21,303
Accumulated deficit	(748,692)	(676,930)
Total stockholder's deficit attributable to Prospect Medical Holdings, Inc.	(661,340)	(631,665)
Non-controlling interests	7,900	9,316
Total stockholder's deficit	(653,440)	(622,349)
Total liabilities and stockholder's deficit	$ 1,836,496	$ 1,818,633

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PROSPECT MEDICAL HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands)

	Three Months Ended June 30, (Unaudited)		Nine Months Ended June 30, (Unaudited)	
	2019	2018	2019	2018
Revenues:				
Net Hospital Services revenues	$ 615,855	$ 622,232	$ 1,836,321	$ 1,951,238
Medical Group revenues	93,521	84,408	271,851	255,056
Net Global Risk Management revenues	9,934	9,090	37,954	22,230
Other revenues	11,083	11,358	36,613	37,380
Total net revenues	730,393	727,088	2,182,740	2,265,903
Operating expenses:				
Hospital services operating expenses	496,589	493,809	1,493,195	1,512,305
Medical Group cost of revenues	66,756	63,110	197,193	186,138
Global Risk Management cost of revenues	8,801	5,657	23,986	14,094
General and administrative	120,351	103,310	367,608	356,909
Depreciation and amortization	25,159	20,038	73,644	58,632
Total operating expenses	717,656	685,924	2,155,625	2,128,078
Operating income from unconsolidated joint ventures	4,487	215	5,940	1,149
Operating (loss) income	17,224	41,379	33,055	138,974
Other (income) / expense:				
Interest expense and amortization of deferred financing costs, net	32,699	28,813	100,575	72,618
Loss on debt extinguishment	-	-	-	18,313
Other (income) expense, net	(1,987)	165	(488)	4,883
Total other expense, net	30,712	28,978	100,087	95,814
Income / (Loss) before income taxes	(13,488)	12,401	(67,033)	43,160
Income tax (benefit) provision	(3,782)	7,123	(18,769)	26,202
Net income / (loss) from continuing operations	(9,707)	5,278	(48,263)	16,958
Net loss from discontinued operations, net of tax	(8,874)	(3,024)	(23,923)	(4,343)
Net (loss) income before allocation to non-controlling interests	(18,580)	2,254	(72,186)	12,615
Net income attributable to non-controlling interests	(193)	(202)	(423)	(573)
Net (loss) income attributable to Prospect Medical Holdings, Inc.	(18,387)	2,456	(71,763)	13,188
Other comprehensive income (loss):				
Unrealized (loss) gain on Available for Sale Investments	583	(35)	1,016	(94)
Pension Plan Gain	-	-	-	52,954
Total other comprehensive (loss) income	583	(35)	1,016	52,860
Total comprehensive (loss) income	$ (17,804)	$ 2,421	$ (70,746)	$ 66,048

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PROSPECT MEDICAL HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)

	Nine Months Ended June 30,	
	2019	2018
Operating activities		
Net (loss) income before allocation to non-controlling interests	$ (72,186)	$ 12,615
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	73,644	58,634
Amortization of deferred financing costs, net	1,907	1,857
Write-off of deferred financing costs	-	11,411
Amortization of original issue discount and premium, net	2,532	2,022
Write-off of original issue discount and premium, net	-	6,713
Provision for bad debts	62,586	72,207
Pension obligation net periodic benefit cost	12,734	18,336
Deferred income taxes, net	793	713
Stock-based compensation	-	331
Undistributed earnings from equity method investments	(5,940)	(2,544)
Loss on sale of equity method investment	-	280
Loss (Gain) on disposal of assets	5,926	77
Change in operating assets and liabilities, net of business combinations:		
Patient accounts receivable	(83,295)	(125,302)
Due to/from government payers, net	11,941	10,122
Other receivables, prepaid expenses and other current assets	24,114	29,855
Hospital fee program receivable	27,100	(141,551)
Hospital fee program liability	(8,671)	56,479
Inventories	(2,169)	(395)
Income taxes receivable/payable, net	(28,501)	13,762
Deposits and other assets	(2,646)	(2,295)
Accrued medical claims and other healthcare costs payable	8,931	(424)
Accounts payable and other accrued liabilities	(9,312)	(32,551)
Net cash and cash equivalents provided by operating activities from discontinued operations	7,978	(3,254)
Net cash (used in) provided by operating activities	27,466	(21,717)
Investing activities		
Purchases of property, improvements and equipment	(42,908)	(31,281)
Distribution received from equity method investees	1,617	2,150
Cash paid for acquisitions, net of cash received and working capital adjustment	(323)	(2,576)
Decrease (increase) in restricted investments	(4,291)	(7,451)
Net cash provided by (used in) discontinued operations	(9,111)	(13,489)
Net cash used in investing activities	(55,017)	(52,647)

PROSPECT MEDICAL HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)
(continued)

	Nine Months Ended June 30,	
	2019	2018
Financing activities		
Borrowings on Senior Secured Notes, net of original issue discount	-	1,097,600
Repayments on Senior Secured Notes	(8,400)	(617,188)
Borrowings on line of credit, net	2,301	209,000
Borrowings on long-term debt	11,510	-
Repayments on retired line of credit, net	-	(115,300)
Repayments of long-term debt	(1,651)	(3,173)
Repayment of financing leases	(3,449)	(3,104)
Repayments of capital leases	(10,811)	(8,203)
Capital contribution	41,000	-
Cash paid for deferred financing costs	(526)	(19,537)
Change in restricted cash	124	29,037
Insurance premium financing, net	1,455	(9,177)
Payment of dividends	-	(456,930)
Excess contribution to pension plan	(7,996)	(41,667)
Net cash used in financing activities from discontinued operations	(1,624)	(941)
Net cash provided by financing activities	24,719	60,418
Increase in cash and cash equivalents	(2,831)	(13,946)
Cash and cash equivalents at beginning of period	2,831	27,467
Cash and cash equivalents at end of period	$ -	$ 13,521

	Nine Months Ended June 30,	
	2019	2018
Supplemental disclosure of cash flow information:		
Interest paid	$ 81,356	$ 53,070
Income taxes (refunded) paid, net	$ (73)	$ 9,900
Schedule of non-cash investing and financing activities:		
Equipment acquired under capital leases	$ 6,911	$ 8,263
Acquisition of New University Medical Group	$ -	$ 7,452
Accrual of Property, improvements and equipment	$ 43,453	$ 19,249

Summary Consolidated Financial Information
(Unaudited, in thousands)

Summary Financial Information for Unrestricted Subsidiary (1) :	Three Months Ended June 30,		Nine Months Ended June 30,	
	2019	2018	2019	2018
Net revenues	$ 72,653	$ 63,974	$ 197,507	$ 181,945
EBITDA	$ 718	$ 627	$ 1,749	$ 1,803
Net Income	$ 947	$ 719	$ 2,429	$ 2,063
Total debt	$ -	$ -	$ -	$ -
Total assets	$ 15,257	$ 12,906	$ 15,257	$ 15,257

(1) Prospect Health Plan, Inc. is an Unrestricted Subsidiary as of June 30, 2016 pursuant to the Company's Term Loan and ABL Credit Agreements entered into on that date and subsequently pursuant to the Amended and Restated Term Loan and ABL Credit Agreements entered into on February 22, 2018 and amended from time to time thereafter.

Hospital Services Segment

The following table sets forth the results of operations for our Hospital Services segment for the three and nine months ended June 30, 2019 and 2018, respectively. Hospital services expenses do not include allocation of corporate overhead or interest expense - see "Corporate Segment" on page 20. Prior to October 1, 2018, the hospital segment included expenses which we deem to be "true" corporate overhead. Such expenses were previously recorded in the hospital segment, but effective October 1, 2018 are now recorded in the corporate segment. This has no impact on the consolidated financial statements. Such amount that was included in the corporate segment in Q3 FY19 was $4.7 million, and $20.6 million for Q3 FY19 year-to-date.

In March 2019, the Company made the determination to sell the operations of Nix Health in Texas and EOGH in New Jersey. Both are reported in the Hospital Services segment. We have determined that as of June 30, 2019, under applicable accounting literature, both qualify as "held for sale." Accordingly, the income statements below present the operations of Nix Health and EOGH within discontinued operations and represent revenues and expenses that will not continue after the respective sales of these facilities.

(Unaudited, in thousands)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2019	2018	2019	2018
Revenues:				
Net Hospital Services revenues:				
Medicare	$ 212,199	$ 223,802	$ 636,763	$ 626,150
Medicaid	195,000	187,257	573,202	695,067
Managed care	148,091	143,578	428,985	435,720
Self pay / other payor	39,185	49,005	126,948	132,816
Capitation revenue	41,204	38,596	118,053	119,228
Other	5,426	5,252	14,956	14,463
Hospital Services revenues	641,105	647,491	1,898,908	2,023,445
Provision for bad debts	(25,250)	(25,259)	(62,586)	(72,207)
Net Hospital Services revenues	615,855	622,232	1,836,321	1,951,238
Other revenues	11,852	11,189	36,257	37,205
Total Revenues	627,706	633,421	1,872,578	1,988,442
Hospital Services operating expenses:				
Salaries, wages and benefits	311,131	316,497	943,299	923,608
Supplies	63,415	60,272	184,460	180,731
Capitation expense	38,086	35,848	111,996	112,892
Other operating expenses	83,957	81,191	253,440	295,073
Total Hospital Services operating expenses	496,589	493,809	1,493,195	1,512,305
General and administrative	83,275	74,176	248,731	237,478
Depreciation and amortization	23,052	19,108	67,398	55,999
Total non-medical expenses	106,326	93,284	316,129	293,477
Operating income (loss) from unconsolidated joint ventures	4,440	215	5,975	1,244
Operating income from continuing operations	29,231	46,543	69,230	183,905
Operating income (loss) from discontinued operations	(12,106)	(4,391)	(28,219)	(5,500)
Operating income	$ 17,126	$ 42,152	$ 41,011	$ 178,405

The table above reflects out of period California Hospital Fee program ("QAF") revenues and EBITDA of $126.2 million and $65.3 million, respectively, that was recognized during the first quarter of fiscal 2018.

Certain amounts have been reclassified for consistency with current quarter presentation. These reclassifications had no effect on the overall consolidated reported results of operations.

The table below reflects the revenues and expenses recorded related to supplemental reimbursement programs.

(Unaudited, in thousands)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2019	2018 (2)	2019	2018 (2)
California Hospital Fee program revenues	$ 40,991	$ 38,633	$ 122,972	$ 115,900
California Hospital Fee program expenses	(17,926)	(16,833)	(53,777)	(50,501)
Net pre-tax impact	$ 23,065	$ 21,800	$ 69,194	$ 65,399
Pennsylvania Medicaid Modernization revenues & MA Pass Thrus	$ 9,292	$ 6,333	$ 25,854	$ 21,436
Pennsylvania Medicaid Modernization expenses	(3,824)	(4,181)	(11,473)	(12,543)
	$ 5,467	$ 3,864	$ 14,381	$ 8,893
Pennsylvania Community Access Fund and Legislative Initiative revenues	$ 2,933	$ 12	$ 8,798	$ 8,328
Net pre-tax impact	$ 8,400	$ 3,876	23,179	17,221
Rhode Island DSH & UPL revenues	$ 5,339	$ 4,678	$ 15,339	$ 14,034
Rhode Island License Fees	(4,367)	(4,186)	(13,100)	(12,559)
Net pre-tax impact	$ 972	$ 492	$ 2,240	$ 1,475
Connecticut Medicaid DSH revenues	$ 6,906	$ 7,514	19,623	$ 25,565
Connecticut Provider Tax	(10,123)	(9,738)	(30,368)	(32,096)
Net pre-tax impact	$ (3,217)	$ (2,224)	(10,745)	$ (6,531)
Total Hospital Services revenues	$ 65,460	$ 57,170	$ 192,587	$ 185,263
Total Hospital Services operating expenses	(36,239)	(34,938)	(108,718)	(107,700)
Total net pre-tax impact	$ 29,220	$ 22,232	$ 83,868	$ 77,564

Summarized financial information for discontinued operations is included below (in thousands). Note that the segment financial statements exclude the effect of taxes, but these are included in the table below to reconcile to the consolidated financial statements on page 5. Further, as discussed on page 9, in FY18 we allocated corporate overhead to the hospitals. The numbers in the table below exclude the impact of such overhead, in line with applicable accounting literature.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2019	2018	2019	2018
Net Hospital Services	$ 44,623	$ 50,808	$ 152,436	$ 159,191
Operating expenses	45,678	41,547	140,931	126,127
G&A expenses	11,051	10,253	32,500	28,799
Depreciation and amortization	-	3,399	7,224	9,765
Net operating Income	(12,106)	(4,391)	(28,219)	(5,500)
Interest expense	408	357	1,237	1,085
Goodwill impairment	-	-	3,135	-
Other (income)/expense	(189)	(241)	636	(112)
Loss on discontinued operations before income taxes	(12,325)	(4,506)	(33,226)	(6,472)
Income tax benefit	(3,451)	(1,483)	(9,303)	(2,129)
Loss on discontinued operations	$ (8,874)	$ (3,024)	$ (23,923)	$ (4,343)

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The following table shows certain selected historical operating statistics for our hospitals for the three and nine months ended June 30, 2019 and 2018, respectively, for continuing operations:

(Unaudited)	Three Months Ended June 30,			Nine Months Ended June 30,		
Dollars in thousands	2019	2018	Increase (Decrease)	2019	2018	Increase (Decrease)
Number of hospitals at end of period	16	16	0%	16	16	0%
Licensed beds at end of the period	3,077	3,077	0%	3,077	3,077	0%
Average staffed beds	1,772	1,757	1%	1,772	1,757	1%
Occupancy rate for staffed beds (1)	85.9%	93.6%	-8%	88.4%	93.0%	-5%
Admissions (2)	22,306	24,073	-7%	69,685	71,130	-2%
Adjusted patient admissions (3)	40,001	41,917	-5%	122,728	123,708	-1%
Patient days	138,488	149,647	-7%	427,762	445,789	-4%
Adjusted patient days (4)	250,485	264,525	-5%	761,021	773,316	-2%
Average length of patients' stay (days) (5)	6.2	6.2	0%	6.1	6.3	-2%
Outpatient visits (6)	645,126	647,200	0%	1,924,974	1,906,307	1%
Surgeries	19,152	18,305	5%	56,194	56,804	-1%
Net inpatient revenues (7)	$ 357,437	$ 362,709	-1%	$ 1,062,978	$ 1,195,322	-11%
Net inpatient revenue per admission	$ 16,024	$ 15,067	6%	$ 15,254	$ 16,805	-9%
Net inpatient revenue per adjusted admission	$ 8,936	$ 8,653	3%	$ 8,661	$ 9,662	-10%
Net inpatient revenue per patient day	$ 2,581	$ 2,424	6%	$ 2,485	$ 2,681	-7%
Net inpatient revenue per adjusted patient day	$ 1,427	$ 1,371	4%	$ 1,397	$ 1,546	-10%
CA Hospital Fee Program revenues (8)	$ 40,991	$ 38,633	6%	$ 122,972	$ 115,900	6%
CA Hospital Fee Program revenues - OOP (8)	$ -	$ -	0%	$ -	$ 126,196	-100%
Net inpatient revenues excluding CA Program revenues (7)	$ 316,446	$ 324,076	-2%	$ 940,006	$ 953,226	-1%
Capitation revenues	$ 41,204	$ 38,596	7%	$ 118,053	$ 119,228	-1%
Other hospital services revenues (9)	$ 5,426	$ 5,252	3%	$ 14,956	$ 14,463	3%
Net outpatient revenues	$ 237,038	$ 240,934	-2%	$ 702,920	$ 694,368	1%
Net outpatient revenue per visit	$ 367	$ 372	-1%	$ 365	$ 364	0%
Other revenues (9)	$ 11,852	$ 11,189	6%	$ 36,257	$ 37,205	-3%

(1) The occupancy rate for staffed beds represents average daily census in the period divided by staffed beds. Occupancy rates are affected by many factors, including the population size and general economic conditions within particular market service areas, the degrees of variation in medical and surgical products, outpatient use of hospital services, quality and treatment availability at competing hospitals, and seasonality.

(2) Charity care admissions represented 0.2% and 0.2% of total admissions for the three months ended June 30, 2019 and 2018 and 0.1% and 0.4% for the nine months ended June 30, 2019 and 2018, respectively. Loss in revenue due to charity write offs represented $0 million and $1.8 million for the three months ended June 30, 2019 and 2018 and $2.3 million and $8 million for the nine months ended June 30, 2019 and 2018, respectively.

(3) Adjusted patient admissions are total admissions adjusted for outpatient volume. Adjusted patient admissions are computed by multiplying admissions (inpatient volume) by the sum of gross inpatient charges and gross outpatient charges and then dividing the resulting amount by gross inpatient charges.

(4) Adjusted patient days are total patient days adjusted for outpatient volume. Adjusted patient days are computed by multiplying patient days (inpatient volume) by the sum of gross inpatient charges and gross outpatient charges and then dividing the resulting amount by gross inpatient charges.

(5) Average length of patients' stay ("ALOS") is calculated by dividing total discharged patient days by total patient discharges during the period, and includes the length of patients' stay related to acute, psychiatric, sub-acute, and rehabilitation services.

(6) The outpatient visits for the nine months ended June 30, 2019 and the three and nine month periods ended June 30, 2018 periods reflect changes from previously disclosed numbers to include outpatient visits, emergency room visits and urgent care visits for all facilities disclosed.

(7) Net inpatient revenues include self-pay revenues of $4.7 million and $8.4 million for the three months ended June 30, 2019 and 2018, respectively; and $19.9 million and $20.6 million for the nine months ended June 30, 2019 and 2018, respectively.

(8) This item excludes $126.2 million of California Hospital Fee Program revenues applicable to periods prior to fiscal 2018, but recognized in Q1 of FY18, which are shown in the second line item separately (titled "CA Hospital Fee Program revenues - OOP").

(9) Other hospital service revenues consist of revenues earned from ancillary and other hospital operations, while other revenues consist primarily of rental income, tuition revenue from the St. Joseph Health Services of Rhode Island School of Nursing, and Crozer Health Club membership and other revenues.

Results of Operations - Q3 FY19 vs Q3 FY18

- Hospital services revenues before provision for bad debts was $641.1 million for Q3 FY19 compared to $647.5 million for Q3 FY18, and bad debt expense was flat at $25.3 million. While net revenues decreased quarter over quarter, as noted in the FY18 earnings release, we recorded significant entries to reduce revenues and accounts receivable in Q4 FY18, of which approximately $24 million related to Q3 FY18. This primarily pertained to a change in the patient accounts receivable ("AR") valuation model at Crozer Keystone Health System in Pennsylvania ("Crozer") from one based on expected contractual reimbursements to a model based on a paid claims rate methodology, effective September 30, 2018, to reduce complexities and more accurately reflect the value of patient accounts to collection trends. Normalizing for this change in estimation, net revenues (after bad debts) increased by 3% quarter over quarter, due to an increase in the number of surgeries, increased reimbursements related to both contractual increases and better payment collection trends, as well as better trends in denials and collections on such denials. Additionally, supplemental funds increased (see page 10) and capitation revenues increased due to an increase in the number of enrolled members.
- Salaries, wages and benefits ("SWB") decreased from $316.5 million during Q3 FY18 to $311.1 million during Q3 FY19. While adjusted patient days decreased by 5%, the decrease in SWB expense was offset by union rate increases and also an increase in employee benefits expense, offset by transfers of "true corporate" (as discussed above) to the Corporate segment of $4.2 million.
- Supplies expense increased from at $60.3 million in Q3 FY18 to $63.4 million in Q3 FY19 as a result of the increase in the number of surgeries and the mix of the surgeries performed.
- Capitation expense increased from $35.8 million in Q3 FY18 to $38.1 million to Q3 FY19, due to an increase in the number of enrolled members. We recognize revenue and expenses in the Hospital Services segment for global capitation arrangements for which hospitals in our Hospital Services segment are responsible for the provision of care to members under such arrangements.
- Other operating expenses increased from $81.1 million in Q3 FY18 to $84 million in Q3 FY19. The increase in operating expenses in Q3 FY19 compared to Q3 FY18 is due to increased purchased services, offset by transfers of "true corporate" (as discussed above) to the Corporate segment of $0.5 million and professional fees (driven in part by a new physician group that started in FY19 at CharterCARE).
- Hospital G&A expense increased from $74.2 million in Q3 FY18 to $83.3 million in Q3 FY19, in part driven by increases in professional liability insurance, increase in purchased services due to Cerner at Waterbury and certification and CMS visit at Culver, offset by reclassifications to other operating expenses at CharterCARE Health Partners in Rhode Island ("CharterCARE").
- Depreciation and amortization expense increased from $19.1 million in Q3 FY18 quarter to $23.1 million in Q3 FY19 as a result of assets being put into service, for example the EHR system at Waterbury.
- Income from unconsolidated joint ventures was $215,000 for Q3 FY18 compared to $4.4 million in Q3 FY19. Income from unconsolidated joint ventures consists of equity method income related joint venture interests owned by CharterCARE, Crozer, Waterbury Hospital in Connecticut ("Waterbury") and Eastern Connecticut Health Network ("ECHN") and other equity method investments. The increase was driven by an increase in the net assets at a joint venture at Waterbury due a donation.
- Loss from discontinued operations increased from a loss of ($4.4 million) in Q3 FY18 to a loss of ($12.1 million) in Q3 FY19, as a result of a decline in net revenues at both Nix Health and EOGH as well as increases in SWB, and an increase in purchased services (primarily related to the implementation of the new EHR system at EOGH in November 2018, for which fees cannot be capitalized post "go live"). Loss from discontinued operations reflects the net income (before tax provision) for our operations at Nix Health and EOGH, which we made the decision in Q2 FY19 to sell.

Results of Operations - YTD Q3 FY19 vs YTD Q3 FY18

- Hospital services revenues before provision for bad debts was $1,836.3 million for YTD Q3 FY19 compared to $1,951.2 million for YTD Q3 FY18, and bad debt expense decreased from $72.2 million in YTD Q3 FY18 to $62.6 million in YTD Q3 FY19. Excluding the impact of revenues recorded under the California Hospital Fee Program during Q1 FY18 of $126.2 million, due to the timing of the approval of the program by the Centers for Medicare & Medicaid ("CMS"), that relate to the period from January 1, 2017 to September 30, 2017, hospital services revenues before provision for bad debts increased by 0.6% to $1,836.3 million for YTD Q3 FY19 compared to $1,825.0 million for YTD Q3 FY18. As noted in the FY18 earnings release, we recorded significant entries to reduce revenues and accounts receivable in Q4 FY18, of which approximately $47 million related to YTD Q3 FY18. Most of this reduction pertained to a change in the patient accounts receivable ("AR") valuation model at Crozer from one based on expected contractual reimbursements to a model based on a paid claims rate methodology, effective September 30, 2018, to reduce complexities and more accurately reflect the value of patient accounts to collection trends. Normalizing for this change in estimation, net revenues (after bad debts) increased by 3% between the fiscal year to date periods due to increased reimbursements related to both contractual increases and better payment collection trends, as well as better trends in denials and collections on such denials. Additionally, supplemental funds increased (see page 10).
- SWB increased from $923.6 million during YTD Q3 FY18 to $943.3 million during YTD Q3 FY19. While this represents an increase of approximately 2%, the reduction in costs driven by a 2% reduction in adjusted patient days was offset by union rate increases, an increase in employee benefits expense (driven by additional 401(k) contributions at Crozer, for which the expense in the prior YTD period was trued up in Q4 FY18), and the acquisition of a medical practice at Crozer in March 2018, and offset by transfers of "true corporate" (as discussed above) to the Corporate segment of $13.3 million.
- Supplies expense increased slightly from $180.7 million in YTD Q3 FY18 to $184.5 million in YTD Q3 FY19.
- Capitation expense decreased from $112.9 million in YTD Q3 FY18 to $112.0 million to YTD Q3 FY19, due to a slight decrease in the number of enrolled members. We recognize revenue and expenses in the Hospital Services segment for global capitation arrangements for which hospitals in our Hospital Services segment are responsible for the provision of care to members under such arrangements.
- Other operating expenses decreased from $295.1 million in YTD Q3 FY18 to $253.4 million in YTD Q3 FY19. Excluding expense related to out of period QAF, other operating expenses in YTD Q3 FY18 were $234.0 million. The increase in operating expenses in YTD Q3 FY19 compared to the normalized operating expenses is due to increased purchased services (related to (i) the implementation of our electronic health records ("EHR") systems at Waterbury in November 2018, for which fees cannot be capitalized post "go live"; (ii) an increase in third party fees for TAR denials in California; (iii) reclassification from Hospital General and Administrative ("G&A") costs at CharterCARE), and professional fees (driven in part by a new physician group that started in FY19 at CharterCARE), offset against a fall in registry expense and by transfers of "true corporate" (as discussed above) to the Corporate segment of $7.2 million.
- Hospital General and Administrative ("G&A") expense increased from $237.5 million in YTD Q3 FY18 to $248.7 million in YTD Q3 FY19.
- Depreciation and amortization expense increased from $56.0 million in YTD Q3 FY18 to $67.4 million in YTD Q3 FY19 as a result of additional assets being put into service, for example the new EHR system at Waterbury.
- Income from unconsolidated joint ventures was $1.2 million for YTD Q3 FY18 compared to $6.0 million for YTD Q3 FY19. Income from unconsolidated joint ventures consists of equity method income related to CharterCARE, Crozer, ECHN and Waterbury joint ventures and other equity method investments. The increase was driven by an increase in the net assets at a joint venture at Waterbury due to a donation.
- Loss from discontinued operations decreased from a loss of ($5.5 million) in YTD Q3 FY18 to a loss of ($28.2 million) in YTD Q3 FY19, as a result of decline in net revenues at both Nix (related to an unfavorable patient mix) and at EOGH (due to lower admissions and a revised AR valuation model adopted on September 30, 2018) as well as increases in SWB and other operating expenses, offset by decreases in G&A expenses, at both Nix Health and EOGH. Loss from discontinued operations reflects the net income (before tax provision) for our operations at Nix Health and EOGH, which we made the decision in Q2 FY19 to sell.

Medical Group Segment

The following table sets forth the results of operations for our Medical Group operations for the three and nine months ended June 30, 2019 and 2018. Cost of revenues does not include allocation of corporate overhead or interest expense - see "Corporate Segment" on page 20.

(Unaudited, in thousands)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Nine Months Ended June 30, 2019	Nine Months Ended June 30, 2018
Medical Group revenues:				
Capitation	$ 77,648	$ 75,327	$ 229,665	$ 226,533
Management fees	4,670	1,435	10,323	5,701
Other operating revenues (1)	11,204	7,646	31,863	22,822
Total Medical Group revenues	93,521	84,408	271,851	255,056
Medical Group cost of revenues:				
PCP capitation	11,588	12,238	35,294	36,804
Specialist capitation	12,430	11,295	38,333	32,143
Claims expense	35,103	36,120	108,055	104,918
Physician incentives	7,343	3,132	14,952	9,540
Other cost of revenues	292	325	558	2,732
Total Medical Group cost of revenues	66,756	63,110	197,193	186,138
Gross margin	26,765	21,298	74,658	68,919
General and administrative	17,184	16,843	50,907	51,638
Depreciation and amortization	921	846	2,685	2,429
Total other expenses	18,104	17,689	53,593	54,067
Income from unconsolidated joint ventures	47	-	(35)	(95)
Operating income	$ 8,708	$ 3,609	$ 21,031	$ 14,757
Medical cost ratio	76.1%	79.2%	79.1%	76.8%

The following table sets forth the approximate number of members, by category, as of June 30, 2019 and 2018:

(Unaudited, in thousands)	As of June 30, 2019	As of June 30, 2018
Commercial - owned	69.3	75.0
Commercial - managed (2)	14.1	4.0
Senior - owned	32.6	32.3
Senior - managed (2)	5.3	1.6
Medicaid - owned (5)	76.3	83.1
Medicaid - managed (2) (5)	21.9	22.4
Health Insurance Exchange - managed (2) (3)	19.7	19.4
Value Based Reimbursement (4)	223.5	230.1
	462.7	467.9

(1) Other operating revenues primarily consist of payments from HMOs under pay-for-performance programs and are recognized each year once the amounts of such items are known, as well as patient service revenues related to clinical operations.

(2) Represents members that we manage on behalf of third parties in exchange for a monthly management fee.

(3) Our management services company is party to an agreement with one of our major HMOs to manage the provision of medical services to members enrolled under the Patient Protection and Affordable Care Act ("PPACA") Health Insurance Exchange program. We receive a fixed per member per month management fee under the program and do not share in the risk for medical services for such members.

(4) Value Based Membership is also defined as population under management. We have direct contracts with multiple Health Plans in all of the states where we operate for the provision of quality care services to the population under management improving care delivery to the members in most cost-efficient manner for a fixed infrastructure payment. In many of the contracts, we also receive variable revenue called Pay for Performance for improving health scores and closing quality gaps. In addition, in some of the contracts, we are also eligible for upside and downside sharing of risk pools for the population under management.

(5) The decrease in Medicaid membership period over period is due to decrease of approximately 6,000 members (owned) from a health plan, and loss of managed Medicaid membership due to a contract which was terminated effective April 30, 2018.

Results of Operations - Q3 FY19 vs Q3 FY18

Medical Group Revenue

- Capitation revenue increased 3.1% to $77.6 million for Q3 FY19 from $75.3 million for Q3 FY18. The increase of $2.3 million relates to a $4.8 million increase in per-member-per month ("PMPM") rate in our Senior line of business as well has higher Senior membership, offset by a decline of $2.5 million due to net membership losses in our Medicaid and Commercial lines of businesses.

- Management fee revenue for managing third-party Independent Physician Group ("Managed IPA") increased 225.4% to $4.7 million for Q3 FY19 from $1.4 million for Q3 FY18. The increase was primarily due to increase in Managed IPAs' revenues, along with addition of two new Managed IPAs in Q3 FY19. Management fees range from 6.5% to 10.0% of revenues, depending on the type of revenue.

- Other operating revenue, which contains incentive, hospital and shared risk pool revenues, increased 46.5% to $11.2 million for Q3 FY19 from $7.6 million for Q3 FY18. The increase was primarily due to improved hospital risk pool performance as a result of lower admissions from better management of patients' utilizations of hospital services as well as higher capitation revenue resulting from higher PMPM in our Senior line of business.

Medical Group Operating Expenses

- Primary care physician ("PCP") capitation expense decreased 5.3% to $11.6 million for Q3 FY19 compared to $12.2 million for Q3 FY18. PCP capitation expense as a percentage of capitation revenues decreased from 16.2% to 14.9% due to higher capitation revenue.

- Specialist capitation expense increased 10.1% to $12.4 million for Q3 FY19 from $11.3 million for Q3 FY18. Specialist capitation expense as a percentage of capitation revenues increased to 16.0% from 15.0%. The increase in specialist capitation expense as a percentage of capitation revenues was primarily due to a strategic effort to convert certain high cost specialists from fee for service to capitated arrangements.

- Claims expense decreased 2.8% to $35.1 million for Q3 FY19 from $36.1 million for Q3 FY18. Claims expense as a percentage of capitation revenues decreased to 45.2% for Q3 FY19 from 48.0% for Q3 FY18. The decrease was primarily due to the strategic effort to convert certain high cost specialists from fee for service to capitated arrangements.

- Physician incentives expense increased 134.5% to $7.3 million for Q3 FY19 from $3.1 million for Q3 FY18. The increase was primarily attributable to payments for improved quality and profitability on profit sharing arrangements with contracted medical groups to improve quality of care and management of costs.

- Other cost of revenues was unchanged from Q3 FY19 compared to Q3 FY18.

Medical Cost Ratio and Gross Margin

- Medical care costs as a percentage of Medical Group capitation revenues (the medical cost ratio, a non-GAAP measure) decreased to 76.1% for Q3 FY19 from 79.2% for Q3 FY18, and gross margin as a percentage of total revenue, increased to 28.6% for Q3 FY19 from 25.2% for Q3 FY18. These changes were the result of items discussed above.

General and Administrative

- G&A expenses increased 2.0% to $17.2 million for Q3 FY19 from $16.8 million for Q3 FY18. G&A expenses as a percentage of total Medical Group revenues decreased to 18.4% for Q3 FY19 from 20.0% for Q3 FY18. The increase in G&A expenses was primarily due to higher cost incurred related to professional services.

Depreciation and Amortization

- Depreciation and amortization expense was $0.9 million for Q3 FY19 and $0.8 million for Q3 FY18.

Income (Loss) from Unconsolidated Joint Ventures

- Income (loss) from unconsolidated joint ventures (our 50% partnership interest in AMVI/Prospect Medical Group) was income of $47,000 and $0 for Q3 FY19 and Q3 FY18, respectively.

Results of Operations - YTD Q3 FY19 vs YTD Q3 FY18

Medical Group Revenue

- Capitation revenue increased 1.4% to $229.7 million for Q3 FY 19 from $226.5 million for Q3 FY 18. We experienced $3.2 million increase in revenues from overall favorability of per-member-per month ("PMPM") rates due to $8.6 million increased our Senior line of business from a combination of higher PMPM and increase in membership, offset by a decline in revenues of $5.4 million due to net membership losses from our Commercial and Medicaid lines of businesses.

- Management fee revenue increased 81.1% to $10.3 million for Q3 FY19 from $5.7 million for Q3 FY18. The increase was primarily due to increase in Managed IPAs' revenues, along with addition of two new Managed IPA in Q3 FY19. Management fees range from 6.5% to 10.0% of revenues, depending on the type of revenue.

- Other operating revenue, which contains incentive, hospital and shared risk pool revenues, increased 39.6% to $31.9 million for Q3 FY19 from $22.8 million for Q3 FY18. The increase was primarily due to improved hospital risk pool performance as a result of lower admissions from better management of patients' utilizations of hospital services as well as higher capitation revenue resulting from higher PMPM to our Senior line of business.

Medical Group Operating Expenses

- Primary care physician ("PCP") capitation expense decreased 4.1% to $35.3 million for Q3 FY19 compared to $36.8 million for Q3 FY18. PCP capitation expense as a percentage of capitation revenues decreased to 15.4% from 16.2%. The decrease was primarily due to change in membership mix between Commercial, Medicaid and Senior lines of business during the current fiscal year.

- Specialist capitation expense increased 19.3% to $38.3 million for Q3 FY19 from $32.1 million for Q3 FY18. Specialist capitation expense as a percentage of capitation revenues increased to 16.7% from 14.2%. The increase was primarily due to a strategic effort to convert certain high cost specialists from fee for service to capitated arrangements.

- Claims expense increased 3.0% to $108.1 million for Q3 FY19 from $104.9 million for Q3 FY18. Claims expense as a percentage of capitation revenues increased to 47.0% for Q3 FY19 from 46.3% for Q3 FY18. The increase was primarily due to an IBNR deficit of $2 million at Q2 FY18 (which was subsequently corrected in Q4 FY18) and higher claims expense because of higher cost basis of cases in Q3 FY19.

- Physician incentives expense increased 56.7% to $15.0 million for Q3 FY19 from $9.5 million for Q3 FY18. The increase was primarily attributable to payments for improved quality and profitability on profit sharing arrangements with contracted medical groups to improve quality of care and management of costs.

- Other cost of revenues was $0.6 million for Q3 FY19 compared to $2.7 million for Q3 FY18. The decrease was primarily due to higher recoveries from re-insurance coverage and lower pharmacy costs year-over-year.

Medical Cost Ratio and Gross Margin

- Medical care costs as a percentage of Medical Group capitation revenues (the medical cost ratio, a non-GAAP measure) increased to 79.1% for Q3 FY19 from 76.8% for Q3 FY18, and gross margin as a percentage of total revenue, decreased to 27.5% for Q3 FY19 from 27.0% for Q3 FY18. These changes were the result of items discussed above.

General and Administrative

- G&A expenses decreased 1.4% to $50.9 million for Q3 FY19 from $51.6 million for Q3 FY18. G&A expenses as a percentage of total Medical Group revenues decreased to 18.7% for Q3 FY19 from 20.2% for Q3 FY18.

Depreciation and Amortization

- Depreciation and amortization expense was $2.7 million for Q3 FY19 and $2.4 million for Q3 FY18.

Income (Loss) from Unconsolidated Joint Ventures

- Income (loss) from unconsolidated joint ventures (our 50% partnership interest in AMVI/Prospect Medical Group) was a loss of $(35,000) and $(95,000) for Q3 FY19 and Q3 FY18, respectively.

Global Risk Management Segment

The following table sets forth the results of operations for our Global Risk Management segment for the three and nine months ended June 30, 2019 and 2018. Global Risk Management expenses do not include allocation of corporate overhead or interest expense - see "Corporate Segment" below. Capitation revenue includes net capitation revenue retained by the Global Risk Management segment after transfer of capitation to the Hospital Services and Medical Group segments.

(Unaudited, in thousands)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2019	2018	2019	2018
Global Risk Management revenues:				
Capitation	$ 7,819	$ 8,371	$ 28,330	$ 18,380
Other operating revenues	2,115	719	9,625	3,849
Total Global Risk Management revenues	9,934	9,090	37,954	22,230
Global Risk Management cost of revenues:				
Capitation Expense	285	(239)	303	757
Claims Expense	5,662	6,233	18,053	13,379
Other cost of revenues	2,854	(337)	5,630	(42)
Total Global Risk Management cost of revenues	8,801	5,657	23,986	14,094
Gross margin	1,133	3,433	13,968	8,135
General and administrative	2,496	4,095	13,669	9,636
Total other expenses	2,496	4,095	13,669	9,636
Operating Income (loss)	$ (1,363)	$ (661)	$ 300	$ (1,501)

Results of Operations - Q3 FY19 vs Q3 FY18

Global Risk Management Revenues

The Global Risk Management segment entered into Management Services Agreements with our Medical Group and Hospital Services segments, under which up to 85% of capitation revenue received is transferred to the Medical Group and Hospital Services segments. Capitation and other revenues recognized increased to $9.9 million for Q3 FY19 from $9.1 million for Q3 FY18. During Q3 FY19, capitation revenue received from health plans was $76.2 million, of which $25.8 million and $40.0 million was transferred to our Hospital Services segment and Medical Group segment, respectively. During Q3 FY18, capitation revenue received from health plans was $67.5 million, of which $25.1 million and $31.7 million were transferred to our Hospital Services segment and Medical Group segment, respectively. The increase in capitation revenue relates primarily to the conversion of a contract to Global Risk during FY18. Capitation revenue includes shared risk pool deficit of $(2.6) million and ($2.4) million for the three months ended June 30, 2019 and 2018, respectively.

Global Risk Management Cost of Revenues

Cost of revenues increased to $8.8 million during Q3 FY19 from $5.7 million during Q3 FY18. Cost of revenues consists primarily of claims and other related expense related to capitation retained by the Global Risk Management segment. The increase in cost of revenue from Q3 FY18 to Q3 FY19 is mostly attributable to a $2.8 million increase in physician bonus payout related to prior year performance. Cost of revenues as a percentage of total revenues increased to 88.6% for Q3 FY19 from 62.2% for Q3 FY18.

General and Administrative

G&A expenses decreased to $2.5 million for Q3 FY19 from $4.1 million for Q3 FY18. The decrease in G&A expenses was primarily due to risk pool expense adjustments in the current quarter. G&A expenses as a percentage of total revenues decreased to 25.1% for Q3 FY19 from 45.0% for Q3 FY18.

Results of Operations - YTD Q3 FY19 vs YTD Q3 FY18

The Global Risk Management segment entered into Management Services Agreements with our Medical Group and Hospital Services segments, under which up to 85% of capitation revenue received is transferred to the Medical Group and Hospital Services segments. Capitation and other revenues recognized increased to $38.0 million for YTD Q3 FY19 from $22.2 million for YTD Q3 FY18. During YTD Q3 FY19, capitation revenue received from health plans was $205.5 million, of which $75.8 million and $99.5 million was transferred to our Hospital Services segment and Medical Group segment, respectively. During Q3 FY18, capitation revenue received from health plans was $192.7 million, of which $77.2 million and $88.8 million were transferred to our Hospital Services segment and Medical Group segment, respectively. The increase in capitation revenue relates primarily to the conversion of a contract to Global Risk during FY18. Capitation revenue includes shared risk pool deficit of $(2.0) million and ($8.4) million for the nine months ended June 30, 2019 and 2018, respectively.

Global Risk Management Cost of Revenues

Cost of revenues increased to $24.0 million during YTD Q3 FY19 from $14.1 million during YTD Q3 FY18. Cost of revenues consists primarily of claims and other related expense related to capitation retained by the Global Risk Management segment. The increase in cost of revenue from Q3 FY18 to Q3 FY19 is attributable to a $4.7 million increase in claims expense and a $3.9 million increase in physician bonus related to prior year performance. The increase in claims expense is consistent with the increase in capitation revenue. Cost of revenues as a percentage of total revenues slightly decreased to 63.2% for YTD Q3 FY19 from 63.4% for YTD Q3 FY18.

General and Administrative

G&A expenses increased to $13.7 million for YTD Q3 FY19 from $9.6 million for YTD Q3 FY18. The increase in G&A expenses was primarily due to an increase in SWB, professional fees and management fees to support the transition of health plans to Global Capitation programs. In addition, there was a $2 million salary true up in a prior fiscal quarter that was booked in Q4 FY18. G&A expenses as a percentage of total revenues decreased to 36.0% for YTD Q3 FY19 from 43.3% for YTD Q3 FY18.

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Corporate Segment

The Corporate segment primarily reflects certain expenses incurred at Prospect not specifically allocable to the Hospital Services, Medical Group, or Global Risk Management segments. These include, but are not limited to: salaries, benefits and other compensation for corporate employees; financing expenses; insurance expenses; rent; legal fees; and accounting fees. Additionally, this segment includes operations of two captive insurance companies. Prospect Medical Holdings Risk Retention Group, Inc. ("RRG"), incorporated in the state of Vermont, provides primary insurance coverage for hospital and physician professionals and general liability risks for Crozer. In addition, the Company has a captive insurance company based in the Cayman Islands, Connecticut Healthcare Insurance Company ("CHIC"), which provides hospital and physician professional and general liability coverage to all the Company's hospitals and affiliated subsidiaries, except for Crozer and its Pennsylvania subsidiaries. Effective January 1, 2018, ownership of CHIC was transferred from Prospect ECHN, Inc. to Prospect Medical Holdings, Inc. As such, from that date the results of operations for CHIC are included in the Corporate Segment. The Company does not allocate interest expense related to acquisition debt or income taxes to the other reporting segments. Prior to October 1, 2018, the hospital segment included expenses which we deem to be "true" corporate overhead. Such expenses were previously recorded in the hospital segment, but effective October 1, 2018 are now recorded in the corporate segment. This has no impact on the consolidated financial statements. Such amount that was transferred to the corporate segment in Q3 FY19 was $4.7 million, and $20.6 million for year-to-date ending June 30, 2019.

The following table summarizes our corporate expenses for the three and nine months ended June 30, 2019 and 2018:

(Unaudited, in thousands)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Nine Months Ended June 30, 2019	Nine Months Ended June 30, 2018
Corporate revenues:				
Other Revenue	(769)	169	356	175
Gross margin	(769)	169	356	175
Operating Expenses:				
General and administrative (1)	$ 17,396	$ 8,196	$ 54,301	$ 58,158
Depreciation and amortization	1,187	84	3,561	204
Total Corporate Expenses	$ 18,583	$ 8,281	$ 57,861	$ 58,362
Operating loss	(19,352)	(8,112)	(57,505)	(58,187)

Results of Operations - Q3 FY19 vs Q3 FY18

Other Revenue decreased to $(769,000) in Q3 FY19 from $169,000 in Q3 FY18, related to unfavorability in the captive insurance business in the current fiscal year compared to the same fiscal period in the prior year.

G&A expenses increased to $17.4 million during Q3 FY19 from $8.2 million during Q3 FY18. The increase was due primarily to the transfer of true corporate expenses previously recorded in the hospital segment, increases in outside services to support corporate initiatives during FY19 when compared with FY18 and $3.2 million in YTD Q3 FY19 related to risk share claims expense which has not yet been allocated to the hospital and medical group segments.

Results of Operations - YTD Q3 FY19 vs YTD Q3 FY18

Other Revenue increased to $356,000 in Q3 FY19 from $175,000 in Q3 FY18.

G&A expenses decreased to $54.3 million during YTD Q3 FY19 from $58.2 million during YTD Q3 FY18. The decrease was due primarily to bonuses paid in prior fiscal year-to-date, offset by increases in salary due to transfer of true corporate expenses previously recorded in the hospital segment, increases in outside services to support corporate

initiatives during FY19 when compared with FY18 and $3.2 million in YTD Q3 FY19 related to risk share claims expense which has not yet been allocated to the hospital and medical group segments.

Consolidated Results of Operations

Results of Operations - Q3 FY19 vs Q3 FY18

Other (Income) and Expense, Net

Total Other Expense increased to $30.7 million for Q3 FY19 from $29.0 million for Q3 FY18.

Provision / (Benefit) for Income Taxes

The income tax benefit was $3.8 million and expense of $7.1 million for Q3 FY19 and Q3 FY18, respectively.

Loss from Discontinued Operations, net

Net loss from discontinued operations was $8.9 million and $3.0 million for Q3 FY19 and Q3 FY18, respectively. See discussion in Hospital Segment above.

Results of Operations - YTD Q3 FY19 vs YTD Q3 FY18

Other (Income) and Expense, Net

Total Other Expense increased to $100.1 million for YTD Q3 FY19 from $95.8 million for YTD Q3 FY18. The increase was primarily due to higher interest expense because of the debt refinancing that occurred in February 2018 which resulted in increased debt.

Provision / (Benefit) for Income Taxes

The income tax benefit was $18.8 million and expense of $26.2 million for Q3 FY19 and Q3 FY18, respectively.

Loss from Discontinued Operations, net

Net loss from discontinued operations was $23.9 million and $4.3 million for YTD Q3 FY19 and Q3 FY18, respectively. Additionally, we fully impaired the entire $3.1 million of goodwill at Nix Health in March 2019 in connection with the application of the applicable accounting literature. See discussion in Hospital Segment above.

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Adjusted EBITDA Reconciliation
(Unaudited, in millions)

A reconciliation of Adjusted EBITDA to the most directly comparable GAAP measure for certain quarterly periods:

	Q4 17 [4]	Q1 18 [4]	Q2 18 [4]	Q3 18 [4]	Q4 18 [4]	Q1 19 [4]	Q2 19 [4]	Q3 19 [4]
EBITDA Reconciliation (unaudited):								
Net income from operations	$ 28.5	$ 57.4	$ (47.1)	$ 2.3	$ (261.3)	$ (22.1)	$ (30.3)	$ (18.6)
Net income from discontinued operations	$ (6.0)	$ (1.2)	$ (0.1)	$ (3.1)	$ (35.8)	$ (2.8)	$ (12.2)	$ (8.9)
Net income from continuing operations (3)	$ 34.5	$ 58.6	$ (47.0)	$ 5.4	$ (225.5)	$ (19.3)	$ (18.1)	$ (9.7)
Provision (benefit) for income taxes	(0.3)	26.0	(6.9)	7.1	55.2	(10.8)	(4.2)	(3.8)
Interest expense	15.9	18.4	23.9	27.9	26.7	31.9	34.1	31.8
Depreciation and amortization	36.3	18.9	19.2	20.0	26.4	24.5	24.1	25.2
Amortization of financing costs	0.6	0.6	0.9	0.9	0.9	0.9	0.9	0.9
Loss on debt extinguishment	-	-	18.3	-	0.1	-	-	-
Impairment of intangible assets	-	-	-	-	14.2	-	-	-
Gain on bargain purchase	(30.0)	-	-	-	-	-	-	-
Other	1.3	0.9	4.2	0.2	(2.6)	(1.8)	2.1	(2.0)
EBITDA	58.3	123.4	12.6	61.6	(104.7)	25.4	38.9	42.4
Adjustments (1)								
Transaction costs (2)	16.3	1.6	2.0	3.2	5.5	3.4	7.2	3.7
Litigation expenses	-	0.5	1.0	1.2	6.4	0.3	0.5	1.4
Stock-based compensation (5)	0.3	0.1	37.0	0.2	0.2	0.2	(0.2)	-
Sponsor structuring and management fees	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2
Strategic business planning	2.8	1.7	2.8	3.1	5.5	6.5	3.7	4.5
Non cash items	-	-	-	-	57.8	0.9	0.4	4.7
Other items	-	-	-	-	-	2.2	-	-
Adjusted EBITDA (3)	$ 77.9	$ 127.5	$ 55.7	$ 69.5	$ (29.1)	$ 39.1	$ 50.7	$ 57.0
Adjusted EBITDA - Trailing Twelve Months (TTM)	$ 215.3	$ 299.6	$ 308.9	$ 330.7	$ 223.6	$ 135.2	$ 130.1	$ 117.7

(1) Management adjusts for expenses and gains that it does not consider in evaluating core operating performance for compensation, internal capital allocations, acquisition analysis or other strategic purposes.

(2) Transaction costs primarily relate to costs directly related to financing and merger and acquisition activity. Included in Q4 FY17 was approximately $15.0 million of costs related to retro coverage premiums incurred in connection with the Crozer acquisition.

(3) $3.0 million of net California Hospital Fee Program was recorded in Q3 FY17; $13.8 million of net California Hospital Fee Program was recorded in Q4 FY17; $92.7 million of net California Hospital Fee Program was recorded in Q1 FY18; $38.6 million of net California Hospital Fee Program was recorded in Q2 FY18; $38.6 million of net California Hospital Fee Program was recorded in Q3 FY18; $42.0 million of net California Hospital Fee Program was recorded in Q4 FY18; $41.0 million of net California Hospital Fee Program was recorded in Q1 FY19; $41.0 million of net California Hospital Fee Program was recorded in Q2 FY19; and $41.0 million of net California Hospital Fee Program was recorded in Q3 FY19.

(4) Certain reclassifications were made to prior quarters' presentation to conform to the current quarter's presentation.

(5) Included in Q2 FY18 was approximately $36.8 million of payments incurred in connection with a Dividend Recapitalization transaction to vested option holders.



Consolidated Financial Statements and Supplementary Information

As of and for the Years Ended
September 30, 2019 and 2018

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.



Prospect Medical Holdings, Inc.

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Independent Auditor's Report

Board of Directors
Prospect Medical Holdings, Inc.
Los Angeles, California

We have audited the accompanying consolidated financial statements of Prospect Medical Holdings, Inc. (the "Company"), which comprise the consolidated balance sheets as of September 30, 2019 and 2018, and the related consolidated statements of operations, statements of comprehensive loss, statements of stockholder's deficit, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Prospect Medical Holdings, Inc. and its subsidiaries as of September 30, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

December 20, 2019

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Prospect Medical Holdings, Inc.

Consolidated Balance Sheets
(in thousands, except par value and share amounts)

September 30,	2019	2018
Assets		
Current assets		
Cash and cash equivalents	$ 52,091	$ 7,694
Cash held in escrow	70,000	-
Restricted cash	1,485	1,742
Restricted investments	29,540	23,779
Patient accounts receivable, net of allowance for doubtful accounts of $165,719 and $151,279 at September 30, 2019 and 2018, respectively	306,587	317,412
Due from government payers	20,270	21,409
Other receivables, prepaid expenses and other current assets	118,000	117,026
Income tax receivable	-	2,737
Inventories	34,229	32,624
Hospital fee program receivable	167,530	211,454
Current assets held for sale	37,277	60,990
Total current assets	837,009	796,867
Property, improvements and equipment, net	538,471	513,690
Deferred income taxes, net	823	1,975
Goodwill	302,377	301,988
Intangible assets, net	25,545	31,822
Other assets	118,022	56,922
Long term assets held for sale	44,120	115,369
Total assets	$ 1,866,367	$ 1,818,633

See accompanying notes to the consolidated financial statements.

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Prospect Medical Holdings, Inc.

Consolidated Balance Sheets
(in thousands, except par value and share amounts)

September 30,	**2019**	2018
Liabilities and Stockholder's Deficit		
Current liabilities:		
Accrued medical claims and other healthcare costs payable	**$ 72,508**	$ 62,887
Accounts payable and other accrued liabilities	**264,252**	298,996
Accrued salaries, wages and benefits	**179,997**	167,705
Hospital fee program liability	**24,362**	65,966
Due to government payers	**28,606**	29,137
Income taxes payable	**7,395**	-
Revolving line of credit, net	**70,000**	207,645
Current portion of capital leases	**10,238**	12,933
Current portion of long-term debt	**18,983**	18,429
Current portion of MPT liabilities	**43,145**	-
Other current liabilities	**25,249**	27,831
Current liabilities held for sale	**33,939**	42,224
Total current liabilities	**778,674**	933,753
Long-term debt, net of current portion	**187,367**	1,098,441
Malpractice reserves	**133,300**	73,532
Capital leases, net of current portion	**30,372**	29,230
Asset retirement obligations	**5,602**	6,179
Other long-term liabilities	**48,706**	32,949
Pension obligations	**302,372**	254,121
MPT liabilities, net of current portion	**1,338,040**	-
Long term liabilities held for sale	**11,994**	12,777
Total liabilities	**2,836,427**	2,440,982
Commitments and contingencies		
Stockholder's deficit:		
Common stock, $0.01 par value; 100 shares authorized, issued and outstanding at September 30, 2019 and 2018	**1**	1
Additional paid-in capital	**64,961**	23,961
Accumulated other comprehensive (loss) income	**(23,236)**	21,303
Accumulated deficit	**(1,019,073)**	(676,930)
Total stockholder's deficit attributable to Prospect Medical Holdings, Inc.	**(977,347)**	(631,665)
Non-controlling interests	**7,287**	9,316
Total stockholder's deficit	**(970,060)**	(622,349)
Total liabilities and stockholder's deficit	**$ 1,866,367**	$ 1,818,633

See accompanying notes to the consolidated financial statements.

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Prospect Medical Holdings, Inc.

Consolidated Statements of Operations
(in thousands)

For the Years Ended September 30,	2019	2018
Revenues:		
Net Hospital Segment patient services revenues	$ 2,487,156	$ 2,576,844
Provision for bad debts	(98,306)	(100,026)
Net Hospital segment patient services revenues less provision for bad debts	2,388,850	2,476,818
Other non-patient Hospital revenues	49,377	45,828
Net Hospital Segment revenues	2,438,227	2,522,646
Medical Group revenues	353,954	334,408
Global Risk Management revenues	49,696	33,863
Corporate revenues	7,321	2,971
Total net revenues	2,849,198	2,893,888
Operating Expenses:		
Hospital operating expenses	1,966,380	2,029,219
Medical Group cost of revenues	259,631	267,376
Global Risk Management cost of revenues	33,444	20,430
General and administrative	501,586	486,543
Depreciation and amortization	92,011	85,051
Total operating expenses	2,853,052	2,888,619
Operating income from unconsolidated joint ventures	5,889	2,599
Operating income	2,035	7,868
Other expense:		
Interest expense and amortization of deferred financing costs, net	127,835	100,190
Loss on early extinguishment of debt	30,052	18,422
Goodwill impairment	-	14,228
Other expense, net	2,858	2,231
Total other expense, net	160,745	135,071
Loss before income taxes	(158,710)	(127,203)
Income tax provision	16,455	62,786
Net loss from continuing operations	(175,165)	(189,989)
Loss from discontinued operations:		
Loss from discontinued operations	(141,539)	(59,914)
Income tax benefit	18,234	1,289
Loss on discontinued operations, net of taxes	(123,305)	(58,625)
Loss before allocation to non-controlling interests	(298,470)	(248,614)
Net loss attributable to non-controlling interests	(734)	(4,449)
Net loss attributable to Prospect Medical Holdings, Inc.	$ (297,736)	$ (244,165)

See accompanying notes to the consolidated financial statements.

MPT CONFIDENTIAL MPT_PROSPECT_00007073

Prospect Medical Holdings, Inc.

Consolidated Statements of Comprehensive Loss
(in thousands)

For the Years Ended September 30,	**2019**	2018
Net loss attributable to Prospect Medical Holdings, Inc.	**$ (297,736)**	$ (244,165)
Other comprehensive (expense) income, net of tax:		
Pension obligation and other post-retirement benefits adjustment (net of $251 and $6,833 tax)	**(45,796)**	12,995
Debt and equity securities, unrealized gain	**1,257**	160
Total other comprehensive (loss) income, net of tax	**(44,539)**	13,155
Total comprehensive loss	**$ (342,275)**	$ (231,010)

See accompanying notes to the consolidated financial statements.

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Prospect Medical Holdings, Inc.

Consolidated Statements of Stockholder's Deficit
(in thousands, except share amounts)

	Number of Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Prospect Medical Holdings, Inc. Stockholder's (Deficit) Equity	Non-controlling Interests	Total Stockholder's (Deficit) Equity
Balance at October 1, 2017	100	$ 1	$ 22,398	$ 8,148	$ 24,165	$ 54,712	$ 12,604	$ 67,316
Options exercised	-	-	853	-	-	853	-	853
Stock-based compensation	-	-	710	-	-	710	-	710
Non-controlling interest attributed to minority shareholders	-	-	-	-	-	-	1,161	1,161
Net loss	-	-	-	-	(244,165)	(244,165)	(4,449)	(248,614)
Dividend paid to stockholder	-	-	-	-	(456,930)	(456,930)	-	(456,930)
Other comprehensive income, net of tax	-	-	-	13,155	-	13,155	-	13,155
Balance at September 30, 2018	100	1	23,961	21,303	(676,930)	(631,665)	9,316	(622,349)
Non-controlling interest attributed to minority shareholders	-	-	-	-	-	-	(1,295)	(1,295)
Net loss	-	-	-	-	(297,736)	(297,736)	(734)	(298,470)
Capital contribution from stockholder	-	-	41,000	-	-	41,000	-	41,000
Dividend paid to stockholder	-	-	-	-	(44,407)	(44,407)	-	(44,407)
Other comprehensive loss, net of tax	-	-	-	(44,539)	-	(44,539)	-	(44,539)
Balance at September 30, 2019	100	$ 1	$ 64,961	$ (23,236)	$ (1,019,073)	$ (977,347)	$ 7,287	$ (970,060)

See accompanying notes to the consolidated financial statements.

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Prospect Medical Holdings, Inc.

Consolidated Statements of Cash Flows
(in thousands)

For the Years Ended September 30,	2019	2018
Operating activities		
Net loss	$ (298,470)	$ (248,614)
Adjustments to reconcile net loss to net cash and cash equivalents used in operating activities:		
Depreciation and amortization	92,011	85,051
Amortization of deferred financing costs, net	4,484	2,702
Goodwill impairment	-	14,228
Write-off of deferred financing costs	13,444	11,411
Amortization of original issue discount and premium, net	3,478	2,976
Write-off of original issue discount and premium	16,608	6,713
Provision for bad debts	98,306	100,026
Pension obligation net periodic benefit cost	17,411	12,403
Excess contribution to pension plan	(15,939)	(41,667)
Deferred income taxes, net	1,152	97,782
Stock-based compensation	-	710
Undistributed earnings from unconsolidated joint ventures	(5,889)	(2,599)
Gain on sale of equity method investments	-	280
Loss (gain) on disposal of assets	3,398	(976)
Changes in operating assets and liabilities, net of business combinations:		
Patient accounts receivable	(87,481)	(93,310)
Due to/from government payers, net	608	11,668
Other receivables, prepaid expenses and other current assets	(974)	57,185
Hospital fee program receivable	43,924	(152,242)
Hospital fee program liability	(41,604)	63,999
Inventories	(1,605)	(93)
Income taxes payable/receivable, net	10,132	(45,530)
Other assets	(36,325)	1,580
Accrued medical claims and other healthcare costs payable	9,621	8,175
Accounts payable, other accrued liabilities and other long term liabilities	2,399	51,482
Net cash and cash equivalents used in operating activities from discontinued operations	99,863	50,698
Net cash and cash equivalents used in operating activities	(71,448)	(5,962)
Investing activities		
Purchases of property, improvements and equipment	(52,075)	(70,543)
Cash paid for acquisitions, net of cash received and working capital adjustments	(390)	(5,780)
Proceeds from sale of property and improvements	-	726
Distribution received from equity and cost method investments	2,355	2,150
Increase in investments	(4,253)	(7,315)
Net cash and cash equivalents used in investing activities from discontinued operations	(11,224)	(28,037)
Net cash and cash equivalents used in investing activities	(65,587)	(108,799)

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Prospect Medical Holdings, Inc.

Consolidated Statements of Cash Flows (Continued)
(in thousands)

For the Years Ended September 30,	2019	2018
Financing activities		
Borrowings on Senior Secured Notes, net of original issue discount	-	1,097,600
Repayments on Senior Secured Notes	(1,114,400)	(622,788)
Borrowings on line of credit	290,000	385,000
Repayments on line of credit	(429,000)	(176,000)
Repayments on retired line of credit, net	-	(115,300)
Proceeds of other long-term debt	175,538	-
Repayments of long-term debt	(7,346)	(1,380)
Repayment of financing leases	(2,082)	(2,450)
Repayments of capital leases	(14,509)	(11,318)
Proceeds from exercise of stock options	-	853
Cash paid for deferred financing costs	(526)	(19,536)
Change in restricted cash	257	29,019
Change in cash held in escrow	(70,000)	-
Capital contribution from stockholder	41,000	-
Dividend paid to stockholder	(44,407)	(456,930)
Repayments of insurance premium financing	(37)	(10,026)
Cash paid for deferred financing costs related to MPT liability transaction	(21,781)	-
Proceeds from MPT liability transactions	1,385,796	-
Repayment of MPT liability transactions	(5,447)	-
Net cash and cash equivalents used in financing activities from discontinued operations	(1,624)	(1,398)
Net cash and cash equivalents provided by financing activities	181,432	95,346
Increase (decrease) in cash and cash equivalents	44,397	(19,415)
Cash and cash equivalents, beginning of year	7,694	27,109
Cash and cash equivalents, end of year	$ 52,091	$ 7,694
Supplemental disclosure of cash flow information		
Interest paid (including cash paid on debt extinguishment)	$ 101,251	$ 53,070
Income taxes received	$ 343	$ 3,485
Schedule of non-cash investing and financing activities		
Equipment acquired under capital leases	$ 15,213	$ 16,849
Accrual of property, improvements and equipment	$ 47,113	$ 19,249
Insurance premium financed	$ -	$ 9,900
Partial satisfaction of long-term liability assumed from acquisition of PCC	$ -	$ 1,195
Acquisition of NUMG	$ -	$ 7,452

See accompanying notes to the consolidated financial statements.

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1. Organization

Prospect Medical Holdings, Inc. ("Prospect" or the "Company" or the "Parent Entity") is a Delaware corporation and a wholly-owned indirect subsidiary of Ivy Holdings Inc. ("Ivy Holdings").

The Company's operations are currently organized into four primary reportable segments: Hospital Services, Medical Group, Global Risk Management and Corporate, as discussed below.

Hospital Services Segment

As of September 30, 2019, through its subsidiaries, the Company owns 16 acute care and behavioral hospitals and multi-level elder care facilities in Southern California, Rhode Island, Pennsylvania and Connecticut with approximately 3,100 licensed beds, and a network of specialty and primary care clinics. The Hospital Services segment subsidiaries are wholly-owned by Prospect, except for the facilities in Rhode Island, in which Prospect has an 85% interest in the subsidiary that owns such facilities.

Additionally, at September 30, 2019, through its subsidiaries the Company owns 4 acute care and behavioral health hospitals in Texas and New Jersey, which are in the process of being closed or sold. According, and as further discussed in Note 5, for all periods presented the assets and liabilities of these businesses have been classified as "held for sale," and the operations (as it relates to revenues and expenses that will no longer continue post sale) have been shown within discontinued operations. All of the footnotes in these financial statements refer to continuing operations unless otherwise stated.

Admitting physicians are primarily practitioners in the local area. The hospitals have payment arrangements with Medicare, Medicaid and other third party payers, including commercial insurance carriers, health maintenance organizations ("HMOs") and preferred provider organizations ("PPOs").

Medical Group Segment

The Medical Group segment is a healthcare management services organization that provides management services to affiliated physician organizations that operate as independent physician associations ("Medical Groups" or "IPAs"). The affiliated physician organizations enter into agreements with HMOs to provide HMO enrollees with a full range of medical services in exchange for fixed monthly fees ("Capitation"). The Medical Groups contract with physicians (primary care and specialist) and other healthcare providers to provide enrollees with medical services. Prospect currently manages the provision of healthcare services for its affiliated physician organizations in California, Texas, Rhode Island, Connecticut, Pennsylvania and New Jersey. The California network consists of various IPAs that are generally wholly-owned by Prospect Medical Group, Inc. ("PMG") and managed by the two medical management company subsidiaries that are wholly-owned by Prospect. The Company's networks in its other states consist of IPA subsidiaries of Prospect Provider Groups, Inc. The Medical Group segment also owns clinic facilities in California, Rhode Island, Pennsylvania and Connecticut that operate by employing physicians to serve their patients. In California, the clinic facilities are owned through New Genesis Medical Association ("NGMA"). PMG and NGMA are owned by a nominee physician shareholder pursuant to an assignable option agreement, under which Prospect has an assignable option, obtained for a nominal amount from PMG and the nominee shareholder, to designate the purchaser (successor physician) for all or part of PMG's issued and outstanding stock held by the nominee physician shareholder (the "Stock Option") in its sole discretion.

Most of the physician organizations in California and Texas have entered into Management Service Agreements ("MSA") with Prospect Medical Systems Inc., ("PMS"), and have agreed to pay a management fee to PMS, which is based in part on the costs to the management company and on a percentage of revenues. In Rhode Island, Pennsylvania, Connecticut and New Jersey, the physician organizations have entered into Administrative Services Agreements ("ASA") with PMS pursuant to which they have agreed to reimburse PMS for the costs of certain administrative services provided by PMS on their behalf. In return for payment of the management fee, PMS has agreed to provide financial management, information systems, marketing, advertising, public relations, risk management, and administrative support, including for utilization review and quality of care. At its cost, PMS has assumed the obligations for all facilities and employs physician and non-physician personnel for administrative services. The management fee is earned based on a combination of percentage of revenue and share of pre-tax income. The management fees fluctuate based on the revenue and profitability of each physician organization. The MSAs are not terminable by the physician organization except in the case of gross negligence, fraud or other illegal acts, or bankruptcy, of PMS. The services provided under an ASA are more limited than those provided under an MSA and each ASA is terminable by either party upon the delivery of 90 days prior written notice thereof.

Prospect consolidates the revenues and expenses of all the physician organizations (except for one entity that is a 50/50 joint venture, which is accounted for under the equity method) from the respective dates of execution of the Management Agreements. All significant inter-entity balances have been eliminated in consolidation. In the case of the joint venture, only that portion of the results which are contractually identified as Prospect's are recognized in the consolidated financial statements, together with the management fee that the Company charges the joint venture for managing the other owners' share of the joint venture operations.

Prospect has also entered into management services agreements with unaffiliated third parties to manage services to their HMO enrollees. These management agreements do not have characteristics that give rise to the consolidation of the entities under current accounting literature. These management services agreements are terminable in accordance with the agreements.

The affiliated physician organizations provided medical services to a combined total of approximately 445,000 and 442,000 enrollees as of September 30, 2019 and 2018, respectively. The enrollees include approximately 237,000 and 255,000 enrollees that the Company manages for the economic benefit of certain independent third parties, and for which the Company earns management fee income as of September 30, 2019 and 2018, respectively. The total paid member months including managed enrollees, for the years ended September 30, 2019 and 2018 was approximately 5,435,000 and 5,360,000, respectively.

Global Risk Management Segment

The Global Risk Management segment exists in pursuit of the Company coordinated regional care ("CRC") operating model and risk management platform. CRC has subsidiaries in California, Texas, Rhode Island, Pennsylvania, Connecticut and New Jersey, and has accountable care organizations operating in Rhode Island, Pennsylvania and New Jersey. These entities contract with third-party health plans and the Centers for Medicare and Medicaid Services ("CMS") on progressive risk reimbursement models leading to global risk contracts for physicians, other medical services and institutional services including hospital inpatient and outpatient services, home health, skilled nursing facility and other institutional services. In turn, the global risk management entities contract with owned and third-party independent physician associations, owned and third-party hospitals and other health care providers to assume and manage this global risk. Through these contracts, the Company manages health plan member populations with a focus

on delivering coordinated care to members across our network of physicians and providers under risk and value-based contracts. This segment also includes Coordinated Regional Care Group, Inc. ("CRCG"). CRCG incurs development and operating costs related to the Global Risk Management segment for new markets and strategic initiatives.

Corporate Segment

The Company has two captive insurance companies, Prospect Medical Holding Risk Retention Group, Inc. ("RRG"), based in Vermont, and Connecticut Healthcare Insurance Company ("CHIC"), based in the Cayman Islands. RRG was formed to provide primary insurance coverage for hospital and physician professional and general liability risks for the Company's subsidiary health care organizations located in Pennsylvania on a claims-made basis. CHIC provides hospital and physician professional and general liability coverage to all of the Company's hospitals and affiliated subsidiaries except for Prospect Crozer, LLC ("Crozer") and its Pennsylvania subsidiaries. CHIC is an exempted Company with limited liability under the Companies Law of the Cayman Islands and it holds a Class "B(i)" Insurer's License under Section 4(3)(b) of the Cayman Islands Insurance Law 2010. CHIC's principal activity is to issue primary policies for hospital liabilities covering Prospect, its subsidiaries and employees, on a claims-made basis. The Company procured excess healthcare professional liability and umbrella liability insurance policy on a claims-made basis covering healthcare professional liability, general liability, automobile liability, employer's liability, helipad liability and non-owned aircraft liability of the Company and its affiliates. This excess coverage is purchased entirely from unrelated commercial insurers. CHIC also provides a deductible reimbursement policy for workers compensation to the Company's facilities all of which have high deductible program structures or are qualified self-insureds.

On January 1, 2018, CHIC began providing an employee benefit stop-loss policy to all Company subsidiaries. Unlimited excess coverage is purchased from unrelated reinsurance companies.

The Company does not allocate interest expense related to acquisition debt or income taxes to the other reporting segments.

2. Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of all controlled subsidiaries, of which control is effectuated through ownership of voting common stock or by other means, but do not include the accounts of the parent companies, Ivy Holdings Inc. and Ivy Intermediate Holding Inc. The Company has a variable interest in various entities under the Medical Group segment due to the existence of two call options, under which the Company has the ability to require the holders of all of the voting common stock of the underlying subsidiaries to sell their shares at a fixed nominal price ($1,000) to another designated physician chosen by the Company. This call option agreement represents rights provided through a variable interest other than the equity interest itself that limits the returns that could be earned by the equity holders. In addition, the Company has management agreements with the physician organizations under the Medical Group segment which allows the Company to direct the activities of such physician organizations that most significantly impact their economic performance, retain the right to receive expected residual returns and assume the obligation to absorb losses. Accordingly, the Company is considered to be the primary beneficiary and these entities are consolidated within the accompanying consolidated financial statements.

Operating results for acquisitions are consolidated with the Company's financial statements from their acquisition dates. All significant intercompany balances and transactions have been eliminated in consolidation. Non-controlling interests in less-than-wholly-owned consolidated subsidiaries of the Company are presented as a component of total equity to distinguish between the interests of the Company and the interests of the non-controlling owners.

The consolidation of these entities does not change any legal ownership, and does not change the assets or the liabilities and equity of the Parent Entity as a stand-alone entity. These entities had total revenues of approximately $330,930,000 and $310,720,000 and total net income of approximately $14,245,000 and net loss of approximately $2,184,000 for the years ended September 30, 2019 and 2018, respectively. The assets and liabilities of the variable interest entities are as follows (in thousands):

September 30,	**2019**	2018
Assets		
Total current assets	$ **86,966**	$ 89,882
Total non-current assets	**89,049**	90,465
Total assets	$ **176,015**	$ 180,347
Liabilities		
Total current liabilities	$ **52,120**	$ 69,097
Total long-term liabilities	**730**	730
Total liabilities	$ **52,850**	$ 69,827

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Revenues

Revenues by reportable segment are comprised of the following amounts (in thousands):

For the Years Ended September 30,	**2019**	2018
Net Hospital Services		
Inpatient	**$ 1,392,340**	$ 1,497,923
Outpatient	**926,645**	902,122
Capitation	**148,800**	157,968
Other	**19,371**	18,831
Total Hospital Segment patient service revenues	**2,487,156**	2,576,844
Less: Provision for bad debts	**(98,306)**	(100,026)
Total Net Hospital Segment patient service revenues less provision for bad debts	**2,388,850**	2,476,818
Other non-patient revenues	**49,377**	45,828
Total Hospital Segment revenues	**2,438,227**	2,522,646
Medical Group		
Capitation	**302,734**	297,965
Management fees	**15,044**	10,501
Other	**36,176**	25,942
Total Medical Group revenues	**353,954**	334,408
Global Risk Management		
Capitation	**37,018**	23,095
Other	**12,678**	10,768
Total Global Risk Management revenue	**49,696**	33,863
Corporate Segment revenues	**7,321**	2,971
Total net revenues	**$ 2,849,198**	$ 2,893,888

Hospital Services Segment

Net Patient Service Revenues

Operating revenue of the Hospital Services segment consists primarily of net patient service revenue. The Company reports net patient service revenue at the estimated net realizable amounts from patients and third-party payers and others in the period in which services are rendered. The Company has agreements with third-party payers, including Medicare, Medicaid, managed care and other insurance programs that are paid at negotiated rates. These payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments, as further described below. Estimates of contractual allowances are based upon the payment terms specified in the related contractual agreements. The Company accrues for amounts that it believes may ultimately

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be due to or from the third-party payers. Normal estimation differences between final settlements and amounts accrued in previous years are reported as changes in estimates in the current year. Outstanding receivables, net of allowances for contractual discounts and bad debts, are included in patient accounts receivable in the accompanying consolidated balance sheets.

The following is a summary of sources of patient service revenues (net of contractual allowances and discounts) before provision for bad debts and exclude revenues from discontinued operations (in thousands):

Years ended September 30,	2019	2018
Medicare	$ 822,407	$ 801,222
Medicaid	750,909	874,865
Managed Care	579,141	559,463
Self-Pay/Other	166,528	164,495
Capitation	148,800	157,968
Other	19,371	18,831
Total patient service revenue	$ 2,487,156	$ 2,576,844

A summary of the payment arrangements with major third-party payers follows:

Medicare: Medicare is a federal program that provides certain hospital and medical insurance benefits to persons aged 65 and over, some persons with end-stage renal disease and certain other beneficiary categories, including eligible disabled persons. Most inpatient hospital services rendered to Medicare program beneficiaries are paid on a fee-for-service basis at prospectively determined rates per discharge, according to a patient classification system based on clinical, diagnostic, and other factors. Most outpatient services also are paid on a fee-for-service basis generally using prospectively determined rates. The Company receives, as appropriate, Medicare disproportionate share hospital ("DSH") and bad debt payments at tentative rates, with final settlement determined after submission of the annual Medicare cost report and audit thereof by the Medicare Administrative Contractor. The Company also receives, as appropriate, Medicare uncompensated care DSH payments, which are generally not subject to cost report audit except to determine eligibility for Medicare DSH. The Company also receives Medicare outlier payments on an ongoing basis during the year for cases that are unusually costly, and under certain circumstances these payments may be reconciled to more closely reflect the costs in excess of outlier thresholds after the submission and audit of the annual Medicare cost report. Normal estimation differences between filed settlements and amounts accrued are reflected in net patient service revenue.

The Company is reimbursed by Medicare for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare Administrative Contractor. The estimated amounts due to or from the program are reviewed and adjusted annually based on the status of such audits and any subsequent appeals. Differences between final settlements and amounts accrued in previous years are reported as adjustments to net patient service revenue in the year that examination is substantially completed.

Although services for most Medicare beneficiaries are paid by the Federal government on a fee-for-service basis, approximately one-third of Medicare beneficiaries are enrolled in a "Medicare Advantage" plan, which is a type of health plan that contracts with the Medicare program to provide hospital and medical benefits to Medicare beneficiaries. Medicare Advantage Plans include Health

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Maintenance Organizations, Preferred Provider Organizations, Private Fee-For-Service Plans, Special Needs Plans, and Medicare Medical Savings Account Plans. For Medicare beneficiaries enrolled in a Medicare Advantage plan, most Medicare services are covered by the plan and are not paid for under fee-for-service Medicare. Certain Medicare Advantage plans make capitation payments to the Company using a "Risk Adjustment model," which compensates providers based on the health status (acuity) of each enrollee. Providers with higher acuity enrollees generally will receive more and those with healthier enrollees will receive less.

Medicaid: Medicaid is a joint federal-state funded healthcare benefit program that is administered by states to provide benefits to qualifying individuals who are unable to afford care. The Company receives reimbursements under the fee-for-service component of Medicaid programs in each state in which it operates at prospectively determined rates for inpatient services and a mixture of fee schedules and cost reimbursement methodologies for outpatient services depending on the specific state regulations. Cost report settlements are recorded based upon as-filed cost reports (if required by the respective facility's state) and adjusted for tentative and final settlements, if any. In addition, in California, Rhode Island, and Pennsylvania, a substantial portion of Medicaid beneficiaries are enrolled in Medicaid managed care organizations. The Company received payments for services furnished to these beneficiaries based on negotiated contract rates or non-contract payment methodologies where the Company does not have a contract with the managed care organization.

The various states in which the Company operates have additional programs in which certain of the Company's facilities participate in, related to medical facilities serving a disproportionate number of low-income patients. The following table shows the revenues generated by these programs during the years ended September 30, 2019 and 2018 (in thousands), which are reflected in Net Hospital Services revenues in the accompanying consolidated statements of operations:

For the years ended September 30,	**2019**	2018
California Medi-Cal Disproportional Share ("CA DSH") *(a)*	**$ 28,967**	$ 13,761
Rhode Island DSH and Upper Payment Limit ("UPL") *(b)*	**20,456**	19,035
Pennsylvania State Programs *(c)*	**68,831**	40,344
Connecticut Medicaid DSH revenue *(d)*	**26,338**	33,152
	$ 144,592	$ 106,292

(a) Revenues are accrued based on the expected total annual awards. Differences between the estimated and the actual awards are recorded in the period they become known, and are subject to retrospective revision prior to finalization, which could lead to material retractions. The Company records retrospective retractions when they are estimable and probable. Retrospective additional revenues are recorded when the amounts are received.

(b) Rhode Island hospitals receive federal and state Medicaid funds as additional reimbursement for treating a disproportionate share of low-income patients. The State of Rhode Island also assesses a license fee to all hospitals in Rhode Island based on each hospital's net patient revenue. The Company recorded $17,565,000 and $16,925,000 of expense during the years ended September 30, 2019 and 2018, respectively, as a result of the license fee.

(c) The Company's Pennsylvania hospitals are participants in Pennsylvania statewide hospital assessment, Medicaid Modernization Assessment ("MMA"), which has been extended through June 30, 2023. The assessments have enabled the Commonwealth of Pennsylvania to maintain

the updated inpatient payment system, make changes to existing disproportionate share/supplemental payments, and to create new payments where applicable. The Company has also recognized revenues from the Pennsylvania Community Access Fund ("CAF").

(d) The Company's hospitals in Connecticut participate in its Medicaid DSH program and receive additional reimbursement for treating a disproportionate share of low-income patients. Connecticut assesses a provider tax based on total net revenue received by a hospital for the provision of inpatient hospital services and outpatient hospital services. The state's 2020/2021 budget eliminated a scheduled reduction in the hospital's tax rates on inpatient and outpatient services by maintaining the rates at fiscal year 2019 levels but requiring the base year for calculating the tax to be adjusted each biennium. The State has made a Medicaid supplemental payment to hospitals for the first quarter of the State's 2020-21 fiscal year prior to obtaining federal approval, and has announced that this payment would be recovered if federal approval was not obtained. The amount of the provider tax has also been the subject of litigation, which was recently settled. However, the final settlement is contingent on federal approval of the state's tax waiver and proposed Medicaid State Plan Amendments, as well as on the state's General Assembly approval and adoption of implementing legislation. The proposed settlement agreement is estimated to have a financial impact on hospitals of approximately $1.8 billion in state and federal funds between now and 2026. The agreement includes a one-time payment or refund of approximately $79 million to hospitals, along with declining taxes on hospitals and corresponding increasing state payments to facilities during the applicable time period. The state can ask the court to modify the agreement if the state's overall costs are between $50 and $100 million, and the state can terminate the agreement if the state's overall costs rise by $100 million.

Managed Care: The Company has also entered into payment agreements with certain commercial insurance carriers, HMOs, and PPOs. The basis for payment under these agreements is in accordance with negotiated contracted rates or at the Company's standard charges for services provided. Some of these payments are capitated, meaning that the Company receives an agreed amount per patient for providing an agreed range of services.

Self-Pay: Self-pay patients represent those patients who do not have health insurance and are not covered by some other form of third party arrangement. Such patients are evaluated, at the time of services or shortly thereafter, for their ability to pay based upon federal and state poverty guidelines, qualifications for Medicaid, as well as the Company's local hospital's indigent and charity care policy.

Laws and regulations governing the third-party payor arrangements are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Normal estimation differences between subsequent cash collections on patient accounts receivable and net patient accounts receivable estimated in the prior year are reported as adjustments to net patient service revenue in the current period.

The following is a summary of due from and due to governmental payers at September 30, 2019 and 2018 (in thousands):

September 30,	**2019**	2018
Due from government payers:		
Medicaid Disproportionate Share	**$ 19,301**	$ 16,545
Medicare cost report settlements	**969**	4,691
Medicaid Section 1115 receivable	**-**	173
	$ 20,270	$ 21,409
Due to government payers:		
Medicare cost report settlements	**$ 19,464**	$ 20,323
Medicaid cost report settlements	**9,142**	8,814
	$ 28,606	$ 29,137

The Company is not aware of any material claims, disputes, or unsettled matters with any payers that would affect revenues that have not been adequately provided for and disclosed in the accompanying consolidated financial statements.

California Hospital Fee Program

The Company recognizes revenues related to supplemental Medi-Cal payments under California provider fee programs. These programs are funded by quality assurance fees paid by participating hospitals and matching federal funds.

Based on formulas contained in the legislation as well as modeling done by the California Hospital Association, the Company recognized supplemental payments, included in net patient service revenue, and quality assurance fee expense, included in general and administrative expenses in the accompanying consolidated statements of operations as follows (in thousands):

Years Ended September 30,	**2019**	2018
Hospital services revenues	**$ 122,976**	$ 284,122
General and administrative expenses	**53,775**	123,996
Net pre-tax impact	**$ 69,201**	$ 160,126

As of September 30, 2019 and 2018, the Company had receivables related to the California Hospital Fee Program of approximately $167,530,000 and $211,454,000, respectively, and had liabilities related to the California Hospital Fee Program of approximately $24,362,000 and $65,996,000, respectively, in the accompanying consolidated balance sheets.

Legislation approved by the State of California in October 2013 created the framework for the hospital fee program to continue in perpetuity without requiring further legislation from California. In November 2016, California voters approved Proposition 52, which made the hospital fee program permanent and prohibits lawmakers from diverting Medi-Cal funds to pay for anything other than their intended purpose.

In December 2017, CMS approved the fee-for-service inpatient and outpatient payments and taxes for the period from January 1, 2017 to June 30, 2019 ("QAF 5"). CMS has not yet approved the amended Health Plan contracts. During the year ended September 30, 2018, the Company recorded revenues under the QAF 5 program of $111.9 million related to periods prior to the current fiscal year. Additionally, the Company recorded revenues related to previous hospital fee programs prior to QAF 5 of $14.6 million during the year ended September 30, 2018. The current cycle of the California Hospital Fee Program relates to the period from July 1, 2019 through December 31, 2021 ("QAF 6"). This cycle has not yet been approved by CMS and accordingly the Company has not recorded any revenues or expenses related to QAF 6 (or any prior program) during the fourth quarter of the year ended September 30, 2019.

Charity Care

The Company provides charity care to patients who lack financial resources and are deemed to be medically indigent based on criteria established under the Company's charity care policy. This care is provided without charge or at amounts less than the Company's established rates. Because the Company does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue. The direct and indirect costs related to this care totaled approximately $7,559,000 and $8,787,000 for the years ended September 30, 2019 and 2018, respectively. Direct and indirect costs for providing charity care are estimated by calculating a ratio of cost to gross charges and then multiplying that ratio by the gross uncompensated charges associated with providing care to charity patients. In addition, the Company provides services to other medically indigent patients under various state Medicaid programs. Such programs pay amounts that are less than the cost of the services provided to the recipients. The Company has not changed its charity care or uninsured discount policies during the years ended September 30, 2019 and 2018.

Provisions for Contractual Allowances and Bad Debts

Collection of receivables from third-party payers and patients is the Company's primary source of cash and is critical to its operating performance. The Company closely monitors its historical collection rates, as well as changes in applicable laws, rules and regulations and contract terms, to assure that provisions for contractual allowances are made using the most accurate information available. However, due to the complexities involved in these estimations, actual payments from payers may be materially different from the amounts management estimates and records. The Company's primary collection risks relate to uninsured patients and the portion of the bill which is the patient's responsibility, primarily co-payments and deductibles. Payments for services may also be denied due to issues over patient eligibility for medical coverage, the Company's ability to demonstrate medical necessity for services rendered and payer authorization of hospitalization.

Accounts receivable are reduced by an allowance for doubtful accounts. Valuation of the collectability of accounts receivable and provision for bad debts is based on historical collection experience, payer mix and the age of the receivables. Management routinely reviews accounts receivable balances in conjunction with these factors and other economic conditions which might ultimately affect the collectability of the patient accounts, and makes adjustments to the Company's allowances as warranted. For receivables associated with services provided to patients who have third-party coverage, management analyzes contractually due amounts and subsequently calculates an allowance for doubtful accounts and provision for bad debts once the age of the accounts reaches a specific age category based on historical experience. For receivables associated with self-pay patients, management records a significant provision for bad debts beginning in the period services were provided based on past experience that many patients are unable or unwilling to pay the portion of their bill for which they are

financially responsible. The allowance for doubtful accounts as a percent of gross accounts receivable was 35% and 32% at September 30, 2019 and September 30, 2018, respectively. The allowance for doubtful accounts was approximately $165,719,000 and $151,279,000 as of September 30, 2019 and 2018, respectively, and the increase results from a determination at September 30, 2019 to fully reserve for all patient accounts receivable over 365 days old.

Legislation

All of the Company's hospital facilities are subject to the Emergency Medical Treatment and Active Labor Act ("EMTALA"). This federal law requires any hospital that participates in the Medicare program to conduct an appropriate medical screening examination of every person who presents to the hospital's emergency department for treatment and, if the patient is suffering from an emergency medical condition, to either stabilize that condition or make an appropriate transfer of the patient to a facility that can handle the condition. The obligation to screen and stabilize emergency medical conditions exists regardless of a patient's ability to pay for treatment. There are severe penalties under EMTALA if a hospital fails to screen or appropriately stabilize or transfer a patient or if the hospital delays appropriate treatment in order to first inquire about the patient's ability to pay. Penalties for violations of EMTALA include civil monetary penalties and exclusion from participation in the Medicare program. In addition, an injured patient, the patient's family or a medical facility that suffers a financial loss as a direct result of another hospital's violation of the law can bring a civil suit against that other hospital. The Company believes that it is in compliance with EMTALA and is not aware of any pending or threatened EMTALA investigations involving allegations of potential wrongdoing that would have a material effect on the Company's consolidated financial statements.

Medical Group Segment

Medical Group Revenues

Operating revenue of the Medical Group segment consists primarily of payments for medical services procured by certain entities included within the Medical Group segment ("Affiliates") under capitated contracts with various managed care providers including HMOs. Capitation revenue under HMO contracts is prepaid monthly to the Affiliates based on the number of enrollees electing any one of the Affiliates as their health care provider. See "Concentrations of Credit Risks" below for revenues received from the five largest contracted HMOs.

Capitation revenue (net of capitation withheld to fund risk share deficits discussed below) is recognized in the month in which the physician organizations are obligated to provide services. Minor ongoing adjustments to prior months' capitation, primarily arising from contracted HMOs' finalizing of monthly patient eligibility data for additions or subtractions of enrollees, are recognized in the month they are communicated to the Company. Additionally, Medicare pays capitation using a "Risk Adjustment model," which compensates managed care organizations and providers based on the health status (acuity) of each enrollee. Health plans and providers with higher acuity enrollees will receive more and those with healthier enrollees will receive less. Under Risk Adjustment, capitation is determined based on health severity, measured using patient encounter data. Capitation is paid on an interim basis based on data submitted for the enrollee for the preceding year and is adjusted in subsequent periods (generally in the Company's fourth quarter) after the final data is compiled. Positive or negative capitation adjustments are made for Medicare enrollees with conditions requiring more or less healthcare services than assumed in the interim payments. Since the Company cannot reliably predict these adjustments, periodic changes in capitation amounts earned as a result of Risk Adjustment are recognized generally in the fourth quarter when those changes are communicated by the health plans to the Company. During the years ended September 30, 2019 and 2018, the Company returned and recognized as a reduction in revenue,

approximately $1,749,000 and $3,220,000, respectively, as a result of the final Hierarchical Condition Category ("HCC") reconciliation.

HMO contracts also include provisions to share in the risk for hospitalization, whereby the physician organization can earn additional incentive revenue or incur penalties based upon the utilization of hospital services. Typically, any shared risk deficits are not payable until and unless the Company generates future risk sharing surpluses, or if the HMO withholds a portion of the capitation revenue to fund any risk share deficits. At the termination of the HMO contract, any accumulated risk share deficit is typically extinguished. Due to the lack of access to information necessary to estimate the related costs, shared-risk amounts receivable from the HMOs are only recorded when such amounts are known. Risk pools for the prior contract years are generally final settled in the third or fourth quarter of the following fiscal year. For the years ended September 30, 2019 and 2018, Medical Group revenues included approximately $10,482,000 and $7,125,000, respectively, relating to risk-sharing profit. At September 30, 2019 and 2018, contingent liabilities for carry-forward risk-pool deficits expected to be forgiven, or offset against future surpluses were approximately $88,991,000 and $92,700,000, respectively, based on the available information from the health plans.

The Company also receives incentives under "pay-for-performance" programs for quality medical care based on various criteria. These incentives, which are included in other revenues within Medical Group revenues, are generally recorded in the third and fourth quarters of the fiscal year when such amounts are known. Performance and incentive revenues recorded during the years ended September 30, 2019 and 2018 were $11,221,000 and $5,751,000, respectively.

Management fee revenue is earned in the month the services are rendered. Management fee arrangements with unaffiliated entities provide for compensation ranging from 6.5% to 10% of revenues. Management fee revenues recorded during the years ended September 30, 2019 and 2018 were $10,248,000 and $5,656,000, respectively. Management fees for revenue for entities that are consolidated are eliminated on consolidation.

Medical Group Cost of Revenues

The cost of health care services consists primarily of capitation and claims payments, pharmacy costs and incentive payments to contracted providers. These costs are recognized in the period incurred, or when the services are provided. Claims costs also include an estimate of the cost of services which have been incurred but not yet reported to the Company. The estimate for accrued medical costs is based on projections of costs using historical studies of claims paid and adjusted for seasonality, utilization and cost trends. These estimates are subject to trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management records its best estimate of the amount of medical claims incurred at each reporting period. Estimates are continually monitored and reviewed and, as settlements are made or estimates adjusted, differences are reflected in current period. See Note 14 for changes in claims estimates during the years ended September 30, 2019 and 2018.

The Company has contractual reimbursement obligations to providers and discretionary incentive payment obligations to physicians. These payments are in large part predicated on the pay-for-performance, shared risk revenues, and favorable senior capitation risk adjustment payments received by the Company from the health plans. The Company records these revenues generally in the third or fourth quarter of each fiscal year when the incentives and capitation adjustments due from the health plans are known. During this period, the Company also finalizes the physician discretionary incentive.

The Company recorded physician incentives expense of approximately $17,643,000 and $21,669,000 for the years ended September 30, 2019 and 2018, respectively. As of September 30, 2019 and 2018, physician incentive accruals of approximately $14,351,000 and $17,396,000, respectively, were included in accounts payable and other accrued liabilities in the accompanying consolidated financial statements.

The Company also periodically evaluates the need to establish premium deficiency reserves for the probability that anticipated future health care costs could exceed future capitation payments from HMOs under capitated contracts and, where appropriate, records a premium deficiency reserve. There were no such premium deficiencies recorded at September 30, 2019 and 2018, respectively.

The Company, for certain matters, maintains stop loss coverage for health care costs that are in excess of set thresholds.

Global Risk Management Segment

Global Risk Management Revenues

Operating revenue of the Global Risk Management segment consists primarily of payments for medical services procured under global capitation arrangements from third-party health plans. Capitation revenue under these global capitation contracts is prepaid monthly to the Global Risk Management segment based on the number of enrollees. Entities within the Global Risk Management segment entered into Management Services Agreements with the Hospital Services and Medical Group segments, under which up to 98% of capitation revenue received is transferred to these segments. During the years ended September 30, 2019 and 2018, capitation revenue received from health plans was $267,300,000 and $254,795,000, respectively, of which $105,755,000 and $101,563,000, and $120,119,000 and $116,957,000 was transferred to our Hospital Services segment and Medical Group segment, respectively.

Similar to the Medical Group segment, capitation revenue is recognized in the month in which the Global Risk Management segment is obligated to provide services. Minor ongoing adjustments to prior months' capitation, primarily arising from contracted HMOs' finalizing of monthly patient eligibility data for additions or subtractions of enrollees, are recognized in the month they are communicated to the Company. Additionally, Medicare pays capitation using a "Risk Adjustment model," which compensates managed care organizations and providers based on the health status (acuity) of each enrollee. Health plans and providers with higher acuity enrollees will receive more and those with healthier enrollees will receive less. Under Risk Adjustment, capitation is determined based on health severity, measured using patient encounter data. Capitation is paid on an interim basis based on data submitted for the enrollee for the preceding year and is adjusted in subsequent periods (generally in the Company's fourth quarter) after the final data is compiled. Positive or negative capitation adjustments are made for Medicare enrollees with conditions requiring more or less healthcare services than assumed in the interim payments. Since the Company cannot reliably predict these adjustments, periodic changes in capitation amounts earned as a result of Risk Adjustment are recognized generally in the fourth quarter when those changes are communicated by the health plans to the Company. During the years ended September 30, 2019 and 2018, the Global Risk Management Segment recognized capitation risk adjustments of $4,552,000 and $5,155,000, respectively.

Global Risk Management Cost of Revenues

The cost of health care services consists primarily of the transfer of capitation revenue to the Hospital Services and Medical Group segments under the Management Services Agreements, and capitation and claims payments. These costs are recognized in the period incurred, or when the services are provided.

Claims costs also include an estimate of the cost of services which have been incurred but not yet reported to the Company. The estimate for accrued medical costs is based on projections of costs using historical studies of claims paid and adjusted for seasonality, utilization and cost trends. These estimates are subject to trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management records its best estimate of the amount of medical claims incurred at each reporting period. Estimates are continually monitored and reviewed and, as settlements are made or estimates adjusted, differences are reflected in current operations.

The Company also periodically evaluates the need to establish premium deficiency reserves for the probability that anticipated future health care costs could exceed future capitation payments from HMOs under capitated contracts and, where appropriate, record a premium deficiency reserve. There were no such premium deficiencies recorded at September 30, 2019 or 2018.

The Company, for certain matters, maintains stop loss coverage for health care costs that are in excess of set thresholds.

Property, Improvements and Equipment

Property, improvements and equipment are stated on the basis of cost or, in the case of acquisitions, at their acquisition date fair values. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, and amortization of leasehold improvements is provided using the straight-line basis over the shorter of the remaining lease period or the estimated useful lives of the leasehold improvements. Leasehold improvements are generally depreciated over 5 to 40 years, buildings are depreciated over 5 to 40 years, equipment is depreciated over 2 to 15 years and furniture and fixtures are depreciated over 2 to 20 years. Equipment capitalized under capital lease obligations are amortized over the lesser of the life of the lease or the useful life of the asset.

As more fully described in Note 13, the Company is required to comply with certain seismic standards as required by the state of California by dates ranging from February 2021 through June 2022. The useful life of buildings subject to seismic retrofit requirements may be limited if the Company does not make the necessary upgrades by the required compliance date.

Goodwill

Goodwill represents the excess of the consideration paid and liabilities assumed over the fair value of the net assets acquired, including identifiable intangible assets.

Goodwill is not amortized; rather it is reviewed annually for impairment for each reporting unit, or more frequently if impairment indicators arise. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. The Company's annual goodwill impairment test is conducted on July 1. Impairment of goodwill is tested at the reporting unit level, by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. The fair value of the reporting units are estimated. In evaluating whether indicators of impairment exist, the Company considers adverse changes in market value, laws and regulations, profitability, cash flows, ability to maintain enrollment and renew payer contracts at favorable terms, among other factors. The goodwill impairment test is a one-step process which consists of estimating based on a weighted combination of (i) the guideline company method that utilizes revenue or earnings multiples for comparable publicly-traded companies, and (ii) a discounted cash flow model. If the estimated fair value of the reporting unit is less than its carrying value, this indicates that goodwill is impaired, and impairment is recorded based on the deficiency of fair value compared to the carrying value. The

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Company's impairment test related to goodwill during the year ended September 30, 2018 resulted in a full impairment of goodwill related to the Rhode Island facilities. There were no impairment charges during the year ended September 30, 2019.

Intangible Assets

Intangible assets include customer relationships, trade names, and favorable leaseholds. The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The Company considers assets to be impaired and writes them down to fair value if estimated undiscounted cash flows associated with those assets are less than their carrying amounts. Fair value is based upon the present value of the associated cash flows. Changes in circumstances (for example, changes in laws or regulations, technological advances or changes in strategies) may also reduce the useful lives from initial estimates. Changes in planned use of intangibles may result from changes in customer base, contractual agreements, or regulatory requirements. In such circumstances, management will revise the useful life of the long-lived asset and amortize the remaining net book value over the adjusted remaining useful life. There were no impairments recorded during the years ended September 30, 2019 and 2018.

Insurance Reserves

Medical Malpractice Liability Insurance

The individual physicians who contract with the physician organizations carry their own medical malpractice insurance, some of which may be purchased from RRG or CHIC. In the Hospital Services segment, the Company's hospitals carry professional and general liability insurance to cover medical malpractice claims under claims-made policies. Under the policies, insurance premiums cover only those claims actually reported during the policy term. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims related to occurrences during the policy term but reported subsequent to the policy's termination may be uninsured. The Company's hospitals have a consolidated policy for professional and general liability insurance with separate retentions for each entity. The Pennsylvania MCARE fund provides the $500,000 in excess of $500,000 RRG malpractice coverage for Crozer.

For the current fiscal year, RRG provided primary malpractice insurance ($500,000 per occurrence and $2,500,000 in the aggregate) and general liability ($1,000,000 per occurrence and $2,000,000 in the aggregate). In addition, the RRG provided coverage for losses of $4,000,000 in excess of $1,000,000 for each hospital professional liability claim with no aggregate limit. RRG also provides additional layers of excess coverage over $5,000,000 up to $20,000,000, which are 100% reinsured by third party insurance carriers through multiple layers. The excess coverage provided for general liability is over $10,000,000 up to $50,000,000, which is also 100% reinsured by third party carriers. Additionally, there is $1,000,000 per occurrence and $3,000,000 in the aggregate) coverage for non-healthcare provider professional liability.

During the year ended September 30, 2018, CHIC provided malpractice and general liability ($2,000,000 per occurrence) coverage for all facilities except Crozer and Prospect ECHN, Inc. ("ECHN"). During the year ended September 30, 2019, CHIC provided malpractice and general liability ($5,000,000 per occurrence and $37 million in the aggregate) coverage for all facilities, except Crozer. CHIC also provided an excess healthcare professional liability and umbrella liability insurance policy on a claims-made basis covering healthcare professional liability, general liability, automobile liability, employers' liability, helipad liability and non-owned aircraft liability. The limit provided was $80,000,000 and $60,000,000

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(during the years ended September 30, 2019 and 2018, respectively) for each loss event and in the annual aggregate excess of the primary coverage layers described above. This coverage was fully reinsured by third party carriers.

GAAP requires that a health care organization record and disclose the estimated costs of medical malpractice claims in the period of the incident of malpractice, if it is reasonably possible that liabilities may be incurred and losses can be reasonably estimated. The Company has recognized an estimated liability for incurred but not reported claims and the self-insured risks (including deductibles and potential claims in excess of policy limits) based upon an actuarial valuation of the Company's historical claims experience of its hospitals. At September 30, 2019 and 2018, the total gross claims liability, was $133,300,000 and $73,532,000 and reinsurance recoverable on unpaid losses were $49,552,000 and $12,834,000, respectively, included in other assets on the accompanying consolidated balance sheets, and were estimated using a discount factor ranging from 3.50% to 4.00%.

Workers' Compensation Insurance

The workers' compensation coverage provides the statutory benefits required by law with a $500,000 deductible reimbursement policy provided by CHIC for the Company's entities located in California and Connecticut, and for the year ended September 30, 2019, Pennsylvania (covered in fiscal 2018 for the first $500,000 with a third party carrier). The facilities in Rhode Island were fully insured for workers' compensation claims with no deductible. At September 30, 2019 and 2018, included in accrued salaries, wages and benefits are accruals for uninsured claims and claims incurred but not reported of approximately $29,182,000 and $27,776,000 and reinsurance recoverable on unpaid losses of $3,134,000 and $8,557,000, respectively, included in other assets on the accompanying consolidated balance sheets. The amounts are estimated based upon an actuarial valuation of claims experience, using a discount factor of 4%.

Reserve Methodology

The claims reserve is based on the best data available to the Company. The estimate, however, is subject to a significant degree of inherent variability. The estimate is continually monitored and reviewed, and as the reserve is adjusted, the difference is reflected in current operations. While the ultimate amount of the medical malpractice and workers' compensation claims liability is dependent on future developments, management is of the opinion that the associated liabilities recognized in the accompanying consolidated financial statements are adequate to cover such claims. Management is not aware of any potential claims whose settlement, if any, would have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Stock Options

Ivy Holdings has a stock option plan (the "Ivy Plan"), which is administered by the Compensation Committee of the Ivy Holdings Board. The plan includes an Incentive Stock Option Agreement and a Non-Qualified Stock Option Agreement to be used in connection with the grant of options under the plan. These options granted under the Ivy Plan are exercisable into Ivy Holdings stock and vest based on a number of criteria.

Compensation costs for option awards are measured and recognized in the consolidated financial statements based on their grant date fair value, net of estimated forfeitures over the awards' service period. Options subject to variable accounting treatment are subject to revaluation at the end of each reporting period. The Company uses the Black-Scholes option pricing model and a single option award

approach to estimate the fair value of stock options granted. The fair value of restricted stock grants are determined on the date of grant, based on the number of shares granted and the quoted price or estimated fair market value of the Company's common stock. Equity-based compensation is classified within the same line items as cash compensation paid to employees. Compensation costs related to stock options that vest or are exercisable when certain corporate transactions occur, including a change in control, are recognized at the time that such an event occurs.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments with initial maturities of 90 days or less to be cash equivalents. Cash and cash equivalents are primarily comprised of deposits with banks. The Company maintains its cash at banks with high credit-quality ratings.

Restricted Cash

Some of the Company's cash is restricted for various purposes including research, regulatory requirements and letters of credit. The Company is also required to keep restricted deposits by certain HMOs for the payment of claims. Such restricted deposits are classified as a current asset in the accompanying consolidated balance sheets, as they are restricted for payment of current liabilities. Restricted cash also include certificates of deposit with maturity dates of more than 90 days when purchased.

Cash Held in Escrow

The Company holds $70 million of the cash at September 30, 2019 which is held in in escrow and is expected to be contributed to the Company's pension plans during the year ending September 30, 2020.

Restricted Investments

Investments in marketable securities, primarily mutual funds, and are classified as available for sale and are stated at fair value. Unrealized gains and losses are recorded in the statements of other comprehensive income. Investment securities are exposed to various risk, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in values of investment securities could occur in the near term and such changes could materially affect investment. These investments are held in the Company's captive insurance companies and are shown as restricted because the state/local regulators require their approval before dividends or return of capital to the Parent Entity.

Inventories

Inventories of supplies are valued at the lower of amounts that approximate the weighted average cost or net realizable value, which approximates market value, and are expensed as incurred. Inventories consist primarily of medical and surgical supplies and pharmaceuticals.

Internal Use Software

Included within other receivables, prepaid expenses and other current assets are hosting arrangements related to the Oracle suite of products, which are accounted for as service contracts. The gross carrying amount of capitalized service costs was approximately $12,100,000 and $149,000 at September 30, 2019 and 2018, respectively. There is no expected residual value for capitalized costs. At September 30, 2019 and 2018, there was approximately $12,100,000 and $149,000, respectively, of capitalized costs for hosting arrangements accounted for as service contracts that is was in the development stage and amortization is scheduled to commence once the project is complete and ready for its intended use. The

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estimated amortization period is 5 years. There was no amortization expense for the years ended September 30, 2019 and 2018, respectively.

Deferred Financing Costs

Deferred financing costs are amortized over the period in which the related debt is outstanding using the effective interest method and are classified as a deduction from the carrying amount of the related debt. As it relates to MPT liabilities, deferred financing costs are classified in other assets in the accompanying consolidated balance sheets.

Income Taxes

Deferred income tax assets and liabilities are recognized for differences between financial and income tax reporting bases of assets and liabilities based on enacted tax rates and laws. To the extent a deferred tax asset cannot be recognized under the preceding criteria, allowances must be established. The impact on deferred taxes of changes in tax rates and laws, if any, are applied to the years during which temporary differences are expected to be settled and reflected in the financial statements in the period of enactment. The Company recognizes interest and penalties associated with income tax matters and unrecognized tax benefits in the income tax expense line item of the statements of operations. For the year ended September 30, 2018, the Company incurred $2,405,000 of interest and penalties related to income taxes, which were reversed during the year ended September 30, 2019.

An entity is required to evaluate its tax positions using a two-step process. First, the entity should evaluate the position for recognition. An entity should recognize the financial statement benefit of a tax position if it determines that it is more likely than not that the position will be sustained on examination. Next, the entity should measure the amount of benefit that should be recognized for those tax positions that meet the more-likely-than-not test.

A consolidated federal tax return is filed for Ivy Holdings, with the exception of Nuestra Familia Medical Group Inc., ("Nuestra"), which files its own federal tax returns. The Company files separate state tax returns for California, Texas, Rhode Island, Pennsylvania, Connecticut, New Jersey and Florida. The Company's filed tax returns are generally subject to examination by the IRS and state tax boards for 3 to 4 years.

Sale-Leaseback Transactions

The Company evaluates sale-leaseback transactions by determining whether the transaction meets the qualifying criteria to be recognized as a sale-leaseback, including the transfer of risk and rewards of ownership as well as the absence of continuing involvement of the Company. When the qualifying criteria for a sale-leaseback transaction are not met, the Company accounts for the transaction as a financing (see Notes 9 and 10).

Comprehensive Income

Comprehensive income consists of net income and other gains and losses affecting stockholder's equity that, under generally accepted accounting principles, are excluded from net income (loss) attributable to the Company. For the Company, such items consist primarily of unrealized gains or losses on debt and equity securities as well as changes related to pension and other postretirement liabilities that are not recognized immediately in net periodic benefit costs (see Note 12).

Fair Value of Financial Instruments

Financial instruments consist primarily of cash and cash equivalents, restricted cash, restricted investments, patient and other accounts receivables, accrued salaries and benefits, accounts payable and accrued expenses, medical claims and related liabilities, amounts due to government agencies, notes receivable and payable, capital lease obligations, debt, MPT liability and other liabilities. The carrying amounts of current assets and liabilities approximate their fair value due to the relatively short period of time between the origination of the instruments and their expected realization.

Fair Value Measurement

Relevant accounting guidance establishes a framework for measuring fair value and clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

The guidance requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of inputs as follows: Level 1 quoted prices in active markets for identical assets or liabilities; Level 2 quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; or Level 3 unobservable inputs for the asset or liability, such as discounted cash flow models or valuations. The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The Company's Level 1 assets include cash and cash equivalents and investments (certificates of deposit and money market mutual funds). The inputs for fair value of goodwill and intangible assets (including long lived assets and intangible assets subject to amortization) would be based on Level 3 inputs as data used for such fair value calculations would be based on discounted cash flows that are not observable from the market, directly or indirectly.

Financial Items Measured at Fair Value on a Recurring Basis

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis and where they are classified within the hierarchy (in thousands):

September 30, 2019	Total	Level 1	Level 2	Level 3
Mutual funds	$ 29,540	$ 29,540	$ -	$ -
September 30, 2018				
Mutual funds	$ 23,779	$ 23,779	$ -	$ -

The Company's investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices. The Company's defined benefit pension plan assets are also measured at fair value (see Note 12).

The Company's carrying amount of long-term debt approximated fair value as of September 30, 2019 and 2018, respectively.

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Nonfinancial Items Measured at Fair Value on a Nonrecurring Basis

Nonfinancial assets such as goodwill and identifiable intangible assets are measured at fair value when there is an indicator of impairment and recorded at fair value only when impairment is recognized. The Company performs an annual impairment test on the goodwill, and performs an impairment test on the intangible assets when there are indications of impairment.

During the year ended September 30, 2018, the Company recorded approximately $14,228,000 of impairment relating to goodwill, which is reflected in the accompanying consolidated statements of operations.

The Company uses the discounted cash flow approach and the guideline public company approach to estimate the residual value of the Company's goodwill. The measurement of goodwill is a Level 3 measurement.

The following table provides quantitative information related to the significant unobservable inputs to determine fair value of goodwill as of September 30, 2018:

Residual Value of Goodwill	Valuation Technique	Unobservable Input	Rates
$ -	Discounted Cash Flow	Weighted average cost of capital	9.3%
		Revenue growth rate	2.1% - 2.5%
	Guideline Public Company	LTM revenue multiple	0.5x
		NTM EBITDA multiple	7.0x

There were no nonrecurring measurements as of September 30, 2019.

Concentrations of Credit Risk

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits of $250,000 per depositor of each financial institution. The Company has not experienced any losses to date related to these balances.

Financial instruments that potentially subject the Company to concentrations of credit risk consist of receivables due from Medicare, Medicaid, patients, and health plans including shared-risk arrangements.

The Company invests excess cash in liquid securities at institutions with strong credit ratings, following established guidelines relative to diversification and maturities to maintain safety and liquidity. These guidelines are periodically reviewed and modified to take into consideration trends in yields and interest rates and principal risk. Management attempts to schedule the maturities of the Company's investments to coincide with the Company's expected cash requirements. Credit risk with respect to receivables is limited since amounts are generally due from large HMOs within the Medical Group segment and from the Medicare and Medicaid programs within the Hospital Services segment. Management reviews the financial condition of these institutions on a periodic basis and does not believe the concentration of cash or receivables results in a high level of risk.

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For the years ended September 30, 2019 and 2018, the Hospital Services segment received a total of 63% and 65% of its net patient revenues from Medicare and Medicaid programs, respectively, and the Medical Group segment received a total of 65% and 62% for the years ended September 30, 2019 and 2018, respectively, of their capitation revenues from its five largest HMOs, as follows (in thousands):

Years Ended September 30,	2019	% of Total Revenue		2018	% of Total Revenue
Hospital Services:					
Government Payers:					
Medicare	$ 822,407	33%		$ 801,222	31%
Medicaid	750,909	30%		874,865	34%
Total	$ 1,573,316	63%		$ 1,676,087	65%
Medical Group:					
HMO A	$ 61,087	20%	HMO A	60,506	20%
HMO B	35,674	12%	HMO B	35,705	11%
HMO E	34,684	11%	HMO F	32,934	11%
HMO F	34,207	11%	HMO D	32,357	11%
HMO D	32,617	11%	HMO C	27,051	9%
Total	$ 198,269	65%		$ 188,553	62%

The Global Risk Management segment received all of their revenues from seven health plans during the years ended September 30, 2019 and 2018.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities at the dates, and for the periods, that the consolidated financial statements are prepared. Actual results could materially differ from those estimates. Principal areas requiring the use of estimates include third party settlements, settlements under risk sharing programs, allowances for contractual discounts and doubtful accounts, accruals for medical claims, impairment of goodwill, long-lived assets and intangible assets, share-based payments, professional and general liability claims and workers' compensation claims, reserves for pension obligations and other postretirement benefit reserves, reserves for outcome of legislation and valuation allowances against deferred tax assets.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)" with an effective date deferred by ASU 2015-14. The core principle of ASU 2014-09 is built on the contract between a vendor and a customer for the provision of goods and services, and attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this objective, the standard requires five basic steps: (i)

identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, (v) recognize revenue when (or as) the entity satisfies a performance obligation. Nonpublic entities will apply the new standard for annual periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Three basic transition methods are available — full retrospective, retrospective with certain practical expedients, and a cumulative effect approach. Under the third alternative, an entity would apply the new revenue standard only to contracts that are incomplete under legacy U.S. GAAP at the date of initial application and recognize the cumulative effect of the new standard as an adjustment to the opening balance of retained earnings. That is, prior years would not be restated and additional disclosures would be required to enable users of the financial statements to understand the impact of adopting the new standard in the current year compared to prior years that are presented under legacy U.S. GAAP. The Company is currently evaluating the effect of this guidance on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)". The core principle of ASU 2016-02 is that a lessee should recognize the assets and liabilities that arise from leases, including operating leases. Under the new requirements, a lessee will recognize in the statement of financial position a liability to make lease payments (the lease liability) and the right-of-use asset representing the right to the underlying asset for the lease term. For leases with a term of 12 months or less, the lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous GAAP. The standard was originally scheduled to effective for nonpublic entities for fiscal years beginning after December 15, 2019. In November 2019 the FASB issued ASU 2019-10, "Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)" which delay the effective date by one year to December 2020. The Company is currently evaluating the standard and the impact on its consolidated financial statements and footnote disclosures.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230)". The updated standard addresses eight specific cash flow issues with the objective of reducing diversity in practice. ASU 2016-15 is effective for non-public business entities for annual reporting periods beginning after December 15, 2018, including interim periods within those annual reporting periods. Early adoption is permitted. The Company is assessing the impact of the adoption of ASU 2016-15 on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The ASU amends ASC Topic 715, Compensation — Retirement Benefits, to require employers that present a measure of operating income in their statements of income to include only the service cost component of net periodic pension costs and net periodic postretirement benefit cost in operating expenses. The ASU also stipulates that only the service cost component of net benefit cost is eligible for capitalization. This guidance is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted as of the beginning of an annual period for which financial statements have not been issued or made available for issuance. Disclosures of the nature of and reason for the change in accounting principle are required in the first interim and annual periods of adoption. The Company is currently evaluating the provisions of ASU 2017-07 and its impact on the Company's consolidated financial position, results of operations and cash flows.

In August 2018, the FASB issued ASU 2018-14, "Compensation - Retirement Benefits - Defined Benefit plans - General (Topic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans", which amends ASC 715 to add, remove and clarify disclosure requirements related to defined benefit pension and other postretirement plans. This ASU is effective for fiscal years ending after December 15, 2021. Early adoption is permitted. The Company is currently evaluating the provision of ASU 2018-14 and its impact on its consolidated financial statements and related disclosures.

Reclassifications

Certain reclassifications were made to the prior year consolidated financial statements in order to conform to the current year presentation, and primarily relate to presentation of discontinued operations (see Note 5).

3. Property, Improvements and Equipment

Property, improvements and equipment, consisted of the following (in thousands):

September 30,	**2019**	2018
Land and land improvements	**$ 68,403**	$ 75,801
Buildings and improvements	**359,570**	316,217
Leasehold improvements	**12,097**	8,758
Equipment	**373,153**	283,008
Furniture and fixtures	**5,288**	4,705
	818,511	688,489
Less: accumulated depreciation	**(342,106)**	(248,162)
	476,405	440,327
Construction in Progress	**62,066**	73,363
Property, improvements and equipment, net	**$ 538,471**	$ 513,690

At September 30, 2019 and 2018, the Company had assets under capitalized leases of approximately $53,861,000 and $31,784,000, respectively, and related accumulated depreciation of $10,771,000 and $12,433,000, respectively.

Depreciation expense was approximately $83,683,000 and $78,153,000 for the years ended September 30, 2019 and 2018, respectively.

Included within equipment is capitalized software costs, which relate to significant system conversions. The estimated amortization period is 5 years. The gross carrying amount of capitalized software for internal use (related to the Cerner suite of products) was approximately $39,538,000 and $14,557,000 at September 30, 2019 and 2018, respectively, and the net carrying amount considering accumulated amortization was approximately $37,449,000 and $14,557,000 at September 30, 2019 and 2018, respectively. There is no expected residual value for capitalized internal-use software. At September 30, 2019 and 2018, there was approximately $28,355,000 and $7,914,000, respectively, of capitalized costs for internal-use software that is in the development stage and amortization is scheduled to commence once the software project is complete and ready for its intended use. Amortization expense was $2,050,000 and $0 for the years ended September 30, 2019 and 2018, respectively.

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4. Acquisitions

For the years ended September 30, 2019 and 2018, the Company entered into the following material acquisitions. All business combinations were consistent with the Company's strategic growth plan and were accounted for using the acquisition method of accounting. Operating results for each of the acquisitions have been included in the accompanying consolidated financial statements from the date of acquisition. Goodwill arising is primarily attributable to the synergies expected to arise after the acquisitions, and is expected to be deductible for tax purposes for entities that were asset acquisitions, but is not is expected to be deductible for tax purposes for entities that were stock acquisitions.

All assets acquired and liabilities assumed were at fair value with the exception of the defined benefit pension liabilities and other post retirement employee benefits, which allows for an exception to fair value accounting for business combinations in accordance with GAAP. The recognized tax bases (the amount that is attributable for tax purposes) of the assets and liabilities are compared to the financial reporting values of the acquired assets and assumed liabilities (book bases) to determine the appropriate temporary differences. The Company identified temporary differences related to assumed pension liabilities, due primarily to differences in tax law regarding when a liability is or is not assumed in an asset acquisition; this difference in the treatment of the pension liabilities resulted in the recording of deferred tax assets which are reflected in the acquisition accounting and noted in the tables below.

Transaction costs incurred during the years ended September 30, 2019 and 2018 were immaterial.

2019 acquisitions

The Company completed the acquisitions of 10 physician practices in Connecticut and Pennsylvania for an aggregate purchase price of approximately $400,000. All acquisitions were asset acquisitions.

2018 acquisitions

In December 2017, New University Medical Group LLC ("New UMG") entered into a Second Closing to acquire the remaining assets of University Medical Group ("UMG") that were not acquired in the initial acquisition in December 2014. As consideration for the acquisition, New UMG has assumed certain designated liabilities of the practice, which consists of various loans payable to subsidiaries of the Company, totaling approximately $7.5 million. Post-acquisition, these liabilities are eliminated on consolidation. There was no cash consideration related to the transaction. The remaining assets and liabilities acquired were immaterial and no value was assigned to them in the purchase price allocation, and accordingly goodwill of $7.5 million arises from the acquisition. New UMG's parent company, Prospect CharterCARE Physicians, LLC, dba CharterCARE Medical Associates ("CCMA"), entered into a Post Closing Administrative Services Agreement pursuant to which CCMA and its affiliates provide services to the seller of the practice in connection with its termination of all operations and the wind up its affairs and operations.

The Company completed the acquisitions of four physician practice acquisitions in Connecticut for an aggregate purchase price of approximately $2.6 million, one physician multi-specialty practice in Pennsylvania for a purchase price of $1.6 million (net of working capital adjustments), three physician medical practices in California for an aggregate purchase price of approximately $800,000, and one physician family practice in Rhode Island for $180,000. All acquisitions were asset acquisitions, except for one stock purchase acquisition in Connecticut for a purchase price of $800,000.

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5. Discontinued Operations

During the year ended September 30, 2019, the Company made the determination to sell the operations of Nix Hospital System ("Nix Health") in Texas and East Orange General Hospital ("EOGH") in New Jersey. The initial plan as approved by the Company's Board of Directors in March 2019 was to sell both Nix Health and EOGH as "going concern" businesses. Subsequent to the initial plan, the plans for Nix Health changed as a result of interest in the market place. The decision to sell the acute hospital building as a real estate transaction was made in August 2019. The hospital closed to patient admissions in September 2019 and as of September 30, 2019 had no patients "in-house". The building is under contract for sale for $28.5 million and the sale is expected to close in the second quarter of fiscal 2020. The decision was made in October 2019 to initially consolidate, and then close, the behavioral business. The two behavioral health businesses were closed in November 2019. Efforts are underway to sell the building that is owned and sublease the building that is leased. Negotiations continue with a number of potential buys with respect to the sale of EOGH. The Company's decision to discontinue the operations of each of these entities was based on the strategy of the Company's management in their respective markets and financial results.

Accordingly, as of September 30, 2019 and 2018, the assets and liabilities of these businesses have been classified as "held for sale," and the operations (as it relates to revenues and expenses that will no longer continue post sale) have been shown within discontinued operations.

In connection with the presentation of discontinued operations, the Company was required to test the long lived assets for impairment as of September 30, 2019. As part of that impairment test: (i) goodwill at Nix Health was fully impaired; (ii) property, plant and equipment at EOGH was impaired by approximately $55.9 million and at Nix Health was impaired by $17.8 million, respectively.

Summarized financial information for discontinued operations is included below (in thousands):

September 30,	**2019**	2018
Patient accounts receivable, net of allowance for doubtful accounts and other receivables	**$ 26,037**	$ 33,377
Due from government payors	**2,022**	11,424
Other receivables, prepaid expenses and other current assets	**7,732**	11,352
Inventories	**1,486**	4,837
Total current assets	**37,277**	60,990
Property, improvements and equipment, net	**42,401**	110,273
Goodwill	**-**	3,138
Intangible assets, net	**1,555**	1,797
Other assets	**164**	161
Total assets of the disposal groups classified as held for sale in the consolidated balance sheets	**$ 81,397**	$ 176,359

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September 30,	2019	2018
Accrued medical claims and other healthcare costs payable	$ 53	$ 46
Accounts payable and other accrued liabilities	23,325	29,436
Accrued salaries, wages and benefits	7,929	9,849
Due to government payers	855	1,478
Current portion of capital leases	1,777	1,415
Total current liabilities	33,939	42,224
Long-term debt, net of current portion	946	1,000
Malpractice reserves	2,677	3,748
Capital leases, net of current portion	7,310	6,623
Other long-term liabilities	1,061	1,406
Total liabilities of the disposal groups classified as held for sale in the consolidated balance sheets	$ 45,933	$ 55,001

For the Years Ended September 30,	2019	2018
Net patient service revenues	$ 189,063	$ 190,085
Provision for bad debts	(19,953)	(19,388)
Net patient service revenues	169,110	170,697
Other non-patient revenues	4,762	5,049
Total revenues	173,872	175,746
Hospital operating expenses	181,145	174,058
General and administrative	47,829	42,651
Depreciation and amortization	7,224	12,763
Total operating expenses	236,198	229,472
Net operating loss	(62,326)	(53,726)
Interest expense, net	1,708	1,699
Goodwill impairment	3,138	4,572
Property, improvement and equipment impairment	73,682	-
Other expense (income), net	685	(83)
Total other expense, net	79,213	6,188
Loss on discontinued operations before income taxes	(141,539)	(59,914)
Income tax benefit	18,234	1,289
Loss on discontinued operations, net of taxes	$ (123,305)	$ (58,625)

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6. Goodwill and Intangible Assets

The carrying value of goodwill by reporting unit is as follows (in thousands):

September 30,	2019	2018
Southern California Hospitals	$ 130,912	$ 130,912
California Medical Groups	28,222	28,222
Crozer	140,216	140,216
ECHN	535	483
Waterbury	2,492	2,155
Total	$ 302,377	$ 301,988

The changes in the carrying amount of goodwill for the years ended September 30 are as follows (amounts in thousands):

September 30,	2019	2018
Balance, beginning of year	$ 301,988	$ 302,985
Acquisitions	389	13,231
Impairment	-	(14,228)
Balance, end of year	$ 302,377	$ 301,988

Identifiable intangible assets are comprised of the following (in thousands):

September 30,	Useful lives	2019	2018
HMO membership	14 years	$ 25,200	$ 25,200
Trade names, net of impairment	3 - 20 years	42,030	50,160
Customer relationships	7 years	-	350
Other	5 - 6 years	97	97
Gross carrying value		67,327	75,807
Accumulated amortization		(41,782)	(43,985)
Intangible assets, net		$ 25,545	$ 31,822

Amortization is recognized on a straight-line basis (management's best estimate of the period of economic benefit) over the respective useful lives and expense for the years ended September 30, 2019 and 2018 was $6,278,000 and $6,898,000, respectively. There are no expected residual values related to these intangible assets.

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Estimated amortization expense for each future fiscal year is as follows (in thousands):

Years ending September 30,	
2020	$ 5,108
2021	5,088
2022	3,299
2023	2,780
2024	2,780
Thereafter	6,490
	$ 25,545

The weighted-average remaining useful life for the intangible assets was approximately 7 years as of September 30, 2019.

7. Related Party Transactions

Jeereddi Prasad, M.D., a shareholder of Ivy Holdings, a director of Ivy Holdings and the Company, and an officer of the Upland Medical Group, a Professional Medical Group and Pomona Valley Medical Group, Inc (collectively "ProMed Entities"), has ownership interests in physician medical groups that provide medical services to ProMed members, including Chaparral Medical Group, Inc., (in which the Company beneficially owns a 13.2% interest). For the years ended September 30, 2019 and 2018, the ProMed Entities paid these groups approximately $21,922,000 and $19,760,000, respectively. As of September 30, 2019 and 2018, the Company had accounts payable and other accrued liabilities due to these related parties of $806,000 and $1,266,000, respectively.

Pursuant to a Management Services Agreement, dated December 15, 2010 and amended on May 3, 2012 (the "LGP Management Agreement"), between the Company and Leonard Green & Partners, L.P. ("LGP"), a private equity fund with affiliated funds that collectively constitute the majority shareholder of Ivy Holdings, LGP provides to the Company, (a) certain investment banking services, (b) management, consulting and financial planning services and (c) financial advisory and investment banking services in connection with major financial transactions from time to time. In consideration for the services provided by LGP under the LGP Management Agreement, the Company pays LGP an annual fee of $1,000,000, payable in monthly installments, and reimburses LGP for its related expenses up to $50,000 annually. If approved by the unanimous consent of the Board of Directors of the Company, additional customary fees may be due to LGP pursuant to the terms of the LGP Management Agreement for services rendered in connection with major transactions from time to time. As of September 30, 2019 and 2018, there was approximately $500,000 and $0 payable, respectively, included in accounts payable and other accrued liabilities on the accompanying consolidated balance sheets.

During the year ended September 30, 2019, the Company received a capital contribution from Ivy Intermediate of $41.0 million and paid a dividend of approximately $44.4 million (see Note 11).

The Company is a wholly-owned indirect subsidiary of Ivy Holdings. Therefore, Ivy Holdings is the parent of an affiliated group of corporations within the meaning of Section 1504(a) of the Internal Revenue Code of 1986. On December 15, 2010, Ivy Holdings, Ivy Intermediate and the Company entered into a Tax Sharing Agreement. The Tax Sharing Agreement allows the Company to make payments to Ivy Holdings as necessary to fund their payment of any required taxes incurred due to such parent status. Under this agreement, the Company received refunds (net of payments) of $(343,000) and $5,463,000 for the years ended September 30, 2019 and September 30, 2018, respectively.

8. Income Taxes

The components of the income tax (benefit) provision are as follows (in thousands):

For the years ended September 30,	**2019**	2018
Current:		
Federal	**$ 11,940**	$ (41,703)
State	**3,353**	(8,549)
	15,293	(50,252)
Deferred:		
Federal	**1,162**	100,529
State	**-**	12,509
	1,162	113,038
Total:		
Federal	**13,102**	58,826
State	**3,353**	3,960
	$ 16,455	$ 62,786

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Temporary differences and carry forward items that result in deferred income tax balances as of September 30, are as follows (in thousands):

September 30,	**2019**	2018
Deferred tax assets:		
Accrued medical claims	$ **3,443**	$ 4,265
Malpractice reserves	**3,254**	3,202
Accounts receivable	**26,596**	22,136
Accrued salaries & wages	**13,478**	10,530
Pension obligation	**65,919**	81,847
Net operating losses	**44,026**	51,567
Tax Credits	**1,719**	2,870
Outside basis differences	**7,244**	755
Lease liability	**132,400**	-
UTP & other	**-**	7,730
Deferred tax assets	**298,079**	184,902
Valuation allowance	**(203,335)**	(105,909)
Net deferred tax assets	**94,744**	78,993
Deferred tax liabilities:		
Property, plant & equipment	**(72,053)**	(54,863)
Intangible assets	**(6,642)**	(8,626)
Prepaid expenses	**(2,969)**	(2,222)
Other comprehensive income	**(11,585)**	(11,307)
UTP & other	**(672)**	-
Deferred tax liabilities	**(93,921)**	(77,018)
Net deferred tax assets	$ **823**	$ 1,975

Deferred tax assets and liabilities reflect the effect of temporary differences between the assets and liabilities recognized for financial reporting purposes and the amounts recognized for income tax purposes.

Management assesses the available positive and negative evidence to estimate whether sufficient future pretax income will be generated to permit use of the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative pretax losses incurred over the three year period ended September 30, 2019. Such objective evidence limits the ability to consider other subjective evidence, such as the Company's projections for future growth. On the basis of this evaluation, at September 30, 2019 and 2018, a valuation allowance of approximately $203.3 million and $105.9 million, respectively, was recorded to recognize only the portion of the deferred tax asset that is more likely than not to be realized. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased or if negative objective evidence in the form of cumulative losses is no longer present and additional weight is given to subjective evidence such as the Company's projections for growth.

During fiscal 2019, the Company completed an IRS examination for Ivy Holdings, Inc. & Subsidiaries fiscal 2014 through 2016 federal income tax returns without any adjustment to reported taxable income The Company is under examinations by the California Franchise Tax Board for tax years ended September 30, 2014 through 2016. The Company does not currently anticipate any changes to our unrecognized tax benefits for the next twelve months related to these examinations.

The Company's tax years 2016 and 2017 are open for federal tax examination, and generally the states are open for tax years 2015 through 2017. During the year ended September 30, 2018, the Company recorded a liability in the amount of $12.7 million related to uncertain tax positions ("UTP") with respect to impermissible accounting methods for federal income tax purposes, which was recorded in other long-term liabilities in the accompanying consolidated balance sheets. During the year ended September 30, 2019, The Company has removed the UTP liability due to filing with IRS for a change from an improper to a proper accounting method change.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Act") was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, limitations on various business deductions such as executive compensation under Internal Revenue Code §162(m), the transition of U.S international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017. The United States federal income tax rate reduction was effective as of January 1, 2018. As a result, the Company reduced net U.S. deferred tax assets by $25,660,000 during the year ended September 30, 2018. As the Company does not have profitable foreign subsidiaries, it does not anticipate any impacts as a result of the mandatory deemed repatriation of cumulative foreign earnings.

The differences between the income tax provision at the federal statutory rate and that reflected in the accompanying consolidated statements of operations are summarized as follows:

For the years ended September 30,	**2019**	2018
Tax provision at statutory rate	**21%**	25%
State taxes, net of federal benefit	**16%**	15%
Impact of US Tax Reform	**0%**	(16)%
Valuation allowance	**(56)%**	(77)%
UTP	**8%**	(2)%
Other	**1%**	4%
	(10)%	(51)%

9. Long-Term Debt

Long-term debt consists of the following (in thousands):

September 30,	**2019**	2018
Senior secured credit facility (net of discount of $0 and $20,085, respectively)	$ -	$ 1,094,315
Other debt *(1)*	**206,350**	38,769
Less: Deferred financing costs, net ("DFC")	-	(16,214)
Total Debt, net of discount and DFC	**206,350**	1,116,870
Less: current maturities	**(18,983)**	(18,429)
Long-term debt, net of current maturities	$ **187,367**	$ 1,098,441

(1) Other debt includes (i) financing obligations related to sales-leaseback transactions. The financing obligations related to sales-leaseback transactions were $23,152,000 and $24,614,000 for years ended September 30, 2019 and 2018, respectively, excluding the sale leaseback transaction in entered into in fiscal 2019 with MPT (see Note 10) and (ii) debt related to the Foothill ($51,267,000) and TRS Notes ($112,937,000) entered into in fiscal 2019 with MPT (see Note 10).

Senior Secured Credit Facilities

On June 30, 2016, the Company entered into a six-year $625,000,000 senior secured term loan B (the "Original Term Loan"). The Original Term Loan was issued with an original discount of 1.50%, or $9,375,000. Additionally, the Company refinanced the previous revolver with a new $100,000,000 asset-based revolving credit facility ("Original ABL Facility" and together with the Original Term Loan, the "New Senior Secured Credit Facilities"). Pursuant to various amendments from August 2016 through October 2017, the aggregate commitment amount under the Original ABL facility was increased in stages to $175,000,000. The original maturity date for the Original ABL Facility was June 30, 2021, and the original maturity date for the Term Loan was June 30, 2022.

On February 22, 2018, the Company refinanced and replaced both the Original Term Loan and the Original ABL Facility, and entered into an Amended and Restated Term Loan Credit Agreement (the "Amended TL Agreement"), by and among the Company (as the borrower), the lenders party thereto and JPMorgan Chase Bank, N.A. ("JPMorgan"), as administrative agent and collateral agent. The Amended TL Agreement replaced the Original Term Loan with a new Term B-1 Loan ("Term B-1 Loan"). The principal amount of the Term B-1 Loan was $1,120,000,000 and such loan incurred interest at LIBOR (subject to a 1.00% floor) plus 5.50%. The Term B-1 Loan was issued with an original discount of 2.00% and was originally scheduled to mature on February 22, 2024. The Term B-1 Loan was repaid on August 23, 2019 (see Note 10).

Additionally, on February 22, 2018, the Company entered into an Amended and Restated ABL Credit Agreement (the "Amended ABL Agreement"), by and among the Company (as the borrower), the lenders party thereto and JPMorgan, as administrative agent and collateral agent. The Amended ABL Agreement replaced the Original ABL Facility. Under the Amended ABL Agreement, the maximum revolving commitment was $250,000,000 with ability to expand the facility to $325,000,000, and the new ABL

facility (the "New ABL Facility") bears interest at a variable base rate plus an applicable spread that is based on excess availability under the New ABL Facility, as further described in the Amended ABL Agreement, which was 6.0% as of September 30, 2019. From January 2019 through July 2019 the Company entered into various amendments to the Amended ABL Agreement. Such amendments (i) waived certain events of default at September 30, 2018; (ii) increased the maximum revolving commitment from $250.0 million to $280.0 million, and further to $285.0 million, while simultaneously reducing and removing future expansion of the facility; (iii) introduced $40.0 million of a first in last out ("FILO") revolving facility, which incurred interest at either 2.5% or 3.5% per annum depending on whether they are Eurodollar loans or ABR loans (which were repaid on August 23, 2019); (iv) provides for a reduction in the maximum revolving commitment by $20.0 million and $10.0 million upon the future planned closure or disposition of Nix Health and EOGH, respectively. The New ABL Facility matures on February 22, 2023. As of September 30, 2019, the outstanding balance and the available balance on the New ABL facility was approximately $70.0 million and $175.6 million, respectively.

The proceeds of the Term B-1 Loans and the New ABL Facility (the "New Senior Secured Credit Facilities") were used to refinance the Original Term Loan and the Original ABL Facility, to pay a dividend of $457,000,000 to the Company's stockholders, to pay certain expenses associated with the refinancing, to prefund approximately $40,000,000 of pension liabilities of the Company's subsidiaries, to make payments to certain option holders as a result of the referenced dividend, and to finance certain working capital and other operational needs of the Company and its subsidiaries.

Under applicable accounting literature, during the year ended September 30, 2018, deferred financing costs of $11,700,000 and outstanding debt discount of $6,700,000 as of February 22, 2018 were expensed and presented within loss on debt extinguishment in the accompanying consolidated statements of operations, and new costs of approximately $18,000,000 incurred in connection with the refinancing were capitalized to offset the new long-term debt in the accompanying consolidated balance sheets, and are being amortized over the term of the related debt using the effective interest method. In connection with the repayment of the Term B-1 Loan (see Note 10), and under applicable accounting literature, during the year ended September 30, 2019, deferred financing costs of $13,444,000 and outstanding debt discount of $16,608,000 were expensed and are presented within loss on debt extinguishment in the accompanying consolidated statements of operations.

The New ABL Facility is secured by a first priority security interest on the working capital assets of the Company and its wholly-owned subsidiaries except Prospect Health Plan, Inc., CHIC, RRG, Prospect Health Access Network, Inc. and certain immaterial subsidiaries and a second priority security interest on their fixed assets. The Amended ABL Agreement does not have any financial maintenance covenants. The Amended ABL Agreement has a "springing" fixed charge ratio covenant that applies if excess availability is less than the greater of 10% of the maximum borrowing amount and $22,000,000. The fixed charge ratio covenant was not required to be tested for the fiscal quarter ended September 30, 2019.

Demand Notes

The Company has a commitment from a bank for a $15,000,000 equipment leasing facility to finance various equipment at the Company's hospital facilities. As of September 30, 2019 and 2018, draws under the facility are classified as capital lease arrangements. Draws represent demand notes until conversion to capital leases, and interest accrues on such draws at the bank prime rate plus 1.50% with a floor of 4.50% and payable monthly. As of September 30, 2019, approximately $15,000,000 had been drawn under the line.

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Scheduled payments under the Company's current and long-term debt as of September 30, 2019 are as follows (in thousands):

Years ending September 30,	
2020	$ 18,983
2021	15,289
2022	13,140
2023	13,106
2024	13,412
Thereafter	132,420
Total scheduled payments	206,350
Less: Current maturities	(18,983)
Total long-term debt	$ 187,367

10. Transactions with MPT

On August 23, 2019, the Company closed a series of transactions with affiliates of Medical Properties Trust, Inc. ("MPT"), a publicly traded Real Estate Investment Trust ("REIT"). Under these transactions, the Company sold to MPT the Company's hospital buildings in California (excluding Foothill Regional Medical Center ("Foothill"), Connecticut and Pennsylvania for an aggregate purchase price of $1,386,000,000. Concurrent with the sale transactions, the Company entered into two master lease agreements whereby the hospital properties and related medical office buildings were leased back for an initial 15 year term, with options to extend twice for an additional 5 years each and for a further 4.75 year extension. Monthly rent is defined as 7.5% of the lease base, subject to annual escalation of consumer price index, limited to a minimum of 2% and a maximum of 4%. For the first master lease, the Company has the option to buy the properties at their fair value at the end of the lease term. For the second master lease, the Company has the option to purchase at a price that is fixed at the time of entering into the lease (the "Option Price"). If the Company chooses not to exercise this option, and the fair value at the end of the lease is below the Option Price, then the Company must pay MPT a sum equal to the difference between the fair value and the Option Price. These transactions do not qualify for sale leaseback accounting because of the Company's deemed continuing involvement with the buyer-lessor, including the requirements to pay reserves for major repairs, and the option to purchase included in the lease, which are considered a form of contingent collateral and results in the transaction being recorded under the financing method. All of the legal entities that are parties to the master lease agreement (which are the hospital entities in California, Connecticut and Pennsylvania) provide cross guarantees on all of the obligations to MPT, which guarantees include both lease payments under the master lease as well as indebtedness due to MPT. The balance due under the leases is reflected in MPT liabilities in the accompanying consolidated financial statements.

Further, the Company obtained a mortgage on the Foothill property. This mortgage is secured by the buildings at Foothill. The interest on this mortgage is 7.5% per annum and is subject to annual escalation of consumer price index, limited to a minimum of 2% and a maximum of 4%. The maturity date of this loan is in August 2034. MPT can purchase the property on event of default or at end of term, or if Company does not exercise purchase rights for the aforementioned leased properties. Additionally, if the Foothill property is no longer used as collateral for a promissory note payable to Prospect Medical Group, Inc. ("PMG"), one of the Company's California Medical Groups, then MPT shall have the right to purchase the Foothill property and lease it back to the Company under the second master lease

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agreement, for an amount equal to the outstanding principal balance. The referenced promissory note payable to PMG has been included in the calculation of PMG's Tangible Net Equity in connection with requirements of the California Department of Managed Health Care. The balance due under the promissory note payable to MPT is reflected in long term debt in the accompanying consolidated financial statements (see Note 9).

Additionally, the Company entered into a promissory note (the "TRS Note"), under which MPT has advanced to the Company $112,937,000. The interest on this note is 7.5% per annum and is subject to annual escalation of consumer price index, limited to a minimum of 2% and a maximum of 4%. The maturity date of this note is the earlier of July 2022 or, if it occurs, a sale-leaseback of the properties in Rhode Island. The balance due under this note is reflected in long term debt in the accompanying consolidated financial statements (see Note 9).

All of the agreements referenced in this footnote are cross-collateralized and cross defaulted among the parties and the assets included therein (which do not include any of the hospital operating entities or real properties in Rhode Island, Texas or New Jersey). Based on annualized Adjusted EBITDAR (as defined) achieved over the three years from the transaction date, additional amounts between $50 million to $250 million will be payable to the Company. As of September 30, 2019, there has been no accounting for these amounts in the consolidated financial statements. The proceeds from these transactions were used to pay off in full the Term B-1 Loan and to pay down the amounts outstanding under the Amended ABL Agreements (see Note 9) and the FILO facility, as well as fund a restricted cash account for the future paydown of the Company's pension liabilities and to provide working capital.

The MPT transaction documents contain certain customary covenants and restrictions and a financial covenant based on EBITDAR performance.

Interest expense under these agreements was $6,649,000 for the year ended September 30, 2019.

See Note 13 for future minimum lease payments related to sale leaseback commitments as of September 30, 2019.

11. Stockholder's Equity

Equity Based Compensation Plans

Effective December 15, 2010, the Board of Directors of Ivy Holdings adopted the Ivy Plan that initially authorized the issuance of options exercisable for up to 155,110 shares of the common stock of Ivy Holdings ("Initial Options") to employees, certain consultants and independent members of the boards of directors, of Ivy Holdings and its subsidiaries (including the Company and its subsidiaries). These options are exercisable into Ivy Holdings stock and vest based on a number of criteria, including time, Company and Business Unit performance based on EBITDA targets and CEO and Compensation Committee discretion. Since the Ivy Holdings stock options were granted to Company employees for their services related to the Company, the related compensation cost has been recorded in the Company's consolidated financial statements. Effective June 30, 2015, the Board of Directors of Ivy Holdings adopted the First Amendment to the Ivy Plan. Under the First Amendment, and subsequent amendments, a further 63,704 shares of common stock of Ivy Holdings ("New Options") can be issued.

The New Options are exercisable into Ivy Holdings stock and vest based on a number of criteria, including the same criteria as the Initial Options. However, they only become exercisable on the occurrence of certain corporate transactions, including a change in control of Ivy Holdings, as defined in the Incentive Stock Option Agreements ("Corporate Transaction"). Because the occurrence and timing of a Corporate Transaction is not determinable as of September 30, 2019 and 2018, no compensation cost has been recorded in the Company's consolidated financial statements for the years then ended. See Note 16 for Merger Agreement that was entered into subsequent to year-end.

Under the terms of the Ivy Plan, the exercise price of an incentive stock option ("ISO") may not be less than 100% of the fair market value of the Company's common stock on the date of grant and, if granted to a shareholder owning more than 10% of the Company's common stock, then not less than 110%. Stock options granted under the Ivy Plan have a maximum term of 10 years from the grant date, and are exercisable at such time and upon such terms and conditions as determined by the Compensation Committee. Stock options granted to employees generally vest over four years, subject to continued service, performance, and other criteria. In the case of an ISO, the amount of the aggregate fair market value of common stock with respect to which the ISO grant is exercisable, for the first time by an employee during any calendar year, may not exceed $100,000.

Stock Options Activity

The following table summarizes information about Ivy Holdings stock options outstanding as of September 30, 2019 and 2018 and activity during the years then ended for the Initial Options and the New Options:

	Shares Subject to Options	Weighted Average Exercise Price	Weighted Average Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term (Months)
Outstanding as of October 1, 2017	168,875	$ 174.91	$ 663.09	73.4
Granted	26,516	418.21	—	—
Exercised	(22,608)	37.74	—	—
Canceled/Forfeited	(9,530)	322.72	—	—
Outstanding as of September 30, 2018 (1)	163,253	140.47	156.53	70.5
Granted	—	—	—	—
Exercised	—	—	—	—
Canceled/Forfeited	(14,233)	231.42	—	—
Outstanding as of September 30, 2019	149,020	$ 131.79	$ —	56.2

(1) The number of options outstanding at September 30, 2018 were modified in connection with the Adjusted Exercise Price of the options (see below).

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the estimated fair value of the Company's common stock for those awards that have an exercise price currently below the estimated fair value. As of September 30, 2019, the outstanding shares had no aggregate intrinsic value. As of September 30, 2019, there were 101,448 options that are exercisable at a weighted average exercise price of $47.23.

A summary of Ivy Holdings non-vested options and the changes during the fiscal years ended September 30, 2019 and 2018 is presented as follows for the Initial Options and New Options:

	Shares	Weighted Average Grant Date Fair Value
Ivy Holdings Stock Options:		
Nonvested at October 1, 2017	34,364	$ 225.09
Granted	26,516	188.98
Vested	(17,054)	269.50
Canceled/Forfeited	(9,530)	206.09
Nonvested at September 30, 2018	34,296	181.07
Granted	—	—
Vested	—	—
Canceled/Forfeited	(1,876)	200.11
Nonvested at September 30, 2019	32,420	$ 179.97

Stock-Based Compensation Expense

Stock-based compensation expense for all share-based payments in exchange for employee services (including stock options and restricted stock) is measured at fair value on the date of grant, estimated using an option pricing model and is recognized in the consolidated financial statements, net of estimated forfeitures over the awards requisite service period.

The Company uses the Black-Scholes option pricing model and a single option award approach to estimate the fair value of options granted. Estimated forfeitures will be revised in future periods if actual forfeitures differ from the estimates and will impact compensation cost in the period in which the change in estimate occurs. The determination of fair value using the Black-Scholes option-pricing model is affected by the Company's estimated stock price as well as assumptions regarding a number of complex and subjective variables, including expected stock price volatility, risk-free interest rate, expected dividends and projected employee stock option exercise behaviors.

There were no options granted during the year ended September 30, 2019. Fair value for options granted during the year ended September 30, 2018 was estimated with the following assumptions for Ivy Holdings:

September 30,	2018
Weighted average fair value of option grants	$ 188.98
Estimated fair market value of the Company's common stock on the date of grant	$ 390.14
Weighted average expected life of the options	5 years
Risk-free interest rate	0.85%
Weighted average expected volatility	60.0%
Dividend yield	0.00%

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Expected Term - The expected term of options granted represents the period of time that they are estimated to be outstanding.

Risk-Free Interest Rate - The Company bases the risk-free interest rate on the implied yield in effect at the time of option grant on U.S. Treasury zero-coupon issues with equivalent remaining terms.

Expected Volatility - The Company estimates the volatility of the common stock at the date of grant based on the average of the historical volatilities of a group of peer companies. The Company has identified a group of comparable companies to calculate historical volatility from publicly available data for sequential periods approximately equal to the expected terms of the option grants. In selecting comparable companies, Management considered several factors including industry, stage of development, size and market capitalization.

Forfeitures - Share-based compensation is recognized only for those awards that are ultimately expected to vest. Compensation expense is recorded net of estimated forfeitures. Those estimates are revised in subsequent periods if actual forfeitures differ from those estimates. The Company used data since December 2010 to estimate pre-vesting option forfeitures.

Stock-based compensation expense for the Ivy Holdings stock options recognized by the Company during the years ended September 30, 2019 and 2018 was $0 and $710,000, respectively. At September 30, 2019, there were no unvested options, which could potentially vest over the next nine fiscal years, subject to meeting the vesting requirements noted above. There were no remaining maximum estimated stock compensation expense to be amortized to expense in future periods. Options which are expected to vest based on CEO and Compensation Committee discretion are treated as variable stock options and are subject to revaluation at each reporting period. Management determined the fair value of the discretionary vested options using a Black Scholes calculation but determined that the change in compensation expense was not material to the consolidated financial statements for the years ended September 30, 2019 and 2018.

Contributions

On January 25, 2019 and on February 6, 2019, Ivy Holdings made equity contributions in the amount of $40,000,000 and $1,000,000, respectively, to Ivy Intermediate Holding Inc., which was then contributed as equity to the Company.

Dividends

On February 22, 2018, the Board of Directors of Ivy Holdings, Inc. (the “Board”) approved special cash in the amount of approximately $33,000,000 in bonus payments were made (“the Bonuses”) to Option Holders in connection with the dividend provided that any Bonus with respect to an unvested portion of an option shall be payable upon the date such unvested portion becomes vested and exercisable, subject to the Optionee’s continued employment with Prospect through such date. At September 30, 2019 and 2018, approximately $2,300,000 was accrued for bonuses in connection with this. To reflect the Dividend and pursuant to the terms of the Option Plan, the Board further resolved to equitably adjust the Options by reducing the per-share exercise price of the Options to an amount determined with reference to the Bonus amount payable by Prospect Medical with respect to such Option (the “Adjusted Exercise Price”).

The Company distributed approximately $456,930,000 in connection with the issuance of "New Senior Secured Credit Facilities" during the year ended September 30, 2018, which was recorded against retained earnings, and was ultimately paid to the common stockholders of Ivy Holdings, Inc. (see Note 9).

The Company distributed approximately $44,407,000 during the year ended September 30, 2019, which was recorded against accumulated deficit.

12. Retirement Benefits

The Company sponsors various employee non-contributory, defined benefit pension plans covering certain full-time employees of Crozer, ECHN and Prospect Waterbury, Inc. ("Waterbury").

In connection with the acquisition of Crozer, $100 million of the purchase price was put into an escrow and subsequently used by the Company, as the new sponsor of the Crozer pension plan ("DB Plan") pursuant to IRS rules and regulations, to fund in part the underfunded plan liability then outstanding. Additionally, within five years after acquisition and subject to applicable filing and authorization by the applicable government agency or entity, the Company will adopt a plan amendment to terminate the plan effective within such five year period and will liquidate, fully fund and satisfy, and pay all benefits owed to participants and beneficiaries of the plan by providing lump sum distributions to participants, purchasing annuities for participants who do not elect a lump sum distribution.

Also, in connection with the Crozer acquisition, the plan was frozen with all benefit accruals ceased as of July 1, 2016. With respect to each Represented Employee who is a member of the Laborers' International Union of North America, the Monthly Compensation (as defined), the Credited Service (as defined), the Eligibility Service (as defined) and the accrued benefit was frozen and determined as of July 1, 2016. No benefits accrue since that date. Additionally, the plan was amended to provide that for purposes of determining Vesting Service (as defined) for employees who were employed with the Company before July 1, 2016, years of service shall include all periods of employment completed on and after July 1, 2016, subject to the Break in Service rules (as defined).

On September 3, 2016, the DB Plan was further amended to provide certain Qualifying Participants (as defined) the right to make a Special Benefit Election (as defined) during "2016 Lump Sum Option Window" period from October 15, 2016 through November 30, 2016 to receive or commence receiving his or her vested Accrued Benefit as of December 1, 2016 in accordance with procedures adopted by the Committee.

In conjunction with the acquisition the Company also became the sponsor and assumed CKHS postretirement benefit program (the "OPEB Plan") which is an unfunded medical care and life insurance benefit program, and a supplemental executive retirement plan (the "SERP Plan") which is an unfunded retirement plan that covers a group of current and former executives. These plans were frozen with all benefit accruals ceased as of July 1, 2016. No benefits will accrue since that date. With respect to each Represented Employee who is a member of the Laborers' International Union of North America, benefits will continue to accrue until a settlement of an ongoing union contract negotiation is reached.

ECHN has a defined benefit pension plan that covered substantially all of its employees. The benefits were based upon years of service and compensation for the five highest years during the employee's last 10 years of service. Effective December 31, 2013, ECHN froze the defined-benefit for all remaining participants. During September 2013, the Board passed a resolution to freeze all benefits related to the

Defined benefit pension plan. On December 31, 2008, ECHN implemented a soft freeze on the defined benefit pension plan. All qualified employees were eligible to enter into the defined contribution plan, ECHN contributed 3% of eligible employees' salaries. This contribution was non-guaranteed for all employees, except certain union workers covered under a collective bargaining agreement.

ECHN also sponsors a postretirement benefit plan that provides health care benefits to those employees who retired. The criteria to receive this benefit is to be vested in the pension plan, attain age 55 or older and start collecting under the defined benefit plan described above once retired. The retiree must be enrolled into the medical plan on the date of retirement to be eligible for the continuation. Full-time registered nurse retirees from ECHN's Manchester facility (retired prior to October 1, 2005 and were eligible per the collective bargaining agreement) were grandfathered and required to pay at least 50% of the total cost of the medical and dental coverage they elect for themselves under the plan.

Waterbury has a noncontributory defined benefit cash balance plan. It is Waterbury's policy to make contributions to the plan sufficient to meet the minimum funding requirements of applicable laws and regulations. The plan was frozen to non-union participants effective June 30, 2015. Participants who are part of the Connecticut Healthcare Associates Technical Unit remain active in the plan. Non-union employees no longer accrue additional employer contribution credits in the plan. These participants will continue to receive interest credits based on their account balances in accordance with the terms of the plan. They will be entitled to their account balance (the retirement benefit they have earned up to June 30, 2015) plus applicable interest credits after the Plan were frozen.

The activity of the pension plans for the years ended September 30, 2019 and 2018 is as follows (in thousands):

September 30,		***2019***		*2018*
Changes in benefit obligations				
Projected benefit obligations, beginning of period	$	**660,176**	$	864,293
Service cost		**181**		194
Interest cost		**28,432**		27,695
Plan participant contributions		**918**		461
Actuarial loss		**115,016**		(48,654)
Benefits paid		**(20,482)**		(134,185)
Lump sum benefits paid and annuity purchase		**(15,606)**		(49,628)
Plan changes		**(21)**		-
Projected benefit obligation, end of year	$	**768,614**	$	660,176
Changes in plan assets				
Fair value of plan assets, beginning of year	$	**400,468**	$	556,590
Actual return on plan assets		**80,668**		(14,437)
Contributions by plan sponsor		**15,939**		41,667
Plan participant contributions		**327**		461
Benefits paid		**(21,108)**		(134,185)
Lump sum benefits paid and annuity purchase		**(15,606)**		(49,628)
Fair value of plan assets, end of year	$	**460,688**	$	400,468
Funded status of the plan, end of year	$	**(307,926)**	$	(259,708)
Accumulated benefit obligation, end of year	$	**(307,926)**	$	(259,708)

The funded status of the pension plans as of September 30, 2019 and 2018 is as follows (in thousands), split between the pension plans and the post retirement plans:

	2019 Pensions	2019 OPEBs	2019 Total	2018 Pensions	2018 OPEBs	2018 Total
Current liability	$ -	$ 500	$ 500	$ -	$ 600	$ 600
Non-current liability	302,372	5,054	307,426	254,121	4,987	259,108
	$ 302,372	$ 5,554	$ 307,926	$ 254,121	$ 5,587	$ 259,708

The components of net periodic benefit cost for the years ended September 30, 2019 and 2018 are as follows (in thousands):

September 30,	2019	2018
Components of net periodic benefit cost:		
Service cost	$ 181	$ 194
Interest cost	28,432	27,695
Expected return on plan assets	(11,154)	(16,045)
Effect of settlement	-	1,457
Amortization of prior service credit	(48)	(48)
Total net periodic benefit cost	$ 17,411	$ 13,253
Other change in benefit obligations recognized in accumulated other comprehensive income:		
(Gain) Loss due to assumption change	$ 111,382	$ (64,429)
Loss due to participant experience	4,849	14,118
Amortization of net loss	63	-
Asset return (gain) loss	(70,275)	30,483
Prior service cost	28	-
Total recognized in other comprehensive loss (income) and accumulated other comprehensive loss (income)	$ 46,047	$ (19,828)

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The assumptions used in determining the actuarial present value of the projected benefit obligations for pension plans as of September 30, 2019 and 2018 and for the years ended September 30, 2019 and 2018 are as follows:

	2019	2018
Weighted average assumptions used to determine benefit obligations at end of period		
Discount rate	**2.92-3.31%**	3.23-4.48 %
Rate of compensation increase	**0.00-2.00%**	0.00-2.00 %
Weighted average assumptions used to determine net periodic benefit cost for the period ended		
Discount rate	**4.24-4.48%**	3.49-4.41 %
Rate of compensation increase	**0.00-2.00%**	0.00-2.00 %
Expected return on the plan assets	**0.00-4.50%**	0.00-4.50 %

Assumed health care cost trend rates for the next period used to measure the expected cost of benefits covered by the plan are as follows:

	2019	2018
Health care trend rate assumed for next year	**6.75%**	7.00%
Rate to which the cost trend is assumed to decline (the ultimate rate)	**4.50%**	4.50%
Year that the rate reaches the ultimate trend rate	**2027**	2026

Assumed health care cost trend rates have a significant effect on amounts reported for other postretirement benefit programs. A one-percentage-point change in assumed health care cost trends would have the following effects (in thousands):

	1% Increase	1% Decrease
Effect on other postretirement benefit obligations	$95	$87
Effect on total of service and interest cost components	$3	$3

The asset allocation percentage by major asset class for the plans and the target allocation for 2019 follows:

	Target	2019
Asset class:		
Cash and cash equivalents	0% - 20%	1 %
Fixed income	10% - 100%	95 %
Domestic equity	0% - 100%	
International equity	0% - 40%	
Real estate	0% - 30%	
Alternative investments and hedge funds	0% - 30%	4 %
		100 %

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The investment objectives of the plans are to invest consistently with the fiduciary standards of ERISA, to provide for the funding and anticipated withdrawals on an ongoing basis, conserve and enhance the capital value of the plans in real terms while maintaining a moderate risk profile, to minimize principal fluctuations over the investment cycle, and achieve a long-term level of return commensurate with contemporary economic conditions. The expected long-term rate of return with respect to the plans is based on an aggregate of expected capital market returns within each asset category.

The following tables set forth the assets in the plans measured at fair value, by input level (in thousands):

September 30, 2019	Level 1	Level 2	Level 3	Net asset value	Total
Fixed income securities:					
Short-Term Duration	$ -	$ 36,534	$ -	$ -	$ 36,534
Extended Duration	-	172,610	-	-	172,610
Interim Duration	-	48,328	-	-	48,328
Long-Term Duration	-	181,570	-	-	181,570
Real estate	-	-	1,056	-	1,056
Alternative investments	-	-	17,809	-	17,809
Cash and cash equivalents	-	-	-	2,781	2,781
Total	$ -	$ 439,042	$ 18,865	$ 2,781	$ 460,688

September 30, 2018	Level 1	Level 2	Level 3	Net asset value	Total
Fixed income securities:					
Short-Term Duration	$ -	$ 35,100	$ -	$ -	$ 35,100
Extended Duration	-	125,562	-	-	125,562
Interim Duration	-	41,193	-	-	41,193
Long-Term Duration	-	174,162	-	-	174,162
Real estate	-	-	2,962	-	2,962
Alternative investments	-	-	18,593	-	18,593
Cash and cash equivalents	-	-	-	2,896	2,896
Total	$ -	$ 376,017	$ 21,555	$ 2,896	$ 400,468

Pension plan assets classified as Level 3 in the fair value hierarchy represent investments in which the trustee has used significant unobservable inputs in the valuation model. The hedge funds consist of equity/long/short funds and multi-strategy funds in which fair values have been estimated using the net asset value per share of the investment. The alternative investments primarily consist of investments in limited partnerships that invest in the Public-Private Investment Program which fair values have been estimated using the net asset value per share of the investment.

On an annual basis, the Company assesses the valuation hierarchy for pension assets recorded at fair value. From time to time, assets will be transferred within the fair value hierarchy as a result of changes in, among other things, inputs used, liquidity, or valuation methodologies. During the years ended September 30, 2019 and 2018, there were no transfers in classification within the fair value hierarchy.

The following table is a rollforward of the plans' assets classified within Level 3 of the fair value hierarchy (in thousands):

September 30,	**2019**	2018
Balance, beginning of year	**$ 21,555**	$ 23,742
Actual return on plan assets:		
Realized loss	**-**	-
Unrealized (loss) gain	**(2,690)**	(2,187)
Purchases	**-**	-
Sales	**-**	-
Balance, end of year	**$ 18,865**	$ 21,555

The expected long-term future benefit payments to retirees with respect to the plans and are as follows (in thousands):

2020	$ 44,970
2021	40,450
2022	41,940
2023	42,760
2024	43,750
2025 - 2029	216,990
	$ 430,860

Waterbury participates in multi-employer pension plans that cover substantially all union employees. Contributions to the plans are based upon a percentage of each participant's total salary. The risks of participating in these multi-employer plans are different from single employer plans in the following aspects:

- Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of another participating employer.
- If a participating employer stops contributing to the plan, the unfunded obligation of the plan may be borne by the remaining participating employers.
- If Waterbury chose to stop participating in the multi-employer plans, Waterbury may be required to pay those plans an amount based on the underfunded status of the plans, referred to as a withdrawal liability.

The following table presents Waterbury's participation in these plans as of and for the years ended September 30, 2019 and 2018.

Pension Trust Fund	EIN / Pension Plan	Pension Protection Act ("PPA") Certified Zone Status *(1)*		FIP / RP Status Pending / Implemented *(2)*	Contributions		Surcharge Imposed	Exp. Date of CBA
		2019	2018		2019	2018		
Connecticut Health Care Associates Pension Fund	06-1313462	**Red**	Red	Implemented	**$2,122,000**	$2,140,000	No	7/1/22
New England Health Care Employees Pension Fund	22-3071963	**Green**	Green	NA	**754,000**	821,000	No	3/15/21
Total contributions					**$2,876,000**	$2,961,000		

(1) The most recent PPA zone status available in 2019 is for the plan's year-ending during 2018. The zone status is based on information received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the orange zone are less than 80 percent funded and have an accumulated funding deficiency in the current year or projected in the next six years, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded.

(2) The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented. As it relates to the Connecticut Health Care Associates ("CHCA") Pension Plan, the trustees adopted a Rehabilitation Plan on May 7, 2018. The Rehabilitation Period, as defined, commenced on January 1, 2019 and ends on December 31, 2028. The trustees updated the Rehabilitation Plan on December 12, 2019 which reflects various reductions to plan benefits effective January 1, 2020.

During the years ended September 30, 2019 and 2018, Waterbury's contributions to the CHCA Pension Plan and the New England Health Care Employees Pension Plan represented 98.1% and 2.4% and 98.2% and 2.6% of the total contributions made to the plans by all participating employers, respectively.

Governmental regulations impose certain requirements relative to union-sponsored pension plans. In the event of plan termination or employer withdrawal, an employer may be liable for a portion of the plan's unfunded vested benefits. As of September 30, 2019, Waterbury has not recorded any liabilities for future withdrawal obligations related to the multi-employer plans.

Defined contribution plans

The Company previously sponsored five defined contribution plans covering substantially all employees who meet certain eligibility requirements. Effective May 1, 2018, the plans covering employees at ECHN, Waterbury and Crozer were merged into the plan covering employees at CharterCARE, and the two remaining plans were renamed and segregated between union and non-union employees. Under these

plans, employees can contribute up to 50% of their compensation up to the IRS deferred annual maximum. There is currently no company match offered under the plans, except at certain facilities in Rhode Island and Pennsylvania, for which the expense for the employer match was $18,863,000 and $19,723,000 for the years ended September 30, 2019 and 2018, respectively.

13. Commitments and Contingencies

Leases

The Company leases various office facilities and equipment from third parties under non-cancelable operating and capital lease arrangements expiring at various dates through 2034. Certain operating leases contain rent escalation clauses and renewal options, which have been factored into determining rent expense on a straight-line basis over the lease terms. Capital leases bear interest at rates ranging from 2.5% to 41.0% per annum.

The future minimum annual lease payments required under leases in effect at September 30, 2019, are as follows (in thousands):

For the Years ending September 30,	Capital Leases	Operating Leases	MPT Liability*
2020	$ 12,661	$ 22,455	$ 103,935
2021	9,157	18,685	106,273
2022	4,903	16,987	109,461
2023	4,018	14,195	112,745
2024	2,889	12,887	116,128
Thereafter	19,855	56,273	1,358,111
Total minimum lease payments	53,483	$ 141,482	1,906,653
Less: amounts representing interest	(12,873)		(572,644)
Add: amounts representing land	-		47,176
	40,610		1,381,185
Less: current portion	(10,238)		(43,145)
	$ 30,372		$ 1,338,040

* *Excludes debt related to the Foothill and TRS Notes entered into in fiscal 2019 with MPT (see Note 10).*

Rent expense related to operating leases for the years ended September 30, 2019 and 2018 was approximately $44,959,000 and $46,124,000, respectively. Sublease rental income was not material to the consolidated financial statements for the years ended September 30, 2019 and 2018.

Litigation

The Company is subject to a variety of claims and suits that arise from time to time in the ordinary course of its business, acquisitions, or other transactions. While the Company's management currently believes that resolving all of these matters, individually or in the aggregate, will not have a material adverse impact on the Company's consolidated financial position or results of operations, the litigation

and other claims that the Company faces are subject to inherent uncertainties and management's view of these matters may change in the future. Should an unfavorable final outcome occur, there exists the possibility of a material adverse impact on the Company's consolidated financial position, results of operations and cash flows for the period in which the effect becomes probable and reasonably estimable.

Seismic Standards

The Company's California Hospitals (with the exception of Bellflower, which currently only provides psychiatric services) are required to comply with laws that regulate the seismic performance of all aspects of hospital facilities in California and imposes near-term and long-term compliance deadlines for seismic safety assessment, submission of corrective plans, and retrofitting or replacement of medical facilities to comply with current seismic standards. These laws and regulations require hospitals to meet seismic performance standards to ensure that they are capable of providing medical services to the public after an earthquake.

The Company was required to conduct engineering studies at its hospitals to determine whether and to what extent modifications to the hospital facilities will be required. Two buildings at Southern California Hospital at Culver City ("SCH Culver City") and one building at Los Angeles Community Hospital ("LACH") do not currently meet the applicable seismic requirements. The three buildings are currently classified at Structural Performance Category 1 ("SPC-1") and, subject to possible deadline extensions discussed below, they must be upgraded to at least SPC-2 by January 1, 2020. That deadline date was set pursuant to an extension granted upon the Company's application submitted in accordance with California Senate Bill 90 (SB 90) and approved by the Office of Statewide Health Planning and Development ("OSHPD").

OSHPD has a voluntary program to re-evaluate the seismic risk of hospital buildings classified as SPC-1. These buildings are considered hazardous and at high risk of collapse in the event of an earthquake and they were required to be retrofitted, replaced or removed from providing acute care services by the applicable deadline. OSHPD is using Hazards U.S. ("HAZUS"), a state-of-the-art methodology, to reassess the seismic risk of SPC-1 buildings. Once the SPC-1 buildings have been seismically upgraded to SPC-2, they are no longer considered a significant risk to occupants, but they may not be repairable or functional after an earthquake. Participation in the HAZUS program is optional for hospital owners wishing to have their SPC-1 buildings evaluated.

Applications for HAZUS evaluation of seismic risk were submitted for all five of the Company's California acute care facilities: Southern California Hospital at Hollywood ("SCH Hollywood"); SCH Culver City; Los Angeles Community Hospital; Los Angeles Community Hospital at Norwalk ("LACH Norwalk"); and Foothill. All buildings at these five facilities obtained SPC-2 reclassification using HAZUS, except for the aforementioned three buildings at SCH Culver City and LACH which are still classified as SPC-1. Currently, failure to obtain SPC-2 reclassification for the three remaining SPC-1 buildings by January 1, 2020 would mean that the buildings would not be allowed to provide acute care services starting on that date.

Recently enacted Assembly Bill 2190 (AB-2190) was utilized to request additional extension. OSHPD granted extensions to 06/01/2022, 10/01/2021, and 02/01/2021 for Tower Building (at SCH Culver City), Pavilion Building (at SCH Culver City), and LACH respectively. For all three buildings, the construction must start by April 1, 2020 for AB-2190 extensions to be valid. SCH-Culver City is evaluating pursuing an alternate "replacement" scheme that would relocate the Emergency department into the adjoining One-Story Building which currently classified as an SPC-2 structure. The Tower Building would be retained as a 'non-hospital' OSHPD building useable for lower acuity services such as behavioral health and subacute/skilled nursing services.

The Company will also be required to make significant capital expenditures in the future to comply with 2030 seismic standards (i.e., upgrade to SPC-4D and NPC-4D/5) for any buildings that will be utilized for hospital facilities beyond January 1, 2030. Such modifications to the hospital facilities could potentially result in environmental remediation liabilities which may be material to the Company.

These requirements can result in significant operational changes and capital outlays. Management is continuing to assess its options and the methods of financing the required retrofits. Based on management's evaluation, the costs of renovation needed to comply with the California seismic safety standards for its acute-care facilities, including asbestos abatement, are not estimable at this time.

Legislation and HIPAA

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

The Company believes that it is in compliance with fraud and abuse regulations as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

The Health Insurance Portability and Accountability Act ("HIPAA") assures health insurance portability, reduces healthcare fraud and abuse, guarantees security and privacy of health information, and enforces standards for health information. The Health Information Technology for Economic and Clinical Health Act ("HITECH Act") expanded upon HIPAA in a number of ways, including establishing notification requirements for certain breaches of protected health information. In addition to these federal rules, states have also developed their own standards for the privacy and security of health information as well as for reporting certain violations and breaches (for example, California's Confidentiality of Medical Information Act and Lanterman-Petris Short Act) which in some cases are more stringent. Other federal privacy laws may also apply to certain services provided by the Company, including 42 C.F.R. Part 2, which addresses the confidentiality of substance use disorder records. The Company may be subject to significant fines and penalties if found not to be compliant with these state or federal provisions.

Affordable Care Act

The Patient Protection and Affordable Care Act ("PPACA") has made significant changes to the United States health care system. The legislation impacted multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Under this legislation, 33 states have expanded their Medicaid programs to cover previously uninsured childless adults, and four additional states voted in 2018 to expand Medicaid or to elect a governor that pledged to expand Medicaid. In addition, many uninsured individuals have had the opportunity to purchase health insurance via state-based marketplaces, state-based marketplaces using a federal platform, state-partnership marketplaces or the federally-facilitated marketplace. PPACA also implemented a number of health insurance market reforms, such as allowing children to remain on their parents' health insurance until age 26 or prohibiting certain plans from denying coverage based on pre-existing conditions. Nationally, these reforms have reduced the number of uninsured individuals.

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It is unclear what changes may be made to PPACA with the divided Congress, current presidential administration, and pending litigation over the validity of PPACA. The Administration has promulgated rules to broaden the availability of coverage options that do not comply with the full range of PPACA requirements for individual market coverage, namely Association Health Plans and Short-Term Limited-Duration Insurance. The Administration has also provided additional guidance on state PPACA waivers. These executive actions have been or may be challenged in court. In addition, the Tax Cuts and Jobs Act ("TCJA"), passed in December 2017, eliminates the individual mandate penalty under PPACA, effective January 1, 2019. The individual mandate penalty was included in PPACA to address concerns that other market reforms expanding access to coverage might produce adverse selection and higher premiums. The extent to which the repeal of the individual mandate penalty will impact the uninsured rate and future premiums are unclear at this juncture. On December 14, 2018, the United States District Court for the Northern District of Texas ruled that the individual mandate without the penalty is unconstitutional and that PPACA is therefore invalid in its entirety. Litigation on this issue is ongoing, with a decision pending from a panel of the United States Court of Appeals for the Fifth Circuit following oral arguments in July 2019. This litigation along with any future legislative changes to PPACA or other federal and state legislation could have a material impact on the operations of the Company. The Company is continuing to monitor the legislative environment and developments in pending litigation for risks and uncertainties.

Collective Bargaining Agreements

As of September 30, 2019, the Company had approximately 17,800 employees, of whom approximately 5,500 employees or 31% are represented by various labor organizations. Of those, approximately 1,300 employees or 7% of the Company's employees are employed under union contracts that have expired or will expire before September 30, 2020.

Tangible Net Equity ("TNE") Requirement

The Company's affiliated California physician organizations and licensed healthcare service plans may be subject to one or more of the following requirements: minimum working capital, Tangible Net Equity, cash-to-claims ratio and claims payment requirements as prescribed by the California Department of Managed Health Care ("DMHC"). TNE is defined as net assets, less intangibles and amounts due from affiliates, plus subordinated obligations. As of September 30, 2019, the Company's affiliated California physician organizations were in compliance with these regulatory requirements.

Employee Health Plans

The Company offers self-insured EPO/HMO and PPO plans to all eligible employees.

Employee health benefits are administered by a third party claims administrator, based on plan coverage and eligibility guidelines determined by the Company, as well as by collective bargaining agreements (as reflected above). Prior to January 1, 2018, commercial insurance policies covered per occurrence losses. Effective January 1, 2018, all locations were covered by insurance policies with CHIC for per occurrence losses in excess of $350,000, except for Crozer for which the limit is $750,000. CHIC maintains reinsurance coverage above $500,000 for all locations except for Crozer, for which the limit is $750,000. An actuarially and internally-estimated liability of approximately $12,808,000 and $16,566,000 for incurred but not reported claims has been included in accrued salaries, wages, and benefits as of September 30, 2019 and 2018, respectively.

Provider Contracts

Many of the Company's payer and provider contracts are complex in nature and may be subject to differing interpretations regarding amounts due for the provision of medical services. Such differing interpretations may not come to light until a substantial period of time has passed following contract implementation. Liabilities for claims disputes are recorded when the loss is probable and can be estimated. Any adjustments to reserves are reflected in current operations.

14. Accrued Medical Claims and Other Healthcare Costs Payable

The following table presents the roll-forward of incurred but not reported ("IBNR") claims reserves (Medical Group segment, Global Risk Management segment, and full risk contracts) as of and for each of the years ended September 30, 2019 and 2018 (in thousands):

September 30,	**2019**	2018
IBNR as of beginning of year	**$ 62,887**	$ 53,510
Claim expenses incurred during the year:		
Related to current year	**296,817**	301,598
Related to prior year	**4,523**	8,667
Total incurred	**301,340**	310,265
Claims paid during the year:		
Related to current year	**(229,417)**	(246,369)
Related to prior year	**(62,302)**	(54,519)
Total paid	**(291,719)**	(300,888)
IBNR as of end of year	**$ 72,508**	$ 62,887

Following is a table showing the details of the Medical Group and Global Risk Management segments cost of revenues per the consolidated statements of operations (in thousands):

Years Ended September 30,	**2019**	2018
Capitation expense	**$ 98,254**	$ 96,027
Fee-for-service claims expense	**167,702**	171,443
Other physician compensation	**24,561**	15,097
Other cost of revenues	**2,558**	5,239
Total cost of revenues	**$ 293,075**	$ 287,806

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15. Joint Ventures and Unconsolidated Equity Investments

The Company has invested in several joint ventures with unrelated third parties, which are accounted for under the equity method of accounting. As of September 30, 2019 and 2018, CharterCARE owned: 20% of Roger Williams Radiation Therapy and 20% of Southern New England Regional Cancer Center, LLC. ECHN owned: 50% of NRRON, LLC; 50% of Aetna Ambulance Service, Inc.; 50% of Ambulance Service of Manchester, LLC; and 50% of Evergreen Endoscopy Center, LLC. Waterbury owned: 50% of Harold Leever Regional Cancer Center Inc. Crozer owned: 50% of University Technology Park, Inc. and 21.25% of Delaware Valley Sleep Management Company, LLC. Prospect Medical Group, Inc. owned: 50% of AMVI/Prospect Medical Group. These joint ventures under the equity method are included in the other assets in the accompanying consolidated balance sheets as of September 30, 2019 and 2018 are $28,119,000 and $24,627,000, respectively. For the years ended September 30, 2019 and 2018, the Company received $1,828,000 and $1,746,000, respectively, in distributions for equity method investments, and $527,000 and $404,000, respectively, for cost method investments.

Summarized combined unaudited financial information for the Company's joint ventures as of September 30, 2019 and 2018 and for the years then ended is as follows (in thousands):

September 30,	**2019**	2018
Cash	$ **18,976**	$ 17,226
Receivables	**10,096**	8,060
Other current assets	**21,329**	23,654
Total current assets	**50,401**	48,940
Property, improvements and equipment, net	**32,972**	33,757
Goodwill	**7,142**	7,142
Intangible assets	**821**	852
Other long-term assets	**2,904**	3,094
Total assets	**94,240**	93,785
Accounts payable and accrued liabilities	**5,827**	5,563
Other long-term liabilities	**6,116**	5,334
Equity	**82,297**	82,888
Total liabilities and partner's capital	$ **94,240**	$ 93,785

Years ended September 30,	**2019**	2018
Revenues	$ **74,095**	$ 67,554
Net income	$ **12,178**	$ 5,039
PMH's income from equity method investments	$ **5,358**	$ 1,332

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16. Subsequent Events

The Company has evaluated subsequent events through December 20, 2019, the date the Company's consolidated financial statements were available for issuance.

Effective October 2, 2019, Ivy Holdings entered into an Agreement and Plan of Merger ("Merger Agreement") with Chamber, Inc. ("Chamber"), Chamber Merger Sub, Inc. and affiliates of LGP. Chamber is owned by two individuals who hold the largest individual shareholdings in Ivy Holdings. The Merger Agreement contemplates, among other things, (i) the purchase of Ivy Holdings by and merger into by Chamber Merger Sub, Inc. (ii) the buyout of all of the other current stockholders of Ivy Holdings, (iii) the termination of all options that have not previously been exercised. The Merger Agreement is subject to regulatory approval by various state agencies and is expected to close during the year ended September 30, 2020.

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Supplementary Information

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Independent Auditor's Report on Supplementary Information

Our audit of the consolidated financial statements included in the preceding section of this report was conducted for the purpose of forming an opinion on those statements as a whole. The supplementary information presented in the following section of this report is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

BDO USA, LLP

December 20, 2019

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Prospect Medical Holdings, Inc.

Consolidating Balance Sheets
As of September 30, 2019

	Hospital Segment																							
	Alta-California								CCHP			Waterbury		ECHN			Crozer							
	Los Angeles	Norwalk	Van Nuys	Hollywood	Foothill	Bellflower	Culver	Corporate	Roger Williams	Fatima	Non-hospital entities combined	Waterbury	Non-hospital entities combined	Rockville	Manchester	Non-hospital entities	Hospital entities	Non-hospital entities	PHHH	Medical Group Segment	CRC Segment	Corporate Segment	Dis-continued Operations	Eliminations	Total
Assets																								
Current assets																								
Cash and cash equivalents	$ 967	$ (1,302)	$ (196)	$ (236)	$ (1,976)	$ (203)	$ (458)	$ (690)	$ (1,524)	$ (1,809)	$ (89)	$ (992)	$ 10,554	$ 31	$ 1,882	$ 870	$ (9,105)	$ (882)	$ 1,476	$ 46,155	$ 4,790	$ 4,828	$ -	$ -	$ 52,091
Cash held in escrow	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	70,000	-	-	70,000
Restricted cash	-	-	-	-	-	-	8	-	158	13	3	-	-	-	-	-	-	-	-	-	1,303	-	-	-	1,485
Restricted investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	29,540	-	-	29,540
Patient accounts receivable, net of allowance for doubtful accounts	15,958	6,046	2,595	8,639	13,104	1,555	33,109	-	25,290	20,929	3,493	31,701	5,980	7,073	22,678	6,620	85,549	8,822	6,718	728	-	-	-	-	306,587
Due from government payers	6,436	1,451	1,186	951	494	460	3,011	-	2,759	2,772	-	-	-	-	-	-	750	-	-	-	-	-	-	-	20,270
Other receivables, prepaid expenses and other current assets	304,525	100,932	77,851	143,371	(15,324)	36,757	(80,412)	(16,485)	(2,802)	(4,135)	(3,051)	49,140	(69,571)	(19,203)	34,062	(14,535)	111,798	(65,446)	1,303	228,874	(25,406)	(568,290)	-	(85,953)	118,000
Income tax receivable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Inventories	496	411	39	416	1,074	35	3,158	-	3,657	1,996	321	3,314	360	1,336	4,249	42	13,300	9	16	-	-	-	-	-	34,229
Hospital fee program receivable	63,568	-	-	50,526	507	13,034	39,895	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	167,530
Current assets held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	37,277	-	37,277
Total current assets	391,950	107,538	81,475	203,667	(2,121)	51,638	(1,689)	(17,175)	27,538	19,766	677	83,163	(52,677)	(10,763)	62,871	(7,003)	202,292	(57,497)	9,513	275,757	(19,313)	(463,922)	37,277	(85,953)	837,009
Property, improvements and equipment, net	16,587	8,411	7,358	18,425	25,394	20,763	38,646	11,559	35,090	23,979	2,103	49,984	3,403	24,361	56,370	10,427	127,120	46,235	2,131	3,888	2	6,235	-	-	538,471
Deferred income taxes, net	-	-	-	-	-	-	-	-	-	-	-	(11,086)	-	-	-	(5,853)	86,946	(380)	-	14,533	124	(83,461)	-	-	823
Goodwill	-	-	-	-	-	-	24,373	106,539	-	-	-	-	2,492	-	-	535	69,351	70,865	-	28,222	-	-	-	-	302,377
Intangible assets, net	-	-	-	-	-	-	-	3,805	-	-	19	2,296	-	-	-	2,408	-	11,880	-	5,137	-	-	-	-	25,545
Other assets	408	658	62	59	122	4	3,232	38	3,754	615	796	11,977	492	1,404	5,250	10,745	-	1,045	663	72,988	-	596,278	-	(592,568)	118,022
Long term assets held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	44,120	-	44,120
Total assets	$ 408,945	$ 116,607	$ 88,895	$ 222,151	$ 23,395	$ 72,405	$ 64,562	$ 104,766	$ 66,382	$ 44,360	$ 3,595	$ 136,334	$ (46,290)	$ 15,002	$ 124,491	$ 11,259	$ 485,709	$ 72,148	$ 12,307	$ 400,525	$ (19,187)	$ 55,130	$ 81,397	$ (678,521)	$ 1,866,367

The headers above are defined as follows: Alta Hospitals System, LLC ("Alta-California"), Southern California Healthcare System, Inc. (dba "Hollywood," "Van Nuys," and "Culver"), Alta Los Angeles Hospitals, Inc. (dba "Los Angeles," "Norwalk," and "Bellflower"), Alta Newport Hospital, Inc. ("Foothill"), Prospect CharterCARE, LLC ("CCHP" dba "Roger Williams" and "Fatima"), Prospect Waterbury, Inc. ("Waterbury"), Prospect ECHN, Inc. ("ECHN" dba "Rockville" and "Manchester"), Prospect Crozer, LLC ("Crozer"), and Prospect Home Health and Hospice, LLC ("PHHH").

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Prospect Medical Holdings, Inc.

Consolidating Balance Sheets
As of September 30, 2019

	Hospital Segment																							
	Alta-California								CCHP			Waterbury		ECHN			Crozer							
	Los Angeles	Norwalk	Van Nuys	Hollywood	Foothill	Bellflower	Culver	Corporate	Roger Williams	Fatima	Non-hospital entities combined	Waterbury	Non-hospital entities combined	Rockville	Manchester	Non-hospital entities	Hospital entities	Non-hospital entities	PHHH	Medical Group Segment	CRC Segment	Corporate Segment	Dis-continued Operations	Eliminations	Total
Liabilities and Stockholder's (Deficit) Equity																								
Current liabilities:																								
Accrued medical claims and other healthcare costs payable	$ -	$ -	$ -	$ -	$ 18,628	$ -	$ 6,248	$ 9,293	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 32,219	$ 6,120	$ -	$ -	$ -	$ 72,508
Accounts payable and other accrued liabilities	7,882	3,398	801	4,663	6,137	1,313	17,269	12,748	12,617	10,212	7,226	16,350	2,207	1,874	16,062	4,147	54,021	17,765	1,447	23,954	1,244	57,949	-	(17,034)	264,252
Accrued salaries, wages and benefits	5,662	2,330	1,648	2,796	3,536	586	8,698	6,556	7,588	4,642	5,920	3,751	3,152	1,169	6,093	1,781	44,677	24,647	1,743	3,949	1,164	37,909	-	-	179,997
Hospital fee program liability	6,728	-	-	7,014	658	2,556	7,379	-	-	12	-	-	-	-	-	-	-	-	-	-	15	-	-	-	24,362
Due to government payers	279	-	-	738	-	-	709	-	2,497	2,024	378	4,938	-	1,562	6,002	1,111	7,980	-	388	-	-	-	-	-	28,606
Income taxes payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,395	-	-	7,395
Revolving line of credit, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	70,000	-	-	70,000
Current portion of capital leases	26	14	-	15	75	2	144	2	-	38	11	430	7	24	1,388	77	654	543	-	-	-	6,788	-	-	10,238
Current portion of long-term debt	-	-	-	-	-	-	-	50,491	-	-	51	-	-	487	619	711	12	-	157	-	-	103,528	-	(137,073)	18,983
Current portion of MPT liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	43,145	-	-	43,145
Other current liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,904	411	20,934	-	-	25,249
Current liabilities held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	33,939	-	33,939
Total current liabilities	20,577	5,742	2,449	15,226	29,034	4,457	40,447	79,090	22,702	16,928	13,586	25,469	5,366	5,116	30,164	7,827	107,344	42,955	3,735	64,026	8,954	347,648	33,939	(154,107)	778,674
Long-term debt, net of current portion	-	-	-	-	-	-	7,762	(7,762)	-	-	63	-	-	5,765	1,918	7,839	12	-	2,197	-	-	169,573	-	-	187,367
Malpractice reserves	389	1,888	111	135	280	6	5,588	-	3,211	2,895	2,392	3,691	1,238	2,462	5,746	-	7,253	5,693	-	-	-	90,322	-	-	133,300
Capital leases, net of current portion	39	21	-	30	231	-	97	-	-	-	43	-	27	8	1,057	136	5,247	18,118	-	-	-	5,318	-	-	30,372
Asset retirement obligations	-	-	-	-	-	-	-	-	832	2,290	-	1,955	-	132	280	-	113	-	-	-	-	-	-	-	5,602
Other long-term liabilities	-	-	-	-	5	20	-	111	297	-	-	443	-	-	1,162	-	5,011	20,407	-	1,003	-	20,247	-	-	48,706
Pension obligations	-	-	-	-	-	-	-	-	-	-	-	11,635	-	19,019	68,344	-	203,374	-	-	-	-	-	-	-	302,372
MPT Liabilities, net of current portion	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,338,040	-	-	1,338,040
Long term liabilities held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	11,994	-	11,994
Total liabilities	$ 21,005	$ 7,651	$ 2,560	$ 15,391	$ 29,550	$ 4,483	$ 53,894	$ 71,439	$ 27,042	$ 22,113	$ 16,084	$ 43,193	$ 6,631	$ 32,502	$ 108,671	$ 15,802	$ 328,354	$ 87,173	$ 5,932	$ 65,029	$ 8,954	$ 1,971,148	$ 45,933	$ (154,107)	$ 2,836,427
Commitments and contingencies																								
Stockholder's (deficit) equity:																								
Common stock, $0.01 par value; 100 shares authorized, issued and outstanding	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1	$ -	$ -	$ 1
Additional paid-in capital	-	-	-	-	15,000	20,546	15,967	138,968	33,760	28,335	42,428	-	-	1,281	19,276	6,117	100,000	79,635	-	256	2,300	64,274	78,129	(581,511)	64,961
Accumulated other comprehensive (loss) income	-	-	-	-	-	-	-	-	-	-	-	(1,343)	-	(4,840)	(16,915)	-	10,382	-	-	-	-	(10,520)	-	-	(23,236)
(Accumulated deficit) retained earnings	387,940	108,956	86,335	206,760	(21,155)	47,376	(5,299)	(105,641)	5,580	(6,288)	(58,643)	94,484	(55,867)	(13,941)	13,459	(11,113)	46,973	(94,660)	6,375	335,078	(30,441)	(1,969,773)	(42,665)	57,097	(1,019,073)
Total stockholder's (deficit) equity attributable to Prospect Medical Holdings, Inc.	387,940	108,956	86,335	206,760	(6,155)	67,922	10,668	33,327	39,340	22,247	(16,215)	93,141	(55,867)	(17,500)	15,820	(4,996)	157,355	(15,025)	6,375	335,334	(28,141)	(1,916,018)	35,464	(524,414)	(977,347)
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	3,726	-	2,946	-	-	453	-	-	-	162	-	-	-	-	7,287
Total stockholder's (deficit) equity	387,940	108,956	86,335	206,760	(6,155)	67,922	10,668	33,327	39,340	22,247	(12,489)	93,141	(52,921)	(17,500)	15,820	(4,543)	157,355	(15,025)	6,375	335,496	(28,141)	(1,916,018)	35,464	(524,414)	(970,060)
Total liabilities and stockholder's (deficit) equity	$ 408,945	$ 116,607	$ 88,895	$ 222,151	$ 23,395	$ 72,405	$ 64,562	$ 104,766	$ 66,382	$ 44,360	$ 3,595	$ 136,334	$ (46,290)	$ 15,002	$ 124,491	$ 11,259	$ 485,709	$ 72,148	$ 12,307	$ 400,525	$ (19,187)	$ 55,130	$ 81,397	$ (678,521)	$ 1,866,367

The headers above are defined as follows: Alta Hospitals System, LLC ("Alta-California"), Southern California Healthcare System, Inc. (dba "Hollywood," "Van Nuys," and "Culver"), Alta Los Angeles Hospitals, Inc. (dba "Los Angeles," "Norwalk," and "Bellflower"), Alta Newport Hospital, Inc. ("Foothill"), Prospect CharterCARE, LLC ("CCHP" dba "Roger Williams" and "Fatima"), Prospect Waterbury, Inc. ("Waterbury"), Prospect ECHN, Inc. ("ECHN" dba "Rockville" and "Manchester"), Prospect Crozer, LLC ("Crozer"), and Prospect Home Health and Hospice, LLC ("PHHH").

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Prospect Medical Holdings, Inc.

Consolidated Schedule of Operations
For the Year Ended September 30, 2019

	Hospital Segment																							
	Alta-California								CCHP			Waterbury		ECHN			Crozer							
	Los Angeles	Norwalk	Van Nuys	Hollywood	Foothill	Bellflower	Culver	Corporate	Roger Williams	Fatima	Non-hospital entities combined	Waterbury	Non-hospital entities combined	Rockville	Manchester	Non-hospital entities	Hospital entities	Non-hospital entities	PHHH	Medical Group Segment	CRC Segment	Corporate Segment	Dis-continued Operations	Eliminations	Total
Revenues:																								
Net Hospital Segment patient services revenues	$ 128,483	$ 40,426	$ 21,280	$ 88,781	$ 149,967	$ 24,825	$ 226,005	$ 38,343	$ 188,268	$ 148,471	$ 29,520	$ 245,666	$ 47,914	$ 60,379	$ 199,998	$ 36,998	$ 689,334	$ 80,401	$ 42,097	$ -	$ -	$ -	$ -	$ -	$ 2,487,156
Provision for bad debts	(2,839)	(2,288)	(327)	(1,505)	(3,495)	(249)	(11,866)	-	(7,006)	(6,813)	(471)	(12,732)	(1,170)	(4,188)	(12,222)	(1,579)	(23,115)	(5,754)	(687)	-	-	-	-	-	(98,306)
Net Hospital segment patient services revenues less provision for bad debts	125,644	38,138	20,953	87,276	146,472	24,576	214,139	38,343	181,262	141,658	29,049	232,934	46,744	56,191	187,776	35,419	666,219	74,647	41,410	-	-	-	-	-	2,388,850
Other non-patient Hospital revenues	-	-	-	-	-	-	-	-	1,926	1,419	1,195	3,550	8,465	(331)	(860)	2,760	11,116	20,043	94	-	-	-	-	-	49,377
Net Hospital Segment revenues	125,644	38,138	20,953	87,276	146,472	24,576	214,139	38,343	183,188	143,077	30,244	236,484	55,209	55,860	186,916	38,179	677,335	94,690	41,504	-	-	-	-	-	2,438,227
Medical Group revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	361,651	-	-	-	(7,697)	353,954
Global Risk Management revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	280,865	-	-	(231,169)	49,696
Corporate revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,321	-	-	7,321
Total net revenues	125,644	38,138	20,953	87,276	146,472	24,576	214,139	38,343	183,188	143,077	30,244	236,484	55,209	55,860	186,916	38,179	677,335	94,690	41,504	361,651	280,865	7,321	-	(238,866)	2,849,198
Operating Expenses:																									
Hospital operating expenses	64,068	24,356	11,089	48,928	129,575	13,918	160,999	74,200	140,191	104,956	39,531	175,857	73,352	44,253	137,513	61,768	520,777	107,267	34,939	-	-	-	-	(1,157)	1,966,380
Medical Group cost of revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	259,631	-	-	-	-	259,631
Global Risk Management cost of revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	264,142	-	-	(230,698)	33,444
General and administrative	8,339	5,221	4,003	6,434	7,005	3,200	26,435	2,510	33,816	28,493	3,998	23,590	5,896	14,556	35,830	(14,875)	111,562	27,226	2,172	66,789	24,900	81,477	-	(7,011)	501,586
Depreciation and amortization	1,522	614	550	1,427	3,497	1,501	5,318	4,987	7,306	7,212	554	7,963	764	3,115	10,834	917	18,657	4,359	304	4,922	1	5,687	-	-	92,011
Total operating expenses	73,929	30,191	15,642	56,789	140,077	18,619	192,752	81,717	181,313	140,661	44,083	207,410	80,012	61,924	184,177	47,810	650,996	138,852	37,415	331,342	289,043	87,164	-	(238,866)	2,853,052
Operating income from unconsolidated joint ventures	-	-	-	-	-	-	-	-	560	13	-	4,307	-	284	793	15	-	582	-	(665)	-	-	-	-	5,889
Operating income	**51,715**	7,947	5,311	30,487	6,395	5,957	21,387	(43,374)	2,435	2,429	(13,839)	33,381	(24,803)	(5,780)	3,532	(9,616)	26,339	(43,580)	4,089	29,644	(8,178)	(79,843)	-	-	2,035
Other expense (income):																									
Interest expense and amortization of deferred financing costs, net	64	24	13	24	91	7	282	2,454	139	1,047	22	586	36	1,469	4,208	311	11,395	2,688	75	(6,262)	(897)	110,059	-	-	127,835
Loss on early extinguishment of debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	30,052	-	-	30,052
Goodwill impairment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other expense (income), net	(8)	5	-	1	(2)	-	-	6	-	-	(90)	(2,252)	(268)	(63)	529	143	1,741	3,518	76	(478)	-	8,576	-	(8,576)	2,858
Total other expense (income), net	56	29	13	25	89	7	282	2,460	139	1,047	(68)	(1,666)	(232)	1,406	4,737	454	13,136	6,206	151	(6,740)	(897)	148,687	-	(8,576)	160,745
(Loss) income before income taxes	**51,659**	7,918	5,298	30,462	6,306	5,950	21,105	(45,834)	2,296	1,382	(13,771)	35,047	(24,571)	(7,186)	(1,205)	(10,070)	13,203	(49,786)	3,938	36,384	(7,281)	(228,530)	-	8,576	(158,710)
Income tax provision	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	16,455	-	-	16,455
Net (loss) income from continuing operations	**51,659**	7,918	5,298	30,462	6,306	5,950	21,105	(45,834)	2,296	1,382	(13,771)	35,047	(24,571)	(7,186)	(1,205)	(10,070)	13,203	(49,786)	3,938	36,384	(7,281)	(244,985)	-	8,576	(175,165)
Loss from discontinued operations:																									
Loss from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(141,539)	-	(141,539)
Income tax benefit	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	18,234	-	18,234
Loss on discontinued operations, net of taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(123,305)	-	(123,305)
(Loss) income before allocation to non-controlling interests	**51,659**	7,918	5,298	30,462	6,306	5,950	21,105	(45,834)	2,296	1,382	(13,771)	35,047	(24,571)	(7,186)	(1,205)	(10,070)	13,203	(49,786)	3,938	36,384	(7,281)	(244,985)	(123,305)	8,576	(298,470)
Net (loss) income attributable to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(1,513)	-	733	-	-	51	-	-	-	(5)	-	-	-	-	(734)
Net (loss) income attributable to Prospect Medical Holdings, Inc.	**51,659**	7,918	5,298	30,462	6,306	5,950	21,105	(45,834)	2,296	1,382	(12,258)	35,047	(25,304)	(7,186)	(1,205)	(10,121)	13,203	(49,786)	3,938	36,389	(7,281)	(244,985)	(123,305)	8,576	(297,736)
Other comprehensive (expense) income, net of tax:																									
Pension obligation and other post-retirement benefits adjustment (net of tax)	-	-	-	-	-	-	-	-	-	-	-	(2,186)	-	(2,168)	(7,679)	-	(34,014)	-	-	-	-	251	-	-	(45,796)
Debt and equity securities, unrealized gain	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**1**	-	-	-	-	-	-	**1,256**	-	-	**1,257**
Total other comprehensive (loss) income, net of tax	-	-	-	-	-	-	-	-	-	-	-	(2,186)	-	(2,168)	(7,678)	-	(34,014)	-	-	-	-	1,507	-	-	(44,539)
Total comprehensive (loss) income	**$ 51,659**	$ 7,918	$ 5,298	$ 30,462	$ 6,306	$ 5,950	$ 21,105	$ (45,834)	$ 2,296	$ 1,382	$ (12,258)	$ 32,861	$ (25,304)	$ (9,354)	$ (8,883)	$ (10,121)	$ (20,811)	$ (49,786)	$ 3,938	$ 36,389	$ (7,281)	$ (243,478)	$ (123,305)	$ 8,576	$ (342,275)

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PROSPECT MEDICAL HOLDINGS, INC.

CONTACT:
Steve Aleman, Chief Financial Officer
[redacted]

PROSPECT MEDICAL HOLDINGS REPORTS FISCAL 2019 FIRST QUARTER FINANCIAL RESULTS

Q1 FY 2019 Highlights Compared to Q1 FY 2018

- **Revenue increased 4.25% to $777.5 million compared to $745.8 million, excluding out-of-period QAF payments**
- **Consolidated EBITDA was $51.2 million for Q1 [redacted]19.**

  Excluding run-rate and other adjustments, Adju[redacted]ed EBITDA was $44.5 million
- **Patient admissions increased 3.2% to 27,782 f[redacted]m 26,931**
- **Adjusted Patient days increased 2.4% to 285,038 from 278,389**
- **Occupancy rate for staffed beds increased 7.8% to 84.6% from 76.8%**

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Friday, May 17, 2019 8:39:18 AM

Los Angeles, CA - February 19, 2019 - Prospect Medical Holdings, Inc. ("Prospect" or the "Company") today announced financial results for its fiscal 2019 first quarter ended December 31, 2018. The Company will host a conference call on February 22, 2019 at 1:00 pm PST / 4:00 pm EST to discuss these results - details at page 3 of this release.

CONSOLIDATED RESULTS OVERVIEW

Consolidated revenues were $777.5 million for the fiscal quarter ended December 31, 2018. The Hospital Segment reported $664.6 million in revenues while the Medical Group reported $91.7 million in revenues and the Global Risk Management segment reported $10.2 million in revenues. This represents a 4.3% increase in Consolidated Revenue from $745.8 million and a 3.4% increase in Hospital Segment revenue for the fiscal quarter ended December 31, 2018 when out of period QAF is excluded. The Medical Group increased 11.7% from $82.1 million and the Global Risk Management Segment increased 42.1% from $7.2 million for the fiscal quarter ended December 31, 2018.

Consolidated EBITDA was $51.2 million for the fiscal quarter ended December 31, 2018. Excluding run-rate adjustments, Adjusted EBITDA was $44.5 million. TTM Consolidated EBITDA totaled $162.0 million. TTM Consolidated EBITDA includes approximately $31.4 million of out-of-period adjustments. When these out-of-period adjustments are excluded, the normalized TTM Consolidated EBITDA at December 31, 2018 is $193.4 million. Additionally, for comparative purposes to prior quarters, the December 31, 2018 TTM Consolidated EBITDA no longer includes $65.3 million of out-of-period QAF related to the period January 2017-September 2017 that rolled off the calculation when Q1 FY18 was replaced by Q1 FY19.

Impacting the comparative quarterly performance were strong hospital volume metrics and growth in the number of lives owned or managed in the Medical Group and Global Risk segments.

- Hospital Segment
  - Admissions: 3.2% increase compared to Q1 2018
  - Adj Admission: 4.6% increase compared to Q1 2018
  - Patient days: 4.1% increase compared to Q1 2018
  - Adj Patient Days: 2.4% increase compared to Q1 2018

- Medical Group and Global Risk Segment
  - Lives owned or managed: 2.9% increase to 474,000 from the first quarter of fiscal 2018

This document should be read in conjunction with the audited consolidated financial statements for the year ended September 30, 2018.

USE OF NON-GAAP MEASURES

This document contains "non-GAAP financial measures" that is, financial measures that either exclude or include amounts that are not excluded or included in the most directly comparable measure calculated and presented in accordance with generally accepted accounting principles. Specifically, we make use of the non-GAAP measures "EBITDA," "Adjusted EBITDA" and "Consolidated EBITDA." Consolidated EBITDA is defined within our Amended and Restated Term Loan Agreement and our Amended and Restated ABL Agreements which were entered into on February 22, 2018 and are used as a basis for calculating covenants under those agreements. We also make use of ratios based on these non-GAAP measures.

We define EBITDA as net income (loss) plus (i) provision for income taxes, (ii) interest expense, net (including amortization of deferred financing costs), (iii) depreciation, (iv) amortization, and (v) other non-cash charges. In addition, we define Adjusted EBITDA as EBITDA as further adjusted to eliminate the impact of certain items that we do not consider indicative of our ongoing operating performance, including transaction costs, certain legal expenses, stock-based compensation, sponsor structuring and management fees, go-private transaction costs, purchase price adjustments and pre-acquisition items, and other unusual and non-recurring charges. Consolidated EBITDA is defined as Adjusted EBITDA, further adjusted for Run Rate identifiable cost savings and synergies, and to remove activity related to our Unrestricted Subsidiaries, for the time period for which such subsidiaries were classified as Unrestricted Subsidiaries. Management believes that EBITDA, Adjusted EBITDA and Consolidated EBITDA are useful tools for investors and other users of our financial statements in assessing our ability to service and/or incur indebtedness, maintain current operating levels of capital assets and acquire additional operations and businesses. Management believes that the most directly comparable GAAP measure is net income (loss). A reconciliation of EBITDA, Adjusted EBITDA and Consolidated EBITDA to our net income (loss) under generally accepted accounting principles, or GAAP, for certain periods presented in our financial statements is included in this document.

Some of these limitations are:

- They do not reflect cash outlays for capital expenditures or future contractual commitments;
- They do not reflect changes in, or cash requirements for, working capital;
- They do not reflect interest expense, or the cash requirement necessary to service interest, or principal payments, on indebtedness;
- They do not reflect income tax expense or the cash necessary to pay income taxes;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA, Adjusted EBITDA and Consolidated EBITDA do not reflect cash requirements for such replacements; and
- Other companies, including other companies in our industry, may not use such measures or may calculate the measures differently than as presented in this earnings release, limiting their usefulness as a comparative measure.

Because of these limitations, EBITDA, Adjusted EBITDA, Consolidated EBITDA or any related ratio using such measures should be considered only as a supplemental measure in addition to, and not in lieu of, our GAAP income

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and cash flow statements, and not as a measure of discretionary cash available to invest in business growth or reduce indebtedness.

RECLASSIFICATIONS

Certain reclassifications have been made to the prior year consolidated financial statements to conform to current year presentation.

CONFERENCE CALL

Management will host a conference call on Friday, February 22, 2019 at 1:00 pm PST / 4:00 pm EST to discuss these results. Interested parties may participate in the call by dialing [Redacted] (Domestic) or [Redacted] (International) approximately 10 minutes before the call is scheduled to begin, and ask to be connected to the Prospect Medical Holdings conference call. The conference call will be broadcast live over the internet at the following link: [Redacted]/ and use meeting number [Redacted]. To listen to the live call on the internet, go to the website at least 15 minutes early to register, and download and install any necessary audio software. A replay of the call will be available for 30 [Redacted]s at this link, or by dialing [Redacted] (Toll-Free) or [Redacted] (Toll) ([Redacted]

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PROSPECT MEDICAL HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par value and share amounts)

	December 31, 2018 (unaudited)	September 30, 2018
ASSETS		
Current assets		
Cash and cash equivalents	$ -	$ 7,694
Restricted cash	1,598	1,742
Restricted investments	25,077	23,779
Patient accounts receivable, net of allowance for doubtful accounts of $180,737 and $193,439	370,601	350,789
Due from government payers	34,275	32,833
Other receivables, prepaid expenses and other current assets	135,667	128,378
Income taxes receivable, net	14,616	2,737
Inventories	38,694	37,461
Hospital fee program receivable	235,763	211,454
Total current assets	856,291	796,867
Property, improvements and equipment, net	642,226	623,963
Deferred income taxes, net	1,694	1,975
Goodwill	305,126	305,126
Intangible assets, net	31,875	33,619
Other assets	57,061	57,083
Total assets	$ 1,894,273	$ 1,818,633
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities		
Accrued medical claims and other healthcare costs payable	$ 64,538	$ 62,933
Outstanding checks in excess of bank balance	21,824	-
Accounts payable and other accrued liabilities	362,933	328,431
Accrued salaries, wages and benefits	170,340	177,554
Hospital fee program liability	65,685	65,967
Due to government payors	43,699	30,615
Revolving line of credit	230,022	207,645
Current portion of capital leases	13,748	14,348
Current portion of long-term debt	18,847	18,429
Other current liabilities	17,410	27,831
Total current liabilities	1,009,046	933,753
Long-term debt, net of current portion	1,107,414	1,099,441
Malpractice reserves	86,896	77,280
Capital leases, net of current portion	34,642	35,853
Asset retirement obligations	6,196	6,179
Other long-term liabilities	38,201	34,355
Pension obligation	257,182	254,121
Total liabilities	2,539,577	2,440,982
Stockholder's deficit		
Common stock, $0.01 par value; 100 shares authorized, issued and outstanding	1	1
Additional paid-in capital	24,155	23,961
Accumulated other comprehensive income	20,486	21,303
Accumulated deficit	(698,950)	(676,930)
Total stockholder's deficit attributable to Prospect Medical Holdings, Inc.	(654,308)	(631,665)
Non-controlling interests	9,004	9,316
Total stockholder's deficit	(645,304)	(622,349)
Total liabilities and stockholder's deficit	$ 1,894,273	$ 1,818,633

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PROSPECT MEDICAL HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands)

	Three Months Ended December 31, (Unaudited)	
	2018	2017
Revenues:		
Net Hospital Services revenues	$ 664,606	$ 769,079
Medical Group revenues	91,653	82,088
Net Global Risk Management revenues	10,204	7,180
Other revenues	11,041	13,902
Total net revenues	777,505	872,249
Operating expenses:		
Hospital services operating expenses	546,015	566,061
Medical Group cost of revenues	61,168	61,601
Global Risk Management cost of revenues	7,073	5,345
General and administrative	138,703	114,574
Depreciation and amortization	27,751	22,460
Total operating expenses	780,710	770,040
Operating income from unconsolidated joint ventures	682	584
Operating (loss) income	(2,523)	102,793
Other (income) / expense:		
Interest expense and amortization of deferred financing costs, net	33,221	19,312
Other (income) expense, net	(1,778)	518
Total other expense, net	31,444	19,830
Income / (Loss) before income taxes	(33,967)	82,963
Income tax (benefit) provision	(11,858)	25,425
Net (loss) income before allocation to non-controlling interests	(22,109)	57,538
Net income attributable to non-controlling interests	(88)	(168)
Net (loss) income attributable to Prospect Medical Holdings, Inc.	(22,020)	57,706
Other comprehensive income (loss):		
Unrealized (loss) gain on Available for Sale Investments	(817)	264
Pension Plan Gain	-	60,953
Total other comprehensive (loss) income	(817)	61,216
Total comprehensive (loss) income	$ (22,838)	$ 118,922

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PROSPECT MEDICAL HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)

	Three Months Ended December 31,	
	2018	2017
Operating activities		
Net (loss) income before allocation to non-controlling interests	$ (22,109)	$ 57,433
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	27,751	22,201
Amortization of deferred financing costs, net	843	502
Amortization of original issue discount and premium, net	952	398
Provision for bad debts	28,192	27,933
Pension obligation net periodic benefit cost	4,245	4,198
Deferred income taxes, net	280	200
Stock-based compensation	194	192
Undistributed earnings from equity method investments	(682)	593
Loss (Gain) on disposal of assets	934	(14)
Change in operating assets and liabilities, net of business combinations:		-
Patient accounts receivable	(48,003)	(7,154)
Due to/from government payers, net	11,641	2,158
Other receivables, prepaid expenses and other current assets	(17,136)	53,367
Hospital fee program receivable	(24,308)	(126,152)
Hospital fee program liability	(282)	64,098
Inventories	(1,233)	(968)
Income taxes receivable/payable, net	(11,879)	29,333
Deposits and other assets	401	(2,192)
Accrued medical claims and other healthcare costs payable	1,605	475
Accounts payable and other accrued liabilities	11,169	(57,368)
Pension obligation	-	(815)
Net cash (used in) provided by operating activities	(37,426)	68,418
Investing activities		
Purchases of property, improvements and equipment	(14,364)	(21,531)
Distribution received from equity method investees	80	-
Decrease (increase) in restricted investments	(2,115)	(3,320)
Net cash used in investing activities	(16,400)	(24,851)

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PROSPECT MEDICAL HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)
(continued)

	Three Months Ended December 31,	
	2018	2017
Financing activities		
Repayments on Senior Secured Notes	(2,800)	(1,563)
Borrowings on line of credit, net	22,300	(94)
Borrowings on long-term debt	8,405	-
Repayments of long-term debt	(330)	-
Proceeds from financing leases	2,344	-
Repayment of financing leases	(945)	(208)
Repayments of capital leases	(3,626)	(2,911)
Capital contribution	(0)	-
Change in restricted cash	143	25,777
Outstanding checks in excess of bank balance	21,824	-
Insurance premium financing, net	-	(2,659)
Excess contribution to pension plan	(1,183)	-
Net cash provided by financing activities	46,132	18,343
Increase in cash and cash equivalents	(7,694)	61,910
Cash and cash equivalents at beginning of period	7,694	27,109
Cash and cash equivalents at end of period	$ -	$ 89,019

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	Three Months Ended December 31,	
	2018	2017
Supplemental disclosure of cash flow information:		
Interest paid	$ 26,293	$ 13,059
Income taxes (refunded) paid, net	$ -	$ -
Schedule of non-cash investing and financing activities:		
Equipment acquired under capital leases	$ 2,210	$ 900
Insurance premium financed	$ -	$ 9,900
Accrual of Property, improvements and equipment	$ 28,394	$ -

Summary Consolidated Financial Information
(Unaudited, in thousands)

Summary Financial Information for Unrestricted Subsidiary (1) :	Three Months Ended December 31, 2018	2017
Net revenues	$ 61,013	$ 60,387
EBITDA	$ 445	$ 532
Net Income	$ 667	$ 613
Total debt	$ -	$ -
Total assets	$ 12,920	$ 9,668

(1) Prospect Health Plan, Inc. is an Unrestricted Subsidiary as of June 30, 2016 pursuant to the terms of the New Senior Credit Facilities agreements.

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Hospital Services Segment

The following table sets forth the results of operations for our Hospital Services segment for the three months ended December 31, 2018 and 2017. Hospital services expenses do not include allocation of corporate overhead or interest expense - see "Corporate Segment" below. Prior to October 1, 2018, the hospital segment included expenses which we deem to be "true" corporate overhead. Such expenses were previously recorded in the hospital segment but effective October 1, 2018 are now recorded in the corporate segment. This has no impact on the consolidated financial statements. Such amount that was transferred to the corporate segment in Q1 FY19 was $8.0 million.

Effective January 1, 2018, ownership of Connecticut Healthcare Insurance Company, Inc. ("CHIC") was transferred from Prospect ECHN, Inc. to Prospect Medical Holdings, Inc. As such, the results of operations for CHIC for the fiscal period 2018 are included in the Corporate Segment.

(Unaudited, in thousands)	Three Months Ended December 31, 2018	2017
Revenues:		
Net Hospital Services revenues (1):		
Medicare	$ 238,945	$ 207,418
Medicaid	213,050	333,868
Managed care	137,005	160,342
Self pay / other payor	49,501	51,274
Capitation revenue	38,906	38,254
Other	15,392	5,856
Hospital Services revenues	692,799	797,012
Provision for bad debts	(28,192)	(27,933)
Net Hospital Services revenues	664,606	769,079
Other revenues	12,279	13,903
Total Revenues	676,886	782,982
Hospital Services operating expenses:		
Salaries, wages and benefits	348,024	323,818
Supplies	63,976	63,813
Capitation expense	38,037	35,859
Other operating expenses (1)	95,978	142,570
Total Hospital Services operating expenses	546,015	566,061
General and administrative	95,068	89,548
Depreciation and amortization	25,681	21,641
Total non-medical expenses	120,748	111,189
Operating income (loss) from unconsolidated joint ventures	697	633
Operating income	$ 10,819	$ 106,366

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(1) Supplemental Reimbursement Program amounts recognized and related expenses:

(Unaudited, in thousands)	Three Months Ended December 31, 2018	2017 (2)
California Hospital Fee program revenues	$ 40,991	$ 38,633
California Hospital Fee program expenses	(17,926)	(16,834)
Net pre-tax impact	$ 23,065	$ 21,799
Texas Section 1115 Waiver revenues	$ 6,755	$ 6,058
Texas Section 1115 Waiver contract revenues	1,312	1,000
Texas Section 1115 Waiver contract expenses	(717)	(639)
Total Texas Section 1115 Waiver net pre-tax impact	$ 7,350	$ 6,418
Texas Rural community provision of services (SOSA	$ (3,721)	$ (2,930)
Net pre-tax impact	$ 3,629	$ 3,488
Pennsylvania Medicaid Modernization revenues	$ 7,649	$ 7,678
Pennsylvania Medicaid Modernization expenses	(3,824)	(4,181)
	$ 3,825	$ 3,497
Pennsylvania Community Access Fund and Legislative Initiative revenues	$ 2,933	$ 8,316
Net pre-tax impact	$ 6,758	$ 11,813
Rhode Island DSH & UPL revenues	$ 5,000	$ 4,678
Rhode Island License Fees	(4,367)	(4,186)
Net pre-tax impact	$ 634	$ 492
Connecticut Medicaid DSH revenues	$ 5,914	$ 8,459
Connecticut Provider Tax	(10,123)	(10,033)
Net pre-tax impact	$ (4,208)	$ (1,575)
Total Hospital Services revenues	$ 70,555	$ 74,822
Total Hospital Services operating expenses	(40,677)	(38,805)
Total net pre-tax impact	$ 29,877	$ 36,017

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(2) Certain amounts have been reclassified for consistency with current quarter presentation. These reclassifications had no effect on the reported results of operations.

In the supplemental table above, out of period QAF in the amount of revenue and EBITDA of $126.4 million and $65.3 million that was recognized during the first quarter of fiscal 2018 is excluded from the data for the California Hospital Fee program.

The following table shows certain selected historical operating statistics for our hospitals for the three months ended December 31, 2018 and 2017, respectively:

(Unaudited)	Three Months Ended December 31,	
	2018	2017
Net inpatient revenues (in thousands) (1) (9)	$ 389,455	$ 372,021
Net inpatient revenues excluding California Hospital Fee Program revenues (in thousands) (1)	$ 348,465	$ 333,388
Net outpatient revenues (in thousands)	$ 249,046	$ 240,884
Capitation revenues (in thousands)	$ 38,906	$ 38,254
Other hospital services revenues (in thousands) (2)	$ 15,392	$ 5,856
Other revenues (in thousands) (2)	$ 12,279	$ 13,903
California Hospital Fee Program revenues (in thousands) (3) (9)	$ 40,991	$ 38,633
Texas Section 1115 Waiver revenues (in thousands)	$ 8,067	$ 7,058
Number of hospitals at end of period	20	20
Licensed beds at end of the period	3,664	3,664
Average licensed beds	3,664	3,664
Average staffed beds	2,143	2,267
Occupancy rate for staffed beds (4)	84.6%	76.8%
Admissions (5)	27,782	26,931
Adjusted patient admissions (6)	46,883	44,801
Net inpatient revenue per admission (in thousands) (9)	$ 14,018	$ 13,814
Patient days	166,741	160,228
Adjusted patient days (7)	285,038	278,389
Net inpatient revenue per patient day (in thousands) (9)	$ 2,336	$ 2,322
Average length of patients' stay (days) (8)	6.0	5.9
Outpatient visits	592,048	583,592
Net outpatient revenue per visit (in thousands)	$ 421	$ 413

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(1) Net inpatient revenues include self-pay revenues of $8.5 million and $2 million for the three months ended December 31, 2018 and 2017, respectively.

(2) Other hospital service revenues consist of revenues earned from ancillary and other hospital operations, while other revenues consist primarily of rental income, incentive revenues earned for the implementation of certified EHR technology at our hospitals, tuition revenue from the St. Joseph Health Services of Rhode Island School of Nursing, and Crozer Health Club membership and other revenues.

(3) California Hospital Fee Program revenues are included in inpatient (Medicaid) revenues, Texas Section 1115 Waiver revenues are included in inpatient (Medicaid) revenues and other hospital services revenue, and Pennsylvania Medicare Modernization Act, Community Access Funds and Legislative Initiatives revenues are included in inpatient (Medicaid) revenues.

(4) The occupancy rate for staffed beds represents average daily census in the period divided by staffed beds. Occupancy rates are affected by many factors, including the population size and general economic conditions within particular market service areas, the degrees of variation in medical and surgical products, outpatient use of hospital services, quality and treatment availability at competing hospitals, and seasonality.

(5) Charity care admissions represented 0.0% and 0.01% of total admissions for the three months ended December 31, 2018 and 2017, respectively.

(6) Adjusted patient admissions are total admissions adjusted for outpatient volume. Adjusted patient admissions are computed by multiplying admissions (inpatient volume) by the sum of gross inpatient charges and gross outpatient charges and then dividing the resulting amount by gross inpatient charges.

(7) Adjusted patient days are total patient days adjusted for outpatient volume. Adjusted patient days are computed by multiplying patient days (inpatient volume) by the sum of gross inpatient charges and gross outpatient charges and then dividing the resulting amount by gross inpatient charges.

(8) Average length of patients' stay ("ALOS") is calculated by dividing total discharged patient days by total patient discharges during the period, and includes the length of patients' stay related to psychiatric, sub-acute, and rehabilitation services.

(9) Excludes $126.4 million of California Hospital Fee Program revenues applicable to periods prior to the three months ended December 31, 2017.

Results of Operations - Q1 FY19 vs Q1 FY18

- Hospital services revenues before provision for bad debts was $692.8 million for Q1 FY19 compared to $797.0 million for Q1 FY18, and bad debt expense increased from $27.9 million in Q1 FY18 to $28.2 million in Q1 FY19. Excluding the impact of revenues recorded under the California Hospital Fee Program during Q1 FY18, due to the timing of the approval of the program by CMS, that relate to the period from January 1, 2017 to September 30, 2017, hospital services revenues before provision for bad debts increased by 3.3% to $692.8 million for Q1 FY19 compared to $670.8 million for Q1 FY18. This increase is broadly in line with the improvement in patient metrics for quarter vs. quarter but is tempered by the change in the AR valuation model at Crozer from one based on expected contractual reimbursements to a model based on a patient-collection-rate methodology, effective September 30, 2018, to reduce complexities and more accurately reflect the value of patient accounts to collection trends.

- Salaries, wages and benefits ("SWB") increased from $323.8 million during Q1 FY18 to $348.0 million during Q1 FY19. This presents an increase of approximately 7.5% and is driven in part by a 2.4% increase in the number of adjusted patient days quarter on quarter and a 3% increase in employee benefits expense.

- Supplies expense increased from $63.8 million in Q1 FY18 to $63.9 million in Q1 FY19. Supplies per adjusted patient admissions decreased by 4.2% from $1,4[redacted] in Q1 FY18 to $1,365 in Q1 FY19.

- Capitation expense increased from $35.9 million in Q1 FY18 to $38.0 million to Q1 FY19. We recognize revenue and expenses in the Hospital Services segment for global capitation arrangements for which hospitals in our Hospital Services segment are responsible for the provision of care to members under such arrangements.

- Other operating expenses decreased from $142.6 million in Q1 FY18 to $96.0 million in Q1 FY19. Excluding expense related to out of period QAF, other operating expenses in Q1 FY18 were $81.5 million. The increase in operating expenses in Q1 FY19 compared to the normalized operating expenses is due increased in purchased services and professional fees.

- Hospital General and Administrative ("G&A") expense increased from $89.5 million in Q1 FY18 to $95.1 million in Q1 FY19, as a result of an increase in non-medical professional fees and purchased services, offset by lower repairs and maintenance expense.

- Depreciation and amortization expense increased from $21.6 million in Q1 FY18 quarter to $25.7 million in Q1 FY19 as a result of a higher rate of capital expenditures quarter over quarter.

- Income from unconsolidated joint ventures was $633,000 for Q1 FY18 compared to $697,000 in Q1 FY19. Income from unconsolidated joint ventures consists of equity method income related to CharterCare, Crozer, ECHN and Waterbury joint ventures and other equity method investments.

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Medical Group Segment

The following table sets forth the results of operations for our Medical Group operations for the three months ended December 31, 2018 and 2017. Cost of revenues does not include allocation of corporate overhead or interest expense - see "Corporate Segment" below.

(Unaudited, in thousands)	Three Months Ended December 31, 2018	2017
Medical Group revenues:		
Capitation	$ 78,114	$ 74,978
Management fees	6,706	2,068
Other operating revenues (1)	6,834	5,042
Total Medical Group revenues	91,653	82,088
Medical Group cost of revenues:		
PCP capitation	12,091	12,838
Specialist capitation	12,748	10,067
Claims expense	33,040	34,034
Physician incentives	2,800	3,573
Other cost of revenues	489	1,088
Total Medical Group cost of revenues	61,168	61,601
Gross margin	30,486	20,487
General and administrative	23,384	16,990
Depreciation and amortization	884	782
Total other expenses	24,268	17,772
Income from unconsolidated joint ventures	(15)	(49)
Operating income	$ 6,203	$ 2,666
Medical cost ratio	74.1%	75.9%

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The following table sets forth the approximate number of members, by category, as of December 31, 2018 and 2017:

(Unaudited, in thousands)	As of December 31, 2018	2017
Commercial - owned	73.8	80.2
Commercial - managed (2)	11.5	5.7
Senior - owned	32.4	31.5
Senior - managed (2)	3.4	3.3
Medicaid - owned	79.9	80.9
Medicaid - managed (2)	22.3	36.0
Health Insurance Exchange - managed (2) (3)	19.0	14.1
Value Based Reimbursement (4)	231.6	208.8
	473.9	460.5

(1) Other operating revenues primarily consist of payments from HMOs under pay-for-performance programs and are recognized each year once the amounts of such items are known, as well as patient service revenues related to clinical operations.

(2) Represents members that we manage on behalf of third parties in exchange for a monthly management fee.

(3) Our management services company is party to an agreement with one of our major HMOs to manage the provision of medical services to members enrolled under the PPACA Health Insurance Exchange program. We receive a fixed per member per month management fee under the program and do not share in the risk for medical services for such members.

(4) Value Based Membership is also defined as population under management. We have direct contracts with multiple Health Plans in all of the states where we operate for the provision of quality care services to the population under management improving care delivery to the members in most cost-efficient manner for a fixed infrastructure payment. In many of the contracts, we also receive variable revenue called Pay for Performance for improving health scores and closing quality gaps. In addition, in some of the contracts, we are also eligible for upside and downside sharing of risk pools for the population under management.

Results of Operations - Q1 FY19 vs Q1 FY18

Medical Group Revenue

- Capitation revenue increased 4.2% to $78.1 million for Q1 FY 19 from $75.0 million for Q1 FY 18 as a result of an increase in overall PMPM revenues, offset by lower Commercial and Medicaid member-months.

- Management fee revenue increased 224.3% to $6.7 million for Q1 FY19 from $2.1 million for Q1 FY18. The increase was primarily due to higher capitation revenues from a health plan that converted to Global Risk in July 2017. Management fees range from 6.5% to 10.0% of revenues, depending on the type of revenue.

- Other operating revenue increased 35.5% to $6.8 million for Q1 FY19 from $5.0 million for Q1 FY18. The increase was primarily due to increase in wellness program reimbursements.

Medical Group Operating Expenses

- Primary care physician ("PCP") capitation expense decreased 5.8% to $12.1 million for Q1 FY19 compared to $12.8 million for Q1 FY18. PCP capitation expense as a percentage of capitation revenues decreased to 15.5% from 17.1%. The decrease in PCP capitation expense as a percentage of capitation revenues was primarily due to change in membership mix between commercial, Medicaid and senior in the current fiscal quarter.

- Specialist capitation expense increased 26.6% to $12.7 million for Q1 FY19 from $10.1 million for Q1 FY18. Specialist capitation expense as a percentage of capitation revenues increased to 16.3% from 13.4%. The increase in specialist capitation expense as a percentage of capitation revenues was primarily due to a strategic effort to convert certain high cost specialists from fee for service to capitated arrangements.

- Claims expense decreased 2.9% to $33.0 million for Q1 FY19 from $34.0 million for Q1 FY18. Claims expense as a percentage of capitation revenues decreased to 42.3% for Q1 FY19 from 45.4% for Q1 FY18. The decrease in claims expense as a percentage of capitation revenues was primarily due to our new Global Risk contract that expanded the Medical Group's financial obligation on certain diseases.

- Physician incentives expense decreased 21.6% to $2.8 million for Q1 FY19 from $3.6 million for Q1 FY18. The decrease was primarily due to lower shared risk revenue contributing to the lower profit sharing incentive payment.

- Other cost of revenues was $0.5 million for Q1 FY19 compared to $1.1 million for Q1 FY18. The decrease was primarily due to lower utilization of contracted physicians at our clinic operations in Q1 FY19 compared to Q1 FY18.

Medical Cost Ratio and Gross Margin

- Medical care costs as a percentage of Medical Group capitation revenues (the medical cost ratio, a non-GAAP measure) decreased to 74.1% for Q1 FY19 from 75.9% for Q1 FY18, and gross margin as a percentage of total revenue, increased to 33.3% for Q1 FY19 from 25.0% for Q1 FY18. These changes were the result of items discussed above.

General and Administrative

- G&A expenses increased 37.6% to $23.4 million for Q1 FY19 from $17.0 million for Q1 FY18. G&A expenses as a percentage of total Medical Group revenues increased to 25.5% for Q1 FY19 from 20.7% for Q1 FY18. The increase in G&A expenses as a percentage of total Medical Group revenues was primarily due to increase in salary expense to support expansion of the value-based business and business infrastructure.

Depreciation and Amortization

- Depreciation and amortization expense was $0.9 million for Q1 FY19 and $0.8 million for Q1 FY18.

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Income (Loss) from Unconsolidated Joint Ventures

- Income (loss) from unconsolidated joint ventures (our 50% partnership interest in AMVI/Prospect Medical Group) was a loss of $(15,000) and $(49,000) for Q1 FY19 and Q1 FY18, respectively.

Global Risk Management Segment

The following table sets forth the results of operations for our Global Risk Management segment for the three months ended December 31, 2018 and 2017. Global Risk Management expenses do not include allocation of corporate overhead or interest expense - see "Corporate Segment" below. Capitation revenue includes net capitation revenue retained by the Global Risk Management segment after transfer of capitation to the Hospital Services and Medical Group segments.

(Unaudited, in thousands)	Three Months Ended December 31, 2018	2017
Global Risk Management revenues:		
Capitation (1) (2)	$ 8,221	$ 5,363
Other operating revenues	1,983	1,818
Total Global Risk Management revenues	10,204	7,180
Global Risk Management cost of revenues:		
Capitation Expense	67	868
Claims Expense	6,421	4,477
Other cost of revenues	586	-
Total Global Risk Management cost of revenues	7,073	5,345
Gross margin	3,131	1,836
General and administrative (3)	3,422	2,365
Total other expenses	3,422	2,365
Operating Income (loss)	$ (291)	$ (530)

(1) For the three months ended December 31, 2018 and 2017, capitation revenue includes $62.8 million and $63.5 million, respectively, received from health plans, of which $53.2 million and $55.4 million, respectively, were transferred to our Medical Group and Hospital Services segments.

(2) Capitation revenue includes shared risk pool deficit of ($0.7) million and ($1.4) million for the three months ended September 30, 2018 and 2017, respectively.

(3) General and administrative expenses increased to $3.4 million in Q1 FY19 from $2.4 million in Q1 FY18 as a result of the increased headcount, management and infrastructure fees in support of the health plans transition to Global Capitation programs.

Results of Operations - Q1 FY19 vs Q1 FY18

The Global Risk Management segment entered into Management Services Agreements with our Medical Group and Hospital Services segments, under which up to 85% of capitation revenue received is transferred to the Medical Group and Hospital Services segments. Capitation and other revenues recognized increased to $10.2 million for Q1 FY19 from $7.2 million for Q1 FY18. During Q1 FY19, capitation revenue received from health plans was $62.8 million, of which $24.7 million and $28.6 million was transferred to our Hospital Services segment and Medical Group segment, respectively. During Q1 FY18, capitation revenue received from health plans was $63.5 million, of which $26.4 million and $29.0 million were transferred to our Hospital Services segment and Medical Group segment, respectively. The increase in capitation revenue and the amounts transferred to the Hospital Services segment and Medical Group segment were primarily due to expansion of health plans in California.

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Global Risk Management Cost of Revenues

Cost of revenues increased to $7.1 million during Q1 FY19 from $5.3 million during Q1 FY18. Cost of revenues consists primarily of claims expense related to capitation retained by the Global Risk Management segment and the increase is consistent with increase in capitation revenue. Cost of revenues as a percentage of total revenues decreased to 67.3% for Q1 FY19 from 74.4% for Q1 FY18.

General and Administrative

G&A expenses increased to $3.4 million for Q1 FY19 from $2.4 million for Q1 FY18. The increase in G&A expenses was primarily due to an increase in SWB, professional fees and management fees to support the transition of health plans to Global Capitation programs. G&A expenses as a percentage of total revenues decreased slightly to 32.4% for Q1 FY19 from 32.9% for Q1 FY18.

Corporate Segment

The Corporate segment primarily reflects certain expenses incurred at Prospect not specifically allocable to the Hospital Services, Medical Group, or Global Risk Management segments. These include, but are not limited to: salaries, benefits and other compensation for corporate employees; financing expenses; insurance expenses; rent; legal fees; and accounting fees. Additionally, this segment includes operations of two captive insurance companies. Prospect Medical Holdings Risk Retention Group, Inc. ("PRRG"), which was incorporated on June 20, 2016 in the state of Vermont, was formed as an indirect wholly-owned subsidiary of the Company to provide primary insurance coverage for hospital and physician professionals and general liability risks for the Company's subsidiary healthcare organizations. In addition, the Company has a captive insurance company based in the Cayman Islands, Connecticut Healthcare Insurance Company ("CHIC"), which provides hospital and physician professional and general liability coverage to all of the Company's hospitals and affiliated subsidiaries except for Crozer and its Pennsylvania subsidiaries. Effective January 1, 2018, ownership of CHIC was transferred from Prospect ECHN, Inc. to Prospect Medical Holdings, Inc. As such, the results of operations for CHIC for Q1 FY19 are included in the Corporate Segment. The Company does not allocate interest expense related to acquisition debt or income taxes to the other reporting segments. Prior to October 1, 2018, the hospital segment included expenses which we deem to be "true" corporate overhead. Such expenses were previously recorded in the hospital segment but effective October 1, 2018 are now recorded in the corporate segment. This has no impact on the consolidated financial statements. Such amount that was transferred to the corporate segment in Q1 FY19 was $8.0 million.

The following table summarizes our corporate expenses for the three months ended December 31, 2018 and 2017:

(Unaudited, in thousands)	Three Months Ended December 31, 2018	2017
Corporate revenues:		
Other Revenue	(1,238)	(1)
Total Corporate revenues:	(1,238)	(1)
Operating Expenses:		
General and administrative (1)	$ 16,829	$ 5,671
Depreciation and amortization	1,187	37
Total Corporate Expenses	$ 18,016	$ 5,708
Operating loss	(19,254)	(5,709)

Results of Operations - Q1 FY19 vs Q1 FY18

G&A expenses increased to $16.8 million during Q1 FY19 from $5.7 million during Q1 FY18. The increase was due primarily to increases in outside services and salary expense as a result of an increase in employee staffing to support corporate initiatives during FY19 when compared with FY18.

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Consolidated Results of Operations

Results of Operations - Q1 FY19 vs Q1 FY18

Other (Income) and Expense, Net

Total Other Expense increased to $31.4 million for Q1 FY19 from $19.8 million for Q1 FY18. The increase was primarily due to higher interest expense as a result of the debt refinancing that occurred in February 2018.

Provision / (Benefit) for Income Taxes

The income tax provision / (benefit) was a benefit of $(11.9) million and provision of $25.4 million for Q1 FY19 and Q1 FY18, respectively.

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Adjusted EBITDA and Consolidated EBITDA Reconciliation
(Unaudited, in millions)

A reconciliation of Adjusted EBITDA and Consolidated EBITDA to the most directly comparable GAAP measure for certain quarterly periods:

	Q2 17 [4]	Q3 17 [4]	Q4 17 [4]	Q1 18 [4]	Q2 18 [4]	Q3 18 [4]	Q4 18 [4]	Q1 19 [4]
EBITDA Reconciliation (unaudited):								
Net income from continuing operations (3)	$ (8.6)	$ 10.6	$ 28.5	$ 57.4	$ (47.1)	$ 2.3	$ (261.3)	$ (22.1)
Provision (benefit) for income taxes	7.1	(6.6)	(0.3)	25.4	(7.0)	5.6	37.6	(11.9)
Interest expense	23.0	18.5	16.2	18.7	24.3	28.3	27.3	32.3
Depreciation and amortization	21.4	21.8	39.0	22.0	22.5	23.4	29.4	27.8
Amortization of financing costs	0.6	0.6	0.6	0.6	0.9	0.9	0.9	0.9
Loss on debt extinguishment	-	-	-	-	18.3	-	0.1	-
Impairment of intangible assets	-	-	-	-	-	-	18.8	-
Gain on bargain purchase	-	-	(30.0)	-	-	-	-	-
Other	(3.0)	-	1.4	1.0	4.3	-	(2.6)	(1.8)
EBITDA	40.5	44.9	[redacted]	125.1	16.2	60.5	(149.9)	25.2
Adjustments (1)								
Transaction costs (2)	3.9	1.7		1.6	2.0	3.2	5.5	3.4
Litigation expenses	-	-		0.5	1.0	1.2	6.8	0.6
Stock-based compensation (5)	0.3	0.3		0.1	37.0	0.2	0.2	0.2
Sponsor structuring and management fees	0.3	0.2		0.2	0.3	0.2	0.2	0.2
Strategic business planning	3.4	1.4		1.7	2.8	3.1	6.5	8.3
Non cash items	-	-		-	-	-	82.5	4.4
Other items	-	-		-	-	-	-	2.2
Adjusted EBITDA (3)	$ 48.4	$ 48.5	$ 75.3	$ 129.2	$ 59.3	$ 68.4	$ (48.1)	$ 44.5
Adjusted EBITDA - Trailing Twelve Months (TTM)	$ 192.6	$ 187.6	$ 214.9	$ 301.2	$ 312.1	$ 332.2	$ 208.8	$ 124.1
Less: Unrestricted subsidiary (6)								(2.4)
Add: Run Rate								18.6
Add: Specified Equity Contribution								21.6
Consolidated EBITDA								$ 162.0 (8)

Net Debt: Consolidated TTM EBITDA Ratio:	As reported	Proforma [7]
Consolidated EBITDA (TTM)	$ 162.0	$ 162.0
Ending debt (including pension liabilities)	1,661.9	1,661.9
Less: Ending cash	-	142.7
Ending net debt	$ 1,661.9	$ 1,519.2
Net Debt: Consolidated TTM EBITDA Ratio	10.26	9.38

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(1) Management adjusts for expenses and gains that it does not consider in evaluating core operating performance for compensation, internal capital allocations, acquisition analysis or other strategic purposes.

(2) Transaction costs primarily relate to costs directly related to financing and merger and acquisition activity. Included in Q4 FY17 was approximately $15.0 million of costs related to retro coverage premiums incurred in connection with the Crozer acquisition.

(3) None of net California Hospital Fee Program income was recorded in Q2 FY17; $3.0 million of net California Hospital Fee Program was recorded in Q3 FY17; $13.8 million of net California Hospital Fee Program was recorded in Q4 FY17; $92.7 million of net California Hospital Fee Program was recorded in Q1 FY18; $38.6 million of net California Hospital Fee Program was recorded in Q2 FY18; $38.6 million of net California Hospital Fee Program was recorded in Q3 FY18; $42.0 million of net California Hospital Fee Program was recorded in Q4 FY18; and $41.0 million of net California Hospital Fee Program was recorded in Q1 FY19.

(4) Certain reclassifications were made to prior quarters' presentation to conform to the current quarter's presentation.

(5) Included in Q2 FY18 was approximately $36.8 million of payments incurred in connection with a Dividend Recapitalization transaction to vested option holders.

(6) Prospect Health Plan, Inc. is an Unrestricted Subsidiary as of June 30, 2016 pursuant to the terms of the New Senior Credit Facilities agreements.

(7) Proforma calculation reflects deferred QAF in Cash for fiscal years 2017 and 2018.

(8) TTM Consolidated EBITDA includes approximately $31.4 million of out-of-period adjustments. When these out of period adjustments are excluded, the normalized TTM Consolidated EBITDA at December 31, 2018 is $193.4 million. Additionally, for comparative purposes to prior quarters, the December 31, 2018 TTM Consolidated EBITDA no longer includes $65.3 million of out-of-period QAF related to the period January 2017 - December 2017 that rolled off the calculation when Q1 FY18 was replaced by Q1 FY19.

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PROSPECT MEDICAL HOLDINGS REPORTS FISCAL 2018 FIRST QUARTER FINANCIAL RESULTS

Q1 FY 2018 Highlights Compared to Q1 FY 2017

- **Revenue increased 21.3% to $876.7 million from $722.8 million**
- **Adjusted EBITDA increased 202.6% to $129.0 million from $42.6 million**
- **Pro-Forma Trailing Twelve Months ("TTM") Adjusted EBITDA totaled $324.2 million**

  TTM Adjusted EBITDA increase 76% to $301.2 million from $171.1 million
- **Operating income increased to $102.7 million from $14.2 million**
- **Net Income increased to $57.6 million from $0.1 million**
- **Adjusted patient admissions increased 2.8% to 47,052 from 45,780**
- **Cash and investments was $113.1 million at December 31, 2017 compared to $38.2 million at December 31, 2016**

  Cash and investments increase to $200.2 million when 2017 QAF is included
- **Net Debt to Adjusted TTM EBITDA Ratio of 2.26 at December 31, 2017 compared to 4.35 at December 21, 2016**

  TTM Net Debt to Adjusted EBITDA Ratio approximates 1.84X when 2017 QAF Cash is included

Los Angeles, CA - February 15, 2018 - Prospect Medical Holdings, Inc. ("Prospect" or the "Company") today announced financial results for its fiscal 2018 first quarter ended December 31, 2017. The Company will host a conference call on February 26, 2018 at 1:00 pm PST (4:00 pm EST) to discuss these results - details at page 8 of this release.

Prospect's first quarter results reflect the continued investments in, and pursuit of, the Company's Coordinated-Regional-Care ("CRC") operating model that emphasizes quality care, cost-effectiveness and execution, through its hospitals, affiliated medical groups, clinics/outpatient centers and risk management platform. The Company believes that its CRC operating model provides great flexibility and efficiency, is well-suited to today's healthcare market, and positions the Company to capitalize on changes occurring and anticipated within the healthcare industry.

Prospect continues to focus on improving same-store operating performance, cross-fertilizing growth between its Hospital Services, Medical Group and Global Risk Management segments, and entering into value-enhancing arrangements with its Health Plan, Hospital and Physician partners.

CONSOLIDATED RESULTS OVERVIEW

Revenues increased 21.3% to $876.7million for the fiscal 2018 first quarter from $722.8 million for the fiscal 2017 first quarter. Included in this $153.8 million quarter-over-quarter increase are a $168.2 million increase in Hospital Services revenues and a $5.6 million increase in Global Risk Management revenues, offset by a $12.1 million decrease in Medical Group revenues and a $7.8 million decrease in other revenues. The increase in Hospital Services revenues was due primarily to was primarily due to increased enrollment resulting from new Global Capitation arrangement at our Foothill facility effective July 1, 2017, in addition to an increase in Inpatient volume with Medicare discharges at our Waterbury facility, partially offset by a decrease in other revenues due to the sale of placement rights for cell towers at our Rhode Island and Connecticut facilities. Additionally, during the three months ended December 31, 2017, we recorded revenues related to the California Hospital Fee (QAF) program of $164.8 million, of which $35.3 million was applicable to the period October 1, 2017 to December 31, 2017. The increase in Global Risk Management revenues was primarily due to expansion of health plans in California, partially offset by loss in risk pool revenue. The decrease in Medical Group revenues was primarily due to lower shared risk-pool revenue, which was impacted by timing of settlement of shared risk-pool and a decrease in other operating revenue, due to timing of performance incentive payments and other program reimbursements, partially offset by higher Medicaid member-months. The decrease in other revenues was primarily due to the sale of placement rights for cell towers at our Rhode Island and Connecticut facilities within Hospital Services Segment.

On a normalized basis and excluding the effect of the California Hospital Fee Program and Texas Section 1115 Waiver Program, net adjusted EBITDA increased 11.0% to $32.8 million for the fiscal 2018 first quarter from $29.5 million for the same fiscal 2017 quarter.

SEGMENT RESULTS OVERVIEW

Hospital Services

Fiscal 2018 first quarter Hospital Services segment revenues were $787.2 million compared to $626.7 million for the same fiscal 2017 quarter. On a normalized basis and excluding the effect of the California Hospital Fee Program and Texas Section 1115 Waiver Program revenues[1] , net Hospital Services segment revenues increased 3.8% to $615.3 million for the fiscal 2018 first quarter from $592.5 million for the same fiscal 2017 quarter. The $36.3 million increase in Hospital Services segment revenues was primarily due to increased enrollment resulting from new Global Capitation arrangement at our Foothill facility effective July 1, 2017, in addition to an increase in inpatient volume with Medicare discharges at our Waterbury facility, partially offset by a decrease in other revenues to the sale of placement rights for cell towers at our Rhode Island and Connecticut facilities.

Total Hospital Services segment adjusted EBITDA increased to $128.2 million for the fiscal 2018 first quarter from $35.3 million for the fiscal 2017 first quarter. On a normalized basis and excluding the effect of the California Hospital Fee Program and Texas Section 1115 Waiver Program, net Hospital Services segment adjusted EBITDA increased 44.0% to $32.0 million for the fiscal 2018 first quarter from $22.2 million for the same fiscal 2017 quarter.

Medical Group

Fiscal 2018 first quarter Medical Group segment revenues were $82.3 million compared to $94.4 million for the same fiscal 2017 quarter. The decrease was primarily due to lower shared risk-pool revenue, which was impacted by timing of settlement of shared risk-pool and a decrease in other operating revenue, due to timing of performance incentive payments and other program reimbursements, partially offset by higher Medicaid member-months. Total Medical Group segment adjusted EBITDA decreased to $4.0 million for the fiscal 2018 first quarter from $10.6 million for the fiscal 2017 first quarter.

[1] California Hospital Fee Program revenue was $164.8 million and $24.8 million for the first quarter of fiscal 2018 and 2017, respectively. Texas Section 1115 Waiver revenue was $7.1 million and $7.3 million for the first quarter of fiscal 2018 and 2017, respectively.

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Global Risk Management

Our Global Risk Management Segment enters into global capitation arrangements with certain third-party health plans and manages the provision of care for members in coordination with our Hospital Services and Medical Group segments. The segment began operations during the first quarter of fiscal 2015. On a same-store basis, Global Risk Management segment revenue was $7.2 million for the fiscal 2018 quarter compared to $1.6 million for the fiscal 2017 quarter. Capitation revenue received from health plans totaled $63.5 million and $19.0 million for the fiscal 2018 and 2017 quarters, respectively, of which $55.4 million and $17.4 million was transferred to our Medical Group and Hospital Services segments for the fiscal 2018 and 2017 quarters, respectively. Total Global Risk Management segment adjusted EBITDA was $0.7 million for the fiscal 2018 first quarter compared to $0.2 million for fiscal year 2017 first quarter.

Corporate

Corporate segment expenses decreased to $5.7 million for the fiscal 2018 quarter from $7.6 million for the fiscal 2017 quarter. The decrease was primarily attributable to a decrease in the utilization of outside services related to business development as acquisitions were substantially completed by the end of fiscal year 2016.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview and Recent Transactions

We provide quality, cost-efficient and coordinated healthcare services through our hospitals, clinics and physician networks in California, Texas, Rhode Island, New Jersey, Pennsylvania, and Connecticut. We conduct our business operations through four complementary segments: the Hospital Services segment, Medical Group segment, Global Risk Management segment and Corporate segment.

Hospital Services

Through our Hospital Services segment, we own and operate 20 facilities with approximately 3,800 licensed beds. Our facilities are primarily located in diverse, high-density population areas and maintain important market positions in the areas they serve. Our facilities are 100% owned (with the exception of the CharterCARE facilities in Rhode Island, in which we have an 85% interest), and provide a comprehensive range of services tailored to their specific communities, including area hospitals, physicians, and health plans. We believe that our proven model has a number of competitive advantages, including a data-driven and cost-efficient platform that has enabled us to provide quality care.

Acquisitions and Divestitures

Effective October 1, 2016, our wholly-owned subsidiary Prospect ECHN, Inc. (and affiliated wholly-owned subsidiaries) acquired substantially all of the assets, and certain liabilities, of Eastern Connecticut Health Network, Inc. and certain of its subsidiaries in exchange for cash consideration of $105 million (subject to certain adjustments). The acquired assets include a network of hospitals, outpatient service centers and providers and specialists serving eastern Connecticut. Our acquired hospitals are The Manchester Memorial Hospital, an acute-care hospital with 283 licensed beds, and The Rockville General Hospital, an acute-care hospital with 118 licensed beds. The assumed liabilities included a long-term pension obligation of $66.9 million as of October 1, 2016. Results of operations for Prospect ECHN, Inc. are included in the results of our Hospital Services segment from the date of acquisition.

Also effective October 1, 2016, our wholly-owned subsidiary Prospect Waterbury, Inc. (and affiliated wholly-owned subsidiaries) acquired substantially all of the assets, and certain liabilities, of Greater Waterbury Health Network, Inc. and certain of its subsidiaries in exchange for cash consideration of $31.8 million (subject to certain adjustments). During the year ended September 30, 2017 the purchase price allocation was finalized and in December 2017, the Company paid an additional $22 million as a working capital adjustment and added to the consideration paid. The acquired assets include Waterbury Hospital, an acute-care hospital with 357 licensed beds, and a network of outpatient centers and affiliated physicians. Waterbury Hospital provides a comprehensive range of inpatient, outpatient and ancillary services for residents of Waterbury, Connecticut, and its surrounding community. The assumed liabilities included a long-term pension obligation of $11.8 million as of October 1, 2016. Results of operations for Prospect Waterbury, Inc. are included in the results of our Hospital Services segment from the date of acquisition.

Effective July 1, 2016, our wholly-owned subsidiary Prospect Crozer, LLC ("Crozer") acquired certain assets and assumed certain liabilities of Crozer-Keystone Health System, which has locations throughout Delaware County in Pennsylvania and the surrounding areas for cash consideration of $56.4 million, subject to a working capital adjustment. During the year ended September 30, 2017, the purchase price allocation was finalized and in December 2017, the Company paid an additional $22 million as a working capital adjustment and added to the consideration paid. Crozer has 4 acute-care hospitals with 628 licensed beds, a network of outpatient centers and urgent care centers, a comprehensive physician network of primary care and specialty practices, and a sports club. Crozer provides a full range of services including acute care services, sub-acute care services, emergency and trauma services, behavioral health services, nursing and rehabilitative services, and physician care services. Assumed liabilities included a long-term pension obligation of $330.3 million as of July 1, 2016. In connection with the acquisition, Crozer paid $100 million into an escrow and subsequently used to fund in part the underfunded pension liability. Results of operations for Crozer have been included in the results of our Hospital Services segment from the date of acquisition.

Effective May 1, 2017, our wholly-owned subsidiary, Prospect Blackstone Valley Surgicare, LLC ("Prospect Blackstone"), completed an asset acquisition of a freestanding ambulatory surgery center located near our CharterCARE facilities in Rhode Island. It was purchased from Blackstone Valley Surgicare Acquisition, L.P. in exchange for cash consideration of $1.5 million, of which $100,000 is subject to a one-year indemnification escrow hold-back. Results of operations for Prospect Blackstone have been included in the results of our Hospital Services segment from the date of acquisition.

Reimbursement

Under the California Hospital Fee Program, supplemental payments are provided to hospitals under the Medi-Cal program, such as the hospitals owned and operated by the Company's subsidiaries. The California Hospital Fee Program requires participating hospitals to pay fee assessments into a special fund. Much of these funds, together with federal matching funds, are then distributed to qualifying hospitals based on a prescribed formula ("Fee for Service Component"). Another portion of the funds, together with federal matching funds, are paid as additional capitation payments to health plans participating in Medi-Cal managed care ("Managed Care Component"), and the health plans are required to disburse the additional capitation payments to hospitals. The net benefit for the current California Hospital Fee Program for the period January 1, 2017 through June 30, 2019, for the Company, including Bellflower, was $217.9 million.

In November 2016, the California voters approved Proposition 52, which continued the Hospital Fee Program after December 31, 2016. The Hospital Fee Program is operated in cycles known as program periods. The current program period began January 1, 2017 and will end June 30, 2019 and on December 14, 2017, CMS approved the waiver of the broad-based and uniformity requirements related to the health care related tax program on inpatient hospital services. Subsequent program periods will be of duration not to exceed three years.

Nix Health receives supplemental payments from the Texas Medicaid program which are based upon two pools. One pool is for payments for Uncompensated Care ("UCC") which includes the shortfall in Medicaid reimbursement as compared to the cost of providing services to uninsured patients. The other pool is the Delivery System Reform Initiative Payments ("DSRIP"), where approved programs and services are undertaken to improve access and services provided. Programs are established by regions and approved by the Texas Health and Human Services Commission and the Centers for Medicare and Medicaid Services ("CMS"). These programs are assigned a value and milestones are established to measure success and the timing and level of payment from the DSRIP funds. CMS, on May 2, 2016, granted Texas a 15-month extension on waivers for two $3.1 billion programs, largely funded by the federal government, meant to expand access to health care. The extension on Texas' Section 1115 Waiver allowed the UCC pool and DSRIP program to continue at their current funding rates through December 2017. In December 2017, CMS approved a five-year renewal of Texas' Healthcare Transformation and Quality Improvement Program Section 1115 waiver. The DSRIP pool remains flat for the first two years of the new five year waiver, and then declines over the remaining period, and disappears for year five. Nix Health will be participating in the Uniform Hospital Rate Increase Program ("UHRIP") which should offset UCC payment losses (if any) in years three through five, and partially mitigate the DSRIP losses.

The Pennsylvania Department of Public Welfare, as approved by CMS, has established a revised inpatient hospital fee-for-service payment system utilizing All Patient Refined Diagnosis-Related Groups and provided an enhanced hospital reimbursement model. Our Crozer hospitals are participants in Pennsylvania's Medicaid Modernization Assessment ("MMA") and also receives funds from the Pennsylvania Community Access Fund Grant and Legislative Initiative.

Our hospitals in Rhode Island and Connecticut are participants in Medicaid Disproportionate Share Hospital ("DSH") programs and receive federal and state Medicaid funds as additional reimbursement for treating a disproportionate share of low income patients. The states also assess a license fee or provider tax based on net patient revenue.

Medical Group

Through our Medical Group segment, we manage the provision of physician services to enrollees of HMOs in California, Texas, Rhode Island and New Jersey through a network of approximately 22,000 primary care and specialty physicians. We also recently contracted with a health plan to begin providing physician services in New Jersey and Connecticut. Our medical groups have a significant presence in Southern California and have capitated contracts with most major HMOs operating in the region. Under the capitated model, an HMO pays our medical groups a stable and predictable per-member-per-month ("PMPM") rate, or a "capitation" payment, for which the medical groups assume responsibility for providing required physician services for those enrollees.

Acquisitions

We completed several minor acquisitions of physician practices during the prior fiscal year. Effective January 2017, Prospect CharterCARE Physicians, LLC ("CharterCARE Physicians") acquired a primary care practice for $530,000 to be paid over the three years following the effective date. During the year ended September 30, 2016, CharterCARE Physicians entered into asset purchase agreements to acquire two medical practices and Nix Physicians, Inc. acquired a medical practice for combined cash consideration of $0.6 million for the three practices. Results of operations for the acquired physician practices have been included in the results of our Hospital Services segment from the date of acquisition.

On December 18, 2014, the Company's newly formed subsidiary, New University Medical Group, LLC ("New UMG"), entered into an Asset Purchase Agreement pursuant to which New UMG acquired substantially all of the assets of University Medical Group ("UMG"), a physician medical practice with approximately 35 primary care and specialist physicians located in multiple offices within Providence, Rhode Island, and the surrounding communities. As consideration for the acquisition, New UMG assumed certain designated liabilities of the practice. New UMG is a wholly owned subsidiary of Prospect CharterCARE RWMC, LLC ("Roger Williams Medical Center").

Effective on the December 18, 2014 initial closing date, New UNMG acquired designated assets of the practice, including equipment, and entered into an Administrative Services Agreement (which was subsequently amended). In December 2017, the acquisition was completed after New UMG acquired the majority of the remaining assets of the practice and entered into a Post-Closing Administrative Services Agreement pursuant to which CCMA and its affiliates provide services to the seller of the practice in connection with its termination of all operations and the wind up its affairs and operations.

Effective December 1, 2015, New Genesis Medical Associates, Inc. ("NGMA") entered into a Stock Purchase Agreement pursuant to which it simultaneously closed its acquisition of all issued and outstanding shares of Primary and Multi-Specialty Clinics of Anaheim, Inc. ("PMCA"). PMCA operates a medical practice consisting of primary and multi-specialty clinics in Orange County, California. The purchase price consisted of approximately $5.4 million less certain liabilities and certain other adjustments as specified in the Stock Purchase Agreement. The $5.4 million purchase price included $1.08 million paid during December 2016.

Global Risk Management

Our Global Risk Management segment is a new segment in our operations, reflecting the Company's pursuit of our CRC operating model and risk management platform, capitalizing on changes occurring and anticipated within the healthcare industry and emphasizing quality care, cost-effectiveness and execution under value-based reimbursement. We have expanded our global risk structure through Prospect Health Plan, Inc. ("PHP") in California, Prospect Health Services TX, Inc. ("PHSTX") in Texas, Prospect Health Services RI, Inc. ("PHSRI") in Rhode Island, Prospect Health Services NJ, Inc. ("PHSNJ") in New Jersey, Prospect Health Services CT, Inc. ("PHSCT") in Connecticut, Prospect Health Services PA, Inc. ("PHSPA") in Pennsylvania, and Prospect ACO Northeast, LLC ("NE ACO"). These entities contract with third-party health plans and the Center of Medicare and Medicaid Services on progressive risk reimbursement models leading to global risk contracts for both physicians, other medical services and institutional services including hospital inpatient and outpatient services, home health, skilled nursing facility and other institutional services. In turn, our global risk management entities contract with owned and third party independent physician associations, owned and third party hospitals and other health care providers to assume and manage this global risk. Through these contracts, we manage health plan member populations with a focus on delivering coordinated care to members across our network of physicians and providers under risk and value-based contracts that reward value over volume.

The Global Risk Management segment also includes Coordinated Regional Care Group, Inc. ("CRCG"), for which results are included beginning in June 2015. CRCG includes development and operating costs related to the Global Risk Management segment for new markets and strategic initiatives.

Corporate

Capitalization

On June 30, 2016, we entered into a six-year $625 million senior secured term loan B (the "Term Loan"), the proceeds of which were used to repay $425 million for PMH's existing 8.375% senior secured notes due during 2019; to repay $60 million for borrowings under our existing revolving credit facility (the "Replaced Revolver"); to fund acquisitions, including the acquisition of Crozer-Keystone Health System in Pennsylvania, which closed on July 1, 2016; and to finance transaction fees and expenses. The Term Loan bears interest at LIBOR (subject to a 1.0% floor) plus 6.0%, and the effective interest rate was 7.5% as of December 31, 2017.

Additionally, we refinanced the Replaced Revolver with a new $100 million asset-based revolving credit facility ("ABL Facility" and together with the Term Loan, the "New Senior Secured Credit Facilities"). The ABL limit was increased to $115 million effective August 2016. The ABL Facility bears interest at a variable base rate plus an applicable spread, contingent on the Company's ABL Facility availability, as defined in the ABL Facility credit agreement. The ABL Facility effective interest rate was 3.5% as of December 31, 2017. We made an initial draw of $55 million on the ABL Facility on June 30, 2016, and the balance as of December 31, 2017 was $115.3 million. The maturity date for the ABL Facility is September 30, 2021, and the maturity date for the Term Loan is September 30, 2022.

The New Senior Secured Credit Facilities are guaranteed on a senior secured basis by all assets of the Company and its wholly-owned subsidiaries ("Guarantors") except Prospect Health Plan, Inc., Connecticut Healthcare Insurance Co., Prospect Medical Holding Risk Retention Group, Inc., Prospect Health Access Network, Inc. and certain immaterial subsidiaries. The ABL Facility has a first priority security interest on the working capital assets of the Company and the Guarantors and a second priority security interest on their fixed assets. The Term Loan has a first priority security interest on fixed assets and a second priority security interest on working capital assets. The New Senior Secured Credit Facilities are effectively senior to all of our existing and future indebtedness.

USE OF ADJUSTED EBITDA

This Earnings Release contains "non-GAAP financial measures," that is, financial measures that either exclude or include amounts that are not excluded or included in the most directly comparable measure calculated and presented in accordance with generally accepted accounting principles. Specifically, we make use of the non-GAAP measures "EBITDA" and "Adjusted EBITDA." We also make use of ratios based on these non-GAAP measures.

We define EBITDA as net income (loss) plus (i) provision for income taxes, (ii) interest expense, net (including amortization of deferred financing costs), (iii) depreciation, (iv) amortization, and (v) other non-cash charges. In addition, we define Adjusted EBITDA as EBITDA as further adjusted to eliminate the impact of certain items that we do not consider indicative of our ongoing operating performance, including transaction costs, certain legal expenses, stock-based compensation, sponsor structuring and management fees, go-private transaction costs, purchase price adjustments and pre-acquisition items, and other unusual and non-recurring charges. Management believes that EBITDA and Adjusted EBITDA are useful tools for investors and other users of our financial statements in assessing our ability to service and/or incur indebtedness, maintain current operating levels of capital assets and acquire additional operations and businesses. Management believes that the most directly comparable GAAP measure is net income (loss). A reconciliation of EBITDA and Adjusted EBITDA to our net income (loss) under generally accepted accounting principles, or GAAP, for certain periods presented in our financial statements is included at page 29 of this release.

Some of these limitations are:

- They do not reflect cash outlays for capital expenditures or future contractual commitments;
- They do not reflect changes in, or cash requirements for, working capital;
- They do not reflect interest expense, or the cash requirement necessary to service interest, or principal payments, on indebtedness;
- They do not reflect income tax expense or the cash necessary to pay income taxes;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA and Adjusted EBITDA do not reflect cash requirements for such replacements; and
- Other companies, including other companies in our industry, may not use such measures or may calculate the measures differently than as presented in this earnings release, limiting their usefulness as a comparative measure.

Because of these limitations, EBITDA, Adjusted EBITDA or any related ratio using such measures should be considered only as a supplemental measure in addition to, and not in lieu of, our GAAP income and cash flow statements, and not as a measure of discretionary cash available to invest in business growth or reduce indebtedness.

CONFERENCE CALL

Management will host a conference call on Monday, February 26, 2018 at 1:00 pm PST / 4:00 pm EST to discuss these results. Interested parties may participate in the call by dialing Redacted (Domestic) or Redacted (International) approximately 10 minutes before the call is scheduled to begin, and ask to be connected to the Prospect Medical Holdings conference call. The conference call will be broadcast live over the internet at the following link: Redacted To listen to the live call on the internet, go to the website at least 15 minutes early to register, and download and install any necessary audio software. A replay of the call will be available for 30 days at this link, or by dialing Redacted (Domestic) or Redacted (International) (Conference ID Redacted).

ABOUT PROSPECT MEDICAL HOLDINGS

Prospect Medical Holdings, Inc. is a healthcare services company that owns and operates 20 facilities, with approximately 3,800 licensed beds, as well as clinics and outpatient centers. Prospect also manages the provision of healthcare services for members enrolled in its networks. Prospect's hospitals are located in diverse, high-density population areas within markets in California, Texas, Rhode Island, New Jersey, Pennsylvania, and Connecticut. Prospect Medical Holdings' website can be found at www.pmh.com.

FORWARD-LOOKING STATEMENTS

This earnings release contains forward-looking statements. Additional written or oral forward-looking statements may be made by Prospect from time to time. Statements contained herein that are not historical facts are forward-looking statements. Readers are cautioned that forward-looking statements, including the statements regarding anticipated or expected results, involve risks and uncertainties which may affect the Company's business and prospects. Any forward-looking statements contained in this earnings release represent our estimates only as of the date hereof, or as of such earlier dates as are indicated, and should not be relied upon as representing our estimates as of any subsequent date. While we may elect to update forward-looking statements at some point in the future, we specifically disclaim any obligation to do so, even if our estimates change.

Three months ended December 31, 2017 compared to the three months ended December 31, 2016

Hospital Services Segment

The following table sets forth the results of operations for our Hospital Services segment for the three months ended December 31, 2017 and 2016. Hospital services expenses do not include allocation of corporate overhead or interest expense - see "Corporate Segment" below. The California Hospital Fee Program, Texas Section 1115 Waiver Program and Service Organization of San Antonio ("SOSA") expense significantly impact the comparability of our results between periods. As a result, our discussion of results also includes a description on a "normalized basis" that excludes their impact for the three months ended December 31, 2017 and 2016.

(Unaudited, in thousands)	Three Months Ended December 31,	
	2017	2016
Revenues:		
Net Hospital Services revenues (1):		
Medicare	$ 207,559	$ 210,286
Medicaid	326,265	182,859
Managed care	159,778	144,238
Self pay / other payor	59,314	58,309
Capitation revenue	38,254	24,249
Other	15,192	14,557
Hospital Services revenues	806,362	634,497
Provision for bad debts	(27,933)	(24,294)
Net Hospital Services revenues	778,429	610,203
Other revenues	8,725	16,546
Total Revenues	787,154	626,749
Hospital Services operating expenses:		
Salaries, wages and benefits	323,834	329,077
Supplies	62,347	67,198
Capitation expense	35,859	22,945
Other operating expenses (1)	144,400	91,514
Total Hospital Services operating expenses	566,440	510,735
General and administrative	93,445	82,620
Depreciation and amortization	21,643	21,026
Total non-medical expenses	115,089	103,646
Operating income (loss) from unconsolidated joint ventures	633	739
Operating income from continuing operations	106,258	13,108
Operating loss (income) from discontinued operations	-	569
Operating income	$ 106,258	$ 12,539

(1) Supplemental Reimbursement Program amounts recognized and related expenses:

(Unaudited, in thousands)	Three Months Ended December 31,	
	2017 (A)	2016
California Hospital Fee program revenues	$ 35,274	$ 24,798
California Hospital Fee program expenses	(13,490)	(16,416)
Net pre-tax impact	$ 21,783	$ 8,382
Texas Section 1115 Waiver revenues	$ 6,058	$ 6,267
Texas Section 1115 Waiver contract revenues	1,000	1,046
Texas Section 1115 Waiver contract expenses	(597)	(1,096)
Total Texas Section 1115 Waiver net pre-tax impact	$ 6,461	$ 6,217
Texas Rural community provision of services (SOSA)	$ (2,930)	$ (3,674)
Net pre-tax impact	$ 3,531	$ 2,543
Pennsylvania Medicaid Modernization revenues	$ 8,302	$ 10,503
Pennsylvania Medicaid Modernization expenses	(4,181)	(4,181)
	$ 4,121	$ 6,322
Pennsylvania Community Access Fund and Legislative Initiative revenues	$ 8,316	$ 3,895
Net pre-tax impact	$ 12,437	$ 10,217
Rhode Island DSH & UPL revenues	$ 4,678	$ 5,032
Rhode Island License Fees	(4,186)	(3,988)
Net pre-tax impact	$ 492	$ 1,044
Connecticut Medicaid DSH revenues	$ 8,413	$ 1,975
Connecticut Provider Tax	(10,033)	(6,755)
Net pre-tax impact	$ (1,620)	$ (4,780)
Total Hospital Services revenues	$ 72,041	$ 53,516
Total Hospital Services operating expenses	(35,417)	(36,110)
Total net pre-tax impact	$ 36,623	$ 17,406

(A) Hospital revenue and expenses recognized during fiscal 2018 first quarter under the California Hospital Fee Program were $164.8 million and $72.1 million respectively, for a net pre-tax benefit of $92.7 million.

California Hospital Fee Program applicable to the period October 1, 2017 to December 31, 2017 totaled approximately $35.3 million of revenues, approximately $13.5 million of expense and a net benefit of approximately $21.8 million.

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The following table shows certain selected historical operating statistics for our hospitals for the three months ended December 31, 2017 and 2016:

(Unaudited)	Three Months Ended December 31,	
	2017	2016
Net inpatient revenues (in thousands) (1) (9)	$ 371,428	$ 360,092
Net inpatient revenues excluding California Hospital Fee Program revenues (in thousands) (1)	$ 336,154	$ 335,294
Net outpatient revenues (in thousands)	$ 250,817	$ 235,599
Capitation revenues (in thousands)	$ 38,254	$ 24,249
Other hospital services revenues (in thousands) (2)	$ 15,192	$ 14,557
Other revenues (in thousands) (2)	$ 8,725	$ 16,546
California Hospital Fee Program revenues (in thousands) (3) (9)	$ 35,274	$ 24,798
Texas Section 1115 Waiver revenues (in thousands) (3)	$ 7,058	$ 7,313
Number of hospitals at end of period	20	20
Licensed beds at end of the period	3,762	3,762
Average licensed beds	3,762	3,762
Average staffed beds	2,130	2,022
Occupancy rate for staffed beds (4)	84.2%	83.4%
Admissions (5)	27,394	27,076
Adjusted patient admissions (6)	47,052	45,780
Net inpatient revenue per admission (in thousands) (9)	$ 13,559	$ 13,299
Patient days	165,059	155,121
Adjusted patient days (7)	278,389	279,060
Net inpatient revenue per patient day (in thousands) (9)	$ 2,250	$ 2,321
Average length of patients' stay (days) (8)	6.0	5.7
Outpatient visits	583,947	666,382
Net outpatient revenue per visit (in thousands)	$ 430	$ 354

(1) Net inpatient revenues include self-pay revenues of $10.0 million and $5.9 million for the three months ended December 31, 2017 and 2016, respectively.

(2) Other hospital service revenues consist of revenues earned from ancillary and other hospital operations, while other revenues consist primarily of rental income, incentive revenues earned for the implementation of certified EHR technology at our hospitals, tuition revenue from the St. Joseph Health Services of Rhode Island School of Nursing, and Crozer Health Club membership and other revenues.

(3) California Hospital Fee Program revenues are included in Inpatient (Medicaid) revenues, Texas Section 1115 Waiver revenues are included in Inpatient (Medicaid) revenues and other hospital services revenue, and Pennsylvania Medicare Modernization Act, Community Access Funds and Legislative Initiatives revenues are included in Inpatient (Medicaid) revenues.

(4) The occupancy rate for staffed beds represents average daily census in the period divided by staffed beds. Occupancy rates are affected by many factors, including the population size and general economic conditions within particular market service areas, the degrees of variation in medical and surgical products, outpatient use of hospital services, quality and treatment availability at competing hospitals, and seasonality.

(5) Charity care admissions represented 0.0% and 0.2% of total admissions for the three months ended December 31, 2017 and 2016, respectively.

(6) Adjusted patient admissions are total admissions adjusted for outpatient volume. Adjusted patient admissions are computed by multiplying admissions (inpatient volume) by the sum of gross inpatient charges and gross outpatient charges and then dividing the resulting amount by gross inpatient charges.

(7) Adjusted patient days are total patient days adjusted for outpatient volume. Adjusted patient days are computed by multiplying patient days (inpatient volume) by the sum of gross inpatient charges and gross outpatient charges and then dividing the resulting amount by gross inpatient charges.

(8) Average length of patients' stay ("ALOS") is calculated by dividing total discharged patient days by total patient discharges during the period, and includes the length of patients' stay related to psychiatric, sub-acute, and rehabilitation services.

(9) Excludes $129.5 million of California Hospital Fee Program revenues applicable to periods prior to the three months ended December 31, 2017.

Medical Group Segment

The following table sets forth the results of operations for our Medical Group operations for the three months ended December 31, 2017 and 2016. Cost of revenues does not include allocation of corporate overhead or interest expense - see "Corporate Segment" below.

(Unaudited, in thousands)	Three Months Ended December 31, 2017	2016
Medical Group revenues:		
Capitation	$ 75,232	$ 84,607
Management fees	2,067	2,045
Other operating revenues (1)	5,034	7,793
Total Medical Group revenues	82,333	94,445
Medical Group cost of revenues:		
PCP capitation	12,925	12,369
Specialist capitation	10,089	12,550
Claims expense	34,206	32,201
Physician incentives	3,573	11,093
Other cost of revenues	1,088	873
Total Medical Group cost of revenues	61,881	69,086
Gross margin	20,452	25,359
General and administrative	17,004	14,949
Depreciation and amortization	782	826
Total other expenses	17,786	15,775
(Loss) income from unconsolidated joint ventures	-	(101)
Operating income	$ 2,666	$ 9,483
Medical cost ratio	76.1%	67.5%

The following table sets forth the approximate number of members, by category, as of December 31, 2017 and 2016:

	As of December 31,	
(Unaudited, in thousands)	**2017**	**2016**
Commercial - owned	80.2	89.4
Commercial - managed (2)	5.7	5.6
Senior - owned	31.5	32.2
Senior - managed (2)	3.3	3.2
Medicaid - owned	80.9	75.2
Medicaid - managed (2)	36.0	35.6
Health Insurance Exchange - managed (2) (3)	14.1	14.0
Value Based Reimbursement (4)	221.9	174.2
	473.6	429.4

(1) Other operating revenues primarily consist of payments from HMOs under pay-for-performance programs and are recognized each year once the amounts of such items are known, as well as patient service revenues related to clinical operations.

(2) Represents members that we manage on behalf of third parties in exchange for a monthly management fee.

(3) Our management services company is party to an agreement with one of our major HMOs to manage the provision of medical services to members enrolled under the PPACA Health Insurance Exchange program. We receive a fixed per member per month management fee under the program and do not share in the risk for medical services for such members.

(4) Value Based Membership also defined as Population under management. We have direct contracts with multiple Health Plans in all of the states where we operate to provide quality care to the population under management improving care delivery to the members in most cost efficient manner for a fixed infrastructure payments. In many of the contracts, we also receive variable revenue also called Pay for Performance for improving health scores, and closing quality gaps. In addition, in some of the contracts, we are also eligible for upside and downside sharing of risk pools for the population under management.

Global Risk Management Segment

The following table sets forth the results of operations for our Global Risk Management segment for the three months ended December 31, 2017 and 2016. Global Risk Management expenses do not include allocation of corporate overhead or interest expense - see "Corporate Segment" below. Capitation revenue includes net capitation revenue retained by the Global Risk Management segment after transfer of capitation to the Hospital Services and Medical Group segments.

(Unaudited, in thousands)	Three Months Ended December 31, 2017	2016
Global Risk Management revenues:		
Capitation (1) (2)	$ 5,362	$ 1,443
Other operating revenues	1,818	186
Total Global Risk Management revenues	7,180	1,629
Global Risk Management cost of revenues:		
Capitation Expense	868	-
Claims Expense	4,836	973
Total Global Risk Management cost of revenues	5,704	973
Gross margin	1,476	656
General and administrative (3)	2,006	1,476
Total other expenses	2,006	1,476
Operating (loss)	$ (530)	$ (820)

(1) For the three months ended December 31, 2017 and 2016, capitation revenue includes $63.5 million and $19.1 million, respectively, received from health plans, of which $55.4 million and $17.3 million, respectively, were transferred to our Medical Group and Hospital Services segments.

(2) Capitation revenue includes shared risk pool deficit of ($2.7) million and ($0.3) million for the three months ended December 31, 2017 and 2016, respectively.

(3) General and administrative expenses include development costs incurred for our Global Risk Management segment.

Corporate Segment

The Corporate segment primarily reflects certain expenses incurred at Prospect Medical Holdings, Inc. not specifically allocable to the Hospital Services, Medical Group, or Global Risk Management segments. These include, but are not limited to: salaries, benefits and other compensation for corporate employees; financing expenses; insurance expenses; rent; legal fees; and accounting fees. Additionally, this segment includes operations of a captive insurance company, Prospect Medical Holding Risk Retention Group, Inc. ("RRG"), which was incorporated on June 20, 2016 in the state of Vermont. The RRG was formed as a wholly-owned subsidiary of the Company to provide primary insurance coverage for hospital and physician professional and general liability risks for the Company's subsidiary health care organization. The Company does not allocate interest expense related to acquisition debt or income taxes to the other reporting segments.

The following table summarizes our corporate expenses for the three months ended December 31, 2017 and 2016:

(Unaudited, in thousands)	Three Months Ended December 31, 2017	2016
Operating Expenses:		
General and administrative (1)	$ 5,671	$ 7,531
Depreciation and amortization	37	36
Total Corporate Expenses	$ 5,708	$ 7,567

1) General and administrative expenses reflect a decrease in transaction and development costs of $1.8 million from the three months ended December 31, 2016 to the three months ended December 31, 2017.

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Three months ended December 31, 2017 compared to the three months ended December 31, 2016

Hospital Services Segment Results of Operations

Net Hospital Services Revenues

Hospital services revenues before provision for bad debts was $806.4 million for the first quarter of fiscal 2018 ("fiscal 2018 quarter") compared to $634.5 million for the first quarter of fiscal 2017 ("fiscal 2017 quarter"). On a normalized basis and excluding the effect of the California Hospital Fee Program and Texas Section 1115 Waiver Program revenues, hospital services revenues before provision for bad debts increased 5.3% from $602.4 million for the fiscal 2017 quarter to $634.5 million for the fiscal 2018 quarter. The $32.1 million increase in Hospital Services segment revenues was primarily due to increased enrollment resulting from new Global Capitation arrangement at our Foothill facility effective July 1, 2017, in addition to an increase in Inpatient volume with Medicare discharges at our Waterbury facility.

Provision for bad debts, on a normalized basis, as a percentage of hospital services revenues (excluding the effect of the California Hospital Fee Program and Texas Section 1115 Waiver Program), increased from 4.2% in the first quarter of fiscal year 2017 to 4.7% in the same quarter of fiscal year 2018 due to the increase in provision for bad debts at our Connecticut, Pennsylvania and New Jersey facilities, driven by receivables ageing more than one year post acquisition at the beginning of fiscal 2017 first quarter. The provision for bad debts relates principally to amounts due from self-pay patients and self-pay after insurance.

Other revenues consist primarily of Nix Health and CharterCARE commercial real estate rental income, incentive revenues earned for the implementation of certified EHR technology at our hospitals, and Crozer Health Club membership dues. On a normalized basis, other revenue decreased from $14.4 million for the fiscal 2017 quarter to $8.7 million for the fiscal 2018 quarter, primarily due to the sale of placement rights for cell towers during fiscal 2017 first quarter at our Rhode Island and Connecticut facilities, in addition to EHR incentives at our southern California hospitals during fiscal 2017 first quarter.

Hospital Services Operating Expenses

Salaries, wages and benefits ("SWB") decreased from $329.1 million during the fiscal 2017 first quarter to $323.8 million during the same fiscal 2018 quarter. On a normalized basis, SWB as a percentage of net hospital services revenues (excluding the effect of the California Hospital Fee Program and Texas Section 1115 Waiver Program), decreased to 57.0% for the first quarter of fiscal year 2018 from 59.4% for the same quarter of fiscal 2017.

Supplies expense decreased from $67.2 million in the fiscal 2017 quarter to $62.3 million in the fiscal 2018 quarter, due to decrease in spine surgical implants and decrease in pharmaceutical consumption. On a normalized basis, supplies expense as a percentage of net hospital services revenues (excluding the effect of the California Hospital Fee Program and Texas Section 1115 Waiver Program), decreased from 12.1% during the fiscal 2017 quarter to 11.0% during the fiscal 2018 quarter.

Capitation expense increased from $22.9 million in the fiscal 2017 quarter to $35.9 million in the fiscal 2018 quarter, due to new Global Capitation arrangement at Foothill facility effective July 1, 2017 resulting in increased enrollment from 55,211 at December 31, 2016 to 98,833 at December 31, 2017. We recognize revenue and expenses in the Hospital Services segment for global capitation arrangements for which hospitals in our Hospital Services segment are responsible for the provision of care to members under such arrangements.

Other operating expenses increased from $91.5 million in the fiscal 2017 quarter to $144.4 million in the fiscal 2018 quarter. On a normalized basis and excluding the effect of the California Hospital Fee Program, Texas Section 1115 Waiver Program and capitation revenue, other operating expenses as a percentage of net hospital services revenues decreased from 12.7% during the fiscal 2017 quarter to 12.1% during the fiscal 2018 quarter.

General and Administrative

Hospital General and Administrative ("G&A") expense increased from $82.6 million in the fiscal 2017 quarter to $93.4 million in the fiscal 2018 quarter. The $10.8 million increase was primarily due to costs incurred with related to professional liability insurance, professional fees and an increase in property tax in connection to the acquisition of a new school at our Pennsylvania facilities. On a normalized basis, G&A as a percentage of net hospital services revenues (excluding the effect of the California Hospital Fee Program, Texas Section 1115 Waiver Program), increased from 14.9% to 16.4% for the fiscal 2017 and 2018 quarters, respectively.

Depreciation and Amortization

Depreciation and amortization expense increased from $21.0 million in the fiscal 2017 quarter to $21.6 million in the fiscal 2018 quarter. On a normalized basis, depreciation and amortization as a percentage of net hospital services revenues (excluding the effect of the California Hospital Fee Program and Texas Section 1115 Waiver Program), remained at 3.8% for both fiscal 2017 and 2018 quarters.

Income from Unconsolidated Joint Ventures

Income from unconsolidated joint ventures was $0.6 million for the fiscal 2018 first quarter compared to $0.7 million in the fiscal 2017 quarter. Income from unconsolidated joint ventures consists of equity method income related to CharterCare, Crozer, ECHN and Waterbury joint ventures and equity method investments.

Operating Income from Continuing Operations

Hospital Services operating income from continuing operations were $106.3 million in the fiscal 2018 first quarter compared to $13.1 million in the same fiscal 2017 quarter.

Medical Group Segment Results of Operations

Medical Group Revenue

Capitation revenue decreased 11.1% to $75.2 million for the fiscal 2018 quarter from $84.6 million for the fiscal 2017 quarter. The decrease was primarily due to lower shared risk-pool revenue, which was impacted by timing of settlement of shared risk-pool, and partially offset by higher Medicaid member-months.

Management fee revenue remained flat at $2.0 million for both the fiscal periods. Management fees range from 6.5% to 12.0% of revenues, depending on the type of revenues.

Other operating revenue decreased 35.4% to $5.0 million for the fiscal 2018 quarter from $7.8 million for the fiscal 2017 quarter. The decrease was primarily due to timing of performance incentive payments and other wellness programs reimbursements.

Medical Group Operating Expenses

Primary care physician ("PCP") capitation expense increased 4.5% to $12.9 million for the fiscal quarter 2018 compared to $12.4 million for the fiscal quarter 2017. PCP capitation expense as a percentage of capitation revenues increased to 17.2% from 14.6%. The increase in PCP capitation expense as a percentage of capitation revenues was primarily due to competitive rate increases to PCP to secure market share, partially offset by the effect of lower capitation revenue.

Specialist capitation expense decreased 19.6% to $10.1 million for the fiscal quarter 2018 from $12.6 million for the fiscal quarter 2017. Specialist capitation expense as a percentage of capitation revenues decreased to 13.4% from 14.8%. The decrease in specialist capitation expense as a percentage of capitation revenues was primarily due to certain physicians switching from capitation to fee-for-service payment arrangement, partially offset by the effect of lower capitation revenue.

Claims expense increased 6.2% to $34.2 million for the fiscal quarter 2018 from $32.2 million for the fiscal quarter 2017. Claims expense as a percentage of capitation revenues increased to 45.5% for the fiscal quarter 2018 from 38.1% for the fiscal quarter 2017. The increase in claims expense as a percentage of capitation revenues was primarily due to certain physicians switching from capitation to fee-for-service payment arrangements and the effect of lower capitation revenue.

Physician incentives expense decreased 67.8% to $3.6 million for the fiscal quarter 2018 from $11.1 million for the fiscal quarter 2017. The decrease was primarily due to lower shared risk revenue and lower discretionary bonus and profit sharing incentive payment.

Other cost of revenues was $1.1 million for the fiscal 2018 quarter compared to $0.9 million for the fiscal 2017 quarter. The increase was primarily due to higher utilization of contracted physicians at our clinic operations in the fiscal quarter 2018 compared to the fiscal quarter 2017.

Medical Cost Ratio and Gross Margin

Medical care costs as a percentage of Medical Group capitation revenues (the medical cost ratio, a non-GAAP measure) increased to 76.1% for the fiscal quarter 2018 from 67.5% for the fiscal quarter 2017, and gross margin, as a percentage of total revenue, decreased to 24.8% for the fiscal quarter 2018 from 26.9% for the fiscal quarter 2017. These changes were the result of items discussed above.

General and Administrative

G&A expenses increased 13.8% to $17.0 million for the fiscal quarter 2018 from $14.9 million for the fiscal quarter 2017. G&A expenses as a percentage of total Medical Group revenues increased to 20.7% for the fiscal quarter 2018 from 15.8% for the fiscal quarter 2017. The increase in G&A expenses as a percentage of total Medical Group revenues was primarily due to increase in SWB related to expansion of our value-based business.

Depreciation and Amortization

Depreciation and amortization expense remained consistent at $0.8 million for both fiscal periods.

Income (Loss) from Unconsolidated Joint Ventures

Income (loss) from unconsolidated joint ventures (our 50% partnership interest in AMVI/Prospect Medical Group) was none and ($0.1) million for the fiscal quarters of 2018 and 2017, respectively.

Operating Income

Our Medical Group segment reported operating income decreased $6.8 million or 71.9% to $2.7 million for the fiscal quarter 2018 from $9.5 million for the fiscal quarter 2017 as a result of the items discussed above.

Global Risk Management Segment Results of Operations

Global Risk Management Revenue

Our Global Risk Management segment began operations during the first quarter of fiscal 2015. The Global Risk Management segment entered into Management Services Agreements with our Medical Group and Hospital Services segments, under which up to 98% of capitation revenue received is transferred to the Medical Group and Hospital Services segments. Capitation revenue recognized increased to $7.2 million for the fiscal 2018 quarter from $1.6 million for the fiscal 2017 quarter. During the fiscal 2018 quarter, capitation revenue received from health plans was $63.5 million, of which $26.4 million and $29.0 million was transferred to our Hospital Services segment and Medical Group segment, respectively. During the fiscal 2017 quarter, capitation revenue received from health plans was $19.1 million, of which $8.5 million and $8.8 million were transferred to our Hospital Services segment and Medical Group segment, respectively. The increases in capitation revenue and the amounts transferred to the Hospital Services segment and Medical Group segment were primarily due to expansion of health plans in California, partially offset by loss in risk pool revenue.

Global Risk Management Cost of Revenues

Cost of revenues increased to $5.7 million during the fiscal 2018 quarter from $1.0 million during the fiscal 2017 quarter. Claims expense as a percentage of capitation revenues increased to 67.4% for the fiscal 2018 quarter from 59.7% for the fiscal 2017 quarter.

General and Administrative

G&A expenses increased to $2.0 million for the fiscal 2018 quarter from $1.5 million for the fiscal 2017 quarter. Increase in G&A expenses was primarily due to increase in SWB, partially offset by a decrease in utilization of outside services related to business development activities within our Global Risk Management segment. G&A expenses as a percentage of total revenues decreased to 26.9% for the fiscal 2018 quarter from 90.6% for the fiscal 2017 quarter. The increase was mainly attributable to increased costs incurred related to expansion to new markets.

Operating (Loss)

Our Global Risk Management segment reported an operating loss of ($0.5) million and ($0.8) million for the fiscal 2018 quarter and fiscal 2017 quarter, respectively, as a result of the items discussed above.

Corporate Segment Results of Operations

G&A expenses decreased to $5.7 million during the fiscal 2018 quarter from $7.6 million during the fiscal 2017 quarter. The decrease was due primarily to a decrease in the utilization of outside services related to business combination as acquisitions including ECHN and Waterbury were completed in the fiscal 2017 quarter as compared to no such activities during the fiscal 2018 quarter.

Consolidated Results of Operations

Other Income and Expense, Net

Interest expense, net, increased from $13.7 million for the fiscal 2017 quarter to $19.3 million for the fiscal 2018 quarter.

Provision for Income Taxes

The income tax provision was $25.4 million for the fiscal 2018 quarter compared to a provision for income taxes of $0.2 million for the fiscal 2017 quarter.

Liquidity and Capital Resources

Cash Flow for the three months ended December 31, 2017 compared to the three months ended December 31, 2016

Cash Flow from Operations

Net cash provided by operating activities for the three months ended December 31, 2017 was $68.4 million, compared to net cash used of $23.8 million for the fiscal 2017 quarter. The increase of $92.2 million was primarily due to the following factors:

Increases as a result of:

- Decrease in income taxes receivable, net of $29.3 million in the fiscal 2018 quarter as compared to an increase of $1.2 million in the fiscal 2017 quarter;
- Increase in the net effect of the amount and timing of the California Hospital Fee Program amounts recognized, representing an aggregate cash decrease of $64.1 million in the fiscal 2018 quarter, compared to a decrease of $8.7 million in the fiscal 2017 quarter;
- Decrease in other receivables, prepaid expenses and other current assets of $53.4 million in the fiscal 2018 quarter as compared to an increase of $20.8 million in the fiscal 2017 quarter; and
- Increase in net amounts due to/from government payers of $2.2 million in the fiscal 2018 quarter as compared to a decrease of $1.9 million in the fiscal 2017 quarter.

Decreases as a result of:

- Increase in patient accounts receivables of $7.2 million in the fiscal 2018 quarter as compared to an increase of $67.5 million in the fiscal 2017 quarter;
- Decrease in accounts payable and other accrued expenses of $57.4 million in the fiscal 2018 quarter as compared to an increase of $31.9 million in the fiscal 2017 quarter;
- Increase in Hospital Fee Program receivable of $126.2 million in the fiscal 2018 quarter as compared to an decrease of $0.1 million in the fiscal 2017 quarter;
- Increase in inventories of $1.0 million in the fiscal 2018 quarter as compared to an increase of $2.4 million in the fiscal 2017 quarter; and
- Increase in deposits and other assets of $2.2 million in the fiscal 2018 quarter as compared to a decrease of $5.4 million in the fiscal 2017 quarter.

Net cash used in investing activities was $24.9 million during the three months ended December 31, 2017, compared to $18.0 million during the three months ended December 31, 2016, including the following items:

- During the fiscal 2018 quarter, we spent $21.5 million on capital expenditures, compared to $14.1 million in the fiscal 2017 quarter;
- During the fiscal 2018 quarter, our restricted investments increased $3.3 million as compared to none during the fiscal 2017 quarter.

Net cash provided by financing activities was $18.3 million in the three months ended December 31, 2017, as compared to net cash provided by financing activities of $35.5 million in the prior year quarter, including the following items:

- The Company repaid $2.9 million and $2.5 million in amounts due under capital leases during the fiscal 2018 and 2017 quarters, respectively;
- The Company repaid $2.5 million of insurance premiums financing during the fiscal 2018 quarter as compared to $2.9 million during the fiscal 2017 quarter; and
- Decrease in restricted cash of $25.8 million as compared to a nominal increase for the fiscal 2018 and 2017 quarters, respectively.

PROSPECT MEDICAL HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par value and share amounts)

	December 31, 2017 (Unaudited)	September 30, 2017
ASSETS		
Current assets		
Cash and cash equivalents	$ 89,019	$ 27,109
Restricted cash	4,984	30,761
Restricted investments	19,130	15,810
Patient accounts receivable, net of allowance for doubtful accounts of $138,966 and $141,775	338,135	358,914
Due from government payers	59,086	51,152
Other receivables, prepaid expenses and other current assets	147,725	191,190
Income taxes receivable, net	139	-
Inventories	37,935	36,967
Hospital fee program receivable	185,361	59,209
Total current assets	881,514	771,112
Property, improvements and equipment, net	578,478	576,933
Deferred income taxes, net	104,123	104,323
Goodwill	310,695	310,695
Intangible assets, net	38,998	40,794
Other assets	60,142	58,543
Total assets	$ 1,973,950	$ 1,862,400
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities		
Accrued medical claims and other healthcare costs payable	$ 55,959	$ 55,485
Accounts payable and other accrued liabilities	268,210	320,246
Accrued salaries, wages and benefits	141,508	144,287
Hospital fee program liability	66,065	1,968
Due to government payrs	33,846	23,754
Income taxes payable, net	72,265	42,793
Revolving line of credit	112,967	113,061
Current portion of capital leases	11,241	11,315
Current portion of long-term debt	18,803	12,509
Other current liabilities	11,478	17,762
Total current liabilities	792,342	743,180
Senior secured loan	615,625	617,188
Insurance premium financing	9,795	8,531
Malpractice reserves	64,453	60,722
Capital leases, net of current portion	35,330	37,612
Asset retirement obligations	5,911	6,022
Other long-term liabilities	21,757	21,377
Pension obligation	250,370	300,364
Total liabilities	1,795,583	1,794,996
Commitments, Contingencies and Subsequent Events		
Stockholder's equity		
Common stock, $0.01 par value; 100 shares authorized, issued and outstanding	1	1
Additional paid-in capital	22,590	22,398
Accumulated other comprehensive income	61,525	8,148
Retained earnings	81,854	24,253
Total stockholder's equity attributable to Prospect Medical Holdings, Inc.	165,969	54,800
Non-controlling interests	12,398	12,604
Total stockholder's equity	178,367	67,404
Total liabilities and stockholder's equity	$ 1,973,950	$ 1,862,400

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PROSPECT MEDICAL HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands)

	Three Months Ended December 31, (Unaudited)	
	2017	2016
Revenues:		
Net Hospital Services revenues	$ 778,429	$ 610,202
Medical Group revenues	82,333	94,445
Net Global Risk Management revenues	7,180	1,629
Other revenues	8,724	16,546
Total net revenues	876,666	722,822
Operating expenses:		
Hospital services operating expenses	566,440	510,735
Medical Group cost of revenues	61,881	69,086
Global Risk Management cost of revenues	5,704	973
General and administrative	118,126	106,576
Depreciation and amortization	22,463	21,888
Total operating expenses	774,614	709,258
Operating income from unconsolidated joint ventures	633	638
Operating income	102,685	14,202
Other (income) / expense:		
Interest expense and amortization of deferred financing costs, net	19,310	13,735
Other (income) expense, net	517	99
Total other (income) / expense, net	19,826	13,834
Income before income taxes	82,858	369
Income tax provision	25,425	156
Net income from continuing operations	57,433	212
Loss from discontinued operations	-	978
Income tax provision (benefit)	-	(411)
Loss from discontinued operations	-	567
Net income before allocation to non-controlling interests	57,433	(355)
Net (income) attributable to non-controlling interests	(168)	(395)
Net income attributable to Prospect Medical Holdings, Inc.	57,602	40
Other comprehensive income (loss):		
Unrealized Loss on Available for Sale Investments	227	(19)
Pension Plan Gain	52,954	-
Total other comprehensive income (loss)	53,181	(19)
Total comprehensive income	$ 110,783	$ 21

PROSPECT MEDICAL HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Three Months Ended December 31,	
	2017	2016
	(Unaudited)	
Operating activities		
Net income (loss) before allocation to non-controlling interests	$ 57,433	$ (355)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	22,201	21,888
Amortization of deferred financing costs, net	502	555
Amortization of original issue discount and premium, net	398	391
Provision for bad debts	27,933	24,295
Deferred income taxes, net	200	125
Stock-based compensation	192	280
Undistributed earnings from equity method investments	593	(268)
Gain on sale of assets	(14)	-
Change in pension obligation, long-term	4,198	-
Change in operating assets and liabilities, net of business combinations:		
Patient accounts receivable	(7,154)	(67,470)
Due to/from government payers, net	2,158	(1,957)
Other receivables, prepaid expenses and other current assets	53,366	(20,841)
Hospital fee program receivable	(126,152)	147
Inventories	(968)	(2,410)
Hospital fee program liability	64,098	(8,874)
Income taxes receivable/payable, net	29,333	1,153
Deposits and other assets	(2,192)	(5,401)
Accrued medical claims and other healthcare costs payable	475	1,781
Accounts payable and other accrued liabilities	(57,368)	31,861
Pension obligation net periodic benefit credit	(815)	-
Net cash and cash equivalents provided by operating activities from discontinued operations	-	1,298
Net cash provided by (used in) operating activities	68,418	(23,802)
Investing activities		
Purchases of property, improvements and equipment	(21,531)	(14,141)
Cash paid for acquisitions, net of cash received and working capital adjustment	-	(4,137)
Proceeds from sale of equity method investments	-	4,334
Increase in restricted investments	(3,320)	(4,078)
Net cash and cash equivalents used in investing activities from discontinued operat	-	(7)
Net cash used in investing activities	(24,851)	(18,029)

PROSPECT MEDICAL HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(continued)

	Three Months Ended December 31,	
	2017	2016
	(Unaudited)	
Financing activities		
Repayments on Senior Secured Notes	(1,563)	(1,563)
Borrowings on line of credit, net	(94)	30,000
Repayments of insurance premiums financing	(111)	(232)
Proceeds from financing leases	-	13,863
Repayments of financing leases	(208)	(212)
Repayments of capital leases	(2,911)	(2,452)
Cash paid for deferred financing costs, net	-	(856)
Change in restricted cash	25,777	(164)
Repayments of insurance premiums financing	(2,547)	(2,893)
Net cash provided by financing activities	18,343	35,491
Decrease in cash and cash equivalents	61,910	(6,340)
Cash and cash equivalents at beginning of period	27,109	29,586
Cash and cash equivalents at end of period	$ 89,019	$ 23,246

	Three Months Ended December 31,	
	2017	2016
	(Unaudited)	
Supplemental disclosure of cash flow information:		
Interest paid	$ 13,059	$ 12,940
Income taxes paid	$ -	$ 243
Schedule of non-cash investing and financing activities:		
Equipment acquired under capital leases	$ 900	$ 2,284
Insurance premium financed	$ 9,900	$ 9,643

Summary Consolidated Financial Information

(Unaudited, in thousands)

	Three Months Ended December 31,	
	2017	2016
Summary Financial Information for Unrestricted Subsidiary (1) :		
Net revenues	$ 5,889	$ 1,395
EBITDA	$ 532	$ 103
Total debt	$ -	$ -
Total assets	$ 9,668	$ 6,440

(1) Prospect Health Plan, Inc. ("PHP") is an Unrestricted Subsidiary as of June 30, 2016 pursuant to the terms of the New Senior Credit Facilities agreements (see page 7).

Adjusted EBITDA Reconciliation
(Unaudited, in millions)

A reconciliation of Adjusted EBITDA to the most directly comparable GAAP measure in accordance with SEC Regulation G follows, for certain quarterly periods:

	Q2 16 [4]	Q3 16 [4]	Q4 16 [4]	Q1 17 [4]	Q2 17 [4]	Q3 17 [4]	Q4 17 [4]	Q1 18 [4]
EBITDA Reconciliation (unaudited):								
Net income from continuing operations (3)	$ (3.0)	$ (4.7)	$ (6.8)	$ 0.2	$ (8.6)	$ 10.6	$ 28.5	$ 57.4
Provision (benefit) for income taxes	(2.4)	(2.8)	0.8	0.2	7.1	(6.6)	(0.3)	25.4
Interest expense	10.6	$ 37.0	15.4	13.1	23.0	18.5	16.2	18.7
Depreciation and amortization	9.2	$ 10.1	19.0	21.9	21.4	21.8	39.0	22.0
Amortization of financing costs	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Loss on debt extinguishment	-	-	-	-	-	-	-	-
Gain on bargain purchase	-	-	-	-	-	-	(30.0)	-
Other	(0.2)	-	-	-	(3.0)	-	1.4	1.0
EBITDA	14.8	40.2	29.0	36.0	40.5	44.9	55.4	125.1
Adjustments (1)								
Transaction costs (2)	6.1	6.2	10.4	3.9	3.9	1.7	16.3	1.6
Litigation expenses	-	-	0.5	0.1	-	-	-	0.5
Stock-based compensation	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.1
Sponsor structuring and management fees	0.3	0.2	0.2	0.2	0.3	0.2	0.2	0.2
Strategic business planning	5.3	6.6	7.7	2.0	3.4	1.4	3.2	1.5
Adjusted EBITDA (3)	$ 26.8	$ 53.5	$ 48.1	$ 42.6	$ 48.4	$ 48.5	$ 75.3	$ 129.0
Adjusted EBITDA - Trailing Twelve Months (TTM)	$ 146.8	$ 147.5	$ 155.7	$ 171.0	$ 192.6	$ 187.6	$ 214.9	$ 301.2

Net Debt: Adjusted TTM EBITDA Ratio:	As reported	Proforma [6]
Adjusted EBITDA (TTM)	$ 301.2	$ 324.2
Ending debt	794.0	794.0
Less: Ending cash and investments	113.1	136.1
Ending net debt	$ 680.9	$ 657.9
Net Debt: Adjusted TTM EBITDA Ratio	2.26	2.03

(1) Management adjusts for expenses and gains that it does not consider in evaluating core operating performance for compensation, internal capital allocations, acquisition analysis or other strategic purposes.

(2) Transaction costs primarily relate to costs directly related to financing and merger and acquisition activity. Included in Q4 2017 was approximately $15 million of costs related to retro coverage premiums incurred in connection with the Crozer acquisition.

(3) $8.6 million of net California Hospital Fee Program income was recorded in Q2 16; $7.3 million of net California Hospital Fee Program income was recorded in Q3 16; $8.4 million of net California Hospital Fee Program income was recorded in Q4 16; and $8.4 million of net California Hospital Fee Program income was recorded in Q1 17. None of net California Hospital Fee Program income was recorded in Q2 17; $3.0 million of net California Hospital Fee Program was recorded in Q3 17; and $13.8 million of net California Hospital Fee Program was recorded in Q4 17; and $92.7 million of net California Hospital Fee Program was recorded in Q1 18.

(4) Quarterly results include the results of the CharterCARE Physician practices acquisitions (acquired at various dates from Q1 15 through Q3 16), PMCA (acquired December 1, 2015), East Orange (acquired March 1, 2016), Crozer (acquired July 1, 2016), EHCN (acquired October 1, 2016), Waterbury (acquired October 1, 2016) and Prospect Blackstone (acquired May 1, 2017) from their respective acquisition dates. Certain reclassifications were made to prior quarters' presentation to conform to the current quarter's presentation.

(5) The Company refinanced its debt effective June 30, 2016, and a portion of the proceeds were used to purchase Crozer effective July 1, 2016. Adjusted EBITDA - TTM does not include pro forma Adjusted EBITDA for acquisitions completed in the respective trailing twelve month periods.

(6) Pro-Forma adjustments include: Budgeted and approved increase in CT Supplemental Reimbursement of $9.3 million; temporary reduction in NJ Charity Care Reimbursement of ($3.0 million); budgeted and approved increase in TX DSH reimbursement of $1.8 million; negotiated and finalized contract rate increases of $7.7 million; and demonstrated run rate net contribution improvement from previously closed Foothill facility of $7.2 million.

PROSPECT MEDICAL HOLDINGS, INC.

CONTACT:
Steve Aleman, Chief Financial Officer
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Redacted

PROSPECT MEDICAL HOLDINGS REPORTS FISCAL 2018 SECOND QUARTER FINANCIAL RESULTS

Q2 FY 2018 Highlights Compared to Q2 FY 2017

- **Revenue increased 9.1% to $775.2 million from $710.8 million**
- **Adjusted EBITDA increased 22.6% to $59.3 million from $48.4 million**
- **Pro-Forma March 2018 Trailing Twelve Months ("TTM") Adjusted EBITDA is $339.8 million**

  TTM Adjusted EBITDA increased 62.1% to $312.1 million from $192.6 million
- **Operating income increased to $30.5 million compared to $19.2 million (excluding the effect of the payment in connection with Dividend Recapitalization transaction)**
- **Net Income increased to $6.0 million compared to net loss of $2.8 million (excluding the after-tax effect of payment in connection with Dividend Recapitalization transaction, loss on debt extinguishment and other nonrecurring expenses)**
- **Cash and Investments was $161.1 million at March 31, 2018 (when deferred 2017 and 2018 QAF is included)**

  Cash and investments was $53.7 million at March 31, 2018, after $108.4 million cash paid for capital acquisitions and pension contributions, and March 31, 2017 (when deferred 2017 and 2018 QAF is not included)
- **Net Debt to Pro Forma Adjusted TTM EBITDA Ratio is 3.51x at March 31, 2018 (when deferred 2017 and 2018 QAF is included)**

  Net Debt to Adjusted TTM EBITDA Ratio of 4.16x at March 31, 2018 (when deferred 2017 and 2018 QAF is not included)

  At comparable debt levels, the Net Debt to Adjusted TTM EBITDA Ratio is 2.26X at March 31, 2018 compared to 3.80x at March 31, 2017

Los Angeles, CA - May 16, 2018 - Prospect Medical Holdings, Inc. ("Prospect" or the "Company") today announced financial results for its fiscal 2018 second quarter ended March 31, 2018. The Company will host a conference call on May 31, 2018 at 1:00 pm PST (4:00 pm EST) to discuss these results - details at page 10 of this release.

Prospect's second quarter results reflect the continued investments in, and pursuit of, the Company's Coordinated-Regional-Care ("CRC") operating model that emphasizes quality care, cost-effectiveness and execution, through its hospitals, affiliated medical groups, clinics/outpatient centers and risk management platform. The Company believes that its CRC operating model provides great flexibility and efficiency, is well-suited to today's healthcare market, and positions the Company to capitalize on changes occurring and anticipated within the healthcare industry. Prospect continues to focus on improving operating performance, cross-fertilizing growth between its Hospital Services, Medical Group and Global Risk Management segments, and entering into value-enhancing arrangements with its health plan, hospital and physician partners.

CONSOLIDATED RESULTS OVERVIEW

Revenues increased 9.1% to $775.2 million for the fiscal 2018 second quarter from $710.7 million for the fiscal 2017 second quarter. Included in the $64.5 million quarter-over-quarter increase are a $67.0 million increase in Hospital Services revenues, a $2.5 million increase in Medical Group revenues, and a $3.4 million increase in Global Risk Management revenues, offset by an $8.3 million decrease in other revenues. The increase in Hospital Services revenues was primarily due to increased enrollment resulting from the new Global Capitation arrangement at our Foothill facility, in addition to an increase in inpatient volume with Medicare discharges at our Waterbury facility. Additionally, during the three months ended March 31, 2018, we recorded revenues related to the California Hospital Fee (QAF) program of $38.6 million. The increase in Medical Group revenues was primarily due to timing of recognition for Risk Adjustment Factor (RAF) / Hierarchical Condition Category (HCC) supplemental revenue, along with higher Medicaid and Senior member-months, partially offset by lower Commercial member-months and lower shared risk revenue. The increase in Global Risk Management revenues was primarily due to the expansion of health plans in California, partially offset by loss in risk pool revenue. The decrease in other revenues was primarily due to the sale of placement rights for cell towers at our Rhode Island, Connecticut and Culver City facilities within our Hospital Services Segment.

Total adjusted EBITDA increased 22.6% to $59.3 million for the fiscal 2018 second quarter from $48.4 million for the same fiscal 2017 quarter.

SEGMENT RESULTS OVERVIEW

Hospital Services

Fiscal 2018 second quarter Hospital Services segment revenues were $680.4 million compared to $621.8 million for the same fiscal 2017 quarter. On a normalized basis and excluding the effect of the California Hospital Fee Program and Texas Section 1115 Waiver Program revenues[1], net Hospital Services segment revenues increased 3.5% to $635.2 million for the fiscal 2018 second quarter from $613.7 million for the same fiscal 2017 quarter. The $58.6 million increase in Hospital Services segment revenues was primarily due to increased enrollment resulting from the new Global Capitation arrangement at our Foothill facility in Tustin, California effective July 1, 2017, in addition to an increase in inpatient volume with Medicare discharges at our Waterbury facility in Connecticut.

Total Hospital Services segment adjusted EBITDA increased 25.2% to $52.5 million for the fiscal 2018 second quarter from $42.0 million for the same fiscal 2017 quarter.

Medical Group

Fiscal 2018 second quarter Medical Group segment revenues were $88.8 million compared to $86.4 million for the same fiscal 2017 quarter. The increase was primarily due to timing of recognition for RAF/HCC supplemental revenue, along with higher Medicaid and Senior member-months, partially offset by lower Commercial member-months and lower shared risk revenue. Total Medical Group segment adjusted EBITDA increased 11.7% to $10.6 million for the fiscal 2018 second quarter from $9.5 million for the fiscal 2017 second quarter.

[1] California Hospital Fee Program revenue was $38.6 million and $0 million for the second quarter of fiscal 2018 and 2017, respectively. Texas Section 1115 Waiver revenue was $6.6 million and $7.3 million for the second quarter of fiscal 2018 and 2017, respectively. For a brief explanation of both programs, see the "Hospital Services - Reimbursement" section in the Management's Discussion and Analysis of Financial Condition and Results of Operations below.

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Global Risk Management

Our Global Risk Management Segment enters into global capitation arrangements with certain third-party health plans and manages the provision of care for members in coordination with our Hospital Services and Medical Group segments. Global Risk Management segment revenue was $6.0 million for the fiscal 2018 quarter compared to $2.6 million for the fiscal 2017 quarter. Capitation revenue received from health plans totaled $61.7 million and $29.5 million for the fiscal 2018 and 2017 quarters, respectively, of which $53.7 million and $26.6 million was transferred to our Medical Group and Hospital Services segments for the fiscal 2018 and 2017 quarters, respectively. Total Global Risk Management segment adjusted EBITDA was $1.2 million for the fiscal 2018 second quarter compared to $1.3 million for fiscal year 2017 second quarter.

Corporate

Corporate segment expenses increased to $44.3 million for the fiscal 2018 quarter from $5.8 million for the fiscal 2017 quarter. The increase was primarily due to increases in salary expenses as a result of the payment of $36.8 million in connection with the Dividend Recapitalization transaction to option holders during the fiscal 2018 quarter.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview and Recent Transactions

We provide quality, cost-efficient and coordinated healthcare services through our hospitals, clinics and physician networks in California, Texas, Rhode Island, New Jersey, Pennsylvania, and Connecticut. We conduct our business operations through four complementary segments: the Hospital Services segment, the Medical Group segment, the Global Risk Management segment and the Corporate segment.

Hospital Services

Through our Hospital Services segment, we own and operate 20 facilities with approximately 3,700 licensed beds. Our facilities are primarily located in diverse, high-density population areas and maintain important market positions in the areas they serve. Our facilities are 100% owned (with the exception of the CharterCARE facilities in Rhode Island, in which we have an 85% interest), and provide a comprehensive range of services tailored to their specific communities, including area hospitals, physicians, and health plans. We believe that our proven model has a number of competitive advantages, including a data-driven and cost-efficient platform that has enabled us to provide quality care.

Acquisitions and Divestitures

Effective July 1, 2016, our wholly-owned subsidiary Prospect Crozer, LLC ("Crozer") acquired certain assets and assumed certain liabilities of Crozer-Keystone Health System, which has locations throughout Delaware County in Pennsylvania and the surrounding areas for cash consideration of $56.4 million, subject to a working capital adjustment. During the year ended September 30, 2017, the purchase price allocation was finalized and in December 2017, the Company paid an additional $22.0 million as a working capital adjustment and added to the consideration paid. Crozer has 4 acute-care hospitals with 628 licensed beds, a network of outpatient centers and urgent care centers, a comprehensive physician network of primary care and specialty practices, and a sports club. Crozer provides a full range of services including acute care services, sub-acute care services, emergency and trauma services, behavioral health services, nursing and rehabilitative services, and physician care services. Assumed liabilities included a long-term pension obligation of $330.3 million as of July 1, 2016. In connection with the acquisition, Crozer paid $100.0 million into an escrow that was subsequently used, in part, to fund the underfunded pension liability. Results of operations for Crozer have been included in the results of our Hospital Services segment from the date of acquisition.

Effective October 1, 2016, our wholly-owned subsidiary Prospect ECHN, Inc. (and affiliated wholly-owned subsidiaries) acquired substantially all of the assets, and certain liabilities, of Eastern Connecticut Health Network, Inc. and certain of its subsidiaries in exchange for cash consideration of $105.0 million (subject to certain adjustments). During the fiscal 2018 second quarter, the purchase price allocation was finalized. Adjustments recognized during fiscal 2017 were adjusted on the opening balance sheet and adjustments recorded in the fiscal 2018 second quarter were recorded in the income statement, as proscribed under applicable accounting literature. The acquired assets include a network of hospitals, outpatient service centers and providers and specialists serving eastern Connecticut. Our acquired hospitals are The Manchester Memorial Hospital, an acute-care hospital with 283 licensed beds, and The Rockville General Hospital, an acute-care hospital with 118 licensed beds. The assumed liabilities included a long-term pension obligation of $66.9 million as of October 1, 2016. Results of operations for Prospect ECHN, Inc. are included in the results of our Hospital Services segment from the date of acquisition.

Effective October 1, 2016, our wholly-owned subsidiary Prospect Waterbury, Inc. (and affiliated wholly-owned subsidiaries) acquired substantially all of the assets, and certain liabilities, of Greater Waterbury Health Network, Inc. and certain of its subsidiaries in exchange for cash consideration of $31.8 million (subject to certain adjustments). During the fiscal 2018 second quarter, the purchase price allocation was finalized. Adjustments recognized during fiscal 2017 were adjusted on the opening balance sheet and adjustments recorded in the fiscal 2018 second quarter were recorded in the income statement, as proscribed under applicable accounting literature. The acquired assets include Waterbury Hospital, an acute-care hospital with 357 licensed beds, and a network of outpatient centers and affiliated physicians. Waterbury Hospital provides a comprehensive range of inpatient, outpatient and ancillary services for residents of Waterbury, Connecticut, and its surrounding community. The

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assumed liabilities included a long-term pension obligation of $11.8 million as of October 1, 2016. Results of operations for Prospect Waterbury, Inc. are included in the results of our Hospital Services segment from the date of acquisition.

Effective May 1, 2017, our wholly-owned subsidiary, Prospect Blackstone Valley Surgicare, LLC ("Prospect Blackstone"), completed an asset acquisition of a freestanding ambulatory surgery center located near our CharterCARE facilities in Rhode Island. It was purchased from Blackstone Valley Surgicare Acquisition, L.P. in exchange for cash consideration of $1.5 million, of which $100,000 is subject to an indemnification escrow hold-back. Results of operations for Prospect Blackstone have been included in the results of our Hospital Services segment from the date of acquisition.

Reimbursement

Our hospitals participate in the Medicaid programs in the states in which they are located.

California's Medicaid program, known as Medi-Cal, has both a fee-for-service component under which the State pays hospitals directly for covered services, and a managed care component, under which the State makes capitation payments to health plans which pay hospitals for services to Medi-Cal patients enrolled in the plans. Most Medi-Cal services are currently reimbursed under managed care.

Hospitals receive payments for inpatient services under the fee-for-service component based on prospectively set rates, which vary based on the AP-DRG to which the patient is assigned. Hospitals receive payments for outpatient services under the fee-for-service component based on a rate schedule established by the State. Under Medi-Cal managed care, most hospital reimbursement is based on rates in contracts between the health plans and the hospitals.

California makes certain supplemental payments to hospitals under Medi-Cal. The largest supplemental payment program is the Hospital Quality Assurance Fee program (the "California Hospital Fee Program" or "QAF program"). Under this program, supplemental payments are provided to hospitals, such as the hospitals owned and operated by the Company's subsidiaries. The California Hospital Fee Program requires participating hospitals to pay fee assessments into a special fund. A portion of these funds, together with federal matching funds, are then paid to qualifying hospitals based on a prescribed formula ("Fee for Service Component"). Another portion of the funds, together with federal matching funds, are paid as additional capitation payments to health plans participating in Medi-Cal managed care ("Managed Care Component"), and the health plans are required to disburse the additional capitation payments to hospitals. The net benefit for the California Hospital Fee Program for the period January 1, 2014 through December 31, 2016, for the Company, including Bellflower, was $80.0 million.

In November 2016, the California voters approved Proposition 52, which continued the California Hospital Fee Program after December 31, 2016. The California Hospital Fee Program is operated in cycles known as program periods. The next program period began January 1, 2017 and will end June 30, 2019. Subsequent program periods will be of a duration not to exceed three years.

In December 2017, CMS approved the fee-for-service inpatient and outpatient payments and taxes for the period from January 1, 2017 to June 30, 2019. The increased payments to the Medi-Cal managed plans for the current California Hospital Fee Program period is anticipated to occur the second half of Calendar 2018 when CMS approves the amended Health Plan contracts.

In July 2010, the Department of Health and Human Services ("HHS") published final regulations implementing the Health Information Technology for Economic and Clinical Health Act ("HITECH Act"). The final regulation establishes the requirements for the Medicare and Medicaid Electronic Health Records ("EHR") incentive programs, for which our acute care hospitals are eligible. We have completed certain phases of EHR implementations at our hospital facilities.

In Texas, inpatient hospital stays (except in state-owned teaching hospitals and psychiatric facilities) are reimbursed according to a prospective payment methodology based on diagnosis-related groups (DRGs). Outpatient Services are reimbursed on a reasonable cost based on a percentage of the hospital's most recent tentative Medicaid

cost report settlement as of August 31, 2013. The method of determining reasonable cost is similar to that used under Medicare.

Texas also reimburses hospitals through a Medicaid Section 1115 Waiver Program. The program has consisted of three major components: statewide Medicaid managed care, the Uncompensated Care ("UC") pool, and "Delivery System Reform Incentive Payment" (DSRIP). The UC pool contain $3.1 billion in annual funding to cover, among other things, "shortfall" between the cost of providing care to an uninsured patient and the reimbursement amount that Medicaid would pay for that service. DSRIP is an incentive pool with another $3.1 billion in annual funding that allows providers to earn payments for meeting certain CMS and HHSC-approved reporting and performance metrics for "a wide range of innovative projects. Historically, Nix Health has received payments from both the DSRIP and UC pools. Texas' Medicaid Section 1115 Waiver that CMS approved in December 2017 (the "2017 Waiver") extended the program for an additional five years from October 2017 through September 2022 but made significant changes to the pools. The UC pool will remain at $3.1 billion until September 2019 and will subsequently be adjusted based on aggregate provider data concerning charity care cost in 2017. Widespread failure by providers to report accurate charity care data will result in a "default" pool size of $2.3 billion. The DSRIP program will be phased out during the five-year period as federal matching funds of DSRIP activities will be reduced each year until it ceases entirely in 2021. Some of these funds might be available to support other programs, or if the original DSRIP projects will be continued or incorporated into managed care. Moreover, the impact of UC pool changes, particularly in relation to charity care hospitals, while currently uncertain, will become more evident with each passing deadline over the new Waiver's five-year term.

The Pennsylvania Medicaid Program has both a fee-for-service component and a managed care component. Hospitals receive payments for inpatient services under the fee-for-service component based on prospectively set rates, which vary based on the AP-DRG to which the patient is assigned. Hospitals receive payments for outpatient services under the fee-for-service component based on a rate schedule established by the State.

For inpatient hospital services provided under a participation agreement between an inpatient acute care hospital and a medical assistance managed care organization, payments are made as specified in the agreement.

Our Crozer hospitals are participants in Pennsylvania's Medicaid Modernization Assessment ("MMA"), which has been reauthorized through June 30, 2018, and also receive funds from the Pennsylvania Community Access Fund Grant and Legislative Initiative.

In Rhode Island, inpatient hospital services under fee-for-service Medicaid are reimbursed based on prospectively set rates, which vary based on the AP-DRG to which the patient is assigned. Outpatient services are paid under an Ambulatory Payment Classification (APC) Fee Schedule. Our hospitals in Rhode Island participate in the Medicaid Disproportionate Share Hospital ("DSH") program and receive additional reimbursement for treating a disproportionate share of low income patients. The state also assesses a provider tax based on net patient revenue. Rhode Island's proposed budget for FY 2019 includes various cuts to Medicaid spending, including freezing hospital reimbursement rates and requiring beneficiaries to pay co-payments for the first time in the program's history. This may adversely impact our hospitals' reimbursement from the Rhode Island Medicaid Program.

In Connecticut, inpatient hospital services under fee-for-service Medicaid are reimbursed based on prospectively set rates, which vary based on the AP-DRG to which the patient is assigned. Pursuant to state law, over a period of four years, starting in 2016, Connecticut is transitioning from hospital-specific AP-DRG base rates to state-wide rates by peer groups. Outpatient hospital services are paid under an Ambulatory Payment Classification (APC) prospective payment system based on the complexity of the services performed.

Our hospitals in Connecticut and New Jersey participate in their Medicaid DSH programs and receive additional reimbursements for treating a disproportionate share of low income patients. Our hospitals may also be eligible for a portion of a supplemental pool of funds equal to the hospital's pro rata share of the total Medicaid outpatient revenues of all eligible hospitals in the aggregate. Such payments, and the ultimate amount, are dependent on Federal approval of amendments to the States' Plans.

Connecticut assesses a provider tax based on total net revenue received by a hospital for the provision of inpatient hospital services and outpatient hospital services. The amount of the provider tax is currently in a state of flux and is the subject of both litigation and legislative changes to the state budget that must be federally approved. The

two-year budget adopted in late 2017 provides for an increase in the provider tax, as well as additional supplemental payments to be paid to hospitals. Both changes require federal approval (either of a tax waiver or state plan amendment), neither of which has been granted as of this date. Pending federal approval, hospitals are subject to the new tax, while the state has discretion to pay only half of the total amount of supplemental payments to hospitals. It is unclear when the federal government will approve the tax waiver and state amendments.

Medical Group

Through our Medical Group segment, we manage the provision of physician services to enrollees of HMOs in California, Texas, Rhode Island, New Jersey and Pennsylvania through a network of approximately 22,000 primary care and specialty physicians. We also recently contracted with a health plan to begin providing physician services in New Jersey and Connecticut. Our medical groups have a significant presence in Southern California and have capitated contracts with most major HMOs operating in the region. Under the capitated model, an HMO pays our medical groups a stable and predictable per-member-per-month ("PMPM") rate, or a "capitation" payment, for which the medical groups assume responsibility for providing required physician services for those enrollees.

Acquisitions

On December 18, 2014, the Company's newly formed subsidiary, New University Medical Group, LLC ("New UMG"), entered into an Asset Purchase Agreement pursuant to which New UMG acquired substantially all the assets of University Medical Group ("UMG"), a physician medical practice with approximately 35 primary care and specialist physicians located in multiple offices within Providence, Rhode Island, and the surrounding communities. As consideration for the acquisition, New UMG assumed certain designated liabilities of the practice. New UMG is a wholly owned subsidiary of Prospect CharterCARE RWMC, LLC ("Roger Williams Medical Center").

Effective on the December 18, 2014 initial closing date, New UMG acquired designated assets of the practice, including equipment, and entered into an Administrative Services Agreement (which was subsequently amended). In December 2017, the acquisition was completed after New UMG acquired the majority of the remaining assets of the practice.

Additionally, our physician practice subsidiaries in our states of operations have, from time to time, purchased the medical practices of physicians that then became employed (or engaged as independent contractors) by our acquiring entities. In the second fiscal quarter of 2018, PMCA acquired a California physician practice for $0.2 million.

In Rhode Island, our subsidiary, Prospect CharterCARE Physicians, LLC (DBA CharterCARE Medical Associates ("CCMA")) completed a physician practice acquisition in the second fiscal quarter of 2017 for a purchase price of $0.5 million and a subsequent practice acquisition in the fourth fiscal quarter of 2017 for a purchase price of $0.6 million.

In Connecticut, our subsidiary, Prospect CT Medical Foundation, Inc. ("PCTMF"), employs physicians within the services areas of our Prospect ECHN and Prospect Waterbury health networks. During the fiscal quarter ended March 31, 2018, PCTMF completed three physician practice acquisitions for an aggregate purchase price of $2.2 million.

Effective March 1, 2018, our Pennsylvania subsidiary, Prospect Health Access Network, Inc. ("HAN") completed its acquisition of a physician multi-specialty practice for a purchase price of $1.9 million. During the fiscal quarter ended March 31, 2017, HAN also completed an acquisition of a single physician practice for a purchase price of $0.1 million.

Global Risk Management

Our Global Risk Management segment is a new segment in our operations, reflecting the Company's pursuit of our CRC operating model and risk management platform, capitalizing on changes occurring and anticipated within the healthcare industry and emphasizing quality care, cost-effectiveness and execution under value-based reimbursement. We have expanded our global risk structure through Prospect Health Plan, Inc. ("PHP") in

California, Prospect Health Services TX, Inc. ("PHSTX") in Texas, Prospect Health Services RI, Inc. ("PHSRI") in Rhode Island, Prospect Health Services NJ, Inc. ("PHSNJ") in New Jersey, Prospect Health Services CT, Inc. ("PHSCT") in Connecticut, Prospect Health Services PA, Inc. ("PHSPA") in Pennsylvania, and Prospect ACO Northeast, LLC ("NE ACO"). These entities contract with third-party health plans and the Center of Medicare and Medicaid Services on progressive risk reimbursement models leading to global risk contracts for both physicians, other medical services and institutional services including hospital inpatient and outpatient services, home health, skilled nursing facility and other institutional services. In turn, our global risk management entities contract with owned and third-party independent physician associations, owned and third-party hospitals and other health care providers to assume and manage this global risk. Through these contracts, we manage health plan member populations with a focus on delivering coordinated care to members across our network of physicians and providers under risk and value-based contracts that reward value over volume.

The Global Risk Management segment also includes Coordinated Regional Care Group, Inc. ("CRCG"). CRCG includes development and operating costs related to the Global Risk Management segment for new markets and strategic initiatives.

Corporate

Capitalization

On June 30, 2016, we entered into a six-year $625.0 million senior secured term loan B (the "Original Term Loan"), the proceeds of which were used to repay $425.0 million for PMH's existing 8.375% senior secured notes due in 2019; to repay $60.0 million for borrowings under our existing revolving credit facility (the "Replaced Revolver"); to fund acquisitions, including the acquisition of Crozer-Keystone Health System in Pennsylvania, which closed on July 1, 2016; and to finance transaction fees and expenses. The Original Term Loan provided for interest at LIBOR (subject to a 1.0% floor) plus 6.0%, and the effective interest rate was 7.5% as of December 31, 2017. As described below, the Original Term Loan was refinanced and replaced on February 22, 2018.

Additionally, on June 30, 2016 we refinanced the Replaced Revolver with a new $100.0 million asset-based revolving credit facility ("Original ABL Facility"). The ABL limit was increased to $115.0 million effective August 2016. The Original ABL Facility provided for interest at a variable base rate plus an applicable spread, contingent on the Company's ABL Facility availability, as defined in the ABL Facility credit agreement. The Original ABL Facility effective interest rate was 3.5% as of December 31, 2017. We made an initial draw of $55.0 million on the ABL Facility on June 30, 2016, and the balance as of December 31, 2017 was $115.3 million. The maturity date for the Original ABL Facility was September 30, 2021, and the maturity date for the Original Term Loan was September 30, 2022.

On February 22, 2018, we refinanced and replaced both the Original Term Loan and the Original ABL Facility. We entered into an Amended and Restated Term Loan Credit Agreement (the "Amended TL Agreement"), by and among the Company (as the borrower), the lenders party thereto and JPMorgan Chase Bank, N.A. ("JPMorgan"), as administrative agent and collateral agent. The Amended TL Agreement replaced the Original Term Loan with a new Term B-1 Loan and Additional Term B-1 Commitment ("Term B-1 Loans"). The total maximum borrowing under the Term B-1 Loans is $1,120.0 million and such loans bear interest at LIBOR (subject to a 1.0% floor) plus 5.5%. The Term B-1 Loans were issued with an original discount of 2% and they mature on February 24, 2024.

Additionally, on February 22, 2018, we entered into an Amended and Restated ABL Credit Agreement (the "Amended ABL Agreement"), by and among the Company (as the borrower), the lenders party thereto and JPMorgan, as administrative agent and collateral agent. The Amended ABL Agreement replaced the Original ABL Facility. Under the agreement, the maximum borrowing is $250.0 million, and the new ABL facility (the "New ABL Facility") bears interest at a variable base rate plus an applicable spread that is contingent on Prospect's ABL Facility availability, as defined in the agreement. The New ABL Facility matures on February 22, 2023.

The proceeds of the Term B-1 Loans and the New ABL Facility (the "New Senior Secured Credit Facilities") were used to refinance the Original Term Loan and the Original ABL Facility, to pay a dividend of $457.0 million to the Company's stockholders, to pay certain expenses associated with the refinancing, to prefund approximately $38.0 million of pension liabilities of the Company's subsidiaries, to make payments to certain option holders as a result of the Dividend Recapitalization, and to finance certain working capital and other operational needs of the Company and its subsidiaries.

Under applicable accounting literature, deferred financing costs of $11.6 million as of February 22, 2018 were expensed and presented within loss on debt extinguishment in the accompanying consolidated statements of operations, and new costs of $18.0 million incurred in connection with the refinancing have been capitalized to offset the new long-term debt in the accompanying consolidated balance sheets.

The New Senior Secured Credit Facilities are guaranteed on a senior secured basis by all assets of the Company and its wholly-owned subsidiaries ("Guarantors") except Prospect Health Plan, Inc., Connecticut Healthcare Insurance Company, Prospect Medical Holding Risk Retention Group, Inc., Prospect Health Access Network, Inc. and certain immaterial subsidiaries. The New ABL Facility has a first priority security interest on the working capital assets of the Company and the Guarantors and a second priority security interest on their fixed assets. The Term B-1 Loans have a first priority security interest on fixed assets and a second priority security interest on working capital assets. The New Senior Secured Credit Facilities are effectively senior to all of our existing and future indebtedness.

Captive Insurance Subsidiaries

Prospect Medical Holding Risk Retention Group, Inc. ("RRG") was incorporated on June 20, 2016 in the state of Vermont. RRG was formed as an indirect wholly-owned subsidiary of the Company to provide primary insurance coverage for hospital and physician professionals and general liability risks for the Company's subsidiary healthcare organization.

Effective January 1, 2018, ownership of Connecticut Healthcare Insurance Company ("CHIC") was transferred from Prospect ECHN, Inc. to make CHIC a direct wholly-owned subsidiary of the Company. CHIC is an exempted Company with limited liability under the Companies Law of the Cayman Islands and it holds a Class "B(i)" Insurer's License under Section 4(3)(b) of the Cayman Islands Insurance Law 2010. The principal activity is to issue primary policies for hospital professional liability and general liability covering Prospect, its subsidiaries and employees, on a claims-made basis.

Effective October 1, 2017, the Company procured excess healthcare professional liability and umbrella liability insurance policy on a claims-made basis covering healthcare professional liability, general care liability, automobile liability, employer's liability, helipad liability and non-owned aircraft liability of the Company and its affiliates. This excess coverage is purchased entirely through unrelated commercial insurers.

Beginning on October 1, 2017, CHIC provides a deductible reimbursement policy for workers compensation to the Company's California and Connecticut hospital facilities all of which have high deductible program structures or are qualified self-insureds.

On January 1, 2018, CHIC began providing an employee benefit stop-loss policy to all Company subsidiaries. Unlimited excess coverage is purchased through unrelated reinsurance companies.

Taxation

On December 22, 2017, the 2017 Tax Cuts and Jobs Act (the "Tax Act") was enacted into law and the new legislation contains several key tax provisions that will affect the Company, including a reduction of the federal corporate federal income tax rate from 35% to 21% effective January 1, 2018. The Company is required to recognize the effect of the tax law changes in the period of enactment, such as re-measuring the U.S. federal portion of deferred tax assets and liabilities as well as reassessing the net realizability of the Company's deferred tax assets

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and liabilities, and accordingly will reflect such changes in the consolidated financial statements for the year ending September 30, 2018. The Company will implement the change during the fourth quarter of fiscal 2018.

USE OF ADJUSTED EBITDA

This Earnings Release contains "non-GAAP financial measures," that is, financial measures that either exclude or include amounts that are not excluded or included in the most directly comparable measure calculated and presented in accordance with generally accepted accounting principles. Specifically, we make use of the non-GAAP measures "EBITDA" and "Adjusted EBITDA." We also make use of ratios based on these non-GAAP measures.

We define EBITDA as net income (loss) plus (i) provision for income taxes, (ii) interest expense, net (including amortization of deferred financing costs), (iii) depreciation, (iv) amortization, and (v) other non-cash charges. In addition, we define Adjusted EBITDA as EBITDA as further adjusted to eliminate the impact of certain items that we do not consider indicative of our ongoing operating performance, including transaction costs, certain legal expenses, stock-based compensation, sponsor structuring and management fees, go-private transaction costs, purchase price adjustments and pre-acquisition items, and other unusual and non-recurring charges. Management believes that EBITDA and Adjusted EBITDA are useful tools for investors and other users of our financial statements in assessing our ability to service and/or incur indebtedness, maintain current operating levels of capital assets and acquire additional operations and businesses. Management believes that the most directly comparable GAAP measure is net income (loss). A reconciliation of EBITDA and Adjusted EBITDA to our net income (loss) under generally accepted accounting principles, or GAAP, for certain periods presented in our financial statements is included at page 35 of this release.

Some of these limitations are:

- They do not reflect cash outlays for capital expenditures or future contractual commitments;
- They do not reflect changes in, or cash requirements for, working capital;
- They do not reflect interest expense, or the cash requirement necessary to service interest, or principal payments, on indebtedness;
- They do not reflect income tax expense or the cash necessary to pay income taxes;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA and Adjusted EBITDA do not reflect cash requirements for such replacements; and
- Other companies, including other companies in our industry, may not use such measures or may calculate the measures differently than as presented in this earnings release, limiting their usefulness as a comparative measure.

Because of these limitations, EBITDA, Adjusted EBITDA or any related ratio using such measures should be considered only as a supplemental measure in addition to, and not in lieu of, our GAAP income and cash flow statements, and not as a measure of discretionary cash available to invest in business growth or reduce indebtedness.

CONFERENCE CALL

Management will host a conference call on Thursday, May 31, 2018 at 1:00 pm PST / 4:00 pm EST to discuss these results. Interested parties may participate in the call by dialing Redacted (Domestic) or Redacted (International) approximately 10 minutes before the call is scheduled to begin, and ask to be connected to the Prospect Medical Holdings conference call. The conference call will be broadcast live over the internet at the following link: Redacted. To listen to the live call on the internet, go to the website at least 15 minutes early to register, and download and install any necessary audio software. A replay of the call will be available for 30 days at this link, or by dialing Redacted (Toll-Free) or Redacted (Toll) (Conference ID Redacted).

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ABOUT PROSPECT MEDICAL HOLDINGS

Prospect Medical Holdings, Inc. is a healthcare services company that owns and operates 20 facilities, with approximately 3,700 licensed beds, as well as clinics and outpatient centers. Prospect also manages the provision of healthcare services for members enrolled in its networks. Prospect's hospitals are located in diverse, high-density population areas within markets in California, Texas, Rhode Island, New Jersey, Pennsylvania, and Connecticut. Prospect Medical Holdings' website can be found at www.pmh.com.

FORWARD-LOOKING STATEMENTS

This earnings release contains forward-looking statements. Additional written or oral forward-looking statements may be made by Prospect from time to time. Statements contained herein that are not historical facts are forward-looking statements. Readers are cautioned that forward-looking statements, including the statements regarding anticipated or expected results, involve risks and uncertainties which may affect the Company's business and prospects. Any forward-looking statements contained in this earnings release represent our estimates only as of the date hereof, or as of such earlier dates as are indicated, and should not be relied upon as representing our estimates as of any subsequent date. While we may elect to update forward-looking statements at some point in the future, we specifically disclaim any obligation to do so, even if our estimates change.

Hospital Services Segment

The following table sets forth the results of operations for our Hospital Services segment for the three and six months ended March 31, 2018 and 2017. Hospital services expenses do not include allocation of corporate overhead or interest expense - see "Corporate Segment" below. The California Hospital Fee Program, Texas Section 1115 Waiver Program and Service Organization of San Antonio ("SOSA") expense significantly impact the comparability of our results between periods. As a result, our discussion of results also includes a description on a "normalized basis" that excludes their impact for the three months ended March 31, 2018 and 2017.

Effective January 1, 2018, ownership of CHIC was transferred from Prospect ECHN, Inc. to Prospect Medical Holdings, Inc. As such, the results of operations for CHIC for the fiscal period 2018 are included in the Corporate Segment.

(Unaudited, in thousands)	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017 (2)	2018 (2)	2017 (2)
Revenues:				
Net Hospital Services revenues (1):				
Medicare	$ 223,723	$ 224,189	$ 431,283	$ 434,475
Medicaid	198,790	164,538	525,055	347,397
Managed care	173,500	142,912	333,277	287,151
Self pay / other payor	46,109	54,004	105,423	112,313
Capitation revenue	42,033	23,349	80,287	47,598
Other	14,953	13,362	25,986	27,919
Hospital Services revenues	699,108	622,354	1,501,311	1,256,853
Provision for bad debts	(29,301)	(19,563)	(57,265)	(43,857)
Net Hospital Services revenues	669,807	602,791	1,444,046	1,212,996
Other revenues	10,602	18,994	19,328	35,540
Total Revenues	680,409	621,785	1,463,374	1,248,536
Hospital Services operating expenses:				
Salaries, wages and benefits	335,752	326,714	659,570	655,791
Supplies	68,846	69,007	131,205	136,205
Capitation expense	40,494	23,123	76,353	46,068
Other operating expenses (1)	91,925	72,197	235,950	163,711
Total Hospital Services operating expenses	537,017	491,041	1,103,078	1,001,775
General and administrative	92,300	92,815	181,965	175,435
Depreciation and amortization	21,616	20,414	43,269	41,440
Total non-medical expenses	113,916	113,229	225,234	216,875
Operating income (loss) from unconsolidated joint ventures	396	468	1,029	1,207
Operating income from continuing operations	29,872	17,983	136,091	31,093
Operating income from discontinued operations	-	5,409	-	4,840
Operating income	$ 29,872	$ 23,392	$ 136,091	$ 35,933

(1) Supplemental Reimbursement Program amounts recognized and related expenses:

(Unaudited, in thousands)	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
California Hospital Fee program revenues	$ 38,633	$ -	$ 73,907	$ 24,798
California Hospital Fee program expenses	(16,834)	-	(30,325)	(16,416)
Net pre-tax impact	$ 21,799	$ -	$ 43,581	$ 8,382
Texas Section 1115 Waiver revenues	$ 5,595	$ 6,267	$ 11,653	$ 12,533
Texas Section 1115 Waiver contract revenues	1,000	1,046	2,000	2,092
Texas Section 1115 Waiver contract expenses	(376)	(1,165)	(973)	(2,260)
Total Texas Section 1115 Waiver net pre-tax impact	$ 6,219	$ 6,148	$ 12,680	$ 12,365
Texas Rural community provision of services (SOSA)	$ (2,734)	$ (3,576)	$ (5,664)	$ (7,250)
Net pre-tax impact	$ 3,485	$ 2,572	$ 7,016	$ 5,115
Pennsylvania Medicaid Modernization revenues	$ 8,045	$ 7,250	$ 16,347	$ 17,753
Pennsylvania Medicaid Modernization expenses	(4,181)	(4,181)	(8,362)	(8,362)
	$ 3,864	$ 3,069	$ 7,985	$ 9,391
Pennsylvania Community Access Fund and Legislative Initiative revenues	$ -	$ 1,939	$ 8,316	$ 5,834
Net pre-tax impact	$ 3,864	$ 5,008	16,301	15,225
Rhode Island DSH & UPL revenues	$ 4,678	$ 9,638	$ 9,356	$ 14,670
Rhode Island License Fees	(4,186)	(7,975)	(8,373)	(11,963)
Net pre-tax impact	$ 492	$ 1,663	$ 983	$ 2,707
Connecticut Medicaid DSH revenues	$ 9,439	$ 1,962	17,852	$ 3,937
Connecticut Provider Tax	(12,325)	(6,748)	(22,359)	(13,503)
Net pre-tax impact	$ (2,886)	$ (4,786)	(4,507)	$ (9,566)
Total Hospital Services revenues	$ 67,390	$ 28,102	$ 139,431	$ 81,617
Total Hospital Services operating expenses	(40,636)	(23,645)	(76,056)	(59,754)
Total net pre-tax impact	$ 26,754	$ 4,457	$ 63,374	$ 21,863

(2) Certain amounts have been reclassified for consistency with current quarter presentation. These reclassifications had no effect on the reported results of operations.

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The following table shows certain selected historical operating statistics for our hospitals for the three and six months ended March 31, 2018 and 2017:

(Unaudited)	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Net inpatient revenues (in thousands) (1) (9)	$ 408,289	$ 353,290	$ 779,717	$ 715,982
Net inpatient revenues excluding California Hospital Fee Program revenues (in thousands) (1)	$ 369,656	$ 353,290	$ 705,808	$ 691,184
Net outpatient revenues (in thousands)	$ 233,833	$ 232,353	$ 485,821	$ 465,354
Capitation revenues (in thousands)	$ 42,033	$ 23,349	$ 80,287	$ 47,598
Other hospital services revenues (in thousands) (2)	$ 14,953	$ 13,362	$ 25,986	$ 27,919
Other revenues (in thousands) (2)	$ 10,602	$ 18,994	$ 19,328	$ 35,540
California Hospital Fee Program revenues (in thousands) (3) (9)	$ 38,633	$ -	$ 73,909	$ 24,798
Texas Section 1115 Waiver revenues (in thousands) (3)	$ 6,595	$ 7,313	$ 13,653	$ 14,626
Number of hospitals at end of period	20	20	20	20
Licensed beds at end of the period	3,664	3,664	3,664	3,664
Average licensed beds	3,664	3,665	3,664	3,665
Average staffed beds	2,153	2,111	2,153	1,660
Occupancy rate for staffed beds (4)	90.9%	90.5%	87.1%	106.5%
Admissions (5)	27,519	27,666	54,913	54,742
Adjusted patient admissions (6)	43,713	47,958	90,765	93,738
Net inpatient revenue per admission (in thousands) (9)	$ 14,837	$ 12,770	$ 14,199	$ 13,079
Patient days	176,212	171,932	341,271	321,680
Adjusted patient days (7)	293,604	275,046	571,993	538,124
Net inpatient revenue per patient day (in thousands) (9)	$ 2,317	$ 2,055	$ 2,285	$ 2,226
Average length of patients' stay (days) (8)	6.4	6.2	6.2	5.9
Outpatient visits	601,595	629,969	1,185,542	1,213,916
Net outpatient revenue per visit (in thousands)	$ 389	$ 369	$ 410	$ 383

(1) Net inpatient revenues include self-pay revenues of $6.6 million and $6.3 million for the three months ended March 31, 2018 and 2017, respectively, and $8.6 million and $9.9 million for the six months ended March 31, 2018 and 2017, respectively.

(2) Other hospital service revenues consist of revenues earned from ancillary and other hospital operations, while other revenues consist primarily of rental income, incentive revenues earned for the implementation of certified EHR technology at our hospitals, tuition revenue from the St. Joseph Health Services of Rhode Island School of Nursing, and Crozer Health Club membership and other revenues.

(3) California Hospital Fee Program revenues are included in inpatient (Medicaid) revenues, Texas Section 1115 Waiver revenues are included in inpatient (Medicaid) revenues and other hospital services revenue, and Pennsylvania Medicare Modernization Act, Community Access Funds and Legislative Initiatives revenues are included in inpatient (Medicaid) revenues.

(4) The occupancy rate for staffed beds represents average daily census in the period divided by staffed beds. Occupancy rates are affected by many factors, including the population size and general economic conditions within particular market service areas, the degrees of variation in medical and surgical products, outpatient use of hospital services, quality and treatment availability at competing hospitals, and seasonality.

(5) Charity care admissions represented 0.7% and 0.0% of total admissions for the three months ended March 31, 2018 and 2017, respectively and 0.4% and 0.1% of total admission for the six months ended March 31, 2018 and 2017.

(6) Adjusted patient admissions are total admissions adjusted for outpatient volume. Adjusted patient admissions are computed by multiplying admissions (inpatient volume) by the sum of gross inpatient charges and gross outpatient charges and then dividing the resulting amount by gross inpatient charges.

(7) Adjusted patient days are total patient days adjusted for outpatient volume. Adjusted patient days are computed by multiplying patient days (inpatient volume) by the sum of gross inpatient charges and gross outpatient charges and then dividing the resulting amount by gross inpatient charges.

(8) Average length of patients' stay ("ALOS") is calculated by dividing total discharged patient days by total patient discharges during the period, and includes the length of patients' stay related to psychiatric, sub-acute, and rehabilitation services.

(9) Excludes $129.5 million of California Hospital Fee Program revenues applicable to periods prior to the six months ended March 31, 2018.

Medical Group Segment

The following table sets forth the results of operations for our Medical Group operations for the three and six months ended March 31, 2018 and 2017. Cost of revenues does not include allocation of corporate overhead or interest expense - see "Corporate Segment" below.

(Unaudited, in thousands)	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017	Six Months Ended March 31, 2018	Six Months Ended March 31, 2017
Medical Group revenues:				
Capitation	$ 81,614	$ 79,617	$ 156,826	$ 164,224
Management fees	2,200	1,978	4,267	4,023
Other operating revenues (1)	5,033	4,794	10,088	7,877
Total Medical Group revenues	88,847	86,389	171,181	176,124
Medical Group cost of revenues:				
PCP capitation	11,823	12,212	24,748	24,581
Specialist capitation	10,800	11,609	20,889	24,159
Claims expense	34,961	31,827	69,167	64,028
Physician incentives	2,835	4,728	6,408	11,111
Other cost of revenues	1,319	898	2,407	1,771
Total Medical Group cost of revenues	61,738	61,274	123,619	125,650
Gross margin	27,109	25,115	47,562	50,474
General and administrative	17,826	16,985	34,831	31,934
Depreciation and amortization	801	962	1,583	1,788
Total other expenses	18,627	17,947	36,414	33,722
(Loss) income from unconsolidated joint ventures	-	28	-	(73)
Operating income	$ 8,482	$ 7,196	$ 11,148	$ 16,679
Medical cost ratio	70.6%	69.9%	73.2%	68.7%

The following table sets forth the approximate number of members, by category, as of March 31, 2018 and 2017:

(Unaudited, in thousands)	As of March 31, 2018	As of March 31, 2017
Commercial - owned	76.1	88.4
Commercial - managed (2)	6.3	5.9
Senior - owned	32.5	32.7
Senior - managed (2)	3.2	3.2
Medicaid - owned	85.6	71.6
Medicaid - managed (2)	35.6	33.5
Health Insurance Exchange - managed (2) (3)	20.7	16.1
Value Based Reimbursement (4)	223.0	176.0
	483.0	427.4

(1) Other operating revenues primarily consist of payments from HMOs under pay-for-performance programs and are recognized each year once the amounts of such items are known, as well as patient service revenues related to clinical operations.

(2) Represents members that we manage on behalf of third parties in exchange for a monthly management fee.

(3) Our management services company is party to an agreement with one of our major HMOs to manage the provision of medical services to members enrolled under the PPACA Health Insurance Exchange program. We receive a fixed per member per month management fee under the program and do not share in the risk for medical services for such members.

(4) Value Based Membership is also defined as population under management. We have direct contracts with multiple Health Plans in all of the states where we operate for the provision of quality care services to the population under management improving care delivery to the members in most cost-efficient manner for a fixed infrastructure payment. In many of the contracts, we also receive variable revenue also called Pay for Performance for improving health scores, and closing quality gaps. In addition, in some of the contracts, we are also eligible for upside and downside sharing of risk pools for the population under management.

Global Risk Management Segment

The following table sets forth the results of operations for our Global Risk Management segment for the three and six months ended March 31, 2018 and 2017. Global Risk Management expenses do not include allocation of corporate overhead or interest expense - see "Corporate Segment" below. Capitation revenue includes net capitation revenue retained by the Global Risk Management segment after transfer of capitation to the Hospital Services and Medical Group segments.

(Unaudited, in thousands)	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017	Six Months Ended March 31, 2018	Six Months Ended March 31, 2017
Global Risk Management revenues:				
Capitation (1) (2)	$ 4,646	$ 2,230	$ 10,009	$ 3,673
Other operating revenues	1,313	366	3,130	552
Total Global Risk Management revenues	5,959	2,596	13,139	4,225
Global Risk Management cost of revenues:				
Capitation Expense	129	-	997	-
Claims Expense	2,964	1,304	7,441	2,277
Total Global Risk Management cost of revenues	3,093	1,304	8,438	2,277
Gross margin	2,866	1,292	4,701	1,948
General and administrative (3)	3,176	1,485	5,542	2,962
Total other expenses	3,176	1,485	5,542	2,962
Operating loss	$ (310)	$ (193)	$ (841)	$ (1,014)

(1) For the three months ended March 31, 2018 and 2017, capitation revenue includes $61.7 million and $29.5 million, respectively, received from health plans, of which $53.7 million and $26.6 million, respectively, were transferred to our Medical Group and Hospital Services segments. For the six months ended March 31, 2018 and 2017, capitation revenue includes $125.2 million and $48.6 million, respectively, received from health plans, of which $109.2 million and $44.0 million was transferred to our Medical Group and Hospital Services segments.

(2) Capitation revenue includes shared risk pool deficit of ($3.3) million and ($0.6) million for the three months ended March 31, 2018 and 2017, respectively. For the six months ended March 31, 2018 and 2017, capitation revenue includes shared risk pool deficit of ($6.0) million and ($1.0) million, respectively.

(3) General and administrative expenses increased to $3.2 million in the 2018 quarter from $1.5 million in support of the increase in revenue as health plans transition to Global Capitation programs.

Corporate Segment

The Corporate segment primarily reflects certain expenses incurred at Prospect not specifically allocable to the Hospital Services, Medical Group, or Global Risk Management segments. These include, but are not limited to: salaries, benefits and other compensation for corporate employees; financing expenses; insurance expenses; rent; legal fees; and accounting fees. Additionally, this segment includes operations of two captive insurance companies. Prospect Medical Holding Risk Retention Group, Inc. ("RRG"), which was incorporated on June 20, 2016 in the state of Vermont, was formed as an indirect wholly-owned subsidiary of the Company to provide primary insurance coverage for hospital and physician professionals and general liability risks for the Company's subsidiary healthcare organizations. In addition, effective January 1, 2018, ownership of CHIC was transferred from Prospect ECHN, Inc. to Prospect Medical Holdings, Inc. As such, the results of operations for CHIC for the fiscal period 2018 are included in the Corporate Segment. The Company does not allocate interest expense related to acquisition debt or income taxes to the other reporting segments.

The following table summarizes our corporate expenses for the three and six months ended March 31, 2018 and 2017:

	Three Months Ended March 31,		Six Months Ended March 31,	
(Unaudited, in thousands)	2018	2017	2018	2017
Corporate revenues:				
Other Revenue	8	(61)	6	(63)
Total Corporate revenues:	8	(61)	6	(63)
Operating Expenses:				
General and administrative (1)	$ 44,291	$ 5,782	$ 49,962	$ 13,318
Depreciation and amortization	83	28	120	64
Total Corporate Expenses	$ 44,374	$ 5,810	$ 50,082	$ 13,382
Operating loss	(44,366)	(5,871)	(50,076)	(13,445)

1) General and administrative expenses increased primarily due to increases in salary expenses as a result of the payment of $36.8 million in connection with the Dividend Recapitalization transaction to option holders during fiscal 2018 quarter.

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Three months ended March 31, 2018 compared to the three months ended March 31, 2017

Hospital Services Segment Results of Operations

Net Hospital Services Revenues

Hospital services revenues before provision for bad debts was $699.1 million for the second quarter of fiscal 2018 ("fiscal 2018 quarter") compared to $622.4 million for the second quarter of fiscal 2017 ("fiscal 2017 quarter"). The increase is primarily due to QAF revenue recorded in the 2018 fiscal quarter. On a normalized basis and excluding the effect of the California Hospital Fee Program, Texas Section 1115 Waiver Program revenues and capitation revenue, hospital services revenues before provision for bad debts increased 6.3% from $615.0 million for the fiscal 2017 quarter to $653.9 million for the fiscal 2018 quarter. The $38.9 million increase in Hospital Services segment revenues was primarily due to increased enrollment resulting from new Global Capitation arrangement at our Foothill facility effective July 1, 2017, in addition to an increase in Inpatient volume with Medicare discharges at our Waterbury facility.

Provision for bad debts, on a normalized basis, as a percentage of hospital services revenues (excluding the effect of the California Hospital Fee Program, Texas Section 1115 Waiver Program and capitation revenue), increased from 3.3% in the fiscal 2017 quarter to 4.8% in the fiscal 2018 quarter due to the increase in provision for bad debts at our Connecticut, Pennsylvania and New Jersey facilities, driven by receivables ageing more than one-year post acquisition at the beginning of fiscal 2018 first quarter. The provision for bad debts relates principally to amounts due from self-pay patients and self-pay after insurance.

Other revenues consist primarily of Nix Health and CharterCARE commercial real estate rental income, Crozer Health Club membership dues. On a normalized basis, other revenue decreased from $18.3 million for the fiscal 2017 quarter to $10.6 million for the fiscal 2018 quarter, primarily due to the sale of placement rights for cell towers during fiscal 2017 quarter at our Rhode Island and Connecticut facilities, in addition to EHR incentives at our southern California hospitals during the fiscal 2017 quarter.

Hospital Services Operating Expenses

Salaries, wages and benefits ("SWB") increased from $326.7 million during the fiscal 2017 quarter to $335.8 million during the same fiscal 2018 quarter. On a normalized basis, SWB as a percentage of net hospital services revenues (excluding the effect of the California Hospital Fee Program, Texas Section 1115 Waiver Program and capitation revenue), increased slightly to 57.6% for the fiscal 2018 quarter from 57.1% for the same quarter of fiscal 2017.

Supplies expense decreased from $69.0 million during the fiscal 2017 quarter to $68.8 million during the fiscal 2018 quarter. On a normalized basis, supplies expense as a percentage of net hospital services revenues (excluding the effect of the California Hospital Fee Program, Texas Section 1115 Waiver Program and capitation revenue) decreased from 12.1% during the fiscal 2017 quarter to 11.8% during the fiscal 2018 quarter.

Capitation expense increased from $23.1 million in the fiscal 2017 quarter to $40.5 million in the fiscal 2018 quarter, due to the new Global Capitation arrangement at the Foothill facility effective July 1, 2017 resulting in increased enrollment from approximately 55,000 at March 31, 2017 to approximately 102,000 at March 31, 2018. We recognize revenue and expenses in the Hospital Services segment for global capitation arrangements for which hospitals in our Hospital Services segment are responsible for the provision of care to members under such arrangements.

Other operating expenses increased from $72.2 million in the fiscal 2017 quarter to $91.9 million in the fiscal 2018 quarter. The increase is primarily due to QAF revenue recorded in the 2018 fiscal quarter. On a normalized basis and excluding the effect of the California Hospital Fee Program, Texas Section 1115 Waiver Program and capitation revenue, other operating expenses as a percentage of net hospital services revenues increased from 11.8% during the fiscal 2017 quarter to 12.4% during the fiscal 2018 quarter.

General and Administrative

Hospital General and Administrative ("G&A") expense decreased from $92.8 million in the fiscal 2017 quarter to $92.3 million in the fiscal 2018 quarter. On a normalized basis, G&A as a percentage of net hospital services revenues (excluding the effect of the California Hospital Fee Program, Texas Section 1115 Waiver Program and capitation revenue), decreased from 16.2% to 15.8% for the fiscal 2017 and 2018 quarters, respectively.

Depreciation and Amortization

Depreciation and amortization expense increased from $20.4 million in the fiscal 2017 quarter to $21.6 million in the fiscal 2018 quarter. On a normalized basis, depreciation and amortization as a percentage of net hospital services revenues (excluding the effect of the California Hospital Fee Program, Texas Section 1115 Waiver Program and capitation revenue) increased slightly from 3.6% in fiscal 2017 to 3.7% in fiscal 2018.

Income from Unconsolidated Joint Ventures

Income from unconsolidated joint ventures was $0.4 million for the fiscal 2018 first quarter compared to $0.5 million in the fiscal 2017 quarter. Income from unconsolidated joint ventures consists of equity method income related to CharterCare, Crozer, ECHN and Waterbury joint ventures and other equity method investments.

Operating Income from Continuing Operations

Hospital Services operating income from continuing operations were $29.9 million in the fiscal 2018 second quarter compared to $18.0 million in the same fiscal 2017 quarter.

Medical Group Segment Results of Operations

Medical Group Revenue

Capitation revenue increased 2.5% to $81.6 million for the fiscal 2018 quarter from $79.6 million for the fiscal 2017 quarter. The increase was primarily due to timing of recognition for RAF/HCC supplemental revenue, along with higher Medicaid and Senior member-months, partially offset by lower Commercial member-months and lower shared risk revenue.

Management fee revenue increased 11.2% to $2.2 million for the fiscal 2018 quarter from $2.0 million for the fiscal 2017 quarter. The increase was primarily due to additional revenue from managing a new health plan. Management fees range from 6.5% to 12.0% of revenues, depending on the type of revenue.

Other operating revenue increased 5.0% to $5.0 million for the fiscal 2018 quarter from $4.8 million for the fiscal 2017 quarter. The increase was primarily due to increase in wellness program reimbursements.

Medical Group Operating Expenses

Primary care physician ("PCP") capitation expense decreased 3.2% to $11.8 million for the fiscal quarter 2018 compared to $12.2 million for the fiscal quarter 2017. PCP capitation expense as a percentage of capitation revenues decreased to 14.5% from 15.3%. The decrease in PCP capitation expense as a percentage of capitation revenues was primarily due to change in membership mix between commercial, Medicaid and senior in the current fiscal quarter.

Specialist capitation expense decreased 7.0% to $10.8 million for the fiscal quarter 2018 from $11.6 million for the fiscal quarter 2017. Specialist capitation expense as a percentage of capitation revenues decreased to 13.2% from 14.6%. The decrease in specialist capitation expense as a percentage of capitation revenues was primarily due to certain physicians switching from capitation to fee-for-service payment arrangements.

Claims expense increased 9.8% to $35.0 million for the fiscal quarter 2018 from $31.8 million for the fiscal quarter 2017. Claims expense as a percentage of capitation revenues increased to 42.8% for the fiscal quarter 2018 from 40.0% for the fiscal quarter 2017. The increase in claims expense as a percentage of capitation revenues was primarily due to certain physicians switching from capitation to fee-for-service payment arrangements.

Physician incentives expense decreased 40.0% to $2.8 million for the fiscal quarter 2018 from $4.7 million for the fiscal quarter 2017. The decrease was primarily due to lower shared risk revenue contributing to the lower profit sharing incentive payment.

Other cost of revenues was $1.3 million for the fiscal 2018 quarter compared to $0.9 million for the fiscal 2017 quarter. The increase was primarily due to higher utilization of contracted physicians at our clinic operations and higher pharmacy expenses in the fiscal quarter 2018 compared to the fiscal quarter 2017.

Medical Cost Ratio and Gross Margin

Medical care costs as a percentage of Medical Group capitation revenues (the medical cost ratio, a non-GAAP measure) increased to 70.6% for the fiscal quarter 2018 from 69.9% for the fiscal quarter 2017, and gross margin as a percentage of total revenue, increased to 30.5% for the fiscal quarter 2018 from 29.1% for the fiscal quarter 2017. These changes were the result of items discussed above.

General and Administrative

G&A expenses increased 5.0% to $17.8 million for the fiscal quarter 2018 from $17.0 million for the fiscal quarter 2017. G&A expenses as a percentage of total Medical Group revenues increased to 20.1% for the fiscal quarter 2018 from 19.7% for the fiscal quarter 2017. The increase in G&A expenses as a percentage of total Medical Group revenues was primarily due to increase in SWB to support expansion of the value-based business and business infrastructure.

Depreciation and Amortization

Depreciation and amortization expense decreased to $0.8 million for the fiscal quarter 2018 from $1.0 million for the fiscal quarter 2017.

Income (Loss) from Unconsolidated Joint Ventures

Income (loss) from unconsolidated joint ventures (our 50% partnership interest in AMVI/Prospect Medical Group) was nominal for both the fiscal quarters of 2018 and 2017.

Operating Income

Our Medical Group segment reported an increase in operating income of $1.3 million to $8.5 million for the fiscal quarter 2018 from $7.2 million for the fiscal quarter 2017 as a result of the items discussed above.

Global Risk Management Segment Results of Operations

Global Risk Management Revenue

The Global Risk Management segment entered into Management Services Agreements with our Medical Group and Hospital Services segments, under which up to 87% of capitation revenue received is transferred to the Medical Group and Hospital Services segments. Capitation revenue recognized increased to $4.6 million for the fiscal 2018 quarter from $2.2 million for the fiscal 2017 quarter. During the fiscal 2018 quarter, capitation revenue received from health plans was $61.7 million, of which $25.6 million and $28.1 million was transferred to our Hospital Services segment and Medical Group segment, respectively. During the fiscal 2017 quarter, capitation revenue received from health plans was $29.5 million, of which $13.1 million and $13.5 million were transferred to our Hospital Services segment and Medical Group segment, respectively. The increase in capitation revenue and the amounts transferred to the Hospital Services segment and Medical Group segment were primarily due to expansion of health plans in California, partially offset by loss in risk pool revenue.

Global Risk Management Cost of Revenues

Cost of revenues increased to $3.1 million during the fiscal 2018 quarter from $1.3 million during the fiscal 2017 quarter. Cost of revenues as a percentage of total revenues increased to 51.9% for the fiscal 2018 quarter from 50.2% for the fiscal 2017 quarter.

General and Administrative

G&A expenses increased to $3.2 million for the fiscal 2018 quarter from $1.5 million for the fiscal 2017 quarter. Increase in G&A expenses was primarily due to increase in SWB, professional fees and management fees to support the transition of health plans to Global Capitation programs. G&A expenses as a percentage of total revenues decreased to 53.3% for the fiscal 2018 quarter from 57.2% for the fiscal 2017 quarter. The decrease is due to efficiencies attained in the operations within the existing market.

Operating Loss

Our Global Risk Management segment reported an operating loss of $0.3 million and $0.2 million for the fiscal 2018 quarter and fiscal 2017 quarter, respectively.

Corporate Segment Results of Operations

General and Administrative

G&A expenses increased to $44.3 million during the fiscal 2018 quarter from $5.8 million during the fiscal 2017 quarter. The increase was due primarily to increases in salary expense as a result of the payment of $36.8 million in connection with the Dividend Recapitalization transaction to option holders during the fiscal 2018 period.

Consolidated Results of Operations

Other Income and Expense, Net

Total Other Income and Expense increased from $20.7 million for the fiscal 2017 quarter to $47.8 million for the fiscal 2018 quarter. The increase was primarily due to the debt refinancing and extinguishment of costs remaining related to the previous debt in February 2018. In addition, adjustments to purchase price accounting of $4.3 million were included in other (income) expense during the fiscal 2018 quarter as purchase price allocations were finalized for the Waterbury and ECHN acquisitions.

Provision / (Benefit) for Income Taxes

The income tax benefit was ($7.0) million for the fiscal 2018 quarter compared to a provision for income taxes of $7.1 million for the fiscal 2017 quarter.

Six months ended March 31, 2018 compared to the six months ended March 31, 2017

Hospital Services Segment Results of Operations

Net Hospital Services Revenues

Hospital services revenues before provision for bad debts was $1.5 billion for the six months ended March 31, 2018 ("fiscal 2018 period") compared to $1.3 billion for the six months ended March 31, 2017 ("fiscal 2017 period"). The increase is primarily due to QAF revenue recorded in the 2018 fiscal period. Excluding the effect of the California Hospital Fee Program and Section 1115 Waiver Program revenues, hospital services revenues before provision for bad debts increased 5.5% from $1.2 billion for the fiscal 2017 period to $1.3 billion for the fiscal 2018 period. The $66.8 million increase in Hospital Services segment revenues was primarily due to increased enrollment resulting from the new Global Capitation arrangement at our Foothill facility effective July 1, 2017, in addition to an increase in inpatient volume with Medicare discharges at our Waterbury facility.

Provision for bad debts increased from $43.9 million in the fiscal 2017 period to $57.3 million in the fiscal 2018 period. On a normalized basis, provision for bad debts as a percentage of hospital services revenues (excluding the effect of the California Hospital Fee Program, Section 1115 Waiver Program, and capitation revenues), increased slightly to 4.8% from 3.7% for the fiscal 2018 and 2017 periods, respectively. The provision for bad debts relates principally to amounts due from self-pay patients and self-pay after insurance. Other revenues represent primarily rental income earned from real estate operations at Nix Health and Crozer Health Club membership and other revenues. On a normalized basis, other revenues decreased from $32.6 million in the fiscal 2017 period to $19.3 million in the fiscal 2018 period due to EHR revenues recorded in the fiscal 2017 period.

Hospital Services Operating Expenses

Salaries, Wages and Benefits ("SWB") increased from $655.8 million for the fiscal 2017 period to $659.6 million for the fiscal 2018 period. On a normalized basis, SWB as a percentage of net hospital services revenues (excluding the effect of the California Hospital Fee Program, Section 1115 Waiver Program, and capitation revenues), decreased from 58.2% during the fiscal 2017 period to 57.5% during the fiscal 2018 period due to an increase at our southern California facilities to support Hospital Services segment development activities and increases at our Los Angeles and Hollywood facilities in the fiscal 2017 period.

Supplies expense decreased from $136.2 million for the fiscal 2017 period to $131.2 million for the fiscal 2018 period. On a normalized basis, supplies expense as a percentage of net hospital services revenues (excluding the effect of the California Hospital Fee Program, Section 1115 Waiver Program, and capitation revenues), decreased from 12.1% during the fiscal 2017 period to 11.4% during the fiscal 2018.

Capitation expense increased from $46.1 million for the fiscal 2017 period to $76.4 million for the fiscal 2018 period. Hospital member enrollment increased approximately 55,000 at March 31, 2017 to 102,000 at March 31, 2018. Capitation expense as a percentage of capitation revenues decreased from 96.8% during the fiscal 2017 period to 95.1% during the fiscal 2018 period due to a decrease in full risk claims expenses during the fiscal 2018 year. We recognize revenue and expenses in the Hospital Services segment for global capitation arrangements for which hospitals in our Hospital Services segment are responsible for the provision of care to members under such arrangements.

Other operating expenses increased from $163.7 million for the fiscal 2017 period to $236.0 million for the fiscal 2018 period. On a normalized basis, other operating expenses as a percentage of net hospital services revenues remain at 12.2% for both the fiscal 2017 period and the fiscal 2018 period.

General and Administrative

Hospital General and Administrative ("G&A") expense increased to $182.0 million for the fiscal 2018 period from $175.4 million for the fiscal 2017 period. On a normalized basis, G&A as a percentage of net hospital services revenues (excluding the effect of the California Hospital Fee Program, Section 1115 Waiver Program, and capitation revenues) increased from 15.6% for the fiscal 2017 period to 15.9% for the fiscal 2018 period.

Depreciation and Amortization

Depreciation and amortization expense increased from $41.4 million for the fiscal 2017 period to $43.3 million for the fiscal 2018 period. On a normalized basis, depreciation and amortization as a percentage of net hospital services revenues (excluding the effect of the California Hospital Fee Program, Section 1115 Waiver Program, and capitation revenues), increased slightly from 3.7% for the fiscal 2017 period to 3.8% for the fiscal 2018 period.

Income from Unconsolidated Joint Ventures

Income from unconsolidated joint ventures was $1.0 million for the fiscal 2018 period compared to $1.2 million in the fiscal 2017 period. Income from unconsolidated joint ventures consists of equity method income related to various CharterCARE, Crozer, ECHN and Waterbury joint ventures and equity method investments.

Operating Income/(Loss) from Continuing Operations

Hospital Services operating income was $136.1 million for the fiscal 2018 period compared to $31.1 million for the fiscal 2017 period. Hospital Services operating income from continuing operations for the fiscal 2017 period did not include the 2017 California Hospital Fee Program.

Medical Group Segment Results of Operations

Medical Group Revenue

Capitation revenue decreased 4.5% to $156.8 million for the fiscal 2018 period from $164.2 million for the fiscal 2017 period. The decrease was primarily due to lower shared risk-pool revenue from a health plan switching to global risk arrangement.

Management fee revenue increased 6.1% to $4.3 million for the fiscal 2018 period from $4.0 million for the fiscal 2017 period. The increase was primarily due to additional revenue from managing a new health plan. Management fees range from 6.5% to 12.0% of revenues, depending on the type of revenue.

Other operating revenue increased 28.1% to $10.1 million for the fiscal 2018 period from $7.9 million for the fiscal 2017 period. The increase was primarily due to increases in wellness program reimbursements.

Medical Group Operating Expenses

Primary care physician ("PCP") capitation expense slightly increased to $24.7 million for the fiscal 2018 period and $24.6 million for the fiscal 2017 period. PCP capitation expense as a percentage of capitation revenues increased to 15.8% for the fiscal 2018 period from 15.0% for the fiscal 2017 period. The increase in PCP capitation expense as a percentage of capitation revenues was primarily due to change in membership mix between commercial and Medicaid in the current fiscal period.

Specialist capitation expense decreased 13.5% to $20.9 million for the fiscal 2018 period from $24.2 million for the fiscal 2017 period. Specialist capitation expense as a percentage of capitation revenues decreased to 13.3% for the fiscal 2018 period from 14.7% for the fiscal 2017 period. The decrease in specialist capitation expense as a percentage of capitation revenues was primarily due to certain physicians switching from capitation to fee-for-service payment arrangement.

Claims expense increased 8.0% to $69.2 million for the fiscal 2018 period from $64.0 million for the fiscal 2017 period. Claims expense as a percentage of capitation revenues decreased to 44.1% for the fiscal 2018 period from 39.0% for the fiscal 2017 period. The increase in claims expense as a percentage of capitation revenues was primarily due to certain physicians switching from capitation to fee-for-service payment arrangements and the effect of lower capitation revenue.

Physician incentives expense decreased 42.3% to $6.4 million for the fiscal 2018 period from $11.1 million for the fiscal 2017 period. Physician incentive expense as a percentage of capitation revenues decreased to 4.1% for the fiscal 2018 period from 6.8% for the fiscal 2017 period. The decrease was primarily due to lower shared risk revenue contributing to the lower profit sharing incentive payment.

Other cost of revenues increased to 35.9% to $2.4 million for the fiscal 2018 period from $1.8 million for the fiscal 2017 period. The increase was primarily due to higher utilization of contracted physicians at our clinic operations and higher pharmacy expenses in the fiscal quarter 2018 compared to the fiscal quarter 2017.

Medical Cost Ratio and Gross Margin

Medical care costs as a percentage of Medical Group capitation revenues (the medical cost ratio, a non-GAAP measure) increased to 73.2% for the fiscal 2018 period from 68.7% for the fiscal 2017 period, and gross margin as a percentage of total revenue decreased to 27.8% for the fiscal 2018 period from 28.7% for the fiscal 2017 period. These changes were the result of items discussed above.

General and Administrative

G&A expense increased 9.1% to $34.8 million for the fiscal 2018 period from $31.9 million for the fiscal 2017 period. G&A expense as a percentage of Medical Group revenue increased to 20.3% for the fiscal 2018 period from 18.1% for

the fiscal 2017 period. The increase in G&A expenses as a percentage of total Medical Group revenues was primarily due to increase in SWB to support expansion of our value-based business and business infrastructure.

Depreciation and Amortization

Depreciation and amortization expense decreased 11.4% to $1.6 million for the fiscal 2018 period from $1.8 million for the fiscal 2017 period.

Loss from Unconsolidated Joint Ventures

Income (loss) from unconsolidated joint ventures (our 50% partnership interest in AMVI/Prospect Medical Group) was nominal for both the fiscal quarters of 2018 and 2017.

Operating Income

Our Medical Group segment reported operating income of $11.1 million and $16.7 million for the fiscal 2018 and 2017 periods, respectively. The decrease in current year operating income is a result of the items discussed above.

Global Risk Management Segment Results of Operations

Global Risk Management Revenue

The Global Risk Management segment entered into Management Services Agreements with our Medical Group and Hospital Services segments, under which up to 87% of capitation revenue received is transferred to the Medical Group and Hospital Services segments. Capitation revenue recognized increased to $10.0 million for the fiscal 2018 period from $3.7 million for the fiscal 2017 period. During the fiscal 2018 period, capitation revenue received was $125.2 million, of which $52.0 million and $57.2 million was transferred to our Hospital Services segment and Medical Group segment, respectively. During the fiscal 2017 period, capitation revenue received was $48.6 million, of which $21.6 million and $22.4 million was transferred to our Hospital Services segment and Medical Group segment, respectively.

Global Risk Management Cost of Revenues

Cost of revenues increase to $8.4 million for the fiscal 2018 period from $2.3 million for the fiscal 2017 period. Cost of revenues consists primarily of claims expense related to capitation retained by the Global Risk Management segment and the increase is consistent with increase in capitation revenue. Cost of revenues as a percentage of total revenues increased to 64.2% for the fiscal 2018 period from 53.9% for the fiscal 2017 period.

General and Administrative

G&A expenses increased to $5.5 million for the fiscal 2018 period from $3.0 million for the fiscal 2017 period. Increase in G&A expenses was primarily due to increase in SWB, professional fees and management fees to support the transition of health plans to Global Capitation programs. G&A expenses as a percentage of total revenues decreased to 42.2% for the fiscal 2018 period from 70.1% for the fiscal 2017 period. The decrease is due to efficiencies attained in the operations within the existing market.

Operating Loss

Our Global Risk Management segment reported an operating loss of $0.8 million and $1.0 million for the fiscal 2018 and 2017 periods, respectively.

Corporate Segment Results of Operations

General and Administrative

G&A expenses increased to $49.9 million during the fiscal 2018 period from $13.3 million during the fiscal 2017 period. The increase was primarily due to increases in salary expenses as a result of the payment of $36.8 million in connection with the Dividend Recapitalization transaction to option holders during the fiscal 2018 quarter, partially offset by a decrease in the utilization of outside services related to the business combination as acquisitions including ECHN and Waterbury were completed in the fiscal 2017 period as compared to no such activities during the fiscal 2018 period. Depreciation and amortization expense remained consistent for the fiscal 2018 and 2017 periods.

Consolidated Results of Operations

Other Income and Expense, Net

Total Other Income and Expense increased from $34.5 million for the fiscal 2017 period to $67.6 million for the fiscal 2018 period. The increase was primarily due the debt refinancing in February 2018. In addition, adjustments to purchase accounting of $4.3 million were included in other income and expense during the fiscal 2018 quarter as purchases price allocations were finalized for the Waterbury and ECHN acquisitions.

Provision/(Benefit) for Income Taxes

The income tax provision was $18.4 million for the fiscal 2018 period compared to the income tax provision of $7.3 million for the fiscal 2017 period.

Income on Discontinued Operations

Income on discontinued operations was $6.9 million for the fiscal 2017 period, net of the related income tax (benefit). There were no discontinued operations reflected in fiscal 2018 period. Income on discontinued operations includes the operations of Elmhurst and NCGH for the fiscal 2017.

Cash Flow for the six months ended March 31, 2018 compared to the six months ended March 31, 2017

Cash Flow from Operations

Net cash used by operating activities for the six months ended March 31, 2018 was $55.6 million, compared to net cash from operations of $1.6 million for the fiscal 2017 period. The decrease of $57.2 million was primarily due to the following factors:

Increases as a result of:

- Decrease in patient accounts receivables of $86.1 million in the fiscal 2018 period as compared to an increase of $67.0 million in the fiscal 2017 period; and
- Increase in net Hospital Fee Program receivable/payable of $99.9 million in the fiscal 2018 quarter as compared to an increase of $2.4 million in the fiscal 2017 period.

Decreases as a result of:

- Increase in other receivables, prepaid expenses and other current assets of $14.2 million in the fiscal 2018 period as compared to a decrease of $20.2 million in the fiscal 2017 period;
- Increase in net amounts due to/from government payers of $13.9 million in the fiscal 2018 period as compared to a decrease of $6.3 million in the fiscal 2017 period;
- Decrease in accounts payable and other accrued expenses of $8.0 million in the fiscal 2018 period as compared to an increase of $16.3 million in the fiscal 2017 period; and
- Decrease in pension obligation of $38.7 million in the fiscal 2018 period as compared to $0 million in the fiscal 2017 period.

Net cash used in investing activities was $48.3 million during the six months ended March 31, 2018, compared to $29.6 million during the six months ended March 31, 2017, including the following items:

- During the fiscal 2018 period, we spent $43.2 million on capital expenditures, compared to $34.4 million in the fiscal 2017 period; and
- During the fiscal 2017 period, we received proceeds from sale of equity method investment and sale of property and improvements of $4.3 million and $6.5 million, respectively, as compared to none in fiscal 2018 period.

Net cash provided by financing activities was $107.0 million in the six months ended March 31, 2018, as compared to $36.0 million in the prior year period, including the following items:

- The Company borrowed $1,097.6 million (net of original issuance cost of $22.4 million) and repaid $617.2 million of senior secured term B under Amended and Restated Term Loan Credit Agreement during the fiscal 2018 period;
- The Company borrowed $203.0 million and repaid $115.3 million under Amended and Restated ABL Guarantee and Security Agreement during the fiscal 2018 period;
- The Company paid deferred financing cost of $18.0 million by entering into the Amended and Restated Term Loan Credit Agreement and ABL Guarantee and Security Agreement;
- The Company paid dividends of $456.9 million during the fiscal 2018 period;
- The Company repaid $6.2 million and $1.8 million in amounts due under capital leases during the fiscal 2018 and 2017 period, respectively;

- The Company repaid $5.9 million of insurance premiums financing during the fiscal 2018 period as compared to $4.8 million during the fiscal 2017 period; and

- Decrease in restricted cash of $28.3 million as compared to $0.1 million for the fiscal 2018 and 2017 period, respectively.

PROSPECT MEDICAL HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par value and share amounts)

	March 31, 2018 (Unaudited)	September 30, 2017
ASSETS		
Current assets		
Cash and cash equivalents	$ 30,232	$ 27,109
Restricted cash	2,432	30,761
Restricted investments	21,070	15,810
Patient accounts receivable, net of allowance for doubtful accounts of $124,429 and $141,775	387,762	358,914
Due from government payers	55,069	51,152
Other receivables, prepaid expenses and other current assets	181,676	191,190
Income taxes receivable, net	241	-
Inventories	38,787	36,967
Hospital fee program receivable	210,912	59,209
Total current assets	928,181	771,112
Property, improvements and equipment, net	583,591	576,933
Deferred income taxes, net	104,080	104,323
Goodwill	319,051	310,695
Intangible assets, net	37,195	40,794
Other assets	60,665	58,543
Total assets	$ 2,032,763	$ 1,862,400
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities		
Accrued medical claims and other healthcare costs payable	$ 60,680	$ 55,485
Accounts payable and other accrued liabilities	300,847	320,246
Accrued salaries, wages and benefits	150,929	144,287
Hospital fee program liability	53,775	1,968
Due to government payors	41,531	23,754
Income taxes payable, net	51,233	42,793
Revolving line of credit	201,491	113,061
Current portion of capital leases	12,449	11,315
Current portion of long-term debt	19,903	12,509
Other current liabilities	12,670	17,762
Total current liabilities	905,508	743,180
Long-term debt, net of current portion	1,084,443	615,625
Insurance premium financing	19,731	10,094
Malpractice reserves	70,160	60,722
Capital leases, net of current portion	34,903	37,612
Asset retirement obligations	5,961	6,022
Other long-term liabilities	21,531	21,377
Pension obligation	221,792	300,364
Total liabilities	2,364,029	1,794,996
Commitments, Contingencies and Subsequent Events		
Stockholder's equity		
Common stock, $0.01 par value; 100 shares authorized, issued and outstanding	1	1
Additional paid-in capital	22,739	22,398
Accumulated other comprehensive income	55,556	8,148
Retained earnings	(421,909)	24,253
Total stockholder's equity attributable to Prospect Medical Holdings, Inc.	(343,614)	54,800
Non-controlling interests	12,348	12,604
Total stockholder's equity	(331,266)	67,404
Total liabilities and stockholder's equity	$ 2,032,763	$ 1,862,400

PROSPECT MEDICAL HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands)

	Three Months Ended March 31, (Unaudited)		Six Months Ended March 31, (Unaudited)	
	2018	2017	2018	2017
Revenues:				
Net Hospital Services revenues	$ 669,807	$ 602,791	$ 1,444,046	$ 1,212,996
Medical Group revenues	88,847	86,389	171,181	176,124
Net Global Risk Management revenues	5,959	2,596	13,139	4,225
Other revenues	10,610	18,933	19,334	35,477
Total net revenues	775,223	710,709	1,647,700	1,428,822
Operating expenses:				
Hospital services operating expenses	537,017	491,041	1,103,078	1,001,775
Medical Group cost of revenues	61,738	61,274	123,619	125,650
Global Risk Management cost of revenues	3,093	1,304	8,438	2,277
General and administrative	157,593	117,067	272,300	223,649
Depreciation and amortization	22,500	21,404	44,972	43,292
Total operating expenses	781,941	692,091	1,552,408	1,396,643
Operating income from unconsolidated joint ventures	396	496	1,029	1,134
Operating income / (loss)	(6,322)	19,114	96,321	33,313
Other (income) / expense:				
Interest expense and amortization of deferred financing costs, net	25,221	23,589	44,533	37,323
Loss on debt extinguishment	18,313	-	18,313	-
Other (income) expense, net	4,262	(2,923)	4,735	(2,817)
Total other (income) / expense, net	47,796	20,665	67,581	34,506
Income / (Loss) before income taxes	(54,118)	(1,551)	28,740	(1,193)
Income tax provision / (benefit)	(6,993)	7,117	18,432	7,274
Net income / (loss) from continuing operations	(47,125)	(8,669)	10,308	(8,466)
Loss / (income) from discontinued operations	-	(4,613)	-	(3,635)
Income tax provision (benefit) from discontinued operations	-	(2,823)	-	(3,234)
Net (income) / loss from discontinued operations	-	(7,436)	-	(6,869)
Net income / (loss) before allocation to non-controlling interests	(47,125)	(1,233)	10,308	(1,598)
Net (income) / loss attributable to non-controlling interests	(379)	1,600	(548)	1,206
Net income / (loss) attributable to Prospect Medical Holdings, Inc.	(46,745)	(2,834)	10,855	(2,803)
Other comprehensive income (loss):				
Unrealized Loss on Available for Sale Investments	(323)	86	(60)	67
Pension Plan Gain	(7,998)	-	52,954	-
Income tax (provision) benefit	-	-	-	-
Total other comprehensive income (loss)	(8,321)	86	52,895	67
Total comprehensive income	$ (55,067)	$ (2,747)	$ 63,751	$ (2,737)

PROSPECT MEDICAL HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Six Months Ended March 31,	
	2018	2017
	(Unaudited)	
Operating activities		
Net income (loss) before allocation to non-controlling interests	$ 10,308	$ (1,598)
Adjustments to reconcile net income / (loss) to net cash provided by / (used in) operating activities:		
Depreciation and amortization	44,972	43,292
Amortization of deferred financing costs, net	989	474
Write-off of deferred financing costs	11,600	-
Amortization of original issue discount and premium, net	1,065	781
Write-off of original issue discount and premium, net	6,713	-
Provision for bad debts	57,265	43,857
Pension obligation net periodic benefit cost	7,548	-
Deferred income taxes, net	242	261
Stock-based compensation	341	560
Undistributed earnings from equity method investments	(1,029)	(470)
Loss on sale of equity method investment	280	-
Gain on disposal of assets	(109)	(168)
Change in operating assets and liabilities, net of business combinations:		
Patient accounts receivable	(86,113)	(67,005)
Due to/from government payers, net	13,860	(6,252)
Other receivables, prepaid expenses and other current assets	14,221	(20,247)
Hospital fee program receivable / liability	(99,896)	(2,402)
Inventories	(1,821)	(3,274)
Hospital fee program liability	-	-
Income taxes receivable/payable, net	8,199	30,346
Deposits and other assets	(2,752)	(14,618)
Accrued medical claims and other healthcare costs payable	5,195	453
Accounts payable and other accrued liabilities	(7,954)	16,259
Pension obligation	(38,729)	-
Net cash and cash equivalents provided by operating activities from discontinued operations	-	(18,679)
Net cash provided by (used in) operating activities	(55,605)	1,570
Investing activities		
Purchases of property, improvements and equipment	(43,205)	(34,393)
Proceeds from sale of equity method investment	-	4,334
Distribution received from equity method investees	1,177	-
Cash paid for acquisitions, net of cash received and working capital adjustment	(905)	(4,667)
Proceeds from sale of property and improvements	0	6,498
Change in note receivable (net)	-	(1,000)
Decrease (increase) in restricted investments	(5,330)	(6,225)
Net cash provided by (used in) discontinued operations	-	5,875
Net cash used in investing activities	(48,263)	(29,578)

PROSPECT MEDICAL HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(continued)

	Six Months Ended March 31,	
	2018	2017
	(Unaudited)	
Financing activities		
Borrowings on Senior Secured Notes, net of original issue discount	1,097,600	-
Repayments on Senior Secured Notes	(617,187)	(3,125)
Borrowing of other long-term debt	-	2,177
Borrowings on line of credit, net	203,000	33,500
Repayments on retired line of credit, net	(115,300)	-
Repayments of long-term debt	(573)	-
Proceeds from financing leases	-	13,863
Repayment of financing leases	(1,849)	(329)
Repayments of capital leases	(6,189)	(6,146)
Proceeds from exercise of stock options	-	3
Cash paid for deferred financing costs	(17,968)	-
Change in restricted cash	28,328	927
Insurance premium financing, net	(5,941)	(4,826)
Payment of dividends	(456,930)	-
Net cash provided by financing activities	106,991	36,044
Increase in cash and cash equivalents	3,123	8,036
Cash and cash equivalents at beginning of period	27,109	29,586
Cash and cash equivalents at end of period	$ 30,232	$ 37,622

	Six Months Ended March 31,	
	2018	2017
	(Unaudited)	
Supplemental disclosure of cash flow information:		
Interest paid	$ 13,059	$ 12,940
Income taxes paid	$ 9,900	$ 243
Schedule of non-cash investing and financing activities:		
Equipment acquired under capital leases	$ 2,729	$ 2,284
Insurance premium financed	$ 9,900	$ 9,643
Partial satisfaction of long-term liability from acquisition of CharterCARE	$ 466	$ 343
Acquisition of New University Medical Group	$ 7,452	$ -

Summary Consolidated Financial Information

(Unaudited, in thousands)

	Three Months Ended March 31,	
	2018	2017
Summary Financial Information for Unrestricted Subsidiary (1) :		
Net revenues	$ 19,338	$ 2,019
EBITDA	$ (1,824)	$ 206
Total assets	$ 64,464	$ 8,346

(1) Prospect Health Plan, Inc. ("PHP") is an Unrestricted Subsidiary as of June 30, 2016 pursuant to the terms of the New Senior Credit Facilities agreements. On February 22, 2018, pursuant to the Amended TL Agreement, CHIC, RRG and HAN were designated as Unrestricted Subsidiaries in addition to PHP (see page 8).

Adjusted EBITDA Reconciliation
(Unaudited, in millions)

A reconciliation of Adjusted EBITDA to the most directly comparable GAAP measure in accordance with SEC Regulation G follows, for certain quarterly periods:

	Q3 16 [4]	Q4 16 [4]	Q1 17 [4]	Q2 17 [4]	Q3 17 [4]	Q4 17 [4]	Q1 18 [4]	Q2 18 [4]
EBITDA Reconciliation (unaudited):								
Net income from continuing operations (3)	$ (4.7)	$ (6.8)	$ 0.2	$ (8.6)	$ 10.6	$ 28.5	$ 57.4	$ (47.1)
Provision (benefit) for income taxes	(2.8)	0.8	0.2	7.1	(6.6)	(0.3)	25.4	(7.0)
Interest expense	$ 37.0	15.4	13.1	23.0	18.5	16.2	18.7	24.3
Depreciation and amortization	$ 10.1	19.0	21.9	21.4	21.8	39.0	22.0	22.5
Amortization of financing costs	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.9
Loss on debt extinguishment	-	-	-	-	-	-	-	18.3
Gain on bargain purchase	-	-	-	-	-	(30.0)	-	-
Other	-	-	-	(3.0)	-	1.4	1.0	4.3
EBITDA	40.2	29.0	36.0	40.5	44.9	55.4	125.1	16.2
Adjustments (1)								
Transaction costs (2)	6.2	10.4	3.9	3.9	1.7	16.3	1.6	2.0
Litigation expenses	-	0.5	0.1	-	-	-	0.5	1.0
Stock-based compensation (6)	0.3	0.3	0.3	0.3	0.3	0.3	0.1	37.0
Sponsor structuring and management fees	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.3
Strategic business planning	6.6	7.7	2.0	3.4	1.4	3.2	1.5	2.8
Adjusted EBITDA (3)	$ 53.5	$ 48.1	$ 42.6	$ 48.4	$ 48.5	$ 75.3	$ 129.0	$ 59.3
Adjusted EBITDA - Trailing Twelve Months (TTM) (5)	$ 147.5	$ 155.7	$ 171.0	$ 192.6	$ 187.6	$ 214.9	$ 301.2	$ 312.1

Net Debt: Adjusted TTM EBITDA Ratio:	As reported	Proforma [7]
Adjusted EBITDA (TTM)	$ 312.1	$ 339.8
Ending debt	1,353.2	1,353.2
Less: Ending cash and investments	53.7	161.1
Ending net debt	$ 1,299.5	$ 1,192.1
Net Debt: Adjusted TTM EBITDA Ratio	4.16	3.51

(1) Management adjusts for expenses and gains that it does not consider in evaluating core operating performance for compensation, internal capital allocations, acquisition analysis or other strategic purposes.

(2) Transaction costs primarily relate to costs directly related to financing and merger and acquisition activity. Included in Q4 2017 was approximately $15 million of costs related to retro coverage premiums incurred in connection with the Crozer acquisition.

(3) $7.3 million of net California Hospital Fee Program income was recorded in Q3 16; $8.4 million of net California Hospital Fee Program income was recorded in Q4 16; and $8.4 million of net California Hospital Fee Program income was recorded in Q1 17. None of net California Hospital Fee Program income was recorded in Q2 17; $3.0 million of net California Hospital Fee Program was recorded in Q3 17; and $13.8 million of net California Hospital Fee Program was recorded in Q4 17; and $92.7 million of net California Hospital Fee Program was recorded in Q1 18; and $38.6 million of net California Hospital Fee Program was recorded in Q2 18.

(4) Quarterly results include the results of the CharterCARE Physician practices acquisitions (acquired at various dates from Q1 15 through Q3 16), PMCA (acquired December 1, 2015), East Orange (acquired March 1, 2016), Crozer (acquired July 1, 2016), EHCN (acquired October 1, 2016), Waterbury (acquired October 1, 2016) and Prospect Blackstone (acquired May 1, 2017) from their respective acquisition dates. Certain reclassifications were made to prior quarters' presentation to conform to the current quarter's presentation.

(5) The Company refinanced its debt effective June 30, 2016, and a portion of the proceeds were used to purchase Crozer effective July 1, 2016. Adjusted EBITDA - TTM does not include pro forma Adjusted EBITDA for acquisitions completed in the respective trailing twelve-month periods.

(6) Included in Q2 2018 was approximately $36.8 million of payments incurred in connection with Dividend Recapitalization transaction to option holders.

(7) Amount reflects the estimated impact of deferred California Hospital Fee program (QAF) which was fully realized in prior fiscal quarter.

CT Corporation

Service of Process Transmittal

05/21/2021
CT Log Number [redacted]

TO: [redacted], Corporate Counsel
Prospect Medical Holdings, Inc.
[redacted]R
LOS ANGELES, CA 90034

RE: **Process Served in California**

FOR: Southern California Healthcare System, Inc. (Domestic State: CA)

ENCLOSED ARE COPIES OF LEGAL PROCESS RECEIVED BY THE STATUTORY AGENT OF THE ABOVE COMPANY AS FOLLOWS:

TITLE OF ACTION:	RE: United States Department of Justice // To: Southern California Healthcare System, Inc.
DOCUMENT(S) SERVED:	-
COURT/AGENCY:	None Specified Case [redacted]
NATURE OF ACTION:	Letter of Intent - Seeking Information
ON WHOM PROCESS WAS SERVED:	C T Corporation System, Los Angeles, CA
DATE AND HOUR OF SERVICE:	By Process Server on 05/21/2021 at 14:11
JURISDICTION SERVED :	California
APPEARANCE OR ANSWER DUE:	None Specified
ATTORNEY(S) / SENDER(S):	None Specified
REMARKS:	The document(s) received have been modified to reflect the name of the entity being served.
ACTION ITEMS:	CT has retained the current log, Retain Date: 05/24/2021, Expected Purge Date: 05/29/2021 Image SOP Email Notification, [redacted]@prospectmedical.com Email Notification, [redacted]@prospectmedical.com Email Notification, [redacted]@prospectmedical.com Email Notification, [redacted]@prospectmedical.com Email Notification, [redacted]@prospectmedical.com Email Notification, [redacted]@prospectmedical.com Email Notification, [redacted]@prospectmedical.com

CT Corporation

Service of Process Transmittal

05/21/2021
CT Log Number [redacted]

TO: [redacted], Corporate Counsel
Prospect Medical Holdings, Inc.
[redacted]
LOS ANGELES, CA 90034

RE: **Process Served in California**

FOR: Southern California Healthcare System, Inc. (Domestic State: CA)

Email Notification, Corporate Paralegals [redacted]

Email Notification, [redacted]@prospectmedical.com

REGISTERED AGENT ADDRESS:

C T Corporation System
[redacted]
Los Angeles, CA 90017
[redacted]

The information contained in this Transmittal is provided by CT for quick reference only. It does not constitute a legal opinion, and should not otherwise be relied on, as to the nature of action, the amount of damages, the answer date, or any other information contained in the included documents. The recipient(s) of this form is responsible for reviewing and interpreting the included documents and taking appropriate action, including consulting with its legal and other advisors as necessary. CT disclaims all liability for the information contained in this form, including for any omissions or inaccuracies that may be contained therein.

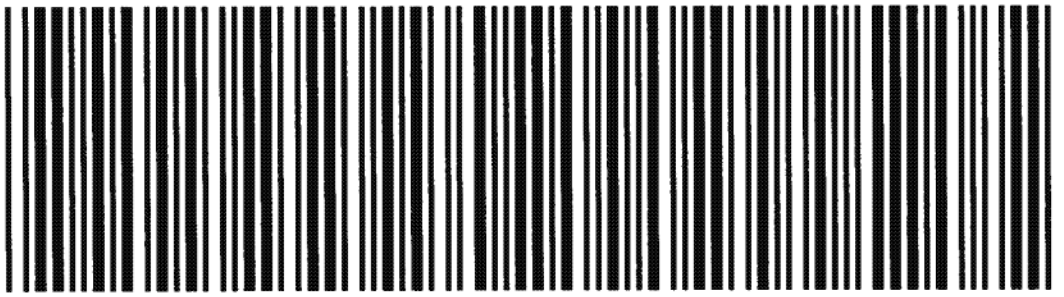
Wolters Kluwer

PROCESS SERVER DELIVERY DETAILS

Date: Fri, May 21, 2021

Server Name: DROP SERVICE

Entity Served	SOUTHERN CALIFORNIA HEALTHCARE SYSTEMS INC
Agent Name	
Case Number	[redacted]
Jurisdiction	CA



CIVIL INVESTIGATIVE DEMAND

United States Department of Justice

Washington, D.C. 20530

TO: Southern California Healthcare System, Inc.
[redacted]
Los Angeles, CA 90034

Civil Investigative Demand No. [redacted]

Serve on: Custodian of records or any person authorized to accept service of process for Southern California Healthcare System, Inc.

This Civil Investigative Demand is issued pursuant to the False Claims Act, 31 U.S.C. §§ 3729-3733, in the course of a False Claims Act investigation to determine whether there is or has been a violation of 31 U.S.C. § 3729. The False Claims Act investigation concerns allegations that Southern California Healthcare System, Inc. and related entities ("SCHS") submitted or caused the submission of false claims to federal healthcare programs for services that were provided as a result of illegal kickbacks and/or that were medically unnecessary or not provided.

This Demand requires you to provide documents and answers to the attached written interrogatories to the Federal Government. This is the original of the Demand; no copies have been served on other parties. The information and documents provided in response to this Demand may be shared, used, and disclosed as provided by 31 U.S.C. § 3733.

Document Request:

In accordance with the Definitions and Instructions set forth in **Attachment A**, you are required by this Demand to produce any and all documents in your possession, custody or control responsive to the document requests set forth in **Attachment C**.

You must make this material available to [redacted] Civil Division, U.S. Department of Justice, and [redacted] Office of the U.S. Attorney for the Central District of California, who have been designated as False Claims Act custodians in this case. [redacted] may be contacted at [redacted] or [redacted] and [redacted] may be contacted at [redacted] or [redacted] if you have any questions. These documents shall be produced no later than thirty (30) days from the receipt of this Demand, to the attention of [redacted] at U.S. Department of Justice, Civil Division, [redacted], Washington, D.C., 20002, or at another time or location to be mutually agreed upon by you and the False Claims Act custodians. The production of documentary material in response to this Demand must be made under a sworn certificate in the form printed in this Demand.

Written Interrogatories:

In accordance with the Definitions and Instructions set forth in **Attachment A**, you are required by this Demand to answer the attached interrogatories set forth in **Attachment D**. The answers to interrogatories shall be submitted no later than twenty (20) days from the receipt of this Demand, to the attention of [redacted] at U.S. Department of Justice, Civil Division, [redacted], Washington, D.C., 20002, or at another time or location to be mutually agreed upon by you and the False Claims Act custodians. The interrogatories shall be answered separately and fully in writing under oath and also shall be submitted under a sworn certificate in the form printed in this Demand. If you object to any interrogatory, the reasons for the objection shall be stated with specificity.

Issued at Washington, DC, this 7th day of May, 2021.

[redacted]

FORM OF CERTIFICATE OF COMPLIANCE[1]

I have responsibility for producing the documents requested in Civil Investigative Demand No [redacted]. I hereby certify that all the materials required by that Civil Investigative Demand which are in the possession, custody or control of the person to whom the Demand is directed have been submitted to a custodian named therein.

If any such material has not been produced because of a lawful objection, the objection to the document request and the reasons for the objection have been stated.

Signature _____

Title _____

SWORN TO before me this _____ day of

_____, 2021

_____

NOTARY PUBLIC

---

[1] In place of a sworn statement, the above certificate of compliance may be supported by an unsworn declaration as provided for by 28 U.S.C. § 1746.

FORM OF CERTIFICATE OF COMPLIANCE[1]

I have responsibility for answering interrogatory numbers 1-4 in Civil Investigative Demand No. [redacted]. I hereby certify that all the information required by the Civil Investigative Demand and in the possession, custody, control, or knowledge of the person to whom the Civil Investigative Demand is directed has been submitted. To the extent information has not been furnished, the information is identified and the reasons why the information was not furnished are set forth with particularity. Additionally, if any such information has not been produced because of a lawful objection, the objection to the interrogatory and the reasons for the objection have been stated. I certify under penalty of perjury that the foregoing interrogatory responses are true and correct.

Signature_____

Title_____

SWORN TO before me this_____day of _____, 2021

_____
NOTARY PUBLIC

[1] In place of a sworn statement, the above certificate of compliance may be supported by an unsworn declaration as provided for by 28 U.S.C. § 1746.

ATTACHMENT A

A. DEFINITIONS

1. Unless specified otherwise, the terms "You," Your", or "SCHS" means Southern California Healthcare System, Inc., with a principal place of business in [redacted] Los Angeles, CA 90034, and any and all predecessors, successors, affiliates, subsidiaries, parent companies, branches, divisions, offices, units, officers, directors, employees, agents, and assigns.

2. "Hospitals" means and includes the following facilities or entities:

   a. Southern California Hospital at Culver City;
   b. Southern California Hospital at Hollywood;
   c. Southern California Hospital at Van Nuys.

3. "Communication" is used in the broadest sense permitted by Federal Rule of Civil Procedure 26(b), 34(a) and 45(a) and means any transmission or exchange of information orally or in writing.

4. "Document" and "Documents" are used in the broadest sense permitted by Federal Rule of Civil Procedure 26(b), 34(a) and 45(a) and include, but are not limited to, any hard copy or electronically stored information and emails.

5. "Employee" shall mean any person including, but not limited to, an employee, volunteer, independent contractor or agent, all past and present directors, officers, agents, representatives, accountants, advisors, and consultants who acted or purported to act on Your behalf or who performed any service for You under Your name, whether on a full-time, part-time, piece-work, commission or other basis and whether paid or unpaid.

6. "Relating to" and "related to" mean consisting of, concerning, referring to, reflecting, supporting, evidencing, prepared in connection with, used in preparation for, or being in any way legally, logically, or factually connected to the matter discussed.

7. The terms "and" and "or" shall be construed conjunctively or disjunctively so as to make each particular request inclusive rather than exclusive.

8. The terms "any" and "all" shall be construed conjunctively or disjunctively so as to make each particular request inclusive rather than exclusive.

9. The singular and plural forms of any word shall be construed interchangeably so as to bring within the scope of this Demand any document which might otherwise be construed as outside its scope.

B. INSTRUCTIONS

1. Unless otherwise stated in any specific request below, each request covers the relevant time period since October 1, 2014.

2. This Demand is continuing in nature. If you become aware of or acquire possession, custody, or control of additional documents that are responsive to this Demand, or if you become aware of or acquire additional information that is responsive to these Interrogatories, you shall promptly produce such additional documents or supplement your Interrogatory responses.

3. This Demand applies to all documents and information in your possession, custody, or control regardless of their location and regardless of whether such documents or information are held by your current or former employees, including, but not limited to, in-house IT specialists and technicians, IT specialists and technicians to whom digital services have been out-sourced.

4. All documents produced pursuant to this Demand are to be organized in such a manner that all documents relating to a particular request are grouped together and identified as being responsive to that request.

5. If any document which is otherwise responsive to this Demand is not disclosed because of a claim of privilege or other objection, you shall identify such documents on a Privilege Log. The Privilege Log shall be produced in Excel or Word format and include the following information:

(a) the basis for the assertion of the privilege or objection;

(b) the type of document (e.g., letter, memorandum, email, etc.)

(c) the name and title of the author (and if different, the preparer and signatory);

(d) the name(s) and title(s) of the individual(s) to whom the document was addressed;

(e) the name(s) and title(s) of the individuals to whom the document or a copy of the document was sent or to whom the document or a copy, or any part thereof, was shown;

(f) the date of the document;

(g) number of pages;

(h) a general description of the subject matter; and

(i) the Request(s) to which the document is responsive.

6. When a requested document contains both privileged and non-privileged material, the non-privileged material must be disclosed to the fullest extent possible. If a privilege is asserted with regard to a part of the material contained in a document, the party claiming the privilege must clearly indicate the portions as to which the privilege is claimed. When a document is redacted or altered in any fashion, identify as to each document the reason for the redaction or alteration, the date of the redaction or alteration, and the person performing the redaction or alteration. Any redaction must be clearly visible on the redacted document.

7. If any document otherwise responsive to this Demand is not produced because it was lost, destroyed, or discarded:

(a) identify the document by type, date, and title;

(b) identify the person who last had custody or control over the document;

(c) state the date on which the document was destroyed or was discovered to have been lost;

(d) if the document was destroyed, state why it was destroyed and identify the person(s) who destroyed it;

(e) if the document was lost, describe the circumstances in which its loss was discovered, state the date that it was last seen or otherwise accounted for, and identify the person(s) who discovered its loss and who last saw or otherwise accounted for it;

(f) identify all persons who have knowledge pertaining to the destruction or loss of the document, giving a concise but complete statement of the knowledge you claim each such person has;

(g) identify all persons who have knowledge of the contents of each lost or destroyed document, giving a concise but complete statement of the knowledge you claim each such person has; and

(h) produce all existing indices, lists, or other documents in your possession, custody, or control that reflect the existence of such lost or destroyed documents, and/or their transfer or destruction.

8. If no documents exist that are responsive to a specific document Request, a written statement to that effect shall be provided at the time of production.

9. To the extent that documents responsive to this Demand are in the possession, custody, or control of third parties, this Demand requires a statement to that effect at the time of production, specifically providing the name, address, telephone number and principal contact of the third party, and shall further identify those documents in said third party's possession.

10. Please produce imaged hard copy and electronic documents according to the attached **Specifications for Production of Electronically Stored Information and Digitized Images** set forth in **Attachment B**.

11. For each Interrogatory and subpart thereof, you must respond separately and in writing. Your responses must identify all documents that you used, referenced, or relied upon in your written responses.

12. If you withhold any information responsive to any Interrogatory based on a claim of privilege or other objection: (a) furnish the basis for the assertion of the privilege or objection, (b) identify all individuals who could respond to the Interrogatory with regard to the information that is being withheld, and (c) set forth the general subject matter and the specific Interrogatory or Interrogatories to which each individual could testify.

13. When providing the name of an individual in response to any Interrogatory or individuals identified pursuant to Instruction 12 above, provide the individual's last known address, telephone number, email address, or other contact information, as well as the individual's relationship to you. If the individual is or was an employee, provide the individual's title and dates of employment.

ATTACHMENT B

Specifications for Production of ESI and Digitized ("Scanned") Images ("Production Specifications")

Collection of Electronically Stored Information (ESI)

Careful consideration should be given to the methodology, implementation and documentation of ESI collection to ensure that all responsive data and metadata are preserved in the collection process. Consideration should also be given as to whether production media should be encrypted when producing to the government when required by law (i.e. Health Insurance Portability and Accountability Act (HIPAA), Family Educational Rights and Privacy Act (FERPA), etc.). *See* Section 10 below.

1. Specification Modifications

Any modifications or deviations from the Production Specifications may be done only with the express permission of the government and these modifications or deviations should be communicated to the government and approved by the government in written form. Any responsive data or documents that exist in locations or native forms not discussed in these Production Specifications remain responsive and, therefore, arrangements should be made with the government to facilitate their production.

2. Production Format of ESI and Imaged Hard Copy Documents

Responsive ESI and imaged hard copy shall be produced in the format outlined below. All ESI, except for spreadsheets and presentation files (e.g. Excel, PowerPoint) and those forms listed below in section 5-7, shall be rendered to TIFF image format, and accompanied by an Opticon/Concordance® Image Cross Reference file. All applicable metadata/database (see section 3 below) shall be extracted and provided in Concordance® load file format.

a. **Image File Format:** All documents shall be produced in black and white TIFF format unless the image requires color. An image requires color when color in the document adds emphasis to information in the document or is itself information that would not be readily apparent on the face of a black and white image.
b. When producing black and white paper documents scanned to images, or rendered ESI, they shall be produced as 300 dpi, 1 bit, single-page TIFF files, CCITT Group IV (2D Compression). When producing in *color,* paper documents scanned to images, or rendered ESI, they shall be produced as 300 dpi single-page JPG. Images should be uniquely and sequentially Bates numbered and unless otherwise specified, Bates numbers should be an endorsement on each image.

    i. All TIFF file names shall include the unique Bates number burned into the image. (See section 8, below, regarding Bates number instructions.)
    ii. All TIFF image files shall be stored with the ".tif" extension.
    iii. Images shall be OCR'd using standard COTS products.
        1. An exception report shall be provided when limitations of paper digitization software/hardware or attribute conversion do not allow for OCR text conversion of certain images. The report shall include the DOCID or Bates number(s) corresponding to each such image.
            a. All pages of a document or all pages of a collection of documents that comprise a folder or other logical grouping, including a box, shall be delivered on a single piece of media.
            b. No image folder shall contain more than 2,000 images.

c. **Opticon/Concordance® Image Cross Reference file:** Images should be accompanied by an Opticon load file that associates each Bates number with its corresponding single-page TIFF image file. The Cross Reference file should also contain the relative image file path for each Bates numbered page.

The Opticon/Concordance® Image Cross Reference file is a page level load file, ABC00000001,OLS,D:\DatabaseName\Imageswith each line representing one image.

Below is a sample:

REL000000001,,.\IMAGES\001\REL000000001.TIF,Y,,,
REL000000002,,.\IMAGES\001\REL000000002.TIF,,,,
REL000000003,,.\IMAGES\001\REL000000003.TIF,,,,
REL000000004,,.\IMAGES\001\REL000000004.TIF,Y,,,
REL000000005,,.\IMAGES\001\REL000000005.TIF,,,,

The fields are, from left to right:

- Field One – (REL000000001) – the Bates Number. This value must be unique for each row in the OPT file. The first page of each document must match the DOCID or BEGDOC# value of the respective document.
- Field Two – (blank) – the volume identifier. This field is not required.
- Field Three – (.\IMAGES\001\REL000000001.TIF) – The relative file path to the image to be loaded.
- Field Four – (Y) – the document marker. A "Y" indicates the start of a unique document.
- Field Five – (blank) – The folder indicator. This field is not required, and typically is not used.
- Field Six – (blank) – The box indicator. This field is not required, and typically is not used.
- Field Seven – (blank) – The page count. This field is not required.

d. **Concordance® Load File**: Images should also be accompanied by a flat, document-level load file to provide the metadata and native files containing delimited text that will populate fields in a searchable, flat database environment. The file encoding must be one of four types: Western European (Windows), Unicode (UTF16), Big-Endian Unicode or UTF8. The file should contain the required fields listed below in section 3.

- Text delimited load files are defined using the standard Concordance delimiters. For example:

Field Separator	*¶ or Code 020*
Text Qualifier	*þ or Code 254*
Newline	*® or Code 174*
Multi-value	*° or Code 167*
Nested values	*\ or Code 092*

- This load file should contain the relative file path to the individual multi-page, document level text files.
- This load file should also contain the relative file path to all provided native files, such as Microsoft Excel or PowerPoint files.
- There should be one line for every record in a collection.
- The load file must contain a header listing the metadata/database fields contained within. For example, if the data file consists of a First Page of a Record (BegDoc#), Last Page of a Record (ending Bates / ENDDOC#), DOCID, DOCDate, File Name, and a Title, then the structure may appear as follows:

þBEGDOCþ¶þENDDOCþ¶þDOCIDþ¶þDOCDATEþ¶þFILENAMEþ¶þTITLEþ

e. **The extracted/OCR** text should be provided for each document as a separate single text file. The file name should match the BEGDOC# or DOCID for that specific record and be accompanied by the .txt extension.

f. **Directory and folder structure**: The directory structure for productions should be:

*CaseName***LoadFiles**
*CaseName***Images** < For supporting images (can include subfolders as needed, should not include more than 2,000 files per folder)
*CaseName***Natives** <Native Files location (can include subfolders as needed, should not include more than 2,000 files per folder)
*CaseName***Text** <Extracted Text files location (can include subfolders as needed, should not include more than 2,000 files per folder)

3. **Required Metadata/Database Fields**

A "✓" denotes that the indicated field should be present in the load file produced. "Other ESI" includes data types other than imaged hard copy materials (which should follow "Hard Copy" column) and email and email repositories (both of which should follow "Email" column). For example, "Other ESI" includes MS Office files (e.g. Excel, PowerPoint), WordPerfect files, and any files identified in sections 5-7 below. The parties will meet and confer about any field which cannot be populated automatically (i.e. would require manual population of information).

Field name	Field Description	Field Type	Field Value	Hard Copy	E-mail	Other ESI
COLLECTION SOURCE	Name of the Company/Organization data was collected from	Text	160	✓	✓	✓
SOURCE ID (BOX #)	Submission/volume/box number	Text	10	✓	✓	✓
CUSTODIAN	Custodian/Source - format: Last, First or ABC Dept.	Text	160	✓	✓	✓
DUPECUSTODIAN	Custodian/Source – all custodians who had the document before de-duplication; format: Last, First or ABC Dept.	Text	Unlimited		✓	✓
DUPECUSTODIAN FILE PATH	Listing of all the file locations of the document before de-duplication	Text	Unlimited		✓	✓
AUTHOR	Creator of the document	Text	500			✓
BEGDOC#	Start Bates (including prefix) - No spaces	Text	60	✓	✓	✓
ENDDOC#	End Bates (including prefix) - No spaces	Text	60	✓	✓	✓
DOCID	Unique document Bates # or populate with the same value as Start Bates (DOCID = BEGDOC#)	Text	60	✓	✓	✓
PGCOUNT	Page Count	Number	10	✓	✓	✓

Field name	Field Description	Field Type	Field Value	Hard Copy	E-mail	Other ESI
GROUPID	Contains the Group Identifier for the family, in order to group files with their attachments	Text	60		✓	✓
PARENTID	Contains the Document Identifier of an attachment's parent	Text	60		✓	✓
ATTACHIDS	Child document list; Child DOCID or Child Start Bates	Text – semicolon delimited	Unlimited	✓	✓	✓
ATTACHLIST	List of Attachment filenames	Text – semicolon delimited	Unlimited		✓	✓
BEGATTACH	Start Bates number of parent	Text	60	✓	✓	✓
ENDATTACH	End Bates number of last attachment	Text	60	✓	✓	✓
PROPERTIES	Privilege notations, Redacted, Document Withheld Based On Privilege	Text – semicolon delimited	Unlimited	✓	✓	✓
RECORD TYPE	Use the following choices: Image, Loose E-mail, E-mail, E-Doc, Attachment, Hard Copy or Other. If using Other, please specify what type after Other	Text	60	✓	✓	✓
FROM	Sender (i.e.: e-mail address, Last name, First name)	Text	160		✓	✓
TO	Recipient (i.e. : e-mail address, Last name, First name)	Text – semicolon delimited	Unlimited		✓	✓
CC	Carbon Copy Recipients (i.e.: e-mail address, Last name, First name)	Text – semicolon delimited	Unlimited		✓	✓
BCC	Blind Carbon Copy Recipients (i.e.: e-mail address, Last name, First name)	Text – semicolon delimited	Unlimited		✓	✓
SUBJECT	Subject line of email	Text	Unlimited		✓	
TITLE	Document Title	Text	Unlimited			✓
CONVINDEX	E-mail system ID used to track replies, forwards, etc.	Text	Unlimited		✓	

Field name	Field Description	Field Type	Field Value	Hard Copy	E-mail	Other ESI
DOCDATE	Last Modified Date for files and Sent date for e-mail, this field inherits the date for attachments from their parent. Do not provide 00/00/0000.	Date	MM/DD/YYYY		✓	✓
TEXT FILEPATH	Relative file path of the text file associated with either the extracted text or the OCR	Text	Unlimited	✓	✓	✓
DATE TIME SENT	Date and time Sent (USE TIME ZONE OF COLLECTION LOCALITY) Numbers must be populated. If date is unknown, leave blank. Do not provide 00/00/0000	Date and Time	MM/DD/YYYY HH:MM:SS		✓	
DATE TIME CRTD	Date Created (USE TIME ZONE OF COLLECTION LOCALITY) Numbers must be populated. If date is unknown, leave blank. Do not provide 00/00/0000	Date and Time	MM/DD/YYYY HH:MM:SS		✓	✓
DATE TIME SVD	Date Saved (USE TIME ZONE OF COLLECTION LOCALITY) Numbers must be populated. If date is unknown, leave blank. Do not provide 00/00/0000	Date and Time	MM/DD/YYYY HH:MM:SS		✓	✓
DATE TIME MOD	Date Last Modified (USE TIME ZONE OF COLLECTION LOCALITY) Numbers must be populated. If date is unknown, leave blank. Do not provide 00/00/0000	Date and Time	MM/DD/YYYY HH:MM:SS		✓	✓

Field name	Field Description	Field Type	Field Value	Hard Copy	E-mail	Other ESI
DATE TIME RCVD	Date Received (USE TIME ZONE OF COLLECTION LOCALITY) Numbers must be populated. If date is unknown, leave blank. Do not provide 00/00/0000	Date and Time	MM/DD/YYYY HH:MM:SS		✓	
DATE TIME ACCD	Date Accessed (USE TIME ZONE OF COLLECTION LOCALITY) Numbers must be populated. If date is unknown, leave blank. Do not provide 00/00/0000	Date and Time	MM/DD/YYYY HH:MM:SS		✓	✓
TIME ZONE OFFSET	Time zone of collection locality, relative to Coordinated Universal Time (UTC). E.g., for US Central Standard Time (CST), the value for this field should be -6.0	Decimal	10		✓	
FILE SIZE	Native File Size in KBs	Decimal	10			✓
FILE NAME	File name - name of file as it appeared in its original location	Text	Unlimited			✓
APPLICATION	Application used to create native file (e.g. Excel, Outlook, Word)	Text	160		✓	✓
FILE EXTENSION	Extension for the file (e.g. .doc, .pdf, .wpd)	Text	10		✓	✓
FILEPATH	Data's original source full folder path	Text	Unlimited		✓	✓
NATIVE LINK	Relative file path location to the native file	Text	Unlimited		✓	✓
FOLDER ID	Complete E-mail folder path (e.g. Inbox\Active) or Hard Copy container information (e.g. folder or binder name)	Text	Unlimited	✓	✓	

Field name	Field Description	Field Type	Field Value	Hard Copy	E-mail	Other ESI
HASH VALUE	Identifying value of an electronic record that is used for deduplication during processing. MD5 or SHA1 hash algorithms may be used, but must be kept consistent throughout all productions and communicated to Government.	Text	Unlimited		✓	✓
MESSAGEHEADER	E-mail header. Can contain IP address	Text	Unlimited		✓	
ATTACHMCOUNT	Number of attachments (any level child document) associated with a ParentID	Text	10		✓	
FILE TYPE	Description that represents the file type to the Windows Operating System. E.g., Adobe Portable Document Format, Microsoft Word 97 – 2003, or Microsoft Office Word Open XML Format.	Text	160		✓	✓
HAS HIDDEN CONTENT	Identifies whether the document has comments, track changes or other hidden content associated with it	Text	Yes/No		✓	✓
MESSAGE TYPE	Exchange Message class or equivalent	Text	60		✓	
EXTENDED PROPERTIES	For PDFs Only	Text	Unlimited		✓	✓
HAS REDACTIONS	Identifies whether a record has been produced with redactions; should be populated with Y for records with redactions and N for records without redactions.	Text	Yes/No	✓	✓	✓

4. **Search, De-Duplication, Near-Duplicate Identification, Technology Assisted Review, E-mail Conversation Threading and Other Culling Procedures**

a. De-duplication of exact hash copies shall be performed globally – across all custodians. The custodian of each record shall be populated in the DupeCustodian field.
b. All files found on the National Institute of Standards and Technology (NIST) list, commonly referred to as deNISTing, should be excluded from delivery to the Government. All available metadata from files withheld from delivery due to the deNISTing process will be available upon request.
c. All files should be globally de-duplicated with the following conditions:
    i. The "DupeCustodian" metadata field (listing of all custodians who had the document before de-duplication) must be provided with the document production.
    ii. The "DupeCustodian File Path" metadata field (listing all the file locations of the document before de-duplication) must be provided with the document production.
    iii. All files and metadata for the duplicate documents removed during de-duplication must be preserved and available for production upon request.
    iv. No customization of hashing may occur without prior express approval by the Government.
    v. De-duplication must be done by document family, not by individual document.
    vi. A detailed description of the steps taken to de-duplicate (including the process of obtaining hash values) must be provided to the Government. For every production after the first, a separate Unified Custodian overlay shall be provided. If no overlay is necessary due to the fact that no documents de-duped out in connection with previously produced documents, this shall be expressly stated in the cover letter accompanying the subsequent production(s).
d. The recipient shall not use any other procedure to cull, filter, group, separate or de-duplicate, or near-deduplicate, etc. (i.e., reduce the volume of) responsive material before discussing with and obtaining the written approval of the government. All objective coding (e.g., near duplicate ID or e-mail thread ID) shall be discussed and produced to the government as additional metadata fields. The recipient will not employ analytic software or technology to search identify, or review potentially responsive material, including but not limited to technology assisted review (TAR) or predictive coding, without first discussing with the government.

5. **The following data must be discussed with the government in advance of producing:**

a. Hidden Text (e.g. track changes, hidden columns, mark-ups, notes)
b. Embedded Files (e.g. Word documents, Excel spreadsheets, .wav files, etc.)
c. Image-Only Files (e.g. image-only files (non-searchable .pdfs, multi-page TIFFs, Snipping Tool [and other] screenshots, etc., as well as all other images that contain text)
d. Encrypted Files (e.g. protected by password or encryption key)
e. Email Repositories (e.g. email databases, such as Outlook .PST, Lotus .NSF, etc.)
f. Instant Messenger (IM), Voicemail Data, Audio Data, Video Data, Text Messages, etc.
g. Social Media
h. Structured Data (e.g., Oracle, SQL, MySQL, QuickBooks, etc.)
i. Structured Data from Proprietary Applications (e.g., proprietary timekeeping, accounting, etc.)
j. Photographs
k. Images from which Text Cannot be OCR Converted
l. Format of ESI from Non-PC or Non- Windows-based Systems (e.g., Apple, IBM mainframes, and UNIX machines, Android device, etc.)
m. Native files

6. Production of Imaged Hard Copy Records

All imaged hard copy material shall reflect accurate document unitization including all attachments and container information (to be reflected in the PARENTID, ATTACHID, BEGATTACH, ENDATTACH and FOLDERID).

a. Unitization in this context refers to identifying and marking the boundaries of documents within the collection, where a document is defined as the smallest physical fastened unit within a bundle. (e.g., staples, paperclips, rubber bands, folders, or tabs in a binder).
b. The first document in the collection represents the parent document and all other documents will represent the children.
c. All imaged hard copy documents shall be produced as 300 dpi single-page TIFF files, CCITT Group IV (2D Compression). All documents shall be produced in black and white TIFF format unless the image requires color. An image requires color when color in the document adds emphasis to information in the document or is itself information that would not be readily apparent on the face of a black and white image. Images identified as requiring color shall be produced as color 300 dpi single-page JPEG files.
d. All objective coding (e.g., document date or document author) should be discussed and could be produced to the government as additional metadata/database fields should they be deemed as necessary.Production of Spreadsheets and Presentation Files

7. Production of Spreadsheets and Presentation Files

All spreadsheet and presentation files (e.g. Excel, PowerPoint) shall be produced in the unprocessed "as kept in the ordinary course of business" state (i.e., in native format), with an associated placeholder image and endorsed with a unique Bates number. The file produced should maintain the integrity of all source, custodian, application, embedded and related file system metadata.

8. Bates Number Convention

All images should be assigned Bates numbers before production to the government. Each Bates number shall be a standard length, include leading zeros in the number, and be unique for each produced page. The numbers should be endorsed on the actual images at a location that does not obliterate, conceal, or interfere with any information from the source document. Native files should be assigned a single Bates number for the entire file which will represent the native document in the Opticon/ Concordance® Image Cross Reference file. The load/dat file will include a reference to the native file path and utilize the NATIVELINK metadata field). The Bates number shall not exceed 30 characters in length and shall include leading zeros in the numeric portion. The Bates number shall be a unique number given sequentially (i.e. page one of document is PREFIX0000000001, page two of the same document is PREFIX0000000002) to each page (when assigned to an image) or to each document (when assigned to a native file). If the parties agree to a rolling production, the numbering convention shall remain consistent throughout the entire production. There shall be no spaces between the prefix and numeric value. If suffixes are required, please use "dot notation." Below is a sample of dot notation:

	Document #1	*Document #2*
Page #1	PREFIX00000000001	PREFIX00000000002
Page #2	PREFIX00000000001.002	PREFIX00000000002.002
Page #3	PREFIX00000000001.003	PREFIX00000000002.003

9. Media Formats for Storage and Delivery of Production Data

Electronic documents and data shall be delivered on any of the following media:

a. CD-ROMs and/or DVD-R (+/-) formatted to ISO/IEC 13346 and Universal Disk Format 1.02 specifications; Blu-ray.
b. External hard drives (USB 3.0 or higher, formatted to NTFS format specifications) or flash drives.
c. Storage media used to deliver ESI shall be appropriate to the size of the data in the production.
d. Media should be labeled with the case name, production date, Bates range, and producing party.

10. Virus Protection and Security for Delivery of Production Data

Production data shall be free of computer viruses. Any files found to include a virus shall be quarantined by the producing party and noted in a log to be provided to the government. Password protected or encrypted files or media shall be provided with corresponding passwords and specific decryption instructions. All encryption software shall be used with approval by and with the written consent of the government.

11. Transmittal Letter to Accompany Deliverables

All deliverables should be accompanied by a transmittal letter including the production date, case name and number, producing party name, and Bates number range produced. Technical instructions on how to decrypt media should be included in the transmittal letter but the password should be transmitted separately.

ATTACHMENT C

DOCUMENT REQUESTS

Please produce documents in response to the following requests for production in accordance with the Definitions and Instructions in **Attachment A**:

1. All documents and communications related to any actual, potential, or considered payments or other remuneration, including without limitation documents sufficient to show the dates and amounts of any payment or remuneration, provided by SCHS, directly or indirectly, to any physicians, employees, or agents of any skilled nursing facilities ("SNFs"), including without limitation:

a. [redacted]
b.
c.
d.
e.
f.
g.
h.
i.
j.
k.
l.
m.
n.

2. All copies of any contracts or agreements, including any drafts of contracts or agreements, between You and any SNF, including without limitation those SNFs identified in **Request 1**.

3. All documents and communications relating to any contract or agreement, whether executed or not, between SCHS and any SNF, including without limitation those identified in **Request 1**.

4. All documents and communications related to any actual, potential, or considered payments or other remuneration, including without limitation documents sufficient to show the dates and amounts of any payment or remuneration, provided by SNFs, including without limitation those identified in **Request 1**, directly or indirectly, to any physicians, employees, or agents of SCHS.

5. All documents and communications related to the admission of patients from SNFs to Your Hospitals or the discharge of patients from Your Hospitals to SNFs.

6. All documents related to the initial evaluation and inpatient admission of patients at Your Hospitals, including without limitation any pre-registration forms or documents.

7. All documents and communications related to any guidance given to marketing or business development employees at Your Hospitals relating to inpatient admissions or interactions with SNFs.

8. All documents and communications between SCHS and [redacted] The requested documents and communications include, without limitation, any contracts or agreements between [redacted] and SCHS or any drafts of contracts or agreements.

9. All documents and communications related to any actual, potential, or considered payments or other remuneration, including without limitation documents sufficient to show the dates and amounts of any payment or remuneration, provided by SCHS, directly or indirectly, to prospective or actual SCHS patients or their families or agents.

10. All documents and communications related to any efforts at any of Your Hospitals to identify and transport patients to Your Hospitals, excluding emergency ambulance services.

11. All documents related to Your relationship with [redacted] including without limitation all contracts and records of payments or other remuneration related to the [redacted]

12. Documents sufficient to detail the schedules of the following personnel at the [redacted] during the relevant time period:

a. [redacted]
b.

The requested documents include without limitation time sheets, patient logs, schedules, and calendars.

13. All guidance, policies, or procedures for SCHS and Your Hospitals related to:

a. Anti-kickback statutes;
b. Reimbursement from federal and state healthcare programs;
c. Document retention;
d. Interactions with SNFs, including without limitation patient transfers;

e. Inpatient admissions, including without limitation providing patients transportation or any payments or other remuneration;
f. Psychiatric or behavioral health patients, including without limitation admission, and retention of patients and use of restraints;
g. Transfer of patients between Hospitals;
h. Transfer of patients between departments or units within the Hospitals; and
i. Supervision of physician assistants or medical students.

14. All documents related to complaints, grievances, or other expressions of concern raised by any SCHS employee or third-party regarding:

a. SCHS's interactions with SNFs, including without limitation complaints, grievances, or other expressions of concern regarding any payments or other remuneration;
b. The admission or treatment of psychiatric or behavioral health patients to Your Hospitals, including without limitation complaints; grievances, or other expressions of concern raised by patients or their families;
c. The process of admitting individuals as inpatient at Your Hospitals;
d. Physicians being paid for services not performed;
e. Physician care or supervision of patients at Your Hospitals.

15. All documents related to financial statements, cost reports, accounts receivable, accounts payable, budgets, revenue sources, and general ledgers for each of Your Hospitals.

16. All documents related to any audits conducted or completed by You or an outside contractor or consultant related to billing, coding, or attaining reimbursement for patients on federal or state healthcare programs.

17. All documents related to any method SCHS used to measure or track referrals from SNFs and/or resulting revenues.

ATTACHMENT D

WRITTEN INTERROGATORIES

Please answer the following interrogatories in accordance with the Definitions and Instructions in **Attachment A**:

1. Identify all of SCHS's parent entities (part or whole), individual owners (part or whole), subsidiary entities (part or whole), and affiliated entities, and explain the organizational and business relationship of each with SCHS. For each entity, identify the full name, headquarters address and telephone number, and state of incorporation or registration.

2. Identify all persons who have been or are currently employed by SCHS as marketing or business development employees at Your Hospitals at any time during the relevant time period. For each such person, identify the person's full name, phone number, email address, position(s) and dates of employment by SCHS.

3. Describe each method SCHS has used to measure or track referrals from skilled nursing facilities ("SNFs") and/or resulting revenues, and provide the name of each document containing such information.

4. Identify any audits or investigations of Your Hospitals conducted by any healthcare programs, including without limitation the Centers for Medicare & Medicaid Services, Medicare Administrative Contractors, or Medicaid Fraud Control Units, over the relevant time period. Report their findings, any penalties imposed, and any changes You implemented in response.



PROSPECT MEDICAL

Consolidated Financial Statements and Supplementary Information

As of and for the Years Ended
September 30, 2021 and 2020

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.

BDO

Prospect Medical Holdings, Inc.

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MPT CONFIDENTIAL MPT_PROSPECT_00010110

BDO

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Independent Auditor's Report

Board of Directors
Prospect Medical Holdings, Inc.
Los Angeles, California

Opinion

We have audited the consolidated financial statements of Prospect Medical Holdings, Inc. and its subsidiaries (the Company), which comprise the consolidated balance sheets as of September 30, 2021 and 2020, and the related consolidated statements of operations and comprehensive loss, changes in stockholder's deficit, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As described in Note 2 to the consolidated financial statements, effective October 1, 2020, the Company changed its method of accounting for recognition of revenues and related disclosures in 2021 due to the adoption of Accounting Standards Codification 606, *Revenue from Contracts with Customers*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

BDO USA, LLP

January 7, 2022

MPT CONFIDENTIAL MPT_PROSPECT_00010112

Prospect Medical Holdings, Inc.

Consolidated Balance Sheets
(in thousands, except par value and share amounts)

September 30,	**2021**	2020
Assets		
Current assets		
Cash and cash equivalents	**$ 58,993**	$ 386,824
Cash held in escrow	**45,270**	70
Restricted cash	**1,793**	1,828
Restricted investments	**34,283**	31,354
Patient accounts receivable, net of allowance for doubtful accounts of $198,052 at September 30, 2020	**296,119**	288,764
Due from government payers	**23,298**	20,390
Other receivables, prepaid expenses and other current assets	**171,204**	108,343
Income taxes receivable	**8,535**	4,154
Inventories	**35,996**	36,742
Hospital fee program receivable	**178,042**	189,941
Current assets held for sale	**16,843**	18,015
Total current assets	**870,376**	1,086,425
Property, improvements and equipment, net	**579,765**	544,256
Goodwill, net	**244,067**	274,487
Intangible assets, net	**14,870**	20,054
Other assets	**97,539**	107,731
Long term assets held for sale	**8,550**	9,436
Total assets	**$ 1,815,167**	$ 2,042,389

See accompanying notes to the consolidated financial statements.

MPT CONFIDENTIAL MPT_PROSPECT_00010113

Prospect Medical Holdings, Inc.

Consolidated Balance Sheets
(in thousands, except par value and share amounts)

September 30,	2021	2020
Liabilities and Stockholder's Deficit		
Current liabilities:		
Accrued medical claims and other healthcare costs payable	$ 93,702	$ 76,457
Accounts payable and other accrued liabilities	340,164	383,040
Accrued salaries, wages and benefits	219,142	225,125
Hospital fee program liability	71,197	70,660
Due to government payers, current portion	20,218	32,749
Refund liability, current portion	227,330	62,115
Revolving line of credit, net	45,000	-
Capital leases, current portion	12,947	6,285
Debt, current portion	16,032	19,138
MPT liabilities, current portion	50,978	47,484
Other current liabilities	7,824	15,592
Current liabilities held for sale	15,944	17,748
Total current liabilities	1,120,478	956,393
Debt, net of current portion	167,683	190,201
Malpractice reserves	121,691	103,349
Refund liability, net of current portion	-	213,951
Capital leases, net of current portion	50,094	32,670
Asset retirement obligations	6,975	6,970
Other long-term liabilities	96,716	70,868
Pension obligations	284,674	231,941
MPT liabilities, net of current portion	1,240,348	1,290,556
Long term liabilities held for sale	898	5,105
Total liabilities	3,089,557	3,102,004
Commitments, contingencies and subsequent events		
Stockholder's deficit:		
Common stock, $0.01 par value; 100 shares authorized, issued and outstanding	1	1
Additional paid-in capital	57,765	64,961
Accumulated other comprehensive loss	(63,848)	(15,614)
Accumulated deficit	(1,272,303)	(1,116,992)
Total stockholder's deficit attributable to Prospect Medical Holdings, Inc.	(1,278,385)	(1,067,644)
Non-controlling interests	3,995	8,029
Total stockholder's deficit	(1,274,390)	(1,059,615)
Total liabilities and stockholder's deficit	$ 1,815,167	$ 2,042,389

See accompanying notes to the consolidated financial statements.

MPT CONFIDENTIAL

Prospect Medical Holdings, Inc.

Consolidated Statements of Operations
(in thousands)

For the Years Ended September 30,	2021	2020
Revenues:		
Net Hospital Services operating revenues before provision for bad debts		$ 2,339,379
Less: Provision for bad debts		(102,251)
Net Hospital Services operating revenues	$ 2,408,076	2,237,128
Other non-patient Hospital revenues	44,603	38,464
Net Hospital Services revenues	2,452,679	2,275,592
Medical Group revenues	471,333	372,646
Global Risk Management revenues	100,154	84,900
Corporate revenues	3,171	250
Total net revenues	3,027,337	2,733,388
Operating Expenses:		
Hospital operating expenses	1,981,789	1,937,766
Medical Group cost of revenues	344,275	242,314
Global Risk Management cost of revenues	67,297	52,851
General and administrative	568,353	493,486
Depreciation and amortization	81,965	80,040
Goodwill amortization	30,473	30,245
Total operating expenses	3,074,152	2,836,702
Pandemic relief grant (loss) income	(5,930)	117,148
Operating income from unconsolidated joint ventures	4,066	1,724
Operating (loss) income	(48,679)	15,558
Other expense:		
Interest expense and amortization of deferred financing costs, net	81,921	86,157
Net period benefit cost	12,219	9,242
Other expense, net	976	2,091
Total other expense, net	95,116	97,490
Loss before income taxes	(143,795)	(81,932)
Income tax benefit	(2,206)	(7,070)
Net loss from continuing operations	(141,589)	(74,862)
Loss from discontinued operations:		
Loss from discontinued operations	(7,531)	(23,610)
Income tax provision	(2)	(2)
Loss from discontinued operations, net of taxes	(7,533)	(23,612)
Loss before allocation to non-controlling interests	(149,122)	(98,474)
Net (loss) income attributable to non-controlling interests	(5,777)	1,136
Net loss attributable to Prospect Medical Holdings, Inc.	$ (143,345)	$ (99,610)

See accompanying notes to the consolidated financial statements.

MPT CONFIDENTIAL

Prospect Medical Holdings, Inc.

Consolidated Statements of Comprehensive Loss
(in thousands)

For the Years Ended September 30,	**2021**	2020
Net loss attributable to Prospect Medical Holdings, Inc.	**$ (143,345)**	$ (99,610)
Other comprehensive (expense) income, net of tax:		
Pension obligation and other post-retirement benefits adjustment (net of $0 and $251 tax)	**(48,498)**	9,267
Debt and equity securities, unrealized gain	**264**	46
Total other comprehensive (loss) income, net of tax	**(48,234)**	9,313
Total comprehensive loss	**$ (191,579)**	$ (90,297)

See accompanying notes to the consolidated financial statements.

MPT CONFIDENTIAL

Prospect Medical Holdings, Inc.

Consolidated Statements of Stockholder's Deficit
(in thousands, except share amounts)

	Number of Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Prospect Medical Holdings, Inc. Stockholder's Deficit	Non-controlling Interests	Total Stockholder's Deficit
Balance at October 1, 2019	100	$ 1	$ 64,961	$ (23,236)	$ (1,019,073)	$ (977,347)	$ 7,287	$ (970,060)
Non-controlling interest attributed to minority shareholders	-	-	-	-	-	-	(394)	(394)
Net loss	-	-	-	-	(99,610)	(99,610)	1,136	(98,474)
Other comprehensive loss, net of tax	-	-	-	9,313	-	9,313	-	9,313
ASU 2016-01 adoption (see Note 2)	-	-	-	(1,691)	1,691	-	-	-
Balance at September 30, 2020	100	1	64,961	(15,614)	(1,116,992)	(1,067,644)	8,029	(1,059,615)
Non-controlling interest attributed to minority shareholders	-	-	-	-	-	-	(453)	(453)
Net loss	-	-	-	-	(143,345)	(143,345)	(5,777)	(149,122)
Other comprehensive loss, net of tax	-	-	-	(48,234)	-	(48,234)	-	(48,234)
Distribution to Ivy Holdings, Inc. (see Note 9)	-	-	-	-	(11,966)	(11,966)	-	(11,966)
Purchase of non-controlling interest (see Note 4)	-	-	(7,196)	-	-	(7,196)	2,196	(5,000)
Balance at September 30, 2021	100	$ 1	$ 57,765	$ (63,848)	$ (1,272,303)	$ (1,278,385)	$ 3,995	$ (1,274,390)

See accompanying notes to the consolidated financial statements.

MPT CONFIDENTIAL

Prospect Medical Holdings, Inc.

Consolidated Statements of Cash Flows
(in thousands)

For the Years Ended September 30,	2021	2020
Operating activities		
Net loss	$ (149,122)	$ (98,474)
Adjustments to reconcile net loss to net cash and cash equivalents (used in) provided by operating activities:		
Depreciation and amortization	112,438	110,285
Amortization of deferred financing costs, net	1,970	1,933
Provision for bad debts	-	102,251
Pension obligation net periodic benefit cost	13,027	9,426
Excess contribution to pension plan	(8,399)	(71,097)
Deferred income taxes, net	-	822
Undistributed earnings from unconsolidated joint ventures	(4,066)	(1,724)
Loss on disposal of assets	911	2,886
Changes in operating assets and liabilities:		
Patient accounts receivable	(7,355)	(84,429)
Due to/from government payers, net	(15,439)	4,022
Refund liability	(48,736)	276,066
Other receivables, prepaid expenses and other current assets	(51,300)	16,395
Hospital fee program receivable	11,899	(22,412)
Hospital fee program liability	537	46,298
Inventories	746	(2,513)
Income taxes payable/receivable, net	(4,381)	(11,549)
Other assets	1,282	28,521
Accrued medical claims and other healthcare costs payable	17,245	3,949
Accounts payable, other accrued liabilities and other long term liabilities	(46,805)	104,881
Net cash and cash equivalents provided by operating activities from discontinued operations	367	13,700
Net cash and cash equivalents (used in) provided by operating activities	(175,181)	429,237
Investing activities		
Purchases of property, improvements and equipment	(49,459)	(26,349)
Cash paid for acquisitions, net of cash received and working capital adjustments	-	(3,333)
Cash paid for acquisition of noncontrolling interest and equity method investment	(10,330)	-
Contribution to equity method investment	-	(17,000)
Distributions received from equity and cost method investments	22,645	1,465
Increase in investments	(2,666)	(2,018)
Net cash and cash equivalents provided by (used in) investing activities from discontinued operations	(3,871)	25,565
Net cash and cash equivalents used in investing activities	(43,681)	(21,670)

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Prospect Medical Holdings, Inc.

Consolidated Statements of Cash Flows (Continued)
(in thousands)

For the Years Ended September 30,	2021	2020
Financing activities		
Borrowings on line of credit	**45,000**	420,000
Repayments on line of credit	**-**	(490,000)
Proceeds of other debt	**300**	57,938
Repayments of debt	**(17,357)**	(52,352)
Repayment of financing leases	**(1,934)**	(1,840)
Repayments of capital leases	**(13,299)**	(14,230)
Cash paid for deferred financing costs	**(4,736)**	(2,906)
Dividend paid to stockholder	**(11,650)**	-
Repayments of insurance premium financing	**(10,781)**	(6,738)
Repayment of MPT liability transactions	**(48,899)**	(43,902)
Net cash and cash equivalents used in financing activities from discontinued operations	**(448)**	(8,390)
Net cash and cash equivalents used in financing activities	**(63,804)**	(142,420)
(Decrease) increase in cash, cash equivalents and restricted cash	**(282,666)**	265,147
Cash, cash equivalents and restricted cash, beginning of year	**388,722**	123,575
Cash, cash equivalents and restricted cash, end of year	**$ 106,056**	$ 388,722
Supplemental disclosure of cash flow information		
Interest paid	**$ 72,720**	$ 81,916
Income taxes received	**$ 519**	$ 397
Schedule of non-cash investing and financing activities		
Equipment acquired under capital leases	**$ 37,385**	$ 12,575
Equipment acquired under PACE financing	**$ 14,542**	$ -
Accrual of property, improvements and equipment	**$ 18,990**	$ 41,961
Accrual of dividends	**$ 316**	$ -
Insurance premium financed	**$ 11,560**	$ 6,738

See accompanying notes to the consolidated financial statements.

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1. Organization

Prospect Medical Holdings, Inc. ("Prospect" or the "Company" or the "Parent Entity") is a Delaware corporation and a wholly owned indirect subsidiary of Ivy Holdings Inc. ("Ivy Holdings") and its new parent company, Chamber Inc. ("Chamber"). In June 2021, Green Equity Investments V, LP, Green Equity Investments Side V, LP and other shareholders sold their shares of Ivy Holdings for a purchase price of approximately $11.9 million (see Note 11 for further discussion of the transaction). As a result of the sale, the Company became indirectly wholly-owned by two shareholders that were previously the two largest individual shareholders in Ivy Holdings.

The Company's operations are currently organized into four primary reportable segments: Hospital Services, Medical Group, Global Risk Management and Corporate, as discussed below.

COVID-19 Pandemic

During 2020 and 2021, federal, state and local authorities have taken several administrative actions intended to assist healthcare providers in providing care during the outbreak of the novel coronavirus ("COVID-19") public health emergency. Sources of relief include the Coronavirus Aid, Relief and Economic Security Act, the Paycheck Protection Program and Health Care Enhancement Act (the "PPPHCE Act"), the Continuing Appropriations Act, 2021 and Other Extensions Act, and the Consolidated Appropriations Act, 2021 (collectively, (the "COVID Acts"). With the COVID Acts, the federal government authorized funding to be distributed through the Public Health and Social Services Emergency Fund ("Provider Relief Fund" or "PRF"). U.S. Department of Health and Human Services ("HHS") will recoup PRF grant funds not utilized by the established deadlines. The COVID Acts also revised the Medicare accelerated payment program in an attempt to disburse payments to hospitals and other care providers more quickly and permitted employers to defer payment of the 6.2% employer Social Security tax beginning March 27, 2020 through December 31, 2020. In June 2021, the U.S. Department of Health and Human Services ("HHS") established new deadlines for when recipients of PRF grants must use the funding received, generally 12 to 18 months after receipt of the grant funds.

In certain circumstances, when a hospital is experiencing financial difficulty due to delays in receiving payment for the Medicare services it provided, it may be eligible for an accelerated or advance payment pursuant to the Medicare accelerated payment program. The COVID Acts revised the Medicare accelerated payment program in an attempt to disburse payments to healthcare providers more quickly. Recipients may retain the accelerated payments for one year from the date of receipt before recoupment commences, which is effectuated by a 25% offset of claims payments for 11 months, followed by a 50% offset for the succeeding six months. The initial 11-month recoupment period began in April 2021. At the end of the 29-month period, interest on the unpaid balance will be assessed at 4% per annum. As of September 30, 2021, the Company had received Medicare accelerated and advance payments of approximately $276 million, of which approximately $49 million had been repaid during year ended September 30, 2021 and approximately $227 million and $276 million were reflected in current and noncurrent refund liabilities in the accompanying consolidated balance sheets as of September 30, 2021 and 2020, respectively.

The following table shows the funds that the Company received through the PRF in both general and targeted distributions, net of amounts received for previously divested entities that were required to be repaid to HHS, during the years ended September 30, 2021 and 2020 (in thousands):

	General Funds	Targeted Funds	State funds	Other funds	Total
Funds received during the year ended September 30, 2020	$ 50,482	$ 83,088	$ 15,782	$ 33,702	$ 183,054
Transferred from discontinued operations to continuing operations	1,683	-	-	-	1,683
Applied to lost revenues	(48,004)	(69,144)	-	-	(117,148)
Applied to incremental expenses	(4,161)	(3,570)	(15,782)	(32,842)	(56,355)
Applied to incremental capital	-	-	-	(860)	(860)
Funds unused at September 30, 2020	$ -	$ 10,374	$ -	$ -	$ 10,374
Funds received during the year ended September 30, 2021	$ 6,971	$ -	$ 3,831	$ 1,146	$ 11,948
Transferred from continuing opens to discontinued operations	(1,683)	-	-	-	(1,683)
Reversal against lost revenues	5,930	-	-	-	5,930
Applied to incremental expenses	(11,218)	(10,374)	(3,831)	(948)	(26,371)
Applied to incremental capital	-	-		(198)	(198)
Unused at September 30, 2021	$ -	$ -	$ -	$ -	$ -

The amount of lost revenues (represented as a negative change in year-over-year net revenues from patient care related sources) was recorded in "pandemic relief grant income" and incremental expenses were recognized as a reduction to operating expense within the accompanying consolidated statements of operations for the years ended September 30, 2021 and 2020. The recognition of amounts received is conditioned upon the provision of care for individuals with possible or actual cases of COVID-19 after January 31, 2020, certification that payment will be used to prevent, prepare for and respond to COVID-19 and will reimburse the recipient only for healthcare related expenses or lost revenues that are attributable to COVID-19, and receipt of the funds. Amounts are recognized as a reduction to operating costs and expenses only to the extent the Company is reasonably assured that underlying conditions are met. These monies have been recognized following the grant accounting model, recognizing income or reduction to expenses over the applicable reporting period as management becomes reasonably assured of meeting the required criteria. As of September 30, 2021, the Company has no funds that had not been recognized in the consolidated statements of operations.

Liquidity

The Company had a net working capital deficit of approximately $250 million as of September 30, 2021 compared to net working capital surplus of approximately $130 million as of September 30, 2020, respectively. Additionally, the Company had a net loss before income taxes of approximately $144 million for the year ended September 30, 2021 compared to net loss before income taxes of approximately $82 million for the year ended September 30, 2020. As of September 30, 2021, the Company has a stockholder's deficit of approximately $1,274 million compared to stockholder's deficit of approximately $1,060 million as of September 30, 2020. Cash and cash equivalents generated by operations declined from cash provided by operating activities of approximately $396 million during the year ended September 30, 2020 to cash used in operating activities of approximately $175 million during the year ended September 30, 2021. Total change in cash, cash equivalents and restricted cash decreased year on year from an increase of approximately $265 million for the year ended September 30, 2020 to a decline of approximately $283 million for the year ended September 30, 2021. During the year ended September 30, 2020, the Company received approximately $276 million in funds under the Medicare accelerated payment program, and during the year ended September 30, 2021 the Company repaid approximately $49 million under this program. During the year ended September 30, 2020, the Company received stimulus funds totaling approximately $183 million for continuing operations and approximately $29 million (net of monies returned) for discontinued operations. During the year ended September 30, 2021, the Company received stimulus funds totaling approximately $12 million for continuing operations and $0 for discontinued operations. These two items account for the majority of the swings in cash generated related to operating activities, year over year. In relation to the amounts outstanding under the Medicare accelerated payment program, the Company estimates that approximately $74 million will be outstanding at the end of the 17-month period that Medicare withholds payments and will convert to an on-demand note, with interest accruing every 30 days at a rate of 4% per annum. Total debt (including MPT liabilities) decreased to approximately $1,475 million at September 30, 2021 compared to approximately $1,547 million at September 30, 2020, and the balance outstanding on the Company's revolving line of credit increased from $0 at September 30, 2020 to $45 million at September 30, 2021. At September 30, 2021, the available balance on the line was approximately $191 million. Cash and cash equivalents declined from approximately $387 million at September 30, 2020 to approximately $59 million at September 30, 2021.

The Company has various initiatives in place to generate positive cash flows from operations. From a revenue generating perspective, these include a focus on improving charge capture, improving the success rate on denials, and increasing reimbursements through rate negotiations with managed care payors, as well as improving volumes. From a cost cutting perspective, the initiatives include improvements to labor productivity and the reduction in overtime and use of registry, driven by the use of an internal registry, as well as better controls on supply and pharmacy contracts. Further, there are initiatives to focus on improving both productivity and volumes from the Company's physician groups. In addition, the shareholders have confirmed continued financial support and commitment to the Company. The Company believes that it will have sufficient cash flows from operations and available revolving facilities to provide sufficient capital resources to sustain operations, investing activities and financing for at least the next twelve months from the date these financial statements were available to be issued.

Hospital Services Segment

As of September 30, 2021, through its subsidiaries, the Company owned 16 acute care and behavioral hospitals in Southern California, Rhode Island, Pennsylvania and Connecticut with approximately 3,000 licensed beds, and a network of specialty and primary care clinics. During the year ended September 30, 2021, the Company acquired the remaining 15% interest in CharterCARE (see Note 4), and accordingly the Hospital Services segment subsidiaries are wholly owned by Prospect.

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Additionally at September 30, 2021, through its subsidiaries, the Company owned one acute care hospital in New Jersey, as well as two behavioral health hospitals in Texas that were closed during the year ended September 30, 2020. In October 2020, the Company entered into an Asset Purchase Agreement to sell substantially all of the assets of the facility in New Jersey, and the sale is expected to close at the end of December 2021. For all periods presented the assets and liabilities of these businesses have been classified as "held for sale," and the operations (as related to revenues and expenses that no longer continue post sale) have been shown within discontinued operations. All of the footnotes in these consolidated financial statements refer to continuing operations unless otherwise stated.

Admitting physicians are primarily practitioners in the local area. The hospitals have payment arrangements with Medicare, Medicaid and other third-party payers, including commercial insurance carriers, health maintenance organizations ("HMOs") and preferred provider organizations ("PPOs").

Medical Group Segment

The Medical Group segment is a healthcare management services organization that provides management services to affiliated physician organizations that operate as independent physician associations ("Medical Groups" or "IPAs"). The IPAs, either directly or through Prospect's risk management entities ("RMEs"), enter into agreements with HMOs to provide HMO enrollees with a full range of medical services in exchange for fixed monthly fees ("Capitation"). The Medical Groups contract with physicians (primary care and specialist) and other healthcare providers to provide enrollees with medical services. Prospect currently manages the provision of healthcare services for contracted enrollees through Prospect's IPAs and RMEs in California, Texas, Rhode Island, Connecticut, Pennsylvania and New Jersey. The California network consists of various IPAs that are generally wholly owned by Prospect Medical Group, Inc. ("PMG") and managed by the two medical management company subsidiaries that are wholly owned by Prospect. Prospect's networks in its other states consist of IPA subsidiaries of Prospect Provider Groups, Inc. The Medical Group segment also owns clinic facilities in California that operate by employing physicians to serve their patients. In California, the clinic facilities are owned through New Genesis Medical Associates, Inc. ("NGMA"). PMG and NGMA are owned by a nominee physician shareholder pursuant to an assignable option agreement, under which Prospect has an assignable option, obtained for a nominal amount that would be due to the nominee shareholder upon an option's exercise. The option entitles Prospect to designate the purchaser (successor physician) for all or part of PMG's or NGMA's, as applicable, issued and outstanding stock in Prospect's sole discretion.

The IPAs and RMEs in California and Texas have entered into Management Service Agreements ("MSA") with Prospect Medical Systems Inc. ("PMS"), and have agreed to pay a management fee to PMS, which is based in part on the costs to the management company and on a percentage of revenues. The IPAs and RMEs in Rhode Island, Pennsylvania, Connecticut and New Jersey are operated and managed through the Global Risk Management segment discussed below. In return for payment of a management fee under each MSA in California and Texas, PMS has agreed to provide financial management, information systems, marketing, advertising, public relations, risk management, and administrative support, including for utilization review and quality of care. At its cost, PMS has assumed the obligations for all facilities and employs physician and non-physician personnel for administrative services. The management fee is earned based on a combination of percentage of revenue and share of pre-tax income. The management fees fluctuate based on the revenue and profitability of each IPA and RME. The MSAs are not terminable by the IPAs or RMEs except in the case of gross negligence, fraud or other illegal acts, or bankruptcy, of PMS.

Prospect consolidates the revenues and expenses of its IPAs (except for one entity that is a 50/50 partnership, which is accounted for under the equity method) from the respective dates of execution of the Management Agreements. All significant inter-entity balances have been eliminated in consolidation. In the case of the partnership, only that portion of the results which are contractually identified as

Prospect's are recognized in the consolidated financial statements, together with the management fee that Prospect charges the partnership for managing the other owners' share of the partnership operations.

PMS has also entered into management services agreements with unaffiliated third parties to manage services to their HMO enrollees. These management agreements do not have characteristics that give rise to the consolidation of the entities under current accounting literature. These management services agreements are terminable in accordance with the agreements' terms.

The affiliated IPAs and RMEs coordinate medical services to a combined total of approximately 634,000 and 609,000 enrollees as of September 30, 2021 and 2020, respectively. As of September 30, 2021 and 2020, the enrollees are approximately 413,000 and 394,000, respectively, including enrollees that Prospect manages for the economic benefit of certain independent third parties. The total paid member months, including managed enrollees, for the years ended September 30, 2021 and 2020 was approximately 7,404,000 and 5,635,000, respectively.

Global Risk Management Segment

The Global Risk Management ("GRM") segment exists in pursuit of Prospect's coordinated regional care ("CRC") operating model and risk management platform. The GRM segment has operations in California, Texas, Rhode Island, Pennsylvania, Connecticut and New Jersey, including Medicare accountable care organizations ("ACOs") operating in Rhode Island, Connecticut and Pennsylvania. These RMEs contract with third-party health plans, and the ACOs contract with CMS, on progressive risk reimbursement models leading to global risk contracts for physicians, other medical services and institutional services including hospital inpatient and outpatient services, home health, skilled nursing facility and other institutional services. In turn, the RMEs and ACOs contract with owned and third-party IPAs, owned and third-party hospitals and other health care providers to assume and manage this global risk. Through these contracts, Prospect manages health plan member populations with a focus on delivering coordinated care to members across our network of physicians and other providers under risk and value-based contracts.

The GRM segment also includes Coordinated Regional Care Group, Inc. ("CRCG"). CRCG incurs development and operating costs related to the GRM segment for new markets and strategic initiatives. As noted above, in California and Texas, Prospect's IPAs and RMEs have entered into MSAs with PMS to arrange for their management. CRCG provides management services to the IPAs, RMEs and ACOs in Rhode Island, Pennsylvania, Connecticut and New Jersey. Additionally, the RMEs in those states have entered into Administrative Services Agreements ("ASA") with PMS pursuant to which they have agreed to reimburse PMS for the costs of certain administrative services provided by PMS on their behalf. In return for payment of an administrative services fee, PMS has agreed to provide financial management, certain information systems, and limited administrative support. The negotiated fees fluctuate based on the services provided. The services provided under an ASA are more limited than those provided under an MSA and each ASA is terminable by either party upon the delivery of 90 days prior written notice thereof.

The GRM segment, through its contracted owned and unaffiliated providers, provides medical services for a combined total of approximately 348,000 and 298,000 enrollees as of September 30, 2021 and 2020, respectively.

Corporate Segment

The Company has two captive insurance companies, Prospect Medical Holding Risk Retention Group, Inc. ("RRG"), based in Vermont, and Connecticut Healthcare Insurance Company ("CHIC"), based in the Cayman Islands. The RRG was formed to provide primary insurance coverage for hospital and physician professional and general liability risks for the Company's subsidiary health care organizations located in Pennsylvania. CHIC provides hospital and physician professional and general liability coverage to all of the Company's hospitals and affiliated subsidiaries outside of Pennsylvania. CHIC is an exempted Company with limited liability under the Companies Law of the Cayman Islands and it holds a Class "B(i)" Insurer's License under Section 4(3)(b) of the Cayman Islands Insurance Law 2010. CHIC's principal activity is to issue primary policies for hospital liabilities covering Prospect, its subsidiaries and employees, on a claims-made basis. CHIC also provides excess healthcare professional liability and umbrella liability insurance coverage on a claims-made basis covering healthcare professional liability, general liability, automobile liability, employer's liability, helipad liability and non-owned aircraft liability of the Company and its affiliates. This excess coverage under this policy is 100% reinsured by commercial reinsurance carriers rated at minimum A- by AM Best. CHIC also provides a deductible reimbursement policy for workers compensation to the Company's facilities all of which have high deductible program structures or are qualified self-insureds (see Note 2). In fiscal 2021, through commutation agreements certain policies and reinsurance amendments were revised, which transferred risk for self-insured layers of coverage for workers compensation deductible reimbursement program, hospital and physician professional and general liability and certain buffer layer excess programs from both of the Company's captive insurance companies to the Company's hospitals and affiliated subsidiaries. This had no impact on the Company's consolidated financial statements.

The Company does not allocate interest expense related to acquisition debt or income taxes to the other reporting segments.

2. Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of all controlled subsidiaries. Such control is effectuated through ownership of voting common stock or by other means, but do not include the accounts of the parent companies, Chamber, Ivy Holdings and Ivy Intermediate Holding Inc. The Company has a variable interest in various entities under the Medical Group segment due to the existence of two call options (see "Medical Group Segment" above), under which the Company has the ability to require the holders of all of the voting common stock of the underlying subsidiaries to sell their shares at a fixed nominal price ($1,000) to another designated physician chosen by the Company. This call option agreement represents rights provided through a variable interest other than the equity interest itself that limits the returns that could be earned by the equity holders. In addition, the Company has management agreements with the physician organizations under the Medical Group segment (see "Medical Group Segment" above) which allows the Company to direct the activities of such physician organizations that most significantly impact their economic performance, retain the right to receive expected residual returns and assume the obligation to absorb losses. Accordingly, the Company is considered to be the primary beneficiary and these entities are consolidated within the accompanying consolidated financial statements.

Operating results for acquisitions are consolidated with the Company's consolidated financial statements from their acquisition dates. All significant intercompany balances and transactions have been eliminated in consolidation. Non-controlling interests in less-than-wholly owned consolidated subsidiaries of the Company are presented as a component of total equity to distinguish between the interests of the Company and the interests of the non-controlling owners.

The consolidation of these entities does not change any legal ownership, and does not change the assets or the liabilities and equity of the Parent Entity as a stand-alone entity. These entities had total revenues of approximately $391,700,000 and $346,182,000 and total net income of approximately $39,793,000 and $36,243,000 for the years ended September 30, 2021 and 2020, respectively. The assets and liabilities of the variable interest entities are as follows (in thousands):

September 30,	**2021**	2020
Assets		
Total current assets	$ **155,767**	$ 120,920
Total non-current assets	**110,050**	110,180
Total assets	$ **265,817**	$ 231,100
Liabilities		
Total current liabilities	$ **69,258**	$ 70,963
Total long-term liabilities	**730**	730
Total liabilities	$ **69,988**	$ 71,693

Revenues

Revenues by reportable segment are comprised of the following amounts (in thousands):

For the Years Ended September 30,	2021	2020
Net Hospital Services		
Inpatient	$ 1,437,905	$ 1,377,468
Outpatient	804,084	802,318
Capitation	161,518	147,588
Other	4,569	12,005
Total Hospital Services operating revenues (before provision for bad debts-2020 only)	2,408,076	2,339,379
Less: Provision for bad debts	-	(102,251)
Total Net Hospital Services operating revenues	2,408,076	2,237,128
Other non-patient revenues	44,603	38,464
Total Hospital Services revenues	2,452,679	2,275,592
Medical Group		
Capitation	397,670	310,521
Management fees	16,393	11,563
Other	57,270	50,562
Total Medical Group revenues	471,333	372,646
Global Risk Management		
Capitation	73,151	55,290
Other	27,003	29,610
Total Global Risk Management revenue	100,154	84,900
Corporate revenues	3,171	250
Total net revenues	$ 3,027,337	$ 2,733,388

On October 1, 2020, the Company adopted the new revenue recognition standard, Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)", using a modified retrospective method of application to all contracts existing on October 1, 2020. The core principle of the guidance in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. For the Hospital Segment, the adoption of ASU 2014-09 resulted in changes to the presentation and disclosure of revenue primarily related to uninsured or underinsured patients. Prior to the adoption of ASU 2014-09, a significant portion of the provision for doubtful accounts related to self-pay patients, as well as co-pays, co-insurance amounts and deductibles owed by patients with insurance. Under ASU 2014-09, the estimated uncollectable amounts due from these patients are generally considered implicit price concessions that are a direct reduction to net operating revenues, with a corresponding reduction in the amounts presented as provision for doubtful accounts.

The Company has revised its accounting policies related to revenues effective October 1, 2020 and these are discussed below.

The Company recognizes net operating revenues in the period in which performance obligations under contracts by transferring our services to customers are satisfied. Net operating revenues are recognized in the amounts to which the Company expects to be entitled, which are the transaction prices allocated to the distinct services.

Net operating revenues for the Hospital Segment primarily consist of net patient service revenues, principally for patients covered by Medicare, Medicaid, managed care and other health plans, as well as certain uninsured patients and other uninsured discount and charity programs. Additionally, the Hospital Segment also earns revenues from capitation arrangements that are made directly made with various managed care providers.

The following is a summary of sources of patient service revenues in the Hospital Segment (in thousands):

Years Ended September 30,	**2021**	2020
Medicare	**$ 678,577**	$ 745,780
Medicaid	**780,305**	757,626
Managed Care/Commercial	**700,915**	571,749
Self-Pay/Other	**82,193**	104,631
Capitation	**161,518**	147,588
Other	**4,568**	12,005
Total patient service revenue	**$ 2,408,076**	$ 2,339,379

Operating revenues of the Medical Group segment consist primarily of payments for medical services procured by certain entities included within the Medical Group segment ("Affiliates") under capitated contracts with various managed care providers including HMOs. Capitation revenue under HMO contracts is prepaid monthly to the Affiliates based on the number of enrollees electing any one of the Affiliates as their health care provider. Operating revenues of the Global Risk Management segment consist primarily of payments for medical services procured under global capitation arrangements from third-party health plans. Capitation revenue under these global capitation contracts is prepaid monthly to the Global Risk Management segment based on the number of enrollees. Entities within the Global Risk Management segment entered into Management Services Agreements with the Hospital Services and Medical Group segments, under which up to 98% of capitation revenue received is transferred to these segments. During the years ended September 30, 2021 and 2020, capitation revenue received from health plans was approximately $288,908,000 and $265,513,000, respectively, of which $129,738,000 and $101,556,000, and $104,274,000 and $119,328,000 were transferred to the Hospital Services segment and Medical Group segment, respectively.

Fee-for-Service ("FFS") Revenues

FFS revenues are due from patients, third-party payers (including managed care payers and government programs) and others, and they include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, the Company bills patients and third-party payers several days after the services are performed or shortly after discharge. Revenues are recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided and revenues are recognized when performance obligations satisfied over time based on actual charges incurred in relation to total expected charges. This method provides a faithful depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations. Generally, performance obligations satisfied over time relate to patients in the Company's hospitals receiving inpatient acute care services. The Company measures the performance obligation from admission into the hospital, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Patient encounters and related episodes of care and procedures qualify as distinct goods and services, provided simultaneously together with other readily available resources, in a single instance of service, and thereby constitute a single performance obligation for each patient encounter and, in most instances, occur at readily determinable transaction prices. All services provided are expected to result in cash flows and are therefore reflected as net revenue in the consolidated financial statements.

The transaction price is determined based on gross charges for services provided, reduced by contractual adjustments provided to third-party payers, discounts provided to uninsured patients, and implicit price concessions provided primarily to uninsured patients. The estimates of contractual adjustments and discounts are based on contractual agreements, discount policies and historical cash collection experience. As a practical expedient, the Company adopted a portfolio approach for the FFS revenue stream to group together contracts with similar characteristics and analyze historical cash collections trends. The contracts within the portfolio share the characteristics conducive to ensuring that the results do not materially differ under the new standard if it were to be applied to individual patient contracts related to each patient encounter.

The Company is responsible for confirming member eligibility, performing program utilization review, potentially directing payment to the provider and accepting the financial risk of loss associated with services rendered, as specified within the Company's patient contracts. The Company has the ability to adjust contractual fees with patients and possess the financial risk of loss in certain contractual obligations. These factors indicate the Company is the principal and, as such, the Company records gross fees contracted with patient in revenues.

Revenues under the traditional FFS service Medicare and Medicaid programs are based primarily on prospective payment systems. Retrospectively determined cost-based revenues under these programs, which were more prevalent in earlier periods, and certain other payments, such as disproportionate share hospital and bad debt expense reimbursement, which are based on our hospitals' cost reports, are estimated using historical trends and current factors. Cost report settlements under these programs are subject to audit by Medicare and Medicaid auditors and administrative and judicial review, and it can take several years until final settlement of such matters is determined and completely resolved. The Company records accruals to reflect the expected final settlements on cost reports. For filed cost reports, the accrual is recorded based on those cost reports and subsequent activity. The accrual for periods for which a cost report is yet to be filed is recorded based on estimates of what the Company expects to report on the filed cost reports. After the cost report is filed, the accrual may need to be adjusted and these accruals are adjusted in future periods as they become known.

Settlements with third-party payers for retroactive revenue adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care using the most likely outcome method. These settlements are estimated based on the terms of the payment agreement with the payer, correspondence from the payer and historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements

are adjusted in future periods as adjustments become known, or as years are settled or are no longer subject to such audits, reviews and investigations.

The following is a summary of due from and due to governmental payers at September 30, 2021 and 2020 (in thousands):

September 30,	2021	2020
Due from government payers:		
Medicaid disproportionate share	$ 19,356	$ 14,828
Medicare cost report settlements	3,942	5,417
Medicaid Section 1115 receivable	-	145
	$ 23,298	$ 20,390
Due to government payers:		
Medicaid disproportionate share	$ 8,091	$ 4,461
Medicare cost report settlements	1,703	4,160
Medicaid cost report settlements	10,424	24,128
	$ 20,218	$ 32,749

The Company is not aware of any material claims, disputes, or unsettled matters with any payers that would affect revenues that have not been adequately provided for and disclosed in the accompanying consolidated financial statements. Because the laws, regulations, instructions and rule interpretations governing Medicare and Medicaid reimbursement are complex, subject to interpretation and can change frequently, the estimates recorded could change by material amounts.

The Company provides charity care to patients who lack financial resources and are deemed to be medically indigent based on criteria established under the Company's charity care policy. This care is provided without charge or at amounts less than the Company's established rates. Because the Company does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as net operating revenues. The direct and indirect costs related to this care totaled approximately $3,488,000 and $6,545,000 for the years ended September 30, 2021 and 2020, respectively. Direct and indirect costs for providing charity care are estimated by calculating a ratio of cost to gross charges and then multiplying that ratio by the gross uncompensated charges associated with providing care to charity patients.

Patients who are covered by third-party payers are responsible for related co-pays, co-insurance and deductibles, which vary in amount. The Company estimates the transaction price for patients with co-pays, co-insurance and deductibles and for those who are uninsured based on historical collection experience and current market conditions. The discount offered to certain uninsured patients is recognized as a contractual allowance, which reduces net operating revenues at the time the self-pay accounts are recorded. The uninsured patient accounts, net of contractual allowances recorded, are further reduced to their net realizable value at the time they are recorded through implicit price concessions based on historical collection trends for self-pay accounts and other factors that affect the estimation process. Although outcomes vary, the Company's policy is to attempt to collect amounts due from patients, including co-pays, co-insurance and deductibles due from patients with insurance, at the time of service while complying with all federal and state statutes and regulations. All of the Company's hospital facilities are subject to Emergency Medical Treatment and Active Labor Act ("EMTALA"). This federal law and accompanying regulations require any hospital that participates in the Medicare program to conduct an appropriate medical screening examination of every person who comes to the hospital's

emergency department for treatment and, if the patient is suffering from an emergency medical condition, to either stabilize that condition or make an appropriate transfer of the patient to a facility that can treat the condition. The obligation to screen and stabilize emergency medical conditions exists regardless of a patient's ability to pay for treatment. There are severe penalties under EMTALA for violations of the law and regulations, including if a hospital fails to screen or appropriately stabilize or transfer a patient or if the hospital delays appropriate treatment in order to first inquire about the patient's ability to pay. Penalties for violations of EMTALA include civil monetary penalties and exclusion from participation in the Medicare program. In addition, an injured patient, the patient's family or a medical facility that suffers a financial loss as a direct result of another hospital's violation of the law can bring a civil suit against that other hospital. The Company believes that it is in compliance with EMTALA and is not aware of any pending or threatened EMTALA investigations involving allegations of potential wrongdoing that would have a material effect on the Company's consolidated financial statements.

State Supplemental Medicaid Programs

The various states in which the Company operates have additional programs in which certain of the Company's facilities participate in, related to medical facilities serving a disproportionate number of low-income patients. The Company recognizes revenues related to supplemental Medicaid payments under using the most likely outcome method, and the estimates also consider whether it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. The following table shows the revenues generated by these programs during the years ended September 30, 2021 and 2020 (in thousands), which are reflected in Net Hospital Segment patient service revenues in the accompanying consolidated statements of operations:

Years Ended September 30,	**2021**	2020
California Medi-Cal Disproportional Share ("CA DSH")	**$ 38,183**	$ 32,216
Rhode Island DSH and Upper Payment Limit ("UPL")	**22,273**	20,239
Pennsylvania State Programs	**32,042**	48,988
Connecticut Medicaid DSH revenue	**25,270**	27,659
	$ 117,768	$ 129,102

California Hospital Fee Program

The Company recognizes revenues related to supplemental Medi-Cal payments under California provider fee programs using the most likely outcome method, which is based on formulas contained in the legislation as well as modeling performed by the California Hospital Association ("CHA"). The estimates also consider whether it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. These programs are funded by quality assurance fees paid by participating hospitals and matching federal funds.

The Company recognized supplemental payments, included in net patient service revenue, and quality assurance fee expense, included in general and administrative in the accompanying consolidated statements of operations as follows (in thousands):

Years Ended September 30,	**2021**	2020
Hospital services revenues	**$ 137,926**	$ 140,691
General and administrative	**73,720**	97,270
Net pre-tax impact	**$ 64,206**	$ 43,421

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Capitation Revenues

Capitation revenue (net of capitation withheld to fund risk share deficits discussed below) is recognized in the month in which the providers are obligated to provide services (stand ready obligation). Minor ongoing adjustments to prior months' capitation, primarily arising from contracted HMOs' finalizing of monthly patient eligibility data for additions or subtractions of enrollees, are recognized in the month they are communicated to the Company. Additionally, Medicare pays capitation using a "Risk Adjustment model," which compensates managed care organizations and providers based on the health status (acuity) of each enrollee. Under Risk Adjustment, capitation is determined based on health severity, measured using patient encounter data. Capitation is paid on an interim basis based on data submitted for the enrollee for the preceding year and is adjusted in subsequent periods the final data is compiled. Positive or negative capitation adjustments are made for Medicare enrollees with conditions requiring more or less healthcare services than assumed in the interim payments. Since the Company cannot reliably predict these adjustments, periodic changes in capitation amounts earned as a result of Risk Adjustment are recognized generally in the fourth quarter when those changes are communicated by the health plans to the Company.

As related to the Medical Group Segment, during the years ended September 30, 2021 and 2020, the Company returned and recognized as a reduction in revenue, approximately $2,800,000 and $1,395,000, respectively, as a result of the final Hierarchical Condition Category ("HCC") reconciliation. As related to the Global Risk Management Segment, the Company recognized capitation risk adjustments of approximately $6,123,000 and $9,646,000, respectively, during the years ended September 30, 2021 and 2020.

Per Member Per Month ("PMPM") managed care contracts generally have a term of one year or longer. All managed care contracts have a single performance obligation that constitutes a series for the provision of managed healthcare services for a population of enrolled members for the duration of the contract. The transaction price for PMPM contracts is variable as it primarily includes PMPM fees associated with unspecified membership that fluctuates throughout the contract. In certain contracts, PMPM fees also include adjustments for items such as performance incentives, performance guarantees and risk sharing. The Company generally estimates the transaction price using the most likely amount methodology and amounts are only included in the net transaction price to the extent that it is probable that a significant reversal of cumulative revenue will not occur once any uncertainty is resolved. The majority of the Company's net PMPM transaction price relates specifically to the Company's efforts to transfer the service for a distinct increment of the series (e.g. month) and is recognized as revenue in the month in which members are entitled to service.

Risk Pool Settlements and Incentives

HMO contracts also include provisions to share in the risk for hospitalization, whereby the physician organization can earn additional incentive revenue or incur penalties based upon the utilization of hospital services. Typically, any shared risk deficits are not payable until and unless the Company generates future risk sharing surpluses, or if the HMO withholds a portion of the capitation revenue to fund any risk share deficits. At the termination of the HMO contract, any accumulated risk share deficit is typically extinguished. Due to the lack of access to information necessary to estimate the related costs, shared-risk amounts receivable from the HMOs are only recognized, using the most likely methodology, and only included in revenue to the extent that it is probable that a significant reversal of cumulative revenue will not occur. Risk pools for the prior contract years are generally final settled in the third or fourth quarter of the following fiscal year. For the years ended September 30, 2021 and 2020, Medical Group revenues included approximately $12,282,000 and $24,166,000, respectively, relating to risk-sharing profit. At September 30, 2021 and 2020, contingent liabilities for carry-forward risk-pool deficits expected to be forgiven, or offset against future surpluses were approximately $13,740,000 and $68,702,000, respectively, based on the available information from the health plans.

The Company also receives incentives under "pay-for-performance" programs for quality medical care, based on various criteria. The incentive programs track specific performance measures and calculate payments to the Company based on the performance measures. The Company's incentives under "pay-for-performance" programs are recognized using the most likely methodology. However, as the Company does not have sufficient insight from the health plans on the amount and timing of the shared risk pool and incentive payments these amounts are considered to be fully constrained and only recorded when such payments are known and/or received. Performance and incentive revenues recorded during the years ended September 30, 2021 and 2020 were $15,405,000 and $21,272,000, respectively.

Management fee revenue is earned in the month the services are rendered. Management fee arrangements with unaffiliated entities provide for compensation ranging from 6.5% to 10% of revenues. Consideration from management contracts is variable in nature because the majority of the fees are generally based on revenue or collections, which can vary from period to period. The Company has control over pricing. Contractual fees are invoiced to the Company's clients generally monthly and payment terms are typically due within 30 days. The variable consideration in the Company's management contracts meets the criteria to be allocated to the distinct period of time to which it relates because (i) it is due to the activities performed to satisfy the performance obligation during that period and (ii) it represents the consideration to which the Company expects to be entitled. Management fee revenues recorded during the years ended September 30, 2021 and 2020 were $15,562,000 and $11,895,000, respectively. Management fees for revenue for entities that are consolidated are eliminated on consolidation.

Contract Assets and Contract Liabilities

The receivables and payables related to the California Hospital Fee Program are the most significant contract assets and liabilities in the Company's consolidated financial statements. As of September 30, 2021 and 2020, the Company had receivables related to the California Hospital Fee Program of approximately $178,042,000 and $189,941,000, respectively, and had liabilities related to the California Hospital Fee Program of approximately $71,197,000 and $70,660,000, respectively, in the accompanying consolidated balance sheets.

Cost of revenues

The Company, for certain matters, maintains stop loss coverage for health care costs that are in excess of set thresholds.

Medical Group Cost of Revenues

The cost of health care services consists primarily of capitation and claims payments, pharmacy costs and incentive payments to contracted providers. These costs are recognized in the period incurred, or when the services are provided. Claims costs also include an estimate of the cost of services which have been incurred but not yet reported to the Company. The estimate for accrued medical costs is based on projections of costs using historical studies of claims paid and adjusted for seasonality, utilization and cost trends. These estimates are subject to trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management records its best estimate of the amount of medical claims incurred at each reporting period. Estimates are continually monitored and reviewed and, as settlements are made or estimates adjusted, differences are reflected in current period. See Note 14 for changes in claims estimates during the years ended September 30, 2021 and 2020.

The Company has contractual reimbursement obligations to providers and discretionary incentive payment obligations to physicians. These payments are in large part predicated on the pay-for-performance, shared risk revenues, and favorable senior capitation risk adjustment payments received by the Company from the health plans. The Company records these revenues generally in the third or fourth quarter of each fiscal year when the incentives and capitation adjustments due from the health plans are known. During this period, the Company also finalizes the physician discretionary incentive.

The Company recorded physician incentives expense of approximately $33,932,000 and $24,230,000 for the years ended September 30, 2021 and 2020, respectively. As of September 30, 2021 and 2020, physician incentive accruals of approximately $24,776,000 and $22,484,000, respectively, were included in accounts payable and other accrued liabilities in the accompanying consolidated financial statements.

The Company also periodically evaluates the need to establish premium deficiency reserves for the probability that anticipated future health care costs could exceed future capitation payments from HMOs under capitated contracts and, where appropriate, records a premium deficiency reserve. There were no such premium deficiencies recorded at September 30, 2021 and 2020, respectively.

Global Risk Management

The cost of health care services consists primarily of the transfer of capitation revenue to the Hospital Services and Medical Group segments under the Management Services Agreements, and capitation and claims payments. These costs are recognized in the period incurred, or when the services are provided. Claims costs also include an estimate of the cost of services which have been incurred but not yet reported to the Company. The estimate for accrued medical costs is based on projections of costs using historical studies of claims paid and adjusted for seasonality, utilization and cost trends. These estimates are subject to trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management records its best estimate of the amount of medical claims incurred at each reporting period. Estimates are continually monitored and reviewed and, as settlements are made or estimates adjusted, differences are reflected in current operations.

The Company also periodically evaluates the need to establish premium deficiency reserves for the probability that anticipated future health care costs could exceed future capitation payments from HMOs under capitated contracts and, where appropriate, record a premium deficiency reserve. There were no such premium deficiencies recorded at September 30, 2021 or 2020.

Patient Accounts Receivable, Net

Collection of receivables from third-party payers and patients are the Company's primary source of cash and is critical to its operating performance. For patient accounts receivable resulting from revenue recognized prior to October 1, 2020, a provision for doubtful accounts was established to reduce the carrying value of such receivables to their estimated net realizable value. Generally, the Company estimated this allowance based on the aging of our accounts receivable by hospital, its historical collection rates as well as changes in applicable laws, rules and regulations and contract terms, to assure that provisions for contractual allowances are made using the most accurate information available. The allowance for doubtful accounts was approximately $198,052,000 as of September 30, 2020, representing 41% of gross accounts receivable. Under the provisions of ASU 2014-09, which the Company adopted effective October 1, 2020, when the Company has an unconditional right to payment, subject only to the passage of time, the right is treated as a receivable. Patient accounts receivable, including billed accounts and unbilled accounts for which there is the unconditional right to payment, and estimated amounts due from third-party payers for retroactive adjustments, are receivables if the right to consideration is unconditional and only the passage of time is required before payment of that consideration is due. For patient accounts receivable subsequent to the Company's adoption of ASU 2014-

09 on October 1, 2020, the estimated uncollectable amounts are generally considered implicit price concessions that are a direct reduction to patient accounts receivable rather than allowance for doubtful accounts. Such implicit price concessions may be caused by denials for payments for services due to issues over patient eligibility for medical coverage, the Company's ability to demonstrate medical necessity for services rendered and payer authorization of hospitalization.

Property, Improvements and Equipment

Property, improvements and equipment are stated on the basis of cost or, in the case of acquisitions, at their acquisition date fair values. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, and amortization of leasehold improvements is provided using the straight-line basis over the shorter of the remaining lease period or the estimated useful lives of the leasehold improvements. Leasehold improvements are generally depreciated over 5 to 40 years, buildings and improvements are depreciated over 5 to 40 years, equipment is depreciated over 2 to 15 years and furniture and fixtures are depreciated over 2 to 20 years. Equipment capitalized under capital lease obligations are amortized over the lesser of the life of the lease or the useful life of the asset.

As more fully described in Note 13, the Company is required to comply with certain seismic standards as required by the state of California by dates through July 2022. The useful life of buildings subject to seismic retrofit requirements may be limited if the Company does not make the necessary upgrades by the required compliance date.

Goodwill

Goodwill represents the excess of the consideration paid and liabilities assumed over the fair value of the net assets acquired, including identifiable intangible assets.

The Company follows the private company alternative, under which private companies can elect to amortize goodwill on a straight-line basis over 10 years, or less than 10 years if the entity demonstrates that another useful life is more appropriate. It also permits a private company to apply a simplified impairment model to goodwill, allowing impairment analysis to be evaluated at the entity level. Accordingly, the Company amortizes goodwill on a straight-line basis over 10 years. The Company evaluates goodwill for impairment at the entity level when a triggering event occurs that indicates that the fair value of the entity may be below its carrying amount. When a triggering event occurs, the Company first assesses qualitative factors to determine whether the quantitative impairment test is necessary. If that qualitative assessment indicates that it is more likely than not that goodwill is impaired, the Company performs the quantitative test to compare the entity's fair value with its carrying amount, including goodwill. If the qualitative assessment indicates that it is not more likely than not that goodwill is impaired, further testing is unnecessary. The goodwill impairment loss, if any, represents the excess of the carrying amount of the entity over its fair value. There was no goodwill impairment recorded during the years ended September 30, 2021 and 2020.

Intangible Assets

Intangible assets include customer relationships, trade names, and favorable leaseholds. The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The Company considers assets to be impaired and writes them down to fair value if estimated undiscounted cash flows associated with those assets are less than their carrying amounts. Fair value is based upon the present value of the associated cash flows. Changes in circumstances (for example, changes in laws or regulations, technological advances or changes in strategies) may also reduce the useful lives from initial estimates. Changes in planned use of intangibles may result from changes in customer base, contractual agreements, or regulatory requirements. In such

circumstances, management will revise the useful life of the long-lived asset and amortize the remaining net book value over the adjusted remaining useful life. There were no impairments recorded during the years ended September 30, 2021 and 2020.

Insurance Reserves

Medical Malpractice Liability Insurance

The individual physicians who contract with the physician organizations carry their own medical malpractice insurance, some of which may be purchased from RRG or CHIC. In the Hospital Services segment, the Company's hospitals carry professional and general liability insurance to cover medical malpractice claims under claims-made policies. Under the policies, insurance premiums cover only those claims actually reported during the policy term. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims related to occurrences during the policy term but reported subsequent to the policy's termination may be uninsured. The Company's hospitals have a consolidated policy for professional and general liability insurance with a retention that applies per claim.

Prospect RRG & Prospect Crozer, LLC ("Crozer")

During the years ended September 30, 2021 and 2020 at Crozer, RRG provided primary malpractice insurance ($500,000 per occurrence and $1,500,000 in the aggregate for physicians, and $500,000 per occurrence and $2,500,000 in the aggregate for the hospitals) and general liability ($1,000,000 per occurrence and $2,000,000 in the aggregate). The Pennsylvania MCARE fund provides the $500,000 in excess of $500,000 RRG malpractice coverage for physicians, hospitals, and certain professional corporations. For the year ended September 30, 2021, excess coverage was provided by CHIC for limits up to $80,000,000 over entity retentions, which was 100% reinsured by third party carriers. Additionally, RRG provides $1,000,000 per occurrence and $3,000,000 in the aggregate) coverage for non-healthcare provider professional liability. For the year ended September 30, 2020, RRG provided coverage for losses of $4,000,000 in excess of $1,000,000 for each hospital professional liability claim with no aggregate limit. RRG also provided additional layers of excess coverage over $5,000,000 up to $20,000,000, which was 100% reinsured to third party carriers. The excess coverage provided for general liability is over $1,000,000 up to $50,000,000, which was also 100% reinsured by third party carriers. Additionally, there is $1,000,000 per occurrence and $3,000,000 in the aggregate) coverage for non-healthcare provider professional liability.

CHIC

For the year ended September 30, 2021, the malpractice and general liability risk was retained by the Company's hospitals and affiliated subsidiaries subject to a $7,500,000 retention, except for Crozer subject to $12,500,000 retention. For the year ended September 30, 2020, CHIC provided malpractice and general liability ($5,000,000 per occurrence and $37,000,000 in the aggregate) coverage for all facilities, except Crozer. For the years ended September 30, 2021 and 2020, CHIC also provided an excess healthcare professional liability and umbrella liability insurance policy on a claims-made basis covering healthcare professional liability, general liability, automobile liability, employers' liability, helipad liability and non-owned aircraft liability. The limit provided was $80,000,000 during the years ended September 30, 2021 and 2020, for each loss event and in the annual aggregate excess of the primary coverage layers described above. This coverage was fully reinsured by third party carriers.

GAAP requires that a health care organization record and disclose the estimated costs of medical malpractice claims in the period of the incident of malpractice, if it is reasonably possible that liabilities may be incurred and losses can be reasonably estimated. The Company has recognized an estimated liability for incurred but not reported claims and the self-insured risks (including deductibles and potential claims in excess of policy limits) based upon an actuarial valuation of the Company's historical claims experience of its hospitals. At September 30, 2021 and 2020, the total gross claims liability, was approximately $121,691,000 and $103,349,000 and reinsurance recoverable on unpaid losses were approximately $16,053,000 and $17,506,000, respectively, included in other assets on the accompanying consolidated balance sheets, and were estimated using a discount factor ranging from 3.50% to 4.00%.

Workers' Compensation Insurance

The workers' compensation coverage provides the statutory benefits required by law with a $500,000 deductible reimbursement policy provided by CHIC for the Company's entities located in California and Connecticut, and Pennsylvania for the year ended September 30, 2020. The facilities in Rhode Island were fully insured for workers' compensation claims with no deductible in a guaranteed cost program.

At September 30, 2021 and 2020, included in accrued salaries, wages and benefits are accruals for uninsured claims and claims incurred but not reported of approximately $29,109,000 and $32,532,000 and reinsurance recoverable on unpaid losses of $4,952,000 and $5,218,000, respectively, included in other assets on the accompanying consolidated balance sheets. The amounts are estimated based upon an actuarial valuation of claims experience, using a discount factor of 4%.

Reserve Methodology

The claims reserve is based on the best data available to the Company. The estimate, however, is subject to a significant degree of inherent variability. The estimate is continually monitored and reviewed, and as the reserve is adjusted, the difference is reflected in current operations. While the ultimate amount of the medical malpractice and workers' compensation claims liability is dependent on future developments, management is of the opinion that the associated liabilities recognized in the accompanying consolidated financial statements are adequate to cover such claims. Management is not aware of any potential claims whose settlement, if any, would have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments with initial maturities of 90 days or less to be cash equivalents. Cash and cash equivalents are primarily comprised of deposits with banks. The Company maintains its cash at banks with high credit-quality ratings.

Cash Held in Escrow

As of September 30, 2021, the Company held $45,270,000 of cash held in escrow in connection with the purchase of the non-controlling interest of Prospect CharterCARE, LLC ("CharterCare") (see Note 4). As of September 30, 2020, the Company held $70,000 of cash in escrow.

Restricted Cash

Some of the Company's cash is restricted for various purposes including research, regulatory requirements and letters of credit. The Company is also required to keep restricted deposits by certain HMOs for the payment of claims. Such restricted deposits are classified as a current asset in the accompanying consolidated balance sheets, as they are restricted for payment of current liabilities. Restricted cash also include certificates of deposit with maturity dates of more than 90 days when purchased.

Restricted Investments

Investments in marketable securities, primarily mutual funds, and are classified as available for sale and are stated at fair value. Unrealized gains and losses are recorded in the statements of other comprehensive income. Investment securities are exposed to various risk, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in values of investment securities could occur in the near term and such changes could materially affect investment. These investments are held in the Company's captive insurance companies and are shown as restricted because the state/local regulators require their approval before dividends or return of capital to the Parent Entity.

Inventories

Inventories of supplies are valued at the lower of amounts that approximate the weighted average cost or net realizable value, which approximates market value, and are expensed as incurred. Inventories consist primarily of medical and surgical supplies and pharmaceuticals.

Internal Use Software

Included within other receivables, prepaid expenses and other current assets are hosting arrangements related to the Oracle suite of products, which are accounted for as service contracts. The gross carrying amount of capitalized service costs was approximately $30,641,000 and $14,298,000 at September 30, 2021 and 2020, respectively. There is no expected residual value for capitalized costs. As of September 30, 2021 there we no capitalized costs for hosting arrangements accounted for as service contracts that was in the development stage. As of September 30, 2020, there was approximately $12,100,000 of capitalized costs for hosting arrangements accounted for as service contracts that was in the development stage and amortization is scheduled to commence once the project is complete and ready for its intended use. The estimated amortization period is 5 years. Amortization expense was approximately $3,651,000 and $1,648,000 during the years ended September 30, 2021 and 2020, respectively.

Deferred Financing Costs

Deferred financing costs are amortized over the period in which the related debt is outstanding using the effective interest method and are classified as a deduction from the carrying amount of the related debt. As it relates to MPT liabilities, deferred financing costs are classified in other assets in the accompanying consolidated balance sheets.

Income Taxes

Deferred income tax assets and liabilities are recognized for differences between financial and income tax reporting bases of assets and liabilities based on enacted tax rates and laws. To the extent a deferred tax asset cannot be recognized under the preceding criteria, allowances must be established. The impact on deferred taxes of changes in tax rates and laws, if any, are applied to the years during which temporary differences are expected to be settled and reflected in the financial statements in the period of enactment. The Company recognizes interest and penalties associated with income tax matters and unrecognized tax benefits in the income tax expense line item of the statements of operations.

An entity is required to evaluate its tax positions using a two-step process. First, the entity should evaluate the position for recognition. An entity should recognize the financial statement benefit of a tax position if it determines that it is more likely than not that the position will be sustained on examination. Next, the entity should measure the amount of benefit that should be recognized for those tax positions that meet the more-likely-than-not test.

Sale-Leaseback Transactions

The Company evaluates sale-leaseback transactions by determining whether the transaction meets the qualifying criteria to be recognized as a sale-leaseback, including the transfer of risk and rewards of ownership as well as the absence of continuing involvement of the Company. When the qualifying criteria for a sale-leaseback transaction are not met, the Company accounts for the transaction as a financing (see Notes 9 and 10).

Comprehensive Income

Comprehensive income consists of net income and other gains and losses affecting stockholder's equity that, under generally accepted accounting principles, are excluded from net income (loss) attributable to the Company. For the Company, such items consist primarily of unrealized gains or losses on debt as well as changes related to pension and other postretirement liabilities that are not recognized immediately in net periodic benefit costs (see Note 12).

Fair Value Measurement

Relevant accounting guidance establishes a framework for measuring fair value and clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

The guidance requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of inputs as follows: Level 1 quoted prices in active markets for identical assets or liabilities; Level 2 quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; or Level 3 unobservable inputs for the asset or liability, such as discounted cash flow models or valuations. The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The Company's Level 1 assets include cash and cash equivalents and investments (certificates of deposit and money market mutual funds). The inputs for fair value of goodwill and intangible assets (including long-lived assets and intangible assets subject to amortization) would be based on Level 3 inputs as data used for such fair value calculations would be based on discounted cash flows that are not observable from the market, directly or indirectly.

Financial Items Measured at Fair Value on a Recurring Basis

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis and where they are classified within the hierarchy (in thousands):

September 30, 2021	Total	Level 1	Level 2	Level 3
Mutual funds	**$ 34,283**	**$ 34,283**	**$ -**	**$ -**
September 30, 2020				
Mutual funds	$ 31,354	$ 31,354	$ -	$ -

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The Company's investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices. The Company's defined benefit pension plan assets are also measured at fair value (see Note 12).

The Company's carrying amount of debt approximated fair value as of September 30, 2021 and 2020, respectively.

Concentrations of Credit Risk

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits of $250,000 per depositor of each financial institution. The Company has not experienced any losses to date related to these balances.

Financial instruments that potentially subject the Company to concentrations of credit risk consist of receivables due from Medicare, Medicaid, patients, and health plans including shared-risk arrangements.

The Company invests excess cash in liquid securities at institutions with strong credit ratings, following established guidelines relative to diversification and maturities to maintain safety and liquidity. These guidelines are periodically reviewed and modified to take into consideration trends in yields and interest rates and principal risk. Management attempts to schedule the maturities of the Company's investments to coincide with the Company's expected cash requirements. Credit risk with respect to receivables is limited since amounts are generally due from large HMOs within the Medical Group segment and from the Medicare and Medicaid programs within the Hospital Services segment. Management reviews the financial condition of these institutions on a periodic basis and does not believe the concentration of cash or receivables results in a high level of risk.

For the years ended September 30, 2021 and 2020, the Hospital Services segment received a total of 61% and 64% of its net patient revenues from Medicare and Medicaid programs, respectively, and the Medical Group segment received a total of 59% and 58% for the years ended September 30, 2021 and 2020, respectively, of their capitation revenues from its five largest HMOs, as follows (in thousands):

Years Ended September 30,		**2021**	**% of Total Revenue**			2020	% of Total Revenue
Hospital Services:							
Government Payers:							
Medicare	$	**678,577**	**28%**		$	745,780	32%
Medicaid		**780,305**	**32%**			757,626	32%
Total	$	**1,458,882**	**61%**		$	1,503,406	64%
Medical Group:							
HMO A	$	**53,780**	**14%**	HMO A		41,136	13%
HMO C		**51,208**	**13%**	HMO E		36,299	12%
HMO E		**48,304**	**12%**	HMO B		35,819	12%
HMO D		**41,996**	**11%**	HMO F		35,166	11%
HMO H		**35,090**	**9%**	HMO D		30,477	10%
Total	$	**230,378**	**59%**		$	178,897	58%

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The Global Risk Management segment received all of their revenues from seven health plans during the years ended September 30, 2021 and 2020.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities at the dates, and for the periods, that the consolidated financial statements are prepared. Actual results could materially differ from those estimates. Principal areas requiring the use of estimates include due to/from government payors, settlements under risk sharing programs, allowances for contractual discounts and implicit price concessions (doubtful accounts or bad debts in 2020), accruals for medical claims, impairment of goodwill, long-lived assets and intangible assets, share-based payments, professional and general liability claims and workers' compensation claims, reserves for pension obligations and other postretirement benefit reserves, reserves for outcome of changes in legislation and valuation allowances against deferred tax assets.

New Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" with effective dates deferred for all entities by ASU 2019-10, and further deferred for nonpublic entities by ASU 2020-05. The core principle of ASU 2016-02 is that a lessee should recognize the assets and liabilities that arise from leases, including operating leases. Under the new requirements, a lessee will recognize in the statement of financial position a liability to make lease payments (the lease liability) and the right-of-use asset representing the right to the underlying asset for the lease term. For leases with a term of 12 months or less, the lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous GAAP. Nonpublic entities will apply the new standard for annual periods beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The Company is currently evaluating the standard and the impact on its consolidated financial statements and footnote disclosures.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments". The amendments in this standard require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. In addition, this standard amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendment is effective for nonpublic entities for annual reporting periods beginning after December 15, 2022. Early adoption is permitted. The Company is currently evaluating the standard and the impact on its consolidated financial statements and footnote disclosures.

In August 2018, the FASB issued ASU 2018-14, "Compensation - Retirement Benefits - Defined Benefit plans - General (Topic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans", which amends ASC 715 to add, remove and clarify disclosure requirements related to defined benefit pension and other postretirement plans. This ASU is effective for fiscal years ending after December 15, 2021. Early adoption is permitted. The Company is currently evaluating the provision of ASU 2018-14 and its impact on its consolidated financial statements and related disclosures.

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Recently Adopted Accounting Pronouncements

On October 1, 2020, the Company adopted ASU 2014-09, *Revenue from Contracts with Customers*, and all subsequent amendments thereto (collectively, "Topic 606"). Topic 606 supersedes virtually all existing revenue recognition guidance, including industry-specific guidance, and replaces it with a single, comprehensive framework for recognizing revenue from contracts with customers. Topic 606 also requires enhanced disclosure about the Company's revenue from contracts with customers. The Company elected to adopt Topic 606 using the modified retrospective method. There is minimal impact from the implementation of ASC 606 except for the classification of bad debt and it is likely that the consolidated financial statement users will not have a lack of comparability in the financial statements.

Reclassifications

Certain reclassifications were made to the prior year consolidated financial statements in order to conform to the current year presentation. These reclassifications did not have a material impact on previously reported consolidated financial statements.

3. Property, Improvements and Equipment

Property, improvements and equipment, consisted of the following (in thousands):

September 30,	**2021**	2020
Land and land improvements	**$ 67,847**	$ 68,374
Buildings and improvements	**419,652**	378,882
Leasehold improvements	**28,614**	27,971
Equipment	**416,159**	409,784
Furniture and fixtures	**7,128**	6,032
	939,400	891,043
Less: accumulated depreciation	**(484,822)**	(412,812)
	454,578	478,231
Construction in Progress	**125,187**	66,025
Property, improvements and equipment, net	**$ 579,765**	$ 544,256

At September 30, 2021 and 2020, the Company had assets under capitalized leases of approximately $89,823,000 and $56,244,000, respectively, and related accumulated depreciation of $56,037,000 and $11,392,000, respectively.

Depreciation expense was approximately $71,193,000 and $70,706,000 for the years ended September 30, 2021 and 2020, respectively.

Included within equipment is capitalized software costs, which relate to significant system conversions. The estimated amortization period is 5 years. The gross carrying amount of capitalized software for internal use (related to the Cerner suite of products) was approximately $66,966,000 and $36,157,000 at September 30, 2021 and 2020, respectively, and the net carrying amount considering accumulated amortization was approximately $60,443,000 and $31,870,000 at September 30, 2021 and 2020, respectively. There is no expected residual value for capitalized internal-use software. At September 30, 2021 and 2020, there was approximately $55,783,000 and $24,973,000, respectively, of capitalized costs for internal-use software that is in the development stage and amortization is scheduled to commence once the software project is complete and ready for its intended use. Amortization expense was $2,237,000 and $2,237,000 for the years ended September 30, 2021 and 2020, respectively.

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4. Acquisition of Noncontrolling Interest in CharterCARE

In June 2014, the Company, through a newly formed subsidiary, Prospect CharterCARE, LLC ("CCHP"), acquired substantially all of the assets of CharterCARE Health Partners and its subsidiaries, in exchange for an 85% interest in CCHP, $43.3 million in cash and a commitment to invest at least $50 million in CCHP and its subsidiaries for strategic business development and capital improvements over the next four years (the "CharterCARE acquisition"). As a result of the acquisition, the Company had an 85% ownership interest in CCHP, with the remaining 15% being owned by the prior owner of the selling entities, CharterCARE Health Partners, which was subsequently renamed CharterCARE Community Board ("CCCB").

CCHP, through wholly owned subsidiaries, operates both Roger Williams Medical Center and St. Joseph Health Services of Rhode Island, dba Our Lady of Fatima Hospital. One of the seller entities, St. Joseph Health Services of Rhode Island, had a Retirement Plan (the "Retirement Plan") which is a defined benefit pension plan and was set up for the benefit of employees of Our Lady of Fatima Hospital when the hospital was a standalone hospital owned by a religious institution. The Company and CCHP did not acquire the Retirement Plan as part of the CharterCARE acquisition, and $14 million of the proceeds from the sale were contributed to the Retirement Plan in exchange for the Company and its subsidiaries, including CCHP, not having any liabilities related to the Retirement Plan. In August 2017, a petition was filed to place the Retirement Plan into receivership by its administrators because it was underfunded. In June 2018, the receiver for the Retirement Plan (along with various named participants) filed a lawsuit on behalf of all participants against various defendants which included CCCB, the Company, CCHP, the subsidiary which holds the Company's ownership interest in CCHP, and the two subsidiaries which own Roger Williams Medical Center and Our Lady of Fatima Hospital, along with the administrators of the Retirement Plan, The Angell Pension Group, Inc., among others. Also, in March 2019, CCCB sued the Company and various directors of the Company, and certain subsidiaries. The suits involved allegations related to the valuation of CCCB's 15% ownership interest in CCHP. In December 2019, CCCB and its subsidiaries settled with the receiver of the Retirement Plan. As a result, in January 2020 the receiver took control of CCCB's noncash assets, including its ownership interest in CCHP. In December 2019, the Company sued CCCB on the basis that CCCB had breached the original terms of the acquisition by entering into the settlement agreement with the receiver and seeking indemnity against the receiver's June 2018 lawsuit.

The Company entered into a Settlement Agreement in December 2020 to release the Company and its directors and subsidiaries from all of the various claims under the aforementioned litigation. The Settlement Agreement also provided for the Company to purchase the noncontrolling interest. Under the terms of the settlement, the Company paid $27.25 million, of which $22.25 million was to settle all of the outstanding cases between the parties, including the Company, which was subsequently released of their related claims, and $5 million was for the acquisition of the noncontrolling interest. The buyout of the noncontrolling interest was treated as an equity transaction. The payment of the settlement was conditioned upon State and Federal Court approvals, which was obtained in March 2021 and August 2021, respectively. Accordingly, the Company paid $27.25 million in August 2021, and the buyout of CCCB's noncontrolling interest in CCHP was effective on August 18, 2021.

The Company received recoveries from its insurance policies of approximately $12 million. A receivable was recorded for this amount at September 30, 2021. Such monies were received after year-end.

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5. Discontinued Operations

As of and for the years ended September 30, 2021 and 2020, the operations of Nix Hospital System ("Nix Health") in Texas and East Orange General Hospital ("EOGH") in New Jersey met the criteria under applicable accounting standards to be presented as discontinued operations and as assets held for sale. In October 2020, the Company entered into an Asset Purchase Agreement to sell substantially all of the assets of EOGH for a sale price of $6.2 million. That sale closed effective January 1, 2022 (see Note 16). The Company's decision to discontinue the operations of each of these entities was based on the strategy of the Company's management in their respective markets and financial results.

In connection with the presentation of discontinued operations, the Company was required to test the long-lived assets for impairment as of September 30, 2021 and 2020. As of September 30, 2021, as a result of the impairment test, at EOGH: (i) property, improvements and equipment were impaired by approximately $4.5 million; and (ii) other receivables, prepaid expenses and other current assets at EOGH were impaired by approximately $6.4 million. As of September 30, 2020, as a result of the impairment test, at EOGH: (i) property, improvements and equipment were impaired by approximately $5.3 million; and (ii) other receivables, prepaid expenses and other current assets at EOGH were impaired by approximately $3.6 million.

Summarized financial information for discontinued operations is included below (in thousands):

September 30,	**2021**	2020
Patient accounts receivable, (net of allowance for doubtful accounts-2020) and other receivables	**$ 16,417**	$ 11,771
Other receivables, prepaid expenses and other current assets	**(1,110)**	4,865
Inventories	**1,536**	1,379
Total current assets	**16,843**	18,015
Property, improvements and equipment, net	**6,831**	7,430
Intangible assets, net	**1,555**	1,555
Other assets	**164**	451
Total assets of the disposal groups classified as held for sale in the consolidated balance sheets	**25,393**	27,451
Accounts payable and other accrued liabilities	**12,605**	12,516
Accrued salaries, wages and benefits	**3,089**	4,784
Current portion of capital leases	**250**	448
Total current liabilities	**15,944**	17,748
Debt, net of current portion	**898**	922
Malpractice reserves	**-**	3,933
Capital leases, net of current portion	**-**	250
Total liabilities of the disposal groups classified as held for sale in the consolidated balance sheets	**$ 16,842**	$ 22,853

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For the Years Ended September 30,	**2021**	2020
Net patient service revenues		$ 77,962
Provision for bad debts		2,140
Net patient service revenues	**$ 84,797**	80,102
Other non-patient revenues	**3,417**	7,394
Total revenues	**88,214**	87,496
Hospital operating expenses	**73,943**	90,254
General and administrative	**19,943**	29,312
Property, improvement and equipment impairment	**10,865**	8,857
Total operating expenses	**104,751**	128,423
Pandemic relief grant income	**6,841**	15,658
Net operating loss	**(9,696)**	(25,269)
Interest expense, net	**190**	923
Other income	**(2,355)**	(2,582)
Total other income, net	**(2,165)**	(1,659)
Loss on discontinued operations before income taxes	**(7,531)**	(23,610)
Income tax provision	**(2)**	(2)
Loss on discontinued operations, net of taxes	**$ (7,533)**	$ (23,612)

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The following table shows the funds that the Company received through the PRF in both general and targeted distributions, including amounts received for Nix Health that were required to be repaid to HHS, during the year ended September 30, 2021 and 2020 (in thousands), as it relates to discontinued operations:

	PRF Funds	Hotspot Funds	Other Funds	Total
Funds received during the year ended September 30, 2020	$ 4,068	$ 12,350	$ 14,835	$ 31,253
Funds transferred from discontinued operations to continuing operations	(1,683)	-	-	(1,683)
Funds applied to lost revenues	-	(6,460)	(9,198)	(15,658)
Funds applied to incremental expenses	-	-	(5,637)	(5,637)
Funds that were refunded	(2,385)	-	-	(2,385)
Funds unused at September 30, 2020	$ -	$ 5,890	$ -	$ 5,890
Funds received during the year ended September 30, 2021	$ -	$ -	$ -	$ -
Funds transferred from continuing operations to discontinued operations	1,683	-	-	1,683
Funds applied to lost revenues	(1,683)	(5,158)	-	(6,841)
Funds applied to incremental expenses	-	(730)	-	(730)
Funds applied to incremental capital assets	-	(2)	-	(2)
Funds unused at September 30, 2021	$ -	$ -	$ -	$ -

As of September 30, 2020, the Company had $5,890,000 in funds related to EOGH that had not been recognized in the accompanying consolidated statements of operations. As these liabilities were not set to transfer upon the completion of the sale of EOGH, they were reflected in accounts payable and other accrued liabilities in the accompanying consolidated balance sheets. During the year ended September 30, 2021, such funds were used in full against incremental expenses and lost revenues and accordingly there was no liability as of September 30, 2021.

As of September 30, 2021 and 2020, the Company had recorded liabilities related to Medicare advance payments received of approximately $7,435,000 and $10,152,000, respectively, related to EOGH. These liabilities will not transfer in the sale of EOGH and accordingly are reflected in refund liabilities, current and non-current, in the accompanying consolidated balance sheets.

6. Goodwill and Intangible Assets

The net carrying value of goodwill by reporting unit is as follows (in thousands):

September 30, 2021	Gross	Accum. Impairment	Accum. Amortization	Total
Southern California Hospitals	$ 130,912	$ -	$ (26,182)	$ 104,730
California Medical Groups	30,722	-	(5,936)	24,786
CharterCare	14,718	(14,228)	(70)	420
Crozer	140,216	(978)	(27,868)	111,370
Prospect ECHN, Inc. ("ECHN")	535	-	(107)	428
Prospect Waterbury, Inc. ("Waterbury")	2,888	-	(555)	2,333
Total	$ 319,991	$ (15,206)	$ (60,718)	$ 244,067

September 30, 2020	Gross	Accum. Impairment	Accum. Amortization	Total
Southern California Hospitals	$ 130,912	$ -	$ (13,091)	$ 117,821
California Medical Groups	30,722	-	(2,864)	27,858
CharterCare	14,665	(14,228)	(22)	415
Crozer	140,216	(978)	(13,946)	125,292
ECHN	535	-	(54)	481
Waterbury	2,888	-	(268)	2,620
Total	$ 319,938	$ (15,206)	$ (30,245)	$ 274,487

The changes in the net carrying amount of goodwill for the years ended September 30 are as follows (amounts in thousands):

September 30,	2021	2020
Balance, beginning of year	$ 274,487	$ 302,377
Acquisitions	53	3,333
Disposition	-	(978)
Amortization	(30,473)	(30,245)
Balance, end of year	$ 244,067	$ 274,487

Amortization expense was $30,473,000 and $30,245,000 for the year ended September 30, 2021 and 2020, respectively, and is included in goodwill amortization expense in the accompanying consolidated statements of operations.

Estimated amortization expense for each fiscal year of goodwill is as follows (in thousands):

Years ending September 30,	
2022	$ 30,476
2023	30,476
2024	30,476
2025	30,476
2026	30,476
Thereafter	91,687
Total future amortization expense	$ 244,067

The weighted-average remaining useful life for the goodwill was approximately eight years as of September 30, 2021.

Identifiable intangible assets are comprised of the following (in thousands):

September 30,	Useful lives	**2021**	2020
HMO membership	14 years	**$ 25,200**	$ 25,200
Trade names, net of impairment	3 - 20 years	**42,030**	42,030
Other	5 - 6 years	**-**	97
Gross carrying value		**67,230**	67,327
Accumulated amortization		**(52,360)**	(47,273)
Intangible assets, net		**$ 14,870**	$ 20,054

Amortization is recognized on a straight-line basis (management's best estimate of the period of economic benefit) over the respective useful lives and expense for the years ended September 30, 2021 and 2020 was $5,184,000 and $5,491,000, respectively, and is included in depreciation and amortization expense in the accompanying consolidated statements of operations. There are no expected residual values related to these intangible assets.

Estimated amortization expense for each future fiscal year of intangible assets is as follows (in thousands):

Years ending September 30,	
2022	$ 3,395
2023	2,875
2024	2,875
2025	2,875
2026	2,435
Thereafter	415
	$ 14,870

The weighted-average remaining useful life for the intangible assets was approximately five years as of September 30, 2021.

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7. Related Party Transactions

Jeereddi Prasad, M.D., was a shareholder of Ivy Holdings, a director of Ivy Holdings and the Company, through June 1, 2021, and is an officer of the Upland Medical Group, a Professional Medical Group and Pomona Valley Medical Group, Inc. (collectively "ProMed Entities"), which has ownership interests in physician medical groups that provide medical services to ProMed members, including Chaparral Medical Group, Inc., (in which the Company beneficially owns a 13.2% interest). For the period from October 1, 2020 to June 1, 2021 (date of Chamber Transaction - see Note 11) and for the year ended September 30, 2020, the ProMed Entities paid these groups approximately $16,439,000 and $19,998,000. As of September 30, 2020, the Company had accounts payable and other accrued liabilities due to these related parties of $731,000, respectively. Such transactions continue after the Chamber Transaction.

Pursuant to a Management Services Agreement, dated December 15, 2010 and amended on May 3, 2012 (the "LGP Management Agreement"), between the Company and Leonard Green & Partners, L.P. ("LGP"), a private equity fund with affiliated funds that collectively constituted the majority shareholder of Ivy Holdings, LGP provided to the Company, (a) certain investment banking services, (b) management, consulting and financial planning services and (c) financial advisory and investment banking services in connection with major financial transactions from time to time. In connection with the Chamber Transaction (see Note 11), the LGP Management Agreement was terminated on June 1, 2021. In consideration for the services provided by LGP under the LGP Management Agreement, the Company paid LGP an annual fee of $1,000,000, payable in monthly installments, and reimbursed LGP for its related expenses up to $50,000 annually. The Company ceased accruing LGP monthly fees in March 2020.

During the year ended September 30, 2021, the Company paid a dividend of approximately $11.9 million (see Note 11). There were no dividends paid during the year ended September 30, 2020.

The Company is a wholly owned indirect subsidiary of Chamber. Therefore, Chamber is the parent of an affiliated group of corporations within the meaning of Section 1504(a) of the Internal Revenue Code of 1986. On December 15, 2010, Ivy Holdings, Ivy Intermediate and the Company entered into a Tax Sharing Agreement. The Tax Sharing Agreement allows the Company to make payments to Chamber as necessary to fund their payment of any required taxes incurred due to such parent status. Under this agreement, the Company received refunds (net of payments) of $(519,000) and $(397,000) for the years ended September 30, 2021 and September 30, 2020, respectively.

8. Income Taxes

The components of the income tax (benefit) provision are as follows (in thousands):

Year Ended September 30,	2021	2020
Current:		
Federal	$ -	$ (8,944)
State	(2,206)	1,874
	(2,206)	(7,070)
Deferred:		
Federal	-	-
State	-	-
	-	-
Total:		
Federal	(2,206)	(8,944)
State	-	1,874
	$ (2,206)	$ (7,070)

Temporary differences and carry forward items that result in deferred income tax balances as of September 30, are as follows (in thousands):

September 30,	**2021**	2020
Deferred tax assets:		
Accrued medical claims	$ **6,233**	$ 8,038
Malpractice reserves	**7,009**	4,013
Accounts receivable	**21**	723
Accrued salaries & wages	**16,201**	13,936
Pension obligation	**70,856**	58,511
Net operating losses and 163j	**142,315**	100,061
Tax Credits	**1,045**	2,350
Other comprehensive income	**14,753**	(297)
Lease liability	**125,159**	128,496
Deferred revenue	**1,039**	5,720
Deferred FICA tax	**7,215**	7,016
Deferred tax assets	**391,846**	328,567
Valuation allowance	**(307,973)**	(246,584)
Net deferred tax assets	**83,873**	81,983
Deferred tax liabilities:		
Property, plant & equipment	**(75,261)**	(71,010)
Intangible assets	**(3,939)**	(5,834)
Prepaid expenses	**(2,840)**	(2,830)
Outside basis differences	**(905)**	(1,920)
UTP & other	**(928)**	(389)
Deferred tax liabilities	**(83,873)**	(81,983)
Net deferred tax assets	$ **-**	$ -

Deferred tax assets and liabilities reflect the effect of temporary differences between the assets and liabilities recognized for financial reporting purposes and the amounts recognized for income tax purposes.

Management assesses the available positive and negative evidence to estimate whether sufficient future pretax income will be generated to permit use of the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative pretax losses incurred over the three-year period ended September 30, 2021. Such objective evidence limits the ability to consider other subjective evidence, such as the Company's projections for future growth. Based on this evaluation, at September 30, 2021 and 2020, a valuation allowance of approximately $308.0 million and $246.5 million, respectively, was recorded. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased or if negative objective evidence in the form of cumulative losses is no longer present and additional weight is given to subjective evidence such as the Company's projections for growth.

A consolidated federal tax return is filed for Chamber, Inc., with the exception of Nuestra Familia Medical Group Inc., ("Nuestra"), which files its own federal tax returns. The Company files combined state tax returns for California, Texas, Rhode Island, Connecticut, New Jersey and file separate state returns for Pennsylvania and Florida. The Company's filed tax returns are generally subject to examination by the IRS and state tax boards for 3 to 4 years.

As of September 30, 2021, the Company has net operating loss ("NOL") carryforwards for federal purposes of $197 million and various states of $922 million. The federal NOL carryforwards begin to expire in fiscal year 2039 and the state NOL carryforwards begin to expire in fiscal year 2022. We believe that it is more likely than not that the benefit from federal and state carryforwards will not be realized. In recognition of this risk, we have provided a valuation allowance on the deferred tax assets related to these NOL carryforwards. Utilization of the net operating loss carryforwards may be subject to an annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986, as amended (the "Code"), and similar state provisions. Any annual limitation may result in the expiration of net operating losses before utilization.

The Company's tax years 2017 through 2019 are open for federal income tax examination, and generally the states are open for tax years 2016 through 2019. The Company is under examination by the California Franchise Tax Board (FTB) for tax year ended September 30, 2017. During fiscal year ended September 30, 2021, the Company received a closing letter for the tax years ended September 2014 through 2016 from the California FTB auditor. In addition to finalizing the audit, the FTB allowed the inclusion of Prospect Medical Group, Inc & Subsidiaries and New Genesis Medical Associates, Inc. & Subsidiaries in the California unitary group filed by Ivy Holdings, Inc & Subsidiaries. An incremental benefit of $4.1 million was recorded to income tax receivable in the current period for the refund expected as a result of the audit close. For the period ended September 30, 2021 and 2020, the Company recorded a liability in the amount of $5.7 million and $4.1 million respectively, related to uncertain tax positions ("UTP") with respect to California Unitary Combined Filing for Fiscal year 2017 through 2021, which was recorded in other long-term liabilities in the accompanying consolidated balance sheets.

The Company has evaluated the CARES Act and does not expect the legislation to have a significant impact on the effective tax rate or the income tax payable of the Company.

The differences between the income tax provision at the federal statutory rate and that reflected in the accompanying consolidated statements of operations are summarized as follows:

Years Ended September 30,	**2021**	2020
Tax provision at statutory rate	**21%**	21%
State taxes, net of federal benefit	**14%**	20%
Return to provision adjustments	**-%**	11%
Goodwill amortization	**(4)%**	(8)%
Deferred tax adjustments	**1%**	8%
Valuation allowance	**(32)%**	(39)%
UTP	**(1)%**	(5)%
Change in State Tax Rate	**5%**	1%
Other	**(2)%**	-%
	2%	9%

9. Debt

Debt consists of the following (in thousands):

September 30,	2021	2020
MPT TRS loan *(1)*	$ 98,606	$ 105,508
MPT Foothill loan *(1)*	51,267	51,267
Sale-leaseback financing obligations	21,935	31,401
Other debt *(2)*	11,907	21,163
Total debt	183,715	209,339
Less: current maturities	(16,032)	(19,138)
Debt, net of current maturities	$ 167,683	$ 190,201

(1) See Note 10 for more information related to MPT sale-leaseback transactions.
(2) Other debt is comprised of building, equipment and software loans.

Senior Secured and Revolving Credit Facilities

On February 22, 2018, the Company entered into an ABL Credit Agreement (the "ABL Agreement"), by and among the Company (as the borrower), the lenders party thereto and JPMorgan Chase Bank, N.A. ("JPMorgan"), as administrative agent and collateral agent. Under the ABL Agreement, the initial maximum revolving commitment was $250.0 million with ability to expand the facility to $325.0 million (the "ABL Facility"), and the ABL facility bears interest at a variable base rate plus an applicable spread that is based on excess availability under the ABL Facility, as further described in the ABL Agreement, which was 3.75% and 4.0% as of September 30, 2021 and 2020, respectively. Through various amendments and the sale of Nix Health, the maximum commitment under the ABL Agreement was $275.0 million at September 30, 2021. This commitment will decrease by $15.0 million in the month after the sale of EOGH and by a further $10.0 million when the remaining building at Nix Health is sold. In January 2020, the maximum revolving commitment under the ABL Agreement decreased by $10.0 million to $275.0 million in connection with the sale of the acute care hospital building at Nix Health in December 2019.

The ABL Facility matures on February 22, 2023. As of September 30, 2021 and 2020, the outstanding balance on the ABL facility was $45.0 million and $0, respectively, and the available balance was $190.7 million and $210.8 million, respectively.

The ABL Facility is secured by a first priority security interest on the working capital assets of the Company and its wholly owned subsidiaries except Prospect Health Plan, Inc., CHIC, RRG, Prospect Health Access Network, Inc. and certain immaterial subsidiaries and a second priority security interest on their fixed assets. The ABL Agreement does not have any financial maintenance covenants. The ABL Agreement has a "springing" fixed charge ratio covenant that applies if excess availability is less than the greater of 10% of the maximum borrowing amount and $22,000,000. The fixed charge ratio covenant was not required to be tested for the fiscal quarter ended September 30, 2021.

Effective August 16, 2021, the Company entered into an amendment on its ABL Agreement to increase the aggregate letter of credit availability from $60 million to $80 million.

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Scheduled payments under the Company's debt, current portion and debt, net of current portion as of September 30, 2021 are as follows (in thousands):

Years ending September 30,	
2022	$ 16,032
2023	15,104
2024	9,135
2025	9,404
2026	13,947
Thereafter	120,093
Total scheduled payments	183,715
Less: Current maturities	(16,032)
Total debt	$ 167,683

10. Transactions with MPT

On August 23, 2019, the Company closed a series of transactions with affiliates of Medical Properties Trust, Inc. ("MPT"), a publicly traded Real Estate Investment Trust ("REIT"). Under these transactions, the Company sold to MPT the Company's hospital buildings in California (excluding Foothill Regional Medical Center ("Foothill")), Connecticut and Pennsylvania for an aggregate purchase price of $1,386,000,000. Concurrent with the sale transactions, the Company entered into two master lease agreements whereby the hospital properties and related medical office buildings were leased back for an initial 15 year term, with options to extend twice for an additional 5 years each and for a further 4.75 year extension. Monthly rent is defined as 7.5% of the lease base, subject to annual escalation of consumer price index, limited to a minimum of 2% and a maximum of 4%. For the first master lease, the Company has the option to buy the properties at their fair value at the end of the lease term. For the second master lease, the Company has the option to purchase at a price that is fixed at the time of entering into the lease (the "Option Price"). If the Company chooses not to exercise this option, and the fair value at the end of the lease is below the Option Price, then the Company must pay MPT a sum equal to the difference between the fair value and the Option Price. These transactions do not qualify for sale leaseback accounting because of the Company's deemed continuing involvement with the buyer-lessor, including the requirements to pay reserves for major repairs, and the option to purchase included in the lease, which are considered a form of contingent collateral and results in the transaction being recorded under the financing method. All of the legal entities that are parties to the master lease agreement (which are the hospital entities in California, Connecticut and Pennsylvania) provide cross guarantees on all of the obligations to MPT, which guarantees include both lease payments under the master lease as well as indebtedness due to MPT. As of September 30, 2021 and 2020, the balances due under the leases are approximately $1,291,326,000 and $1,338,040,000, respectively, and are reflected in MPT liabilities in the accompanying consolidated financial statements.

Further, MPT provided the Company with a $51,266,700 mortgage on the Foothill property. This mortgage is secured by the buildings at Foothill. The interest on this mortgage is 7.5% per annum and is subject to annual escalation of consumer price index, limited to a minimum of 2% and a maximum of 4%. The maturity date of this loan is in August 2034. MPT can purchase the property on event of default or at end of term. The Company is required to provide MPT with the option to purchase the Foothill property and lease it back to the Company under the second master lease agreement, for an amount equal to the outstanding principal balance. As of September 30, 2021, and subject to any subsequent extension from MPT, the Company has until December 31, 2021 to offer this right to MPT. As of September 30, 2021 and 2020, the balances due under the promissory note payable to MPT are $51,267,000 and $51,267,000,

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respectively, and are reflected in long term debt in the accompanying consolidated financial statements (see Note 9).

Additionally, the Company entered into a promissory note (the "TRS Note"), under which MPT has advanced to the Company $112,937,000. The interest on this note is 7.5% per annum and is subject to annual escalation of the consumer price index, limited to a minimum of 2% and a maximum of 4%. The maturity date of this note was originally scheduled to be the earlier of July 2022 or, if it occurs, a sale-leaseback of the properties in Rhode Island. In connection with the Chamber Transaction, and the approval of such transaction by the Rhode Island Attorney General, the maturity date of the TRS Note was extended to April 30, 2026. A sale-leaseback of the properties in Rhode Island is prohibited to occur before the extended maturity date. As of September 30, 2021 and 2020, the balances due under this note are $98,606,000 and $105,508,000, respectively, and are reflected in long term debt in the accompanying consolidated financial statements (see Note 9).

All of the agreements referenced in this footnote are cross-collateralized and cross defaulted among the parties and the assets included therein (which do not include any of the hospital operating entities or real properties in Rhode Island, Texas or New Jersey). Based on annualized Adjusted EBITDAR (as defined) achieved over the three years from the transaction date, additional amounts between $50 million to $250 million will be payable to the Company. As of September 30, 2021, there has been no accounting for these amounts in the consolidated financial statements.

The MPT transaction documents contain certain customary covenants and restrictions and a financial covenant based on EBITDAR performance. The Company was in compliance with all such covenants at September 30, 2021.

In connection with the transactions with MPT, the Company incurred deferred financing costs of $28,058,000. Amortization expense was approximately $1,970,000 and $1,933,000 during the year ended September 30, 2021 and 2020, respectively.

Interest expense under these agreements was $58,800,000 and $60,789,000 for the years ended September 30, 2021 and 2020, respectively.

See Note 13 for future minimum lease payments related to sale leaseback commitments as of September 30, 2021.

11. Stockholder's Equity

Chamber Transaction

In June 2021, Green Equity Investments V, LP, Green Equity Investments Side V, LP and other minority shareholders sold their shares of Ivy Holdings for a purchase price of approximately $11,900,000. As a result of the sale, the Company became indirectly wholly-owned by two shareholders that were previously the two largest individual shareholders in Ivy Holdings. The transaction, among other things, (i) merged Ivy Holdings with Chamber Merger Sub Inc., a wholly-owned subsidiary of Chamber Inc. ("Chamber") which is owned by the referenced two ultimate shareholders, and Ivy Holdings, as the surviving entity in such merger, became a wholly-owned direct subsidiary of Chamber, (ii) bought out all of the other stockholders of Ivy Holdings, (iii) terminated all stock options that have not previously been exercised.

Equity Based Compensation Plans

In December 2010, the Board of Directors of Ivy Holdings adopted the Ivy Plan that initially authorized the issuance of options exercisable for up to 155,110 shares of the common stock of Ivy Holdings ("Initial Options") to employees, certain consultants and independent members of the boards of directors, of Ivy Holdings and its subsidiaries (including the Company and its subsidiaries). These options were exercisable into Ivy Holdings stock and vested based on a number of criteria, including time, Company and Business Unit performance based on EBITDA targets and CEO and Compensation Committee discretion. Since the Ivy Holdings stock options were granted to Company employees for their services related to the Company, the related compensation cost has been recorded in the Company's consolidated financial statements. In June 2015, the Board of Directors of Ivy Holdings adopted the First Amendment to the Ivy Plan. Under the First Amendment, and subsequent amendments, a further 63,704 shares of common stock of Ivy Holdings ("New Options") could be issued.

The New Options were exercisable into Ivy Holdings stock and vested based on a number of criteria, including the same criteria as the Initial Options. However, they only became exercisable on the occurrence of certain corporate transactions, including a change in control of Ivy Holdings, as defined in the Incentive Stock Option Agreements. At the time that the Merger Agreement was executed, all options were "underwater." Accordingly, the Company determined to terminate these options and not allow them to be exercised, prior to the Chamber Transaction occurring. In May 2021, the Board of Directors agreed to terminate the options on the Effective Date, as defined in the Merger Agreement. As no options had been granted or vested during the years ended September 30, 2021 and 2020, no compensation cost has been recorded in the Company's consolidated financial statements for the years then ended.

In connection with a dividend paid to shareholders on February 22, 2018, the Board of Directors of Ivy Holdings approved special cash payouts in the amount of approximately $33 million in bonus payments to stock option holders. The approval provided that any bonus with respect to an unvested portion of an option would be payable upon the date such unvested portion becomes vested and exercisable, subject to the optionee's continued employment with Prospect through such date. At September 30, 2020, approximately $2.2 million had been accrued for bonuses in connection with such options that had previously vested, and this was paid in June 2021, in connection with the Chamber Transaction. Additionally, certain option holders that held unvested options at February 22, 2018 were entitled to a cash payment on the occurrence of certain corporate transactions, provided they remained employed by the Company at that time. Cash payments of approximately $4.1 million were made to those employees were made in June 2021. This amount was recorded as an expense during the year ended September 30, 2021.

Dividends

The Company distributed approximately $11.9 million in connection with the Chamber Transaction during the year ended September 30, 2021, which was recorded against retained earnings, and was ultimately paid to the common stockholders of Ivy Holdings, Inc. There were no distributions during the year ended September 30, 2020.

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12. Retirement Benefits

The Company sponsors various employee non-contributory, defined benefit pension plans (the "DB Plan") covering certain full-time employees of Crozer, ECHN and Waterbury.

In connection with the acquisition of Crozer, its plan was frozen with all benefits accruals ceased as of July 1, 2016. With respect to each Represented Employee who is a member of the Laborers' International Union of North America, the Monthly Compensation (as defined), the Credited Service (as defined), the Eligibility Service (as defined) and the accrued benefit was frozen and determined as of July 1, 2016. No benefits accrue since that date. The plan was amended to provide for determination of Vesting Service (as defined) for employees who were employed with the Company before July 1, 2016, such that years of service shall include all periods of employment completed on and after July 1, 2016, subject to the Break in Service rules (as defined). The plan was further amended on September 3, 2016 to provide certain Qualifying Participants (as defined) the right to make a Special Benefit Election (as defined) during "2016 Lump Sum Option Window" period from October 15, 2016 through November 30, 2016 to receive or commence receiving his or her vested Accrued Benefit as of December 1, 2016 in accordance with procedures adopted by the Committee. Further, the Company will adopt a plan amendment to terminate the plan effective within such five year period and will liquidate, fully fund and satisfy, and pay all benefits owed to participants and beneficiaries of the plan by providing lump sum distributions to participants, purchasing annuities for participants who do not elect a lump sum distribution, subject to applicable filing and authorization by the applicable government agency or entity. The five-year period can be extended in the event certain discount rates fall below certain defined thresholds. Presently the discount rates are below those thresholds and the Company intends to delay the termination of the Crozer DB plan.

Crozer also sponsors a postretirement benefit program (the "OPEB Plan") which is an unfunded medical care and life insurance benefit program, and a supplemental executive retirement plan (the "SERP Plan") which is an unfunded retirement plan that covers a group of current and former executives. These plans were frozen and all benefit accruals ceased as of July 1, 2016. No benefits will accrue since that date. The SERP plan was terminated and all funds paid out. With respect to each Represented Employee who is a member of the Laborers' International Union of North America, benefits will continue to accrue until a settlement of an ongoing union contract negotiation is reached for the OPEB Plan.

ECHN sponsors a DB Plan that covered substantially all of its employees. The benefits were based upon years of service and compensation for the five highest years during the employee's last 10 years of service. On December 31, 2008, ECHN implemented a soft freeze on the plan. All qualified employees were eligible to enter into the defined contribution plan, ECHN contributed 3% of eligible employees' salaries. This contribution was non-guaranteed for all employees, except certain union workers covered under a collective bargaining agreement. Effective December 31, 2013, ECHN froze the plan for all remaining participants. During September 2013, the Board passed a resolution to freeze all benefits related to the plan.

ECHN also sponsors an OPEB Plan that provides health care benefits to vested, retired employees, who are age 55 or older and start collecting under the defined benefit plan described above once retired. The retiree must be enrolled into the medical plan on the date of retirement to be eligible for the continuation. Full-time registered nurse retirees from ECHN's Manchester facility (retired prior to October 1, 2005 and were eligible per the collective bargaining agreement) were grandfathered and required to pay at least 50% of the total cost of the medical and dental coverage they elect for themselves under the OPEB Plan.

Waterbury has a noncontributory defined benefit cash balance plan. The plan was frozen to non-union participants effective June 30, 2015. Participants who are part of the Connecticut Healthcare Associates Technical Unit remain active in the plan. Non-union employees no longer accrue additional employer contribution credits in the plan. These participants will continue to receive interest credits based on their account balances in accordance with the terms of the plan. They will be entitled to their account balance (the retirement benefit they have earned up to June 30, 2015) plus applicable interest credits after the Plan were frozen.

For all plans, the Company has made contributions sufficient to meet the minimum funding requirements of applicable laws and regulations.

The activity of the pension plans for the years ended September 30, 2021 and 2020 is as follows (in thousands):

September 30,	**2021**	2020
Changes in benefit obligations		
Projected benefit obligations, beginning of period	**$ 797,145**	$ 768,614
Service cost	**126**	184
Interest cost	**22,527**	24,457
Plan participant contributions	**-**	187
Actuarial loss	**(1,879)**	32,994
Benefits paid	**(24,780)**	(28,822)
Lump sum benefits paid and annuity purchase	**(19,266)**	(469)
Projected benefit obligation, end of year	**$ 773,873**	$ 797,145
Changes in plan assets		
Fair value of plan assets, beginning of year	**$ 559,213**	$ 460,688
Actual return on plan assets	**(40,002)**	56,532
Contributions by plan sponsor	**8,297**	71,097
Plan participant contributions	**-**	187
Benefits paid	**(24,780)**	(28,822)
Lump sum benefits paid and annuity purchase	**(19,266)**	(469)
Fair value of plan assets, end of year	**$ 483,462**	$ 559,213
Funded status of the plan, end of year	**$ (290,411)**	$ (237,932)
Accumulated benefit obligation, end of year	**$ (290,411)**	$ (237,932)

The funded status of the pension plans as of September 30, 2021 and 2020 is as follows (in thousands), split between the pension plans and the post retirement plans:

	2021 Pensions	**2021 OPEBs**	**2021 Total**	2020 Pensions	2020 OPEBs	2020 Total
Current liability	**$ -**	**$ 430**	**$ 430**	$ -	$ 440	$ 440
Non-current liability	**284,674**	**5,307**	**289,981**	231,941	5,551	237,492
	$ 284,674	**$ 5,737**	**$ 290,411**	$ 231,941	$ 5,991	$ 237,932

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The components of net periodic benefit cost for the years ended September 30, 2021 and 2020 are as follows (in thousands):

September 30,	2021	2020
Components of net periodic benefit cost:		
Service cost	$ 126	$ 184
Interest cost	22,527	24,457
Expected return on plan assets	(10,292)	(15,202)
Amortization of net loss	8	38
Effect of settlement	723	-
Amortization of prior service credit	(51)	(51)
Total net periodic benefit cost	$ 13,041	$ 9,426

Service cost is recorded in Hospital operating expenses on the consolidated statements of operations. All other components of net periodic benefit costs are recorded in other expense on the consolidated statements of operations.

	2021	2020
Other change in benefit obligations recognized in accumulated other comprehensive income:		
Loss due to participant experience	$ 143	$ 1,167
Amortization of net gain	(8)	(19)
Asset return loss (gain)	48,272	(9,523)
Prior service cost	51	51
Amount recognized due to settlement	(723)	-
Total recognized in other comprehensive loss (income) and accumulated other comprehensive loss (income)	$ 47,735	$ (8,324)

The assumptions used in determining the actuarial present value of the projected benefit obligations for pension plans as of September 30, 2021 and 2020 and for the years then ended are as follows:

	2021	2020
Weighted average assumptions used to determine benefit obligations at end of period		
Discount rate	2.65-3.01%	2.34-2.97%
Rate of compensation increase	0.00-2.00%	0.00-2.00%
Weighted average assumptions used to determine net periodic benefit cost for the period ended		
Discount rate	2.55-2.97%	2.92-3.31%
Rate of compensation increase	0.00-2.00%	0.00-2.00%
Expected return on the plan assets	0.00-3.25%	0.00-4.75%

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Assumed health care cost trend rates for the next period used to measure the expected cost of benefits covered by the plan are as follows:

	2021	2020
Health care trend rate assumed for next year	**7.00%**	6.75%
Rate to which the cost trend is assumed to decline (the ultimate rate)	**3.25%**	4.75%
Year that the rate reaches the ultimate trend rate	**2029**	2028

Assumed health care cost trend rates have a significant effect on amounts reported for other postretirement benefit programs. A one-percentage-point change in assumed health care cost trends would have the following effects (in thousands):

	1% Increase	1% Decrease
Effect on other postretirement benefit obligations	$ 116	$ 106
Effect on total of service and interest cost components	$ 3	$ 3

The asset allocation percentage by major asset class for the plans and the target allocation for 2021 follows:

	Target	2021
Asset class:		
Cash and cash equivalents	0% -20%	1%
Fixed income	10% - 100%	97%
Alternative investments and hedge funds	0% - 30%	2%
		100 %

The investment objectives of the plans are to invest consistently with the fiduciary standards of ERISA, to provide for the funding and anticipated withdrawals on an ongoing basis, conserve and enhance the capital value of the plans in real terms while maintaining a moderate risk profile, to minimize principal fluctuations over the investment cycle, and achieve a long-term level of return commensurate with contemporary economic conditions. The expected long-term rate of return with respect to the plans is based on an aggregate of expected capital market returns within each asset category.

The following tables set forth the assets in the plans measured at fair value, by input level (in thousands):

September 30, 2021	Level 1	Level 2	Level 3	Net asset value	Total
Fixed income securities:					
Short-Term Duration	$ -	$ 40,502	$ -	$ -	$ 40,502
Extended Duration	-	201,527	-	-	201,527
Interim Duration	-	60,320	-	-	60,320
Long-Term Duration	-	166,901	-	-	166,901
Real estate	-	-	928	-	928
Alternative investments	-	-	10,423	-	10,423
Cash and cash equivalents	-	-	-	2,861	2,861
Total	$ -	$ 469,250	$ 11,351	$ 2,861	$ 483,462

September 30, 2020	Level 1	Level 2	Level 3	Net asset value	Total
Fixed income securities:					
Short-Term Duration	$ -	$ 41,769	$ -	$ -	$ 41,769
Extended Duration	-	231,197	-	-	231,197
Interim Duration	-	59,346	-	-	59,346
Long-Term Duration	-	210,351	-	-	210,351
Real estate	-	-	555	-	555
Alternative investments	-	-	13,142	-	13,142
Cash and cash equivalents	-	-	-	2,853	2,853
Total	$ -	$ 542,663	$ 13,697	$ 2,853	$ 559,213

Pension plan assets classified as Level 3 in the fair value hierarchy represent investments in which the trustee has used significant unobservable inputs in the valuation model. The hedge funds consist of equity/long/short funds and multi-strategy funds in which fair values have been estimated using the net asset value per share of the investment. The alternative investments primarily consist of investments in limited partnerships that invest in the Public-Private Investment Program which fair values have been estimated using the net asset value per share of the investment.

On an annual basis, the Company assesses the valuation hierarchy for pension assets recorded at fair value. From time to time, assets will be transferred within the fair value hierarchy as a result of changes in, among other things, inputs used, liquidity, or valuation methodologies. During the years ended September 30, 2021 and 2020, there were no transfers in classification within the fair value hierarchy. The following table is a rollforward of the plans' assets classified within Level 3 of the fair value hierarchy (in thousands):

September 30,	2021	2020
Balance, beginning of year	$ 13,697	$ 18,865
Actual return on plan assets:		
Unrealized loss	(2,346)	(5,168)
Balance, end of year	$ 11,351	$ 13,697

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The expected long-term future benefit payments to retirees with respect to the plans and are as follows (in thousands):

2022	$	51,580
2023		44,940
2024		45,140
2025		45,270
2026		45,887
2027 - 2031		220,580
	$	453,397

Waterbury participates in multi-employer pension plans that cover substantially all union employees. Contributions to the plans are based upon a percentage of each participant's total salary. The risks of participating in these multi-employer plans are different from single employer plans in the following aspects:

- Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of another participating employer.
- If a participating employer stops contributing to the plan, the unfunded obligation of the plan may be borne by the remaining participating employers.
- If Waterbury chose to stop participating in the multi-employer plans, Waterbury may be required to pay those plans an amount based on the underfunded status of the plans, referred to as a withdrawal liability.

The following table presents Waterbury's participation in these plans as of and for the years ended September 30, 2021 and 2020.

Pension Trust Fund	EIN / Pension Plan	Pension Protection Act ("PPA") Certified Zone Status *(1)*		FIP / RP Status Pending / Implemented *(2)*	Contributions		Surcharge Imposed	Exp. Date of CBA
		2021	2020		2021	2020		
Connecticut Health Care Associates Pension Fund	06-1313462	Red	Red	Implemented	**$ 2,168,769**	$ 2,024,000	No	7/1/22
New England Health Care Employees Pension Fund	22-3071963	Green	Green	NA	**783,560**	818,000	No	3/15/25
Total contributions					**$ 2,952,329**	$ 2,842,000		

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(1) The most recent PPA zone status available in 2021 is for the plan's year-ending during 2020. The zone status is based on information received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the orange zone are less than 80 percent funded and have an accumulated funding deficiency in the current year or projected in the next six years, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded.

(2) The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented. As it relates to the Connecticut Health Care Associates ("CHCA") Pension Plan, the trustees adopted a Rehabilitation Plan on May 7, 2018. The Rehabilitation Period, as defined, commenced on January 1, 2019 and ends on December 31, 2028. The trustees updated the Rehabilitation Plan on December 12, 2019 which reflects various reductions to plan benefits effective January 1, 2020.

During the years ended September 30, 2021 and 2020, Waterbury's contributions to the CHCA Pension Plan and the New England Health Care Employees Pension Plan represented 81.9% and 2.5% and 80.1% and 2.5% of the total contributions made to the plans by all participating employers, respectively.

Governmental regulations impose certain requirements relative to union-sponsored pension plans. In the event of plan termination or employer withdrawal, an employer may be liable for a portion of the plan's unfunded vested benefits. As of September 30, 2021, Waterbury has not recorded any liabilities for future withdrawal obligations related to the multi-employer plans.

Defined contribution plans

The Company sponsors two defined contribution plans covering substantially all employees who meet certain eligibility requirements, which are segregated between union and non-union employees. Under these plans, employees can contribute up to 50% of their compensation up to the IRS deferred annual maximum. There is currently no company match offered under the plans, except at certain facilities in Rhode Island and Pennsylvania, for which the expense for the employer match was $16,070,000 and $17,778,000 for the years ended September 30, 2021 and 2020, respectively.

13. Commitments and Contingencies

Leases

The Company leases various office facilities and equipment from third parties under non-cancelable operating and capital lease arrangements expiring at various dates through 2034. Certain operating leases contain rent escalation clauses and renewal options, which have been factored into determining rent expense on a straight-line basis over the lease terms. Capital leases bear interest at rates ranging from 1.3% to 41.0% per annum.

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The future minimum annual lease payments required under leases in effect at September 30, 2021, are as follows (in thousands):

For the Years ending September 30,	Capital Leases	Operating Leases	MPT Liability*
2022	$ 16,874	$ 25,525	$ 107,803
2023	14,849	24,101	109,959
2024	13,090	21,751	112,158
2025	9,777	19,702	114,401
2026	6,216	18,611	116,689
Thereafter	19,619	26,733	1,165,800
Total minimum lease payments	80,425	$ 136,423	1,726,810
Less: amounts representing interest	(17,384)		(482,660)
Add: amounts representing land	-		47,176
	63,041		1,291,326
Less: current portion	(12,947)		(50,978)
	$ 50,094		$ 1,240,348

* *Excludes debt related to the Foothill and TRS Notes with MPT (see Note 10).*

Rent expense related to operating leases for the years ended September 30, 2021 and 2020 was approximately $39,350,000 and $51,246,000, respectively. Sublease rental income was not material to the consolidated financial statements for the years ended September 30, 2021 and 2020.

Litigation

The Company is subject to a variety of claims and suits that arise from time to time in the ordinary course of its business, acquisitions, or other transactions. While the Company's management currently believes that resolving all of these matters, individually or in the aggregate, will not have a material adverse impact on the Company's consolidated financial position or results of operations, the litigation and other claims that the Company faces are subject to inherent uncertainties and management's view of these matters may change in the future. Should an unfavorable final outcome occur, there exists the possibility of a material adverse impact on the Company's consolidated financial position, results of operations and cash flows for the period in which the effect becomes probable and reasonably estimable.

Seismic Standards

The Company's California Hospitals (with the exception of Bellflower and Van Nuys, which currently only provide psychiatric services) are required to comply with laws that regulate the seismic performance of all aspects of hospital facilities in California and imposes near-term and long-term compliance deadlines for seismic safety assessment, submission of corrective plans, and retrofitting or replacement of medical facilities to comply with current seismic standards. These laws and regulations require hospitals to meet seismic performance standards to ensure that they are capable of providing medical services to the public after an earthquake.

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The Company was required to conduct engineering studies at its hospitals to determine whether and to what extent modifications to the hospital facilities will be required. Two buildings at Southern California Hospital at Culver City ("SCH Culver City") do not currently meet the applicable seismic requirements. These buildings are currently classified at Structural Performance Category 1 ("SPC-1") and, subject to possible deadline extensions discussed below, they must be upgraded to at least SPC-2 by July 1, 2022. That deadline date was set pursuant to an extension granted upon the Company's application submitted in accordance with California Senate Bill 90 and approved by the Office of Statewide Health Planning and Development ("OSHPD").

OSHPD has a voluntary program to re-evaluate the seismic risk of hospital buildings classified as SPC-1. These buildings are considered hazardous and at high risk of collapse in the event of an earthquake and they were required to be retrofitted, replaced or removed from providing acute care services by the applicable deadline. OSHPD is using Hazards U.S. ("HAZUS"), a state-of-the-art methodology, to reassess the seismic risk of SPC-1 buildings. Once the SPC-1 buildings have been seismically upgraded to SPC-2, they are no longer considered a significant risk to occupants, but they may not be repairable or functional after an earthquake. Participation in the HAZUS program is optional for hospital owners wishing to have their SPC-1 buildings evaluated.

Applications for HAZUS evaluation of seismic risk were submitted for all five of the Company's California acute care facilities: Southern California Hospital at Hollywood ("SCH Hollywood"); SCH Culver City; Los Angeles Community Hospital; Los Angeles Community Hospital at Norwalk ("LACH Norwalk"); and Foothill. All buildings at these five facilities obtained SPC-2 reclassification using HAZUS, except for the aforementioned two buildings at SCH Culver City that are still classified as SPC-1. Currently, failure to obtain SPC-2 reclassification for the two remaining SPC-1 buildings by July 1, 2022 would mean that the buildings deemed non-compliant would be subject to daily fines up to $5,000 per day until retrofitted to SPC-2 standards or removed from acute care services.

Recently enacted Assembly Bill 2190 was utilized to request additional extension. OSHPD granted extensions to June 1, 2022 and February 25, 2022 for the Tower Building and Pavilion Building at SCH Culver City. The construction was started in February 2020 for both buildings. SCH Culver City is evaluating pursuing an alternate "replacement" scheme that would relocate the Emergency department into the adjoining One-Story Building which currently classified as an SPC-2 structure. The Tower Building would be retained as a "non-hospital" OSHPD building useable for non-acute care services such as behavioral health and subacute/skilled nursing services.

The Company will also be required to make significant capital expenditures in the future to comply with 2030 seismic standards (i.e., upgrade to SPC-4D and NPC-4D/5) for any buildings that will be utilized for hospital facilities beyond January 1, 2030. Such modifications to the hospital facilities could potentially result in environmental remediation liabilities which may be material to the Company.

These requirements can result in significant operational changes and capital outlays. Management is continuing to assess its options and the methods of financing the required retrofits. Based on management's evaluation, the costs of renovation needed to comply with the California seismic safety standards for its acute-care facilities, including asbestos abatement, are not estimable at this time.

Legislation and HIPAA

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and

regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

The Company believes that it is in compliance with fraud and abuse regulations as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

The Health Insurance Portability and Accountability Act ("HIPAA") assures health insurance portability, reduces healthcare fraud and abuse, guarantees security and privacy of health information, and enforces standards for health information. The Health Information Technology for Economic and Clinical Health Act ("HITECH Act") expanded upon HIPAA in a number of ways, including establishing notification requirements for certain breaches of protected health information. In addition to these federal rules, California has also developed strict standards for the privacy and security of health information as well as for reporting certain violations and breaches. The Company may be subject to significant fines and penalties if found not to be compliant with these state or federal provisions.

Collective Bargaining Agreements

As of September 30, 2021, the Company had approximately 17,000 employees, of whom approximately 3,700 employees or 22% are represented by various labor organizations. Of those, approximately 3,300 employees or 19% of the Company's employees are employed under union contracts that have expired or will expire before September 30, 2022.

As of September 30, 2020, the Company had approximately 17,000 employees, of whom approximately 5,200 employees or 31% are represented by various labor organizations. Of those, approximately 700 employees or 4% of the Company's employees are employed under union contracts that have expired or will expire before September 30, 2021.

Tangible Net Equity ("TNE") Requirement

The Company's affiliated California physician organizations and licensed healthcare service plans may be subject to one or more of the following requirements: minimum working capital, Tangible Net Equity, cash-to-claims ratio and claims payment requirements as prescribed by the California Department of Managed Health Care ("DMHC"). TNE is defined as net assets, less intangibles and amounts due from affiliates, plus subordinated obligations. As of September 30, 2021, the Company's affiliated California physician organizations were in compliance with these regulatory requirements.

Employee Health Plans

The Company offers self-insured EPO/HMO and PPO plans to all eligible employees.

Employee health benefits are administered by a third party claims administrator, based on plan coverage and eligibility guidelines determined by the Company, as well as by collective bargaining agreements (as reflected above). All locations were covered by insurance policies with CHIC for per occurrence losses in excess of $350,000, except for Crozer for which the limit is $750,000. CHIC maintains reinsurance coverage above $500,000 for all locations except for Crozer, for which the limit is $750,000. Effective September 30, 2020, the CHIC policies were revised to only include the reinsurance coverage noted above. An actuarially and internally estimated liability of approximately $14,861,000 and $18,114,000 for incurred but not reported claims has been included in accrued salaries, wages, and benefits as of September 30, 2021 and 2020, respectively.

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Provider Contracts

Many of the Company's payer and provider contracts are complex in nature and may be subject to differing interpretations regarding amounts due for the provision of medical services. Such differing interpretations may not come to light until a substantial period of time has passed following contract implementation. Liabilities for claims disputes are recorded when the loss is probable and can be estimated. Any adjustments to reserves are reflected in current operations.

PACE financing

In August 2019 the Company entered into an agreement with a third party that specializes in property assessed clean energy ("PACE") financing to finance approximately $49.0 million for qualifying renovations for the properties in California. The full amount of the funds was deposited into an escrow account managed by a third party administrator, less deductions for the first year of prepaid interest of approximately $3.2 million and deferred financing fees totaling approximately $2.6 million. The Company received cash from the escrow account of approximately $13.5 million which was used to refinance related completed qualifying expenditures under the PACE program and invoices for construction in progress that had been paid. The amount financed is subject to an annual interest rate of 6.0% and the financing has a maturity date of September 2, 2045. Payments are collected through property tax bills as a non-ad valorem assessment. Payments commenced in July 2020. At September 30, 2021, the Company had a related financing liability of approximately $34.5 million, of which $1.2 million and $33.3 million is classified within other current liabilities and other long-term liabilities, respectively, in the accompanying consolidated balance sheets. At September 30, 2020, the Company had a related financing liability of approximately $20.0 million, which is classified within other long-term liabilities in the accompanying consolidated balance sheets. At September 30, 2021, there was approximately $18.7 million left in escrow, required to be spent on qualifying renovations.

In May 2020, the Company entered into an agreement with a third party that specializes in PACE financing to finance approximately $42.0 million for qualifying renovations for the property in Rhode Island located at Roger Williams Medical Center. The full amount of the funds were deposited into an escrow account managed by a third party administrator, less deductions for deferred financing fees totaling approximately $2.7 million and lease payoffs of approximately $6.0 million. The Company received cash from the escrow account of approximately $14.9 million which was used to refinance related completed qualifying expenditures under the PACE program and invoices for construction in progress that had been paid. The amount financed is subject to an annual interest rate of 5.75% and the financing has a maturity date of April 30, 2045. Payments are collected through property tax bills as a non-ad valorem assessment. Payments commenced in July 2020. At September 30, 2021, the Company had a financing liability of approximately $32.0 million, of which $0.8 million and $31.2 million is classified within other current liabilities and other long-term liabilities, respectively, in the accompanying consolidated balance sheets. At September 20, 2020, the Company had a financing liability of approximately $26.5 million which is classified within other long-term liabilities in the accompanying consolidated balance sheets. At September 30, 2021, there was approximately $10.7 million left in escrow, required to be spent on qualifying renovations.

In January 2021, the Company entered into an agreement with a third party that specializes in PACE financing to finance approximately $18.0 million for qualifying renovations for the property in Rhode Island located at Our Lady of Fatima Hospital. The full amount of the funds were deposited into an escrow account managed by a third party administrator, less deductions for deferred financing fees totaling approximately $1.4 million. The Company received cash from the escrow account of approximately $2.9 million which was used to refinance related completed qualifying expenditures under the PACE program and invoices for construction in progress that had been paid. The amount financed is subject to an annual interest rate of 5.75% and the financing has a maturity date of July 31, 2046. Payments are collected

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through property tax bills as a non-ad valorem assessment. Payments commenced in July 2021. At September 30, 2021, the Company had a financing liability of approximately $4.9 million, of which $0.3 million and $4.6 million is classified within other current liabilities and other long-term liabilities, respectively, in the accompanying consolidated balance sheets. At September 30, 2021, there was approximately $13.4 million left in escrow, required to be spent on qualifying renovations.

14. Accrued Medical Claims and Other Healthcare Costs Payable

The following table presents the roll-forward of incurred but not reported ("IBNR") claims reserves (Medical Group segment, Global Risk Management segment, and full risk contracts) as of and for each of the years ended September 30, 2021 and 2020 (in thousands):

September 30,	**2021**	2020
IBNR as of beginning of year	$ **76,457**	$ 72,508
Claim expenses incurred during the year:		
Related to current year	**352,288**	258,958
Related to prior year	**(6,715)**	(5,212)
Total incurred	**345,573**	253,746
Claims paid during the year:		
Related to current year	**(274,447)**	(192,609)
Related to prior year	**(53,881)**	(57,188)
Total paid	**(328,328)**	(249,797)
IBNR as of end of year	$ **93,702**	$ 76,457

Following is a table showing the details of the Medical Group and Global Risk Management segments cost of revenues per the consolidated statements of operations (in thousands):

Years Ended September 30,	**2021**	2020
Capitation expense	$ **133,786**	$ 97,903
Fee-for-service claims expense	**232,103**	142,971
Other physician compensation	**28,428**	29,628
Other cost of revenues	**17,255**	24,663
Total cost of revenues	$ **411,572**	$ 295,165

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15. Joint Ventures and Unconsolidated Equity Investments

The Company has invested in several joint ventures with unrelated third parties, which are accounted for under the equity method of accounting. Ownership percentages as of September 30, 2021 and 2020 are as follows:

September 30,	**2021**	2020
CharterCare:		
Roger Williams Radiation Therapy	**20.00%**	20.00%
Southern New England Regional Cancer Center, LLC	**20.00%**	20.00%
Crozer:		
University Technology Park, Inc.	**50.00%**	50.00%
Delaware Valley Sleep Management Company, LLC	**21.25%**	21.25%
DCMH MOB Associates	**35.00%**	35.00%
ECHN:		
NRRON, LLC	**50.00%**	50.00%
Aetna Ambulance Service, Inc.	**50.00%**	50.00%
Ambulance Service of Manchester, LLC	**50.00%**	50.00%
Evergreen Endoscopy Center, LLC	**50.00%**	50.00%
Connecticut Occupational Medicine Partners, LLC	**25.00%**	25.00%
Waterbury:		
Harold Leever Regional Cancer Center Inc.	**50.00%**	50.00%
Prospect Ambulatory Holding, Inc.:		
Naugatuck Valley Endoscopy Center	**20.92%**	0.00%
PMG:		
AMVI/Prospect Medical Group	**50.00%**	50.00%

These joint ventures under the equity method are included in the other assets in the accompanying consolidated balance sheets as of September 30, 2021 and 2020 are $28,722,000 and $45,881,000, respectively. For the years ended September 30, 2021 and 2020, the Company received $22,645,000 and $1,465,000, respectively, in distributions for equity method investments, and $0 and $58,000, respectively, for cost method investments.

In December 2020, the Company purchased, through a wholly owned subsidiary, shares representing an approximate 21% ownership interest in Naugatuck Valley Endoscopy Center, a limited liability company operating an ambulatory surgery center in the State of Connecticut, for approximately $5.1 million.

Summarized combined unaudited financial information for the Company's joint ventures as of September 30, 2021 and 2020 and for the years then ended is as follows (in thousands):

September 30,	**2021**	2020
Cash	$ **18,646**	$ 35,793
Receivables	**10,795**	10,359
Other current assets	**2,894**	4,221
Total current assets	**32,335**	50,373
Property, improvements and equipment, net	**33,523**	32,273
Goodwill	**7,142**	7,142
Intangible assets	**814**	814
Other long-term assets	**2,893**	2,673
Total assets	**76,707**	93,275
Accounts payable and accrued liabilities	**8,509**	4,910
Other long-term liabilities	**8,032**	7,777
Equity	**60,166**	80,588
Total liabilities and partner's capital	$ **76,707**	$ 93,275

Years ended September 30,	**2021**	2020
Revenues	$ **59,474**	$ 65,162
Net income	$ **7,451**	$ 5,346
PMH's income from equity method investments	$ **3,095**	$ 2,030

16. Subsequent Events

The Company has evaluated subsequent events through January 7, 2022, the date the Company's consolidated financial statements were available for issuance.

In October 2020, the Company entered into an Asset Purchase Agreement to sell substantially all of the assets of EOGH for a sale price of $6.2 million. The sale closed effective January 1, 2022.

Supplementary Information

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Independent Auditor's Report on Supplementary Information

Our audits of the consolidated financial statements included in the preceding section of this report were conducted for the purpose of forming an opinion on those statements as a whole. The supplementary information presented in the following section of this report is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

BDO USA, LLP

January 7, 2022

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Prospect Medical Holdings, Inc.

Consolidating Balance Sheets
As of September 30, 2021

	Hospital Segment																						
	Alta-California								CCHP			Waterbury		ECHN			Crozer						
	Los Angeles	Norwalk	Van Nuys	Hollywood	Foothill	Bellflower	Culver	Corporate	Roger Williams	Fatima	Non-Hospital Entities	Waterbury	Non-Hospital Entities Combined	Rockville	Manchester	Non-Hospital Entities Combined	Hospital and Non-Hospital Entities Combined	PHHH	Medical Group Segment	CRC Segment	Corporate Segment	Discontinued Operations	Eliminations	Total
Assets																							
Current assets																							
Cash and cash equivalents	404	(743)	4	198	(1,981)	(1)	(591)	(2,184)	17	(110)	(2,224)	(2,810)	7,213	(62)	(2,718)	1,512	(10,610)	2,221	31,245	30,720	9,893	-	-	58,993
Cash held in escrow	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	45,270	-	-	45,270
Restricted cash	-	-	-	-	-	-	-	-	448	33	3	-	-	-	-	-	-	-	-	1,309	-	-	-	1,793
Restricted investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	34,283	-	-	34,283
Patient accounts receivable, net	16,224	6,309	3,038	7,720	9,949	1,514	31,589	-	20,228	17,870	3,112	61,606	6,139	6,661	49,589	1,030	193,094	12,575	(144,501)	(2,163)	(5,464)	-	-	296,119
Due from government payers	3,384	609	1,630	1,017	271	729	5,759	-	4,727	2,059	-	-	-	-	-	-	590	31	-	-	2,504	-	-	23,298
Other receivables, prepaid expenses and other current assets	432,430	114,047	90,063	255,157	34,466	46,886	7,745	(158,780)	20,614	5,427	(24,742)	101,893	(91,700)	(90,787)	59,180	(27,918)	(85,564)	4,865	517,953	(40,387)	(1,049,682)	-	(3,942)	171,204
Income tax receivable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,535	-	-	8,535
Inventories	617	504	66	557	1,499	1,009	2,981	-	4,344	2,432	361	3,324	630	831	4,590	33	12,204	14	-	-	-	-	-	35,996
Hospital fee program receivable	73,451	-	-	39,556	14,145	2,336	48,584	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	178,042
Current Assets Held for Sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	16,843	-	16,843
Total current assets	**526,490**	**120,720**	**94,801**	**304,205**	**58,349**	**52,487**	**96,017**	**(161,364)**	**50,378**	**27,711**	**(23,490)**	**164,013**	**(77,718)**	**(23,357)**	**104,641**	**(25,343)**	**109,714**	**19,706**	**404,697**	**(10,521)**	**(954,661)**	**16,843**	**(3,942)**	**870,376**
Property, improvements and equipment, net	15,957	9,320	6,642	17,149	56,098	18,735	35,363	12,054	62,311	28,902	2,812	33,353	3,776	22,794	47,337	1,480	213,277	1,936	2,450	37	(32,018)	-	-	579,765
Deferred income taxes, net	-	-	-	-	-	-	-	-	-	-	-	(11,086)	-	-	-	(5,853)	86,566	-	14,533	124	(84,284)	-	-	-
Goodwill	-	-	-	-	-	-	19,499	85,291	19	9	392	-	2,333	-	-	428	111,371	-	24,785	-	-	-	-	244,067
Intangible assets, net	-	-	-	-	-	-	-	2,896	-	-	-	1,435	-	-	-	1,720	8,360	-	519	-	-	-	-	14,870
Other assets	-	-	-	-	-	-	-	-	3,442	50	689	9,337	150	685	4,116	11,408	1,127	6,192	74,482	-	547,433	-	(561,572)	97,539
Long-Term Assets Held for Sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,550	-	8,550
Total assets	**542,447**	**130,040**	**101,443**	**321,354**	**114,447**	**71,222**	**150,879**	**(61,243)**	**116,150**	**56,672**	**(19,597)**	**217,052**	**(71,459)**	**122**	**156,094**	**(16,160)**	**530,415**	**27,834**	**521,466**	**(10,360)**	**(523,530)**	**25,393**	**(565,514)**	**1,815,167**
Liabilities and Stockholder's (Deficit) Equity																							
Current liabilities:																							
Accrued medical claims and other healthcare costs payable	-	-	-	-	20,150	-	15,261	10,459	-	-	-	-	-	-	-	-	(7)	37	36,802	10,946	54	-	-	93,702
Accounts payable and other accrued liabilities	10,283	5,844	1,165	6,395	10,308	1,530	25,409	6,365	9,822	10,437	7,644	25,175	3,126	4,292	19,709	3,572	66,189	1,644	33,953	8,175	80,965	-	(1,658)	340,164
Accrued salaries, wages and benefits	7,428	3,233	3,361	(1,149)	5,623	1,438	24,165	4,481	7,374	5,555	6,865	10,393	4,799	1,570	8,684	2,799	70,823	4,750	8,724	1,905	36,571	-	-	219,142
Hospital fee program liability	19,457	-	-	18,996	2,251	5,146	25,347	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	71,197
Due to government payers	620	-	-	609	633	-	174	-	2,693	1,639	(96)	4,236	1	674	3,288	444	2,878	2,342	-	-	89	-	-	20,218
Refund liability, current portion	17,592	-	-	67,352	9,007	-	-	-	11,994	8,197	744	23,012	572	4,215	13,165	841	63,101	(57)	-	-	7,435	-	-	227,330
Revolving line of credit, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	45,000	-	-	45,000
Current portion of capital leases	12	6	-	37	241	-	324	6	338	505	96	1,332	115	203	1,101	117	7,892	-	103	-	519	-	-	12,947
Current portion of long-term debt	-	-	-	-	-	-	-	-	-	-	13	-	-	529	723	6	-	95	-	-	84,633	-	(69,967)	16,092
Current portion of MPT liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	50,978	-	-	50,978
Other current liabilities	-	-	-	-	1,143	-	-	-	832	332	-	-	-	-	-	-	-	-	3,256	2,173	3,015	-	(2,827)	7,824
Current Liabilities Held for Sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	15,944	-	15,944
Total current liabilities	**55,392**	**9,083**	**4,526**	**92,234**	**49,356**	**8,114**	**90,680**	**21,121**	**33,053**	**26,725**	**15,266**	**64,148**	**8,613**	**11,483**	**46,870**	**7,779**	**210,876**	**8,811**	**82,838**	**22,899**	**309,259**	**15,944**	**(74,592)**	**1,120,478**
Long-term debt, net of current portion	-	-	-	-	-	-	7,762	(7,762)	-	-	-	-	-	5,179	1,589	-	-	1,973	-	-	150,942	-	-	167,683
Malpractice reserves	772	1,023	94	294	1,637	6	6,607	-	6,910	8,331	6,465	9,594	1,776	3,935	9,182	4,406	24,247	-	-	-	36,412	-	-	121,691
Refund liability, net of current portion	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital leases, net of current portion	-	-	-	105	174	-	933	10	665	1,560	96	3,802	473	681	1,591	149	39,845	-	10	-	-	-	-	50,094
Asset retirement obligations	-	-	-	-	-	-	-	-	672	2,359	-	3,420	-	132	280	-	112	-	-	-	-	-	-	6,975
Other long-term liabilities	-	-	-	-	33,308	4	92	-	31,415	4,565	-	-	114	-	955	-	17,809	(311)	730	-	8,035	-	-	96,716
Pension obligations	-	-	-	-	-	-	-	-	-	-	-	9,753	-	17,773	63,868	-	193,280	-	-	-	-	-	-	284,674
MPT Liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,240,348	-	-	1,240,348
Long-Term Liabilities Held for Sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	898	-	898
Total liabilities	**56,164**	**10,106**	**4,620**	**92,633**	**84,475**	**8,124**	**106,074**	**13,369**	**72,715**	**43,540**	**21,827**	**90,717**	**10,976**	**39,183**	**124,335**	**12,334**	**486,169**	**10,473**	**83,578**	**22,899**	**1,752,996**	**16,842**	**(74,592)**	**3,080,557**
Commitments and contingencies																							
Stockholder's (deficit) equity:																							
Common stock, $0.01 par value; 100 shares authorized, issued and outstanding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	-	1
Additional paid-in capital	-	-	-	-	15,000	20,546	15,967	138,968	33,760	28,535	40,231	-	-	1,281	19,276	6,117	179,635	-	-	256	2,300	104,685	32,719	(581,511)	57,765
Accumulated other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	(892)	-	(6,989)	(24,201)	-	(19,201)	-	-	-	-	(12,571)	-	-	(63,848)
(Accumulated deficit) retained earnings	486,283	119,934	96,823	228,721	14,972	42,552	28,838	(213,580)	9,675	(15,409)	(81,655)	125,358	(83,852)	(33,359)	96,684	(95,145)	(116,188)	17,361	437,457	(35,559)	(2,368,641)	(24,368)	90,589	(1,272,309)
Total stockholder's (deficit) equity attributable to Prospect Medical Holdings, Inc.	**486,283**	**119,934**	**96,823**	**228,721**	**29,972**	**63,098**	**44,805**	**(74,612)**	**43,435**	**13,132**	**(41,424)**	**124,466**	**(83,852)**	**(39,061)**	**31,759**	**(29,028)**	**44,246**	**17,361**	**437,713**	**(33,259)**	**(2,276,526)**	**8,551**	**(490,922)**	**(1,278,385)**
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	1,869	1,417	-	-	534	-	-	175	-	-	-	-	3,995
Total stockholder's (deficit) equity	486,283	119,934	96,823	228,721	29,972	63,098	44,805	(74,612)	43,435	13,132	(41,424)	126,335	(82,435)	(39,061)	31,759	(28,494)	44,246	17,361	437,888	(33,259)	(2,276,526)	8,551	(490,922)	(1,274,390)
Total liabilities and stockholder's (deficit) equity	**542,447**	**130,040**	**101,443**	**321,354**	**114,447**	**71,222**	**150,879**	**(61,243)**	**116,150**	**56,672**	**(19,597)**	**217,052**	**(71,459)**	**122**	**156,094**	**(16,160)**	**530,415**	**27,834**	**521,466**	**(10,360)**	**(523,530)**	**25,393**	**(565,514)**	**1,815,167**

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MPT CONFIDENTIAL

Prospect Medical Holdings, Inc.

Consolidating Balance Sheets
As of September 30, 2021

	Crozer					
	Crozer Chester Medical Center	Springfield Hospital	Taylor Hospital	Delaware County Memorial Hospital	Non-Hospital Entities Combined	Hospital and Non-Hospital Entities Combined
Assets						
Current assets						
Cash and cash equivalents	(1,162)	-	-	(424)	(9,024)	(10,610)
Cash held in escrow	-	-	-	-	-	-
Restricted cash	-	-	-	-	-	-
Restricted investments	-	-	-	-	-	-
Patient accounts receivable, net	(122,755)	24,850	137,571	(8,566)	161,994	193,094
Due from government payers	590	-	-	-	-	590
Other receivables, prepaid expenses and other current assets	212,067	(4,864)	(15,845)	(22,516)	(254,406)	(85,564)
Income tax receivable	-	-	-	-	-	-
Inventories	7,006	38	1,275	1,419	2,466	12,204
Hospital fee program receivable	-	-	-	-	-	-
Current Assets Held for Sale	-	-	-	-	-	-
Total current assets	**95,746**	**20,024**	**123,001**	**(30,087)**	**(98,970)**	**109,714**
Property, improvements and equipment, net	76,160	12,086	14,126	26,380	84,525	213,277
Deferred income taxes, net	71,296	-	-	15,650	(380)	86,566
Goodwill	-	-	-	-	111,371	111,371
Intangible assets, net	-	-	-	-	8,360	8,360
Other assets	-	-	-	223	904	1,127
Long-Term Assets Held for Sale	-	-	-	-	-	-
Total assets	**243,202**	**32,110**	**137,127**	**12,166**	**105,810**	**530,415**
Liabilities and Stockholder's (Deficit) Equity						
Current liabilities:						
Accrued medical claims and other healthcare costs payable	-	-	-	-	(7)	(7)
Accounts payable and other accrued liabilities	36,105	1,653	4,678	9,288	14,465	66,189
Accrued salaries, wages and benefits	19,645	584	1,762	6,902	41,930	70,823
Hospital fee program liability	-	-	-	-	-	-
Due to government payers	2,695	-	-	183	-	2,878
Refund liability, current portion	48,941	-	-	12,151	2,009	63,101
Revolving line of credit, net	-	-	-	-	-	-
Current portion of capital leases	5,294	-	-	968	1,630	7,892
Current portion of long-term debt	-	-	-	-	-	-
Current portion of MPT liability	-	-	-	-	-	-
Other current liabilities	-	-	-	-	-	-
Current Liabilities Held for Sale	-	-	-	-	-	-
Total current liabilities	**112,680**	**2,237**	**6,440**	**29,492**	**60,027**	**210,876**
Long-term debt, net of current portion	-	-	-	-	-	-
Malpractice reserves	10,659	-	-	2,996	10,592	24,247
Refund liability, net of current portion	-	-	-	-	-	-
Capital leases, net of current portion	19,491	-	-	2,967	17,387	39,845
Asset retirement obligations	112	-	-	-	-	112
Other long-term liabilities	1,780	-	-	246	15,783	17,809
Pension obligations	158,582	-	-	34,698	-	193,280
MPT Liability	-	-	-	-	-	-
Long-Term Liabilities Held for Sale	-	-	-	-	-	-
Total liabilities	**303,304**	**2,237**	**6,440**	**70,399**	**103,789**	**486,169**
Commitments and contingencies						
Stockholder's (deficit) equity:						
Common stock, $0.01 par value; 100 shares authorized, issued and outstanding	-	-	-	-	-	-
Additional paid-in capital	82,000	-	-	18,000	79,635	179,635
Accumulated other comprehensive income	(14,778)	-	-	(4,423)	-	(19,201)
(Accumulated deficit) retained earnings	(127,324)	29,873	130,687	(71,810)	(77,614)	(116,188)
Total stockholder's (deficit) equity attributable to Prospect Medical Holdings, Inc.	**(60,102)**	**29,873**	**130,687**	**(58,233)**	**2,021**	**44,246**
Non-controlling interests	-	-	-	-	-	-
Total stockholder's (deficit) equity	(60,102)	29,873	130,687	(58,233)	2,021	44,246
Total liabilities and stockholder's (deficit) equity	**243,202**	**32,110**	**137,127**	**12,166**	**105,810**	**530,415**

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MPT CONFIDENTIAL

Prospect Medical Holdings, Inc.

Consolidating Balance Sheets
As of September 30, 2020

	Hospital Segment																							
	Alta-California								CCHP			Waterbury		ECHN			Crozer							
	Los Angeles	Norwalk	Van Nuys	Hollywood	Foothill	Bellflower	Culver	Corporate	Roger Williams	Fatima	Non-Hospital Entities Combined	Waterbury	Non-Hospital Entities Combined	Rockville	Manchester	Non-Hospital Entities Combined	Hospital Entities	Non-Hospital Entities Combined	PHHH	Medical Group Segment	CRC Segment	Corporate Segment	Discontinued Operations	Eliminations	Total
Assets																									
Current assets																									
Cash and cash equivalents	(1,221)	(1,020)	(201)	(952)	(3,123)	(176)	(3,372)	(1,062)	553	177	1,090	(1,211)	8,566	(509)	(2,100)	1,126	(1,547)	(3,094)	2,185	347,232	34,145	11,336	-	-	386,824
Cash held in escrow	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	70	-	-	70
Restricted cash	-	-	-	-	-	-	-	-	475	42	3	-	-	-	-	-	-	-	-	-	1,308	-	-	-	1,828
Restricted investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	31,354	-	-	31,354
Patient accounts receivable, net of allowance for doubtful accounts	12,969	5,579	2,751	7,869	9,346	1,754	29,489	-	18,779	13,994	2,984	25,308	5,879	2,018	17,789	4,773	73,451	5,637	11,696	36,445	-	254	-	-	286,764
Due from government payers	3,156	543	1,134	909	170	625	4,632	-	3,286	2,994	-	-	-	-	-	-	522	-	31	-	-	2,388	-	-	20,390
Other receivables, prepaid expenses and other current assets	375,829	109,445	84,937	249,744	17,765	48,753	(33,486)	(107,439)	32,007	25,486	(13,004)	126,416	(76,232)	(20,511)	82,708	(20,840)	264,814	(166,974)	4,333	(54,137)	(46,852)	(766,568)	-	(7,851)	108,343
Income tax receivable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,154	-	-	4,154
Inventories	641	427	43	513	1,360	771	3,271	-	4,054	2,196	318	3,161	496	1,014	4,376	38	13,612	436	15	-	-	-	-	-	36,742
Hospital fee program receivable	74,828	-	-	45,802	14,508	2,250	52,557	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	189,941
Current Assets Held for Sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	18,015	-	18,015
Total current assets	**466,202**	**114,974**	**88,664**	**303,885**	**40,022**	**53,977**	**53,091**	**(108,501)**	**59,154**	**44,889**	**(8,609)**	**153,674**	**(61,289)**	**(17,988)**	**102,773**	**(14,903)**	**350,852**	**(163,995)**	**18,260**	**329,540**	**(11,399)**	**(717,012)**	**18,015**	**(7,851)**	**1,086,425**
Property, improvements and equipment, net	16,258	8,065	7,024	17,647	23,728	19,572	38,013	9,943	59,903	24,125	2,087	48,975	4,115	24,012	51,402	9,934	115,783	61,419	1,939	2,676	2	(2,366)	-	-	544,256
Deferred income taxes, net	-	-	-	-	-	-	-	-	-	-	-	(11,086)	-	-	-	(5,853)	86,946	(380)	-	14,533	124	(84,284)	-	-	-
Goodwill	-	-	-	-	-	-	21,936	95,885	-	-	415	-	2,619	-	-	482	-	125,292	-	27,858	-	-	-	-	274,487
Intangible assets, net	-	-	-	-	-	-	-	3,320	-	-	-	1,722	-	-	-	2,064	-	10,120	-	2,828	-	-	-	-	20,054
Other assets	2,044	234	108	101	217	17	1,162	30	4,062	877	622	12,023	443	1,604	6,018	10,949	-	770	709	91,386	-	572,539	-	(598,184)	107,731
Long-Term Assets Held for Sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9,436	-	9,436
Total assets	**484,504**	**123,273**	**95,796**	**321,633**	**63,967**	**73,566**	**114,202**	**677**	**123,119**	**69,891**	**(5,485)**	**205,308**	**(54,112)**	**7,628**	**160,193**	**2,673**	**553,581**	**33,226**	**20,908**	**468,821**	**(11,273)**	**(231,123)**	**27,451**	**(606,035)**	**2,042,389**

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MPT CONFIDENTIAL

Prospect Medical Holdings, Inc.

Consolidating Balance Sheets
As of September 30, 2020

	Hospital Segment																							
	Alta-California								CCHP			Waterbury		ECHN			Crozer							
	Los Angeles	Norwalk	Van Nuys	Hollywood	Foothill	Bellflower	Culver	Corporate	Roger Williams	Fatima	Non-Hospital Entities Combined	Waterbury	Non-Hospital Entities Combined	Rockville	Manchester	Non-Hospital Entities Combined	Hospital Entities	Non-Hospital Entities Combined	PHHH	Medical Group Segment	CRC Segment	Corporate Segment	Discontinued Operations	Eliminations	Total
Liabilities and Stockholder's (Deficit) Equity																									
Current liabilities:																									
Accrued medical claims and other healthcare costs payable	-	-	-	-	22,319	-	6,333	9,263	-	-	-	-	-	-	-	-	-	(7)	-	26,748	9,033	2,768	-	-	76,457
Accounts payable and other accrued liabilities	9,502	3,064	1,139	4,698	7,230	1,275	16,804	15,102	12,941	10,342	6,442	27,410	1,917	2,862	23,828	4,263	81,830	19,090	1,951	32,373	4,184	98,455	-	(3,662)	383,040
Accrued salaries, wages and benefits	8,430	3,859	2,883	4,263	6,333	981	16,673	5,671	9,852	6,436	7,683	6,195	4,828	2,007	7,899	1,893	33,244	44,162	1,997	7,617	1,221	40,998	-	-	225,125
Hospital fee program liability	19,055	-	-	18,533	2,183	5,684	25,205	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	70,660
Due to government payers	700	-	-	875	242	-	676	-	3,280	2,573	(111)	8,839	-	2,362	8,110	1,560	3,262	-	(270)	(38)	-	669	-	-	32,749
Refund liability, current portion	4,052	-	-	17,197	2,339	-	-	-	3,663	2,291	243	6,670	306	1,001	3,847	278	16,773	713	449	9	-	2,284	-	-	62,115
Income taxes payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Revolving line of credit, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Current portion of capital leases	27	15	-	16	66	-	151	2	52	164	38	163	107	186	981	122	2,146	981	-	198	-	870	-	-	6,285
Current portion of long-term debt	-	-	-	-	-	-	-	-	-	-	50	-	-	548	894	735	12	-	112	-	-	86,754	-	(69,967)	19,138
Current portion of MPT liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	47,484	-	-	47,484
Other current liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,964	2,596	9,959	-	(2,927)	15,592
Current Liabilities Held for Sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	17,748	-	17,748
Total current liabilities	**41,766**	**6,938**	**4,022**	**45,582**	**40,712**	**7,940**	**65,842**	**30,038**	**29,788**	**21,806**	**14,345**	**49,297**	**7,158**	**8,966**	**45,559**	**8,851**	**137,267**	**64,939**	**4,239**	**72,871**	**17,034**	**290,241**	**17,748**	**(76,556)**	**956,393**
Long-term debt, net of current portion	-	-	-	-	-	-	7,762	(7,762)	-	-	13	-	-	5,637	2,174	7,104	-	-	2,076	-	-	173,197	-	-	190,201
Malpractice reserves	3,273	961	183	352	981	11	5,298	-	5,705	5,306	3,465	5,229	2,282	3,768	8,792	-	11,762	9,236	-	-	-	36,743	-	-	103,349
Refund liability, net of current portion	13,955	-	-	59,234	8,056	-	-	-	12,619	7,892	837	22,976	1,052	3,446	13,252	957	57,774	2,455	1,548	30	-	7,868	-	-	213,951
Capital leases, net of current portion	12	6	-	15	166	-	173	-	216	665	51	1,886	575	812	1,511	262	7,991	17,745	-	100	-	484	-	-	32,670
Asset retirement obligations	-	-	-	-	-	-	-	-	671	2,312	-	3,463	-	132	280	-	112	-	-	-	-	-	-	-	6,970
Other long-term liabilities	-	-	-	-	4	27	-	268	27,496	-	-	2,309	2,052	-	962	-	1,756	9,763	-	749	-	25,488	-	-	70,868
Pension obligations	-	-	-	-	-	-	-	-	-	-	-	9,213	-	14,986	53,853	-	153,889	-	-	-	-	-	-	-	231,941
MPT Liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,290,556	-	-	1,290,556
Long-Term Liabilities Held for Sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,105	-	5,105
Total liabilities	**59,006**	**7,905**	**4,207**	**105,183**	**49,919**	**7,978**	**79,075**	**22,544**	**76,495**	**37,981**	**18,711**	**94,367**	**13,119**	**37,747**	**126,383**	**17,174**	**370,551**	**104,138**	**7,863**	**73,750**	**17,034**	**1,824,577**	**22,853**	**(76,556)**	**3,102,004**
Commitments and contingencies																									
Stockholder's (deficit) equity:																									
Common stock, $0.01 par value; 100 shares authorized, issued and outstanding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	-	1
Additional paid-in capital	-	-	-	-	15,000	20,546	15,967	138,968	33,760	28,335	42,428	-	-	1,281	19,276	6,117	100,000	79,635	-	256	2,300	109,684	32,719	(381,511)	64,961
Accumulated other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	(1,043)	-	(4,401)	(15,069)	-	17,478	-	-	-	-	(12,571)	-	-	(15,614)
(Accumulated deficit) retained earnings	425,498	115,368	91,589	216,450	(952)	45,042	19,160	(160,835)	12,864	3,375	(71,243)	111,021	(69,050)	(26,999)	29,609	(21,078)	65,560	(150,547)	13,045	394,647	(30,607)	(2,152,814)	(28,121)	52,032	(1,116,992)
Total stockholder's (deficit) equity attributable to Prospect Medical Holdings, Inc.	**425,498**	**115,368**	**91,589**	**216,450**	**14,048**	**65,588**	**35,127**	**(21,867)**	**46,624**	**31,910**	**(28,815)**	**109,978**	**(69,050)**	**(30,119)**	**33,810**	**(14,961)**	**183,038**	**(70,912)**	**13,045**	**394,903**	**(28,307)**	**(2,055,700)**	**4,598**	**(329,479)**	**(1,067,644)**
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	4,619	963	1,819	-	-	460	-	-	-	168	-	-	-	-	8,029
Total stockholder's (deficit) equity	425,498	115,368	91,589	216,450	14,048	65,588	35,127	(21,867)	46,624	31,910	(24,196)	110,941	(67,231)	(30,119)	33,810	(14,501)	183,038	(70,912)	13,045	395,071	(28,307)	(2,055,700)	4,598	(329,479)	(1,059,615)
Total liabilities and stockholder's (deficit) equity	**484,504**	**123,273**	**95,796**	**321,633**	**63,967**	**73,566**	**114,202**	**677**	**123,119**	**69,891**	**(5,485)**	**205,308**	**(54,112)**	**7,628**	**160,193**	**2,673**	**553,581**	**33,226**	**20,908**	**468,821**	**(11,273)**	**(231,123)**	**27,451**	**(606,035)**	**2,042,389**

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MPT CONFIDENTIAL

Prospect Medical Holdings, Inc.

Consolidated Statement of Operations
For the Year Ended September 30, 2021

	Hospital Segment																					
	Alta-California								CCHP			Waterbury		ECHN			Crozer						
	Los Angeles	Norwalk	Van Nuys	Hollywood	Foothill	Bellflower	Culver	Corporate	Roger Williams	Fatima	Non-hospital entities combined	Waterbury	Non-hospital entities combined	Rockville	Manchester	Non-hospital entities combined	Hospital and Non-Hospital Entities Combined	PHHH	Medical Group Segment	CRC Segment	Corporate Segment	Discontinued Operations	Eliminations	Total
Revenues:																								
Net hospital services revenues	140,366	40,072	20,794	78,692	170,204	17,374	241,187	34,078	179,762	132,640	32,605	252,804	57,298	24,368	207,723	27,798	711,942	38,368	-	-	-	74,902	1	2,408,076
Other non-patient revenue	-	-	-	-	-	-	-	-	1,002	308	1,105	624	9,156	829	1,369	612	35,694	2,304	-	-	-	13,311	(8,400)	44,608
Total net hospital services revenue	140,366	40,072	20,794	78,692	170,204	17,374	241,187	34,078	180,764	132,948	33,710	253,428	66,454	25,197	209,092	28,410	747,636	40,672	-	-	-	88,213	(8,399)	2,452,679
Medical Group revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	480,012	-	-	-	(8,679)	471,333
Net Global Risk Management revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	331,614	-	-	(231,460)	100,154
Other revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,171	-	-	3,171
Total net revenues	140,366	40,072	20,794	78,692	170,204	17,374	241,187	34,078	180,764	132,948	33,710	253,428	66,454	25,197	209,092	28,410	747,636	40,672	480,012	331,614	3,171	88,213	(248,538)	3,027,337
Operating Expenses:																								
Hospital operating expenses	70,928	27,064	12,047	57,773	141,697	13,848	192,680	61,771	142,189	101,526	43,146	194,087	72,332	24,300	147,938	41,381	605,246	32,792	-	-	-	73,943	(1,356)	1,581,789
Medical Group cost of revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	344,275	-	-	-	-	344,275
Global Risk Management cost of revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	307,157	-	-	(239,860)	67,297
General and administrative	7,137	5,035	3,623	6,938	8,696	3,360	33,412	11,636	35,681	43,168	6,664	29,143	7,460	11,664	38,237	(3,296)	125,109	3,935	89,276	29,092	79,926	19,943	(7,529)	568,353
Depreciation and amortization	1,283	704	426	1,067	3,131	1,190	3,333	2,350	7,073	3,171	572	9,527	1,093	2,848	10,537	824	23,930	360	3,672	84	4,786	-	-	81,960
Goodwill amortization	-	-	-	-	-	-	2,437	10,654	-	-	44	-	286	-	-	54	13,921	-	3,077	-	-	-	-	30,473
Total operating expenses	79,348	32,803	16,096	65,778	153,544	18,398	231,862	86,391	184,943	147,869	50,426	232,757	81,171	38,812	196,712	38,963	768,186	37,087	440,300	336,333	84,712	93,886	(248,589)	3,074,152
Pandemic relief grant income	(220)	(2,698)	539	(639)	(693)	(1,466)	(1,373)	-	2,791	(1,186)	(159)	(5,942)	1,118	7,615	(3,996)	319	(402)	493	(37)	-	-	6,842	-	(5,930)
Operating income from unconsolidated joint ventures	-	-	-	-	-	-	-	-	304	-	-	951	-	316	1,549	11	609	306	20	-	-	-	-	4,066
Operating (loss) income	**60,798**	**4,571**	**5,237**	**12,275**	**15,967**	**(2,490)**	**7,952**	**(52,313)**	**(1,084)**	**(16,107)**	**(16,869)**	**15,680**	**(13,799)**	**(5,684)**	**9,933**	**(10,223)**	**(29,943)**	**4,384**	**39,695**	**(4,719)**	**(81,541)**	**1,169**	**1**	**(48,679)**
Other (income) expense:																								
Interest expense and amortization of deferred financing costs, net	13	5	3	4	41	-	155	4	29	1,057	10	81	96	317	324	205	3,258	19	(2,594)	(1)	78,895	190	-	81,921
Net period benefit cost	-	-	-	-	-	-	-	-	-	-	-	1,246	-	610	2,218	-	8,145	-	-	-	-	-	-	12,219
Goodwill impairment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10,865	-	-
Other expense (income), net	-	-	-	-	2	-	(1,881)	-	2,076	1,614	349	(1)	17	(129)	432	3,269	(544)	49	(293)	-	34,573	(2,355)	(38,557)	976
Total other expense, net	13	5	3	4	43	-	(1,726)	4	2,105	2,671	359	1,326	113	798	2,974	3,474	10,859	68	(2,887)	(1)	113,468	8,700	(38,557)	95,116
(Loss) income before income taxes	**60,785**	**4,566**	**5,234**	**12,271**	**15,924**	**(2,490)**	**9,678**	**(52,317)**	**(3,189)**	**(18,778)**	**(17,228)**	**14,354**	**(13,912)**	**(6,482)**	**6,959**	**(13,697)**	**(31,202)**	**4,316**	**42,582**	**(4,718)**	**(195,009)**	**(7,531)**	**38,558**	**(143,795)**
Income tax provision	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,206)	-	-	(2,206)
Net (loss) income from continuing operations	**60,785**	**4,566**	**5,234**	**12,271**	**15,924**	**(2,490)**	**9,678**	**(52,317)**	**(3,189)**	**(18,778)**	**(17,228)**	**14,354**	**(13,912)**	**(6,482)**	**6,959**	**(13,697)**	**(31,202)**	**4,316**	**42,582**	**(4,718)**	**(192,803)**	**(7,531)**	**38,558**	**(141,589)**
Income from discontinued operations:																								
Income from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(7,531)	-	(7,531)
Income tax provision	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2)	-	(2)
Income on discontinued operations, net of taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(7,533)	-	(7,533)
Net (loss) income before allocation to non-controlling interests	**60,785**	**4,566**	**5,234**	**12,271**	**15,924**	**(2,490)**	**9,678**	**(52,317)**	**(3,189)**	**(18,778)**	**(17,228)**	**14,354**	**(13,912)**	**(6,482)**	**6,959**	**(13,697)**	**(31,202)**	**4,316**	**42,582**	**(4,718)**	**(192,803)**	**(7,533)**	**38,558**	**(149,122)**
Net (loss) income attributable to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(6,836)	907	-	-	-	126	-	-	6	-	-	-	-	(5,777)
Net (loss) income attributable to Prospect Medical Holdings, Inc.	**60,785**	**4,566**	**5,234**	**12,271**	**15,924**	**(2,490)**	**9,678**	**(52,317)**	**(3,189)**	**(18,778)**	**(10,412)**	**13,447**	**(13,912)**	**(6,482)**	**6,959**	**(13,823)**	**(31,202)**	**4,316**	**42,576**	**(4,718)**	**(192,803)**	**(7,533)**	**38,558**	**(143,345)**
Other comprehensive income, net of tax:																								
Pension obligation and other post-retirement benefits adjustment (net of tax)	-	-	-	-	-	-	-	-	-	-	-	151	-	(2,582)	(9,396)	-	(36,671)	-	-	-	-	-	-	(48,498)
Debt and equity securities, unrealized gain	-	-	-	-	-	-	-	-	-	-	-	-	-	-	264	-	-	-	-	-	-	-	-	264
Total other comprehensive income (loss), net of tax	-	-	-	-	-	-	-	-	-	-	-	151	-	(2,582)	(9,132)	-	(36,671)	-	-	-	-	-	-	(48,234)
Total comprehensive (loss) income	**60,785**	**4,566**	**5,234**	**12,271**	**15,924**	**(2,490)**	**9,678**	**(52,317)**	**(3,189)**	**(18,778)**	**(10,412)**	**13,598**	**(13,912)**	**(9,064)**	**(2,173)**	**(13,823)**	**(67,873)**	**4,316**	**42,576**	**(4,718)**	**(192,803)**	**(7,533)**	**38,558**	**(191,579)**

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MPT CONFIDENTIAL

Prospect Medical Holdings, Inc.

Consolidated Statement of Operations
For the Year Ended September 30, 2021

	Crozer					
	Crozer Chester Medical Center	Springfield Hospital	Taylor Hospital	Delaware County Memorial Hospital	Non-Hospital Entities Combined	Hospital and Non-Hospital Entities Combined
Revenues:						
Net Hospital Services revenues	353,738	12,088	84,578	119,840	141,698	711,942
Other non-patient revenue	11,717	786	1,461	1,113	20,617	35,694
Total net hospital services revenue	365,455	12,874	86,039	120,953	162,315	747,636
Medical Group revenues	-	-	-	-	-	-
Net Global Risk Management revenues	-	-	-	-	-	-
Other revenues	-	-	-	-	-	-
Total net revenues	365,455	12,874	86,039	120,953	162,315	747,636
Operating Expenses:						
Hospital operating expenses	347,981	15,910	52,938	102,015	86,402	605,246
Medical Group cost of revenues	-	-	-	-	-	-
Global Risk Management cost of revenues	-	-	-	-	-	-
General and administrative	43,828	3,598	12,471	19,168	46,044	125,109
Depreciation and amortization	11,038	1,420	1,604	4,512	5,336	23,910
Goodwill amortization	-	-	-	-	13,921	13,921
Total operating expenses	402,847	20,928	67,013	125,695	151,703	768,186
Pandemic relief grant income	3,928	136	946	(6,476)	1,064	(402)
Operating income from unconsolidated joint ventures	-	-	-	-	609	609
Operating (loss) income	**(33,464)**	**(7,918)**	**19,972**	**(11,218)**	**12,285**	**(20,343)**
Other (income) expense:						
Interest expense and amortization of deferred financing costs, net	1,391	19	26	98	1,724	3,258
Net period benefit cost	6,702	-	-	1,443	-	8,145
Goodwill impairment	-	-	-	-	-	-
Other expense (income), net	(1,830)	191	805	(323)	613	(544)
Total other expense, net	6,263	210	831	1,218	2,337	10,859
(Loss) income before income taxes	**(39,727)**	**(8,128)**	**19,141**	**(12,436)**	**9,948**	**(31,202)**
Income tax provision	-	-	-	-	-	-
Net (loss) income from continuing operations	**(39,727)**	**(8,128)**	**19,141**	**(12,436)**	**9,948**	**(31,202)**
Income from discontinued operations:						
Income from discontinued operations	-	-	-	-	-	-
Income tax provision	-	-	-	-	-	-
Income on discontinued operations, net of taxes	-	-	-	-	-	-
Net (loss) income before allocation to non-controlling interests	**(39,727)**	**(8,128)**	**19,141**	**(12,436)**	**9,948**	**(31,202)**
Net (loss) income attributable to non-controlling interests	-	-	-	-	-	-
Net (loss) income attributable to Prospect Medical Holdings, Inc.	**(39,727)**	**(8,128)**	**19,141**	**(12,436)**	**9,948**	**(31,202)**
Other comprehensive income, net of tax:						
Pension obligation and other post-retirement benefits adjustment (net of tax)	(30,089)	-	-	(6,582)	-	(36,671)
Debt and equity securities, unrealized gain	-	-	-	-	-	-
Total other comprehensive income (loss), net of tax	**(30,089)**	**-**	**-**	**(6,582)**	**-**	**(36,671)**
Total comprehensive (loss) income	**(69,816)**	**(8,128)**	**19,141**	**(19,018)**	**9,948**	**(67,873)**

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MPT CONFIDENTIAL

Prospect Medical Holdings, Inc.

Consolidated Statement of Operations
For the Year Ended September 30, 2020

	Hospital Segment																							
	Alta-California								CCHP			Waterbury		ECHN			Crozer							
	Los Angeles	Norwalk	Van Nuys	Hollywood	Foothill	Bellflower	Culver	Corporate	Roger Williams	Fatima	Non-hospital entities combined	Waterbury	Non-hospital entities combined	Rockville	Manchester	Non-hospital entities combined	Hospital Entities	Non-hospital entities combined	PHHH	Medical Group Segment	CRC Segment	Corporate Segment	Discontinued Operations	Eliminations	Total
Revenues:																								
Net Hospital Segment patient services revenues	123,779	36,491	22,174	79,892	168,643	17,310	229,757	28,988	177,387	127,996	29,462	230,883	49,505	39,189	185,834	29,988	664,741	58,450	38,910	-	-	-	77,662	-	2,339,379
Provision for bad debts	(3,300)	(2,191)	(173)	(2,455)	(2,296)	(158)	(10,285)	-	(9,680)	(7,000)	(411)	(11,614)	(1,141)	(1,527)	(7,850)	(750)	(36,785)	(4,007)	(628)	-	-	-	2,140	-	(102,251)
Net Hospital segment patient services revenues less provision for bad debts	120,479	34,300	22,001	77,437	166,347	17,152	219,472	28,988	167,707	120,996	29,051	219,269	48,364	37,662	177,984	29,238	627,956	54,443	38,282	-	-	-	80,102	-	2,237,128
Other non-patient Hospital revenues	-	-	-	-	123	15	(267)	-	2,291	39	509	(683)	9,618	79	899	30	14,301	19,745	986	-	-	-	7,394	(9,221)	38,464
Net Hospital Segment revenues	120,479	34,300	22,001	77,437	166,470	17,167	219,205	28,988	169,998	121,035	29,560	218,586	57,982	37,741	178,883	29,268	642,257	74,188	39,268	-	-	-	87,496	(9,221)	2,275,592
Medical Group revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	380,894	-	-	-	(8,248)	372,646
Global Risk Management revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	315,719	-	-	(230,819)	84,900
Corporate revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	250	-	-	250
Total net revenues	120,479	34,300	22,001	77,437	166,470	17,167	219,205	28,988	169,998	121,035	29,560	218,586	57,982	37,741	178,883	29,268	642,257	74,188	39,268	380,894	315,719	250	87,496	(248,288)	2,733,388
Operating Expenses:																								
Hospital operating expenses	72,474	24,503	12,386	60,951	138,063	16,684	170,312	67,611	139,136	96,337	38,760	181,152	66,002	37,289	136,663	48,673	524,617	75,705	31,661	-	-	-	90,254	(1,193)	1,937,766
Medical Group cost of revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	242,314	-	-	-	-	242,314
Global Risk Management cost of revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	292,889	-	-	(240,038)	52,851
General and administrative	9,282	5,512	3,825	6,975	7,002	3,029	25,705	1,469	30,996	26,067	2,846	26,170	6,300	10,674	24,181	(9,917)	101,591	37,216	2,077	76,051	23,121	80,368	29,312	(7,054)	493,486
Depreciation and amortization	1,358	554	457	1,007	2,779	1,241	3,018	3,063	5,455	2,834	614	9,022	963	2,813	10,163	968	3,062	19,071	233	4,110	1	5,254	-	-	80,040
Goodwill amortization	-	-	-	-	-	-	2,437	10,654	-	-	22	-	268	-	-	54	13,946	-	-	2,864	-	-	-	-	30,245
Total operating expenses	83,114	30,569	16,668	68,933	147,844	20,954	201,472	82,797	175,587	125,238	42,242	216,344	73,533	50,776	171,007	39,778	645,216	131,992	33,971	325,339	316,011	85,622	119,566	(248,285)	2,836,702
Pandemic relief grant income	220	2,698	(67)	1,206	1,644	1,466	6,449	-	15,537	17,337	1,988	17,198	2,426	475	10,296	1,018	28,355	7,234	1,460	208	-	-	15,658	-	117,148
Operating income from unconsolidated joint ventures	-	-	-	-	-	-	-	-	881	-	-	482	-	39	358	8	-	108	-	(152)	-	-	-	-	1,724
Operating (loss) income	**37,585**	**6,429**	**5,266**	**9,710**	**20,270**	**(2,321)**	**24,182**	**(53,809)**	**10,829**	**13,154**	**(10,694)**	**19,922**	**(13,125)**	**(12,521)**	**18,530**	**(9,484)**	**25,396**	**(50,462)**	**6,757**	**59,611**	**(292)**	**(85,372)**	**(16,412)**	**(3)**	**15,556**
Other (income) expense:																									
Interest expense and amortization of deferred financing costs, net	20	17	12	20	67	13	(277)	1,385	42	1,002	52	1,293	49	112	303	266	1,555	4,492	89	(4,118)	(127)	79,870	923	-	86,157
Net period benefit cost	-	-	-	-	-	-	-	-	-	-	-	1,388	-	634	1,727	-	5,493	-	-	-	-	-	-	-	9,242
Loss on early extinguishment of debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Goodwill impairment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,857	-	-
Other expense (income), net	7	-	-	-	-	-	-	-	3,503	2,489	961	474	9	(209)	356	188	(239)	933	(2)	154	1	(11,596)	(2,582)	5,062	2,051
Total other expense, net	27	17	12	20	67	13	(277)	1,385	3,545	3,491	1,013	3,155	58	537	2,386	474	6,809	5,425	87	(3,964)	(126)	68,274	7,198	5,062	97,490
(Loss) income before income taxes	**37,558**	**6,412**	**5,254**	**9,690**	**20,203**	**(2,334)**	**24,459**	**(55,194)**	**7,284**	**9,663**	**(11,707)**	**16,767**	**(13,183)**	**(13,058)**	**16,144**	**(9,958)**	**18,587**	**(55,887)**	**6,670**	**59,575**	**(166)**	**(153,646)**	**(23,610)**	**(5,065)**	**(81,932)**
Income tax provision	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(7,070)	-	-	(7,070)
Net (loss) income from continuing operations	**37,558**	**6,412**	**5,254**	**9,690**	**20,203**	**(2,334)**	**24,459**	**(55,194)**	**7,284**	**9,663**	**(11,707)**	**16,767**	**(13,183)**	**(13,058)**	**16,144**	**(9,958)**	**18,587**	**(55,887)**	**6,670**	**59,575**	**(166)**	**(146,576)**	**(23,610)**	**(5,065)**	**(74,862)**
Income from discontinued operations:																									
Income from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(23,610)	-	23,610
Income tax provision	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2)	-	2
Income on discontinued operations, net of taxes	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(23,612)**	**-**	**23,612**
Net (loss) income before allocation to non-controlling interests	**37,558**	**6,412**	**5,254**	**9,690**	**20,203**	**(2,334)**	**24,459**	**(55,194)**	**7,284**	**9,663**	**(11,707)**	**16,767**	**(13,183)**	**(13,058)**	**16,144**	**(9,958)**	**18,587**	**(55,887)**	**6,670**	**59,575**	**(166)**	**(146,576)**	**(23,612)**	**(5,065)**	**(98,474)**
Net (loss) income attributable to non-controlling interests	-	-	-	-	-	-	-	-	-	-	893	230	-	-	-	7	-	-	-	6	-	-	-	-	1,136
Net (loss) income attributable to Prospect Medical Holdings, Inc.	**37,558**	**6,412**	**5,254**	**9,690**	**20,203**	**(2,334)**	**24,459**	**(55,194)**	**7,284**	**9,663**	**(12,600)**	**16,537**	**(13,183)**	**(13,058)**	**16,144**	**(9,965)**	**18,587**	**(55,887)**	**6,670**	**59,569**	**(166)**	**(146,576)**	**(23,612)**	**(5,065)**	**(99,610)**
Other comprehensive income, net of tax:																									
Pension obligation and other post-retirement benefits adjustment (net of tax)	-	-	-	-	-	-	-	-	-	-	-	300	-	439	1,691	-	7,088	-	-	-	-	(251)	-	-	9,267
Debt and equity securities, unrealized gain	-	-	-	-	-	-	-	-	-	-	-	-	-	-	155	-	-	-	-	-	-	(109)	-	-	46
Total other comprehensive income (loss), net of tax	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**300**	**-**	**439**	**1,846**	**-**	**7,088**	**-**	**-**	**-**	**-**	**(360)**	**-**	**-**	**9,313**
Total comprehensive (loss) income	**37,558**	**6,412**	**5,254**	**9,690**	**20,203**	**(2,334)**	**24,459**	**(55,194)**	**7,284**	**9,663**	**(12,600)**	**16,837**	**(13,183)**	**(12,619)**	**17,990**	**(9,965)**	**25,675**	**(55,887)**	**6,670**	**59,569**	**(166)**	**(146,936)**	**(23,612)**	**(5,065)**	**(90,297)**

The headers above are defined as follows: Alta Hospitals System, LLC ("Alta-California"), Southern California Healthcare System, Inc. (dba "Hollywood," "Van Nuys," and "Culver"), Alta Los Angeles Hospitals, Inc. (dba "Los Angeles," "Norwalk," and "Bellflower"), Alta Newport Hospital, Inc. ("Foothill"), Prospect CharterCARE, LLC ("CCHP" dba "Roger Williams" and "Fatima"), Prospect Waterbury, Inc. ("Waterbury"), Prospect ECHN, Inc. ("ECHN" dba "Rockville" and "Manchester"), Prospect Crozer, LLC ("Crozer"), and Prospect Home Health and Hospice, LLC ("PHHH").

MPT CONFIDENTIAL

MPT_PROSPECT_00010179

	A	B	C	D	E	F	G	H	I
1	**SPRINGFIELD HOSPITAL, CROZER CHESTER MEDICAL CENTER, TAYLOR HOSPITAL, DELAWARE COUNTY MEMORIAL HOSPITAL, Philadelphia-Camden-Wilmington, PA-NJ-DE-MD Metro Area...**								
2									
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5	**Sitewise Online**								
6									
7									
8	**Study Area Maps**								
9	Bossier City - Cornerstone								
10									
11									
12	**Profile Tables**								
13	STI: PopStats Population Summary								
14	STI: PopStats Household Summary								
15	Current Year Estimated Households by Household Income								
16	Current Year Estimated Households by Wealth & Poverty								
17									
18									
19	**Prepared on: 2/28/2019 10:59:49 PM**								

	A	B	C	D	E	F	G	H
1		2018 Estimate	Growth 2018-2010	Growth 2023-2018	**2018 Median Age**	**Median Household Income**	In Poverty	
2	**SPRINGFIELD HOSPITAL 0 - 5 mi**	358,103	1.25%	2.43%	40.4	$ 66,492	10.00%	
3	**SPRINGFIELD HOSPITAL 0 - 10 mi**	1,157,132	3.46%	3.44%	37.5	$ 57,014	17.00%	
4	**CROZER CHESTER MEDICAL CENTER 0 - 5 mi**	199,039	0.17%	2.07%	39.6	$ 62,171	12.00%	
5	**CROZER CHESTER MEDICAL CENTER 0 - 10 mi**	743,539	1.94%	2.68%	39.8	$ 61,171	13.00%	
6	**TAYLOR HOSPITAL 0 - 5 mi**	281,129	0.27%	2.10%	39	$ 58,237	13.00%	
7	**TAYLOR HOSPITAL 0 - 10 mi**	1,168,761	3.62%	3.58%	37.6	$ 56,387	16.00%	
8	**DELAWARE COUNTY MEMORIAL HOSPITAL 0 - 5 mi**	614,062	2.15%	2.72%	36.5	$ 48,862	20.00%	
9	**DELAWARE COUNTY MEMORIAL HOSPITAL 0 - 10 mi**	1,733,453	4.23%	3.81%	36.6	$ 50,197	21.00%	
10	**Philadelphia-Camden-Wilmington, PA-NJ-DE-MD Metro Area**	6,141,454	2.95%	2.85%	39.4	$ 65,193	13.00%	
11	**Pennsylvania**	12,912,725	1.66%	2.07%	41.2	$ 56,555	13.00%	
12	**United States**	331,654,968	6.14%	3.92%	38.6	$ 57,056	14.00%	
13								
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16								
17		Age 0 to 4	Age 5 to 14	Age 14 to 18	Age 18 to 22	Age 22 to 25	Age 25 to 30	Age 30 to 35
18	**SPRINGFIELD HOSPITAL 0 - 5 mi**	20,283	37,657	17,327	20,696	14,875	22,781	21,508
19	**SPRINGFIELD HOSPITAL 0 - 10 mi**	70,351	119,968	53,172	86,432	50,063	77,511	81,872
20	**CROZER CHESTER MEDICAL CENTER 0 - 5 mi**	10,913	20,349	9,649	12,666	9,043	13,434	12,396
21	**CROZER CHESTER MEDICAL CENTER 0 - 10 mi**	42,460	80,622	38,616	43,381	31,343	48,949	44,102
22	**TAYLOR HOSPITAL 0 - 5 mi**	16,544	30,790	14,049	16,548	11,965	18,397	17,758
23	**TAYLOR HOSPITAL 0 - 10 mi**	73,584	124,894	53,278	79,636	48,712	77,740	83,427
24	**DELAWARE COUNTY MEMORIAL HOSPITAL 0 - 5 mi**	36,873	67,056	30,331	48,492	28,058	42,768	41,672
25	**DELAWARE COUNTY MEMORIAL HOSPITAL 0 - 10 mi**	111,477	186,905	79,220	121,355	74,661	120,742	132,926
26	**Philadelphia-Camden-Wilmington, PA-NJ-DE-MD Metro Area**	360,052	649,971	302,226	390,543	254,823	397,185	381,845
27	**Pennsylvania**	687,572	1,280,885	613,569	844,388	530,175	811,526	762,768
28	**United States**	20,794,278	37,242,032	16,874,771	20,964,824	13,408,411	21,065,812	20,375,330

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17	Age 35 to 40	Age 40 to 45	Age 45 to 50	Age 50 to 55	Age 55 to 60	Age 60 to 65	Age 65 to 70	Age 70 to 75	Age 75 to 80	Age 80 to 85	Age 85 and over
18	22,062	21,215	21,726	24,228	26,623	25,570	20,977	15,089	10,080	7,411	7,994
19	78,967	68,185	66,048	71,130	75,878	72,735	61,031	46,055	31,744	22,953	23,040
20	11,971	11,210	11,756	13,486	14,737	13,997	11,332	8,380	5,608	4,054	4,058
21	43,924	43,322	45,792	50,601	54,067	51,224	42,199	31,099	21,088	15,150	15,602
22	18,034	16,860	16,901	18,535	20,165	19,128	15,547	11,390	7,582	5,440	5,497
23	82,756	72,071	68,673	72,567	76,578	72,816	60,713	45,496	31,121	22,440	22,260
24	38,573	35,448	35,265	37,752	40,428	38,649	31,874	23,021	15,575	11,233	10,993
25	127,041	106,529	98,421	103,148	108,331	103,414	86,686	65,391	44,886	31,815	30,503
26	380,620	365,132	383,043	421,571	441,927	409,553	339,519	256,708	173,133	119,977	113,626
27	753,011	736,849	791,106	878,657	942,688	906,718	778,596	600,598	416,104	296,020	281,495
28	20,879,834	20,395,006	20,828,811	21,756,547	22,477,727	20,922,928	17,946,207	14,049,812	9,656,941	6,483,156	5,532,541

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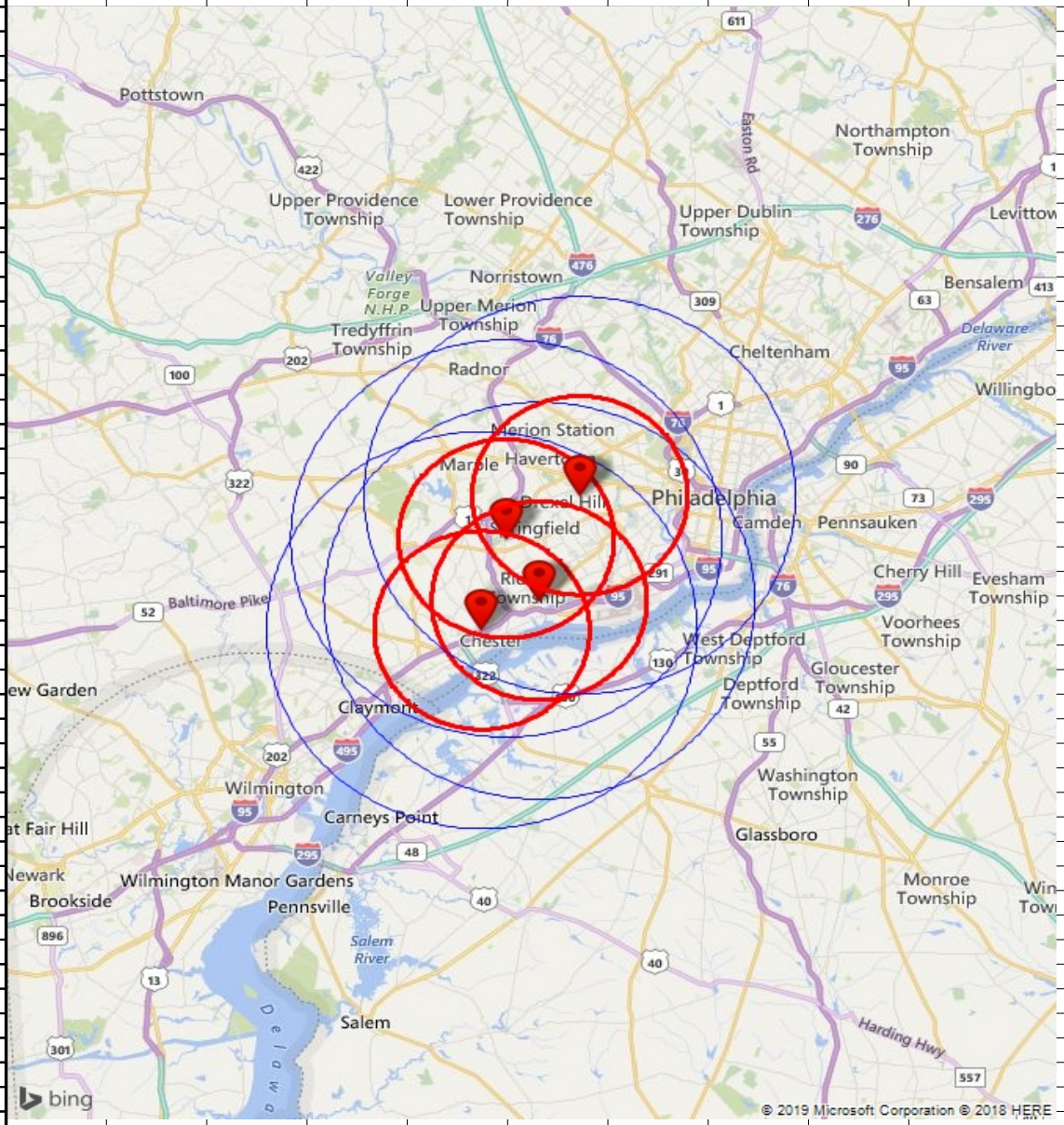
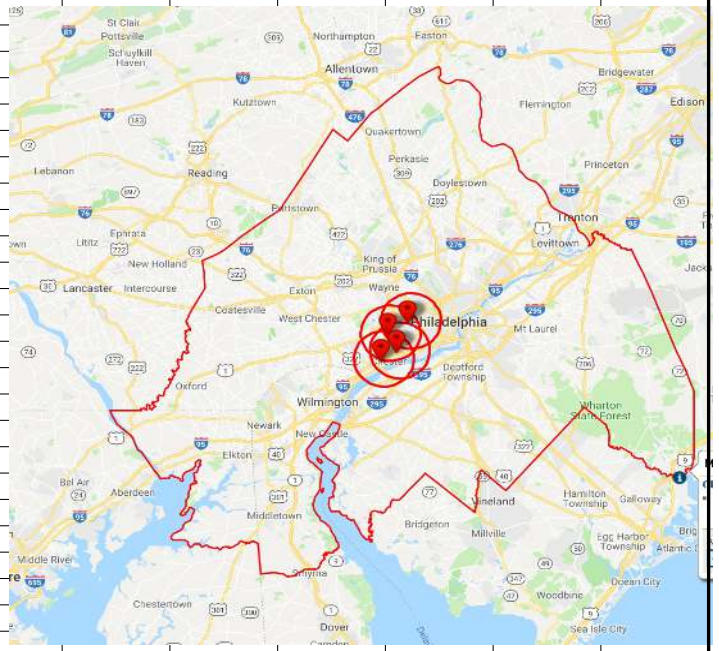
17	**2018 Estimated Total Population by Age**	CHECK			0-18	%	19-64	%	65+	%		CHECK		
18	358,103	358,102	1		75,267	*21.02%*	221,284	*61.79%*	61,551	*17.19%*		358,102	-	100.00%
19	1,157,132	1,157,135	-3		243,491	*21.04%*	728,821	*62.99%*	184,823	*15.97%*		1,157,135	-	100.00%
20	199,039	199,039	0		40,911	*20.55%*	124,696	*62.65%*	33,432	*16.80%*		199,039	-	100.00%
21	743,539	743,541	-2		161,698	*21.75%*	456,705	*61.42%*	125,138	*16.83%*		743,541	-	100.00%
22	281,129	281,130	-1		61,383	*21.83%*	174,291	*62.00%*	45,456	*16.17%*		281,130	-	100.00%
23	1,168,761	1,168,762	-1		251,756	*21.54%*	734,976	*62.89%*	182,030	*15.57%*		1,168,762	-	100.00%
24	614,062	614,061	1		134,260	*21.86%*	387,105	*63.04%*	92,696	*15.10%*		614,061	-	100.00%
25	1,733,453	1,733,451	2		377,602	*21.78%*	1,096,568	*63.26%*	259,281	*14.96%*		1,733,451	-	100.00%
26	6,141,454	6,141,454	0		1,312,249	*21.37%*	3,826,242	*62.30%*	1,002,963	*16.33%*		6,141,454	-	100.00%
27	12,912,725	12,912,725	0		2,582,026	*20.00%*	7,957,886	*61.63%*	2,372,813	*18.38%*		12,912,725	-	100.00%
28	331,654,968	331,654,968	0		74,911,081	*22.59%*	203,075,230	*61.23%*	53,668,657	*16.18%*		331,654,968	-	100.00%

Bossier City - Cornerstone





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SPRINGFIELD HOSPITAL
Sitewise Online
STI: PopStats Population Summary

STI: PopStats Population Summary	SPRINGFIELD HOSPITAL 0 - 5 mi		SPRINGFIELD HOSPITAL 0 - 10 mi		CROZER CHESTER MEDICAL CENTER 0 - 5 mi		CROZER CHESTER MEDICAL CENTER 0 - 10 mi		TAYLOR HOSPITAL 0 - 5 mi		TAYLOR HOSPITAL 0 - 10 mi
		%		%		%		%		%	
Population											
2028 Forecast	376,556		1,234,997		208,139		784,655		294,233		1,250,042
2023 Projection	366,808		1,196,980		203,152		763,441		287,046		1,210,569
2018 Estimate	358,103		1,157,132		199,039		743,539		281,129		1,168,761
2010 Census	353,683		1,118,481		198,709		729,380		280,380		1,127,885
2000 Census	357,752		1,124,328		203,419		717,043		286,426		1,121,292
1990 Census	362,338		1,150,890		208,925		724,259		298,431		1,147,613
Growth 2028-2023	2.66%		3.18%		2.45%		2.78%		2.50%		3.26%
Growth 2023-2018	2.43%		3.44%		2.07%		2.68%		2.10%		3.58%
Growth 2018-2010	1.25%		3.46%		0.17%		1.94%		0.27%		3.62%
Growth 2010-2000	-1.14%		-0.52%		-2.32%		1.72%		-2.11%		0.59%
2018 Estimated Population by Ethnicity	**358,103**		**1,157,132**		**199,039**		**743,539**		**281,129**		**1,168,761**
White	267,934	75%	652,004	56%	148,226	74%	467,842	63%	184,922	66%	660,581
Black	64,430	18%	395,347	34%	39,513	20%	217,570	29%	78,610	28%	388,365
Asian	14,906	4%	68,418	6%	4,499	2%	33,390	4%	8,020	3%	73,960
Other	10,832	3%	41,363	4%	6,801	3%	24,738	3%	9,577	3%	45,854
2018 Estimated Population Hispanic or Latino	10,209		40,661		7,210		24,305		9,253		48,021
2018 Estimated Total Population by Age	**358,103**		**1,157,132**		**199,039**		**743,539**		**281,129**		**1,168,761**
Age 0 to 4	20,283	6%	70,351	6%	10,913	5%	42,460	6%	16,544	6%	73,584
Age 5 to 14	37,657	11%	119,968	10%	20,349	10%	80,622	11%	30,790	11%	124,894
Age 14 to 18	17,327	5%	53,172	5%	9,649	5%	38,616	5%	14,049	5%	53,278
Age 18 to 22	20,696	6%	86,432	7%	12,666	6%	43,381	6%	16,548	6%	79,636
Age 22 to 25	14,875	4%	50,063	4%	9,043	5%	31,343	4%	11,965	4%	48,712
Age 25 to 30	22,781	6%	77,511	7%	13,434	7%	48,949	7%	18,397	7%	77,740
Age 30 to 35	21,508	6%	81,872	7%	12,396	6%	44,102	6%	17,758	6%	83,427
Age 35 to 40	22,062	6%	78,967	7%	11,971	6%	43,924	6%	18,034	6%	82,756
Age 40 to 45	21,215	6%	68,185	6%	11,210	6%	43,322	6%	16,860	6%	72,071
Age 45 to 50	21,726	6%	66,048	6%	11,756	6%	45,792	6%	16,901	6%	68,673
Age 50 to 55	24,228	7%	71,130	6%	13,486	7%	50,601	7%	18,535	7%	72,567
Age 55 to 60	26,623	7%	75,878	7%	14,737	7%	54,067	7%	20,165	7%	76,578
Age 60 to 65	25,570	7%	72,735	6%	13,997	7%	51,224	7%	19,128	7%	72,816
Age 65 to 70	20,977	6%	61,031	5%	11,332	6%	42,199	6%	15,547	6%	60,713
Age 70 to 75	15,089	4%	46,055	4%	8,380	4%	31,099	4%	11,390	4%	45,496
Age 75 to 80	10,080	3%	31,744	3%	5,608	3%	21,088	3%	7,582	3%	31,121
Age 80 to 85	7,411	2%	22,953	2%	4,054	2%	15,150	2%	5,440	2%	22,440
Age 85 and over	7,994	2%	23,040	2%	4,058	2%	15,602	2%	5,497	2%	22,260

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7		**DELAWARE COUNTY MEMORIAL HOSPITAL 0 - 5 mi**		**DELAWARE COUNTY MEMORIAL HOSPITAL 0 - 10 mi**		**Philadelphia-Camden-Wilmington, PA-NJ-DE-MD Metro Area**		**Pennsylvania**		**United States**	
8	%		%		%		%		%		%
9											
10		648,394		1,860,000		6,493,283		13,446,197		358,353,705	
11		630,757		1,799,449		6,316,623		13,179,574		344,641,184	
12		614,062		1,733,453		6,141,454		12,912,725		331,654,968	
13		601,128		1,663,149		5,965,343		12,702,379		312,471,327	
14		614,653		1,679,834		5,687,147		12,281,058		281,421,872	
15		638,085		1,752,107		5,422,542		11,868,174		251,960,433	
16											
17		2.80%		3.36%		2.80%		2.02%		3.98%	
18		2.72%		3.81%		2.85%		2.07%		3.92%	
19		2.15%		4.23%		2.95%		1.66%		6.14%	
20		-2.20%		-0.99%		4.89%		3.43%		11.03%	
21											
22		**614,062**		**1,733,453**		**6,141,454**		**12,912,725**		**331,654,968**	
23	57%	274,663	45%	847,070	49%	4,179,193	68%	10,550,167	82%	241,306,419	73%
24	33%	282,998	46%	669,081	39%	1,278,483	21%	1,408,958	11%	41,212,782	12%
25	6%	35,039	6%	95,572	6%	315,496	5%	374,123	3%	16,259,425	5%
26	4%	21,362	3%	121,730	7%	368,282	6%	579,477	4%	32,876,342	10%
27											
28		18,362		159,402		493,153		765,858		58,069,917	
29											
30		**614,062**		**1,733,453**		**6,141,454**		**12,912,725**		**331,654,968**	
31	6%	36,873	6%	111,477	6%	360,052	6%	687,572	5%	20,794,278	6%
32	11%	67,056	11%	186,905	11%	649,971	11%	1,280,885	10%	37,242,032	11%
33	5%	30,331	5%	79,220	5%	302,226	5%	613,569	5%	16,874,771	5%
34	7%	48,492	8%	121,355	7%	390,543	6%	844,388	7%	20,964,824	6%
35	4%	28,058	5%	74,661	4%	254,823	4%	530,175	4%	13,408,411	4%
36	7%	42,768	7%	120,742	7%	397,185	6%	811,526	6%	21,065,812	6%
37	7%	41,672	7%	132,926	8%	381,845	6%	762,768	6%	20,375,330	6%
38	7%	38,573	6%	127,041	7%	380,620	6%	753,011	6%	20,879,834	6%
39	6%	35,448	6%	106,529	6%	365,132	6%	736,849	6%	20,395,006	6%
40	6%	35,265	6%	98,421	6%	383,043	6%	791,106	6%	20,828,811	6%
41	6%	37,752	6%	103,148	6%	421,571	7%	878,657	7%	21,756,547	7%
42	7%	40,428	7%	108,331	6%	441,927	7%	942,688	7%	22,477,727	7%
43	6%	38,649	6%	103,414	6%	409,553	7%	906,718	7%	20,922,928	6%
44	5%	31,874	5%	86,686	5%	339,519	6%	778,596	6%	17,946,207	5%
45	4%	23,021	4%	65,391	4%	256,708	4%	600,598	5%	14,049,812	4%
46	3%	15,575	3%	44,886	3%	173,133	3%	416,104	3%	9,656,941	3%
47	2%	11,233	2%	31,815	2%	119,977	2%	296,020	2%	6,483,156	2%
48	2%	10,993	2%	30,503	2%	113,626	2%	281,495	2%	5,532,541	2%
49											

	A	B	C	D	E	F	G	H	I	J	K	L
50	**2018 Median Age**	40.4		37.5		39.6		39.8		39.0		37.6
51	**2018 Average Age**	40.6		39.2		40.3		40.2		39.7		39.0
52												
53	**2018 Estimated Population Age 25+ by Educational Attainment**	**247,265**		**777,148**		**136,419**		**507,117**		**191,233**		**788,657**
54	Less than 9th grade	5,748	2%	24,274	3%	3,176	2%	14,404	3%	4,435	2%	28,496
55	Some High School, no diploma	12,353	5%	55,401	7%	9,886	7%	32,709	6%	13,230	7%	57,920
56	High School Graduate (or GED)	80,725	33%	227,937	29%	49,755	36%	167,932	33%	69,461	36%	240,950
57	Some College, no degree	42,533	17%	130,129	17%	23,633	17%	89,981	18%	34,929	18%	135,458
58	Associate Degree	19,979	8%	49,435	6%	10,478	8%	38,088	8%	15,445	8%	51,603
59	Bachelor's Degree	51,616	21%	158,949	20%	23,302	17%	98,704	19%	32,672	17%	154,784
60	Master's Degree	24,543	10%	83,318	11%	11,507	8%	46,682	9%	15,188	8%	77,901
61	Professional School Degree	5,249	2%	28,378	4%	2,703	2%	10,121	2%	3,231	2%	24,483
62	Doctorate Degree	4,520	2%	19,327	2%	1,979	1%	8,497	2%	2,643	1%	17,063

	M	N	O	P	Q	R	S	T	U	V	W
50		36.5		36.6		39.4		41.2		38.6	
51		38.5		38.4		39.9		41.2		39.3	
52											
53		**403,251**		**1,159,834**		**4,183,839**		**8,956,136**		**222,370,652**	
54	4%	12,823	3%	53,199	5%	149,527	4%	311,668	3%	12,727,575	6%
55	7%	31,970	8%	110,084	9%	288,215	7%	634,174	7%	16,614,199	7%
56	31%	127,737	32%	348,482	30%	1,256,178	30%	3,217,189	36%	61,085,466	27%
57	17%	77,189	19%	191,744	17%	721,351	17%	1,448,687	16%	46,461,896	21%
58	7%	28,025	7%	65,861	6%	287,695	7%	718,681	8%	18,236,971	8%
59	20%	70,297	17%	216,233	19%	885,701	21%	1,593,988	18%	41,780,322	19%
60	10%	36,474	9%	110,210	10%	415,310	10%	735,217	8%	18,081,465	8%
61	3%	10,003	2%	39,058	3%	105,538	3%	170,863	2%	4,408,614	2%
62	2%	8,733	2%	24,963	2%	74,324	2%	125,669	1%	2,974,144	1%

SPRINGFIELD HOSPITAL
Sitewise Online
STI: PopStats Household Summary

STI: PopStats Household Summary	SPRINGFIELD HOSPITAL 0 - 5 mi	%	SPRINGFIELD HOSPITAL 0 - 10 mi	%	CROZER CHESTER MEDICAL CENTER 0 - 5 mi	%	CROZER CHESTER MEDICAL CENTER 0 - 10 mi	%	TAYLOR HOSPITAL 0 - 5 mi	%	TAYLOR HOSPI 0 - 10 mi
Households											
2028 Forecast	145,348		493,786		79,631		297,170		113,699		502,169
2023 Projection	141,484		477,309		77,632		288,981		110,868		485,202
2018 Estimate	138,008		459,581		75,951		281,323		108,540		466,808
2010 Census	136,226		440,837		75,768		275,627		108,271		447,910
2000 Census	137,859		439,559		77,188		270,606		110,848		441,506
1990 Census	136,372		439,002		76,738		266,286		111,808		440,915
Growth 2028-2023	2.73%		3.45%		2.57%		2.83%		2.55%		3.50%
Growth 2023-2018	2.52%		3.86%		2.21%		2.72%		2.15%		3.94%
Growth 2018-2010	1.31%		4.25%		0.24%		2.07%		0.25%		4.22%
Growth 2010-2000	-1.18%		0.29%		-1.84%		1.86%		-2.32%		1.45%
Population in Households											
2028 Forecast	369,570		1,186,920		201,120		768,520		287,990		1,213,470
2023 Projection	359,819		1,148,947		196,138		747,302		280,809		1,173,957
2018 Estimate	351,114		1,109,180		192,038		727,402		274,899		1,132,098
Average Household Size											
2028 Forecast	2.54		2.40		2.53		2.59		2.53		2.42
2023 Projection	2.54		2.41		2.53		2.59		2.53		2.42
2018 Estimated	2.54		2.41		2.53		2.59		2.53		2.43
2018 Estimated Families by Number of Workers in Family	**92,942**		**272,538**		**50,293**		**191,894**		**71,522**		**276,606**
No workers	10,769	12%	41,520	15%	6,629	13%	26,654	14%	9,241	13%	41,517
1 worker	28,673	31%	94,690	35%	16,376	33%	63,206	33%	24,188	34%	94,353
2 workers	40,068	43%	107,189	39%	20,547	41%	77,301	40%	28,819	40%	109,511
3 or more workers	13,432	14%	29,138	11%	6,742	13%	24,733	13%	9,274	13%	31,225
2018 Estimated Housing Units by Tenure	**146,600**		**507,177**		**81,771**		**303,534**		**116,790**		**513,280**
Vacant Housing Units	8,593	6%	47,596	9%	5,819	7%	22,212	7%	8,251	7%	46,472
Occupied Housing Units	138,008	94%	459,581	91%	75,951	93%	281,323	93%	108,540	93%	466,808
Owner-Occupied	98,397	67%	280,230	55%	52,273	64%	196,780	65%	72,611	62%	284,621
Renter-Occupied	39,611	27%	179,351	35%	23,678	29%	84,542	28%	35,929	31%	182,187
2018 Estimated Per Capita Income	$ 33,697		$ 35,644		$ 31,238		$ 32,141		$ 29,586		$ 33,241

	M	N	O	P	Q	R	S	T	U	V	W
1											
2											
3											
4											
5											
6											
7	ITAL	DELAWARE COUNTY MEMORIAL HOSPITAL 0 - 5 mi		DELAWARE COUNTY MEMORIAL HOSPITAL 0 - 10 mi		Philadelphia-Camden-Wilmington, PA-NJ-DE-MD Metro Area		Pennsylvania		United States	
8	%		%		%		%		%		%
9											
10		247,611		744,649		2,472,694		5,322,663		135,414,907	
11		240,497		718,192		2,402,631		5,213,928		130,290,401	
12		233,685		688,554		2,332,309		5,104,155		125,424,890	
13		228,155		655,076		2,260,312		5,018,904		118,092,823	
14		232,607		647,502		2,134,408		4,777,010		106,741,406	
15		237,387		656,814		1,986,340		4,491,914		93,032,986	
16											
17		2.96%		3.68%		2.92%		2.09%		3.93%	
18		2.92%		4.30%		3.02%		2.15%		3.88%	
19		2.42%		5.11%		3.19%		1.70%		6.21%	
20		-1.91%		1.17%		5.90%		5.06%		10.63%	
21											
22											
23		625,730		1,790,320		6,327,560		13,024,650		350,415,610	
24		608,121		1,729,788		6,150,897		12,758,024		336,703,088	
25		591,469		1,663,815		5,975,541		12,491,182		323,722,908	
26											
27											
28		2.53		2.40		2.56		2.45		2.59	
29		2.53		2.41		2.56		2.45		2.58	
30		2.53		2.42		2.56		2.45		2.58	
31											
32		**146,946**		**394,672**		**1,544,146**		**3,331,808**		**83,944,145**	
33											
34	15%	22,762	15%	70,079	18%	210,793	14%	526,042	16%	12,684,788	15%
35	34%	53,676	37%	141,524	36%	489,112	32%	1,043,149	31%	27,852,396	33%
36	40%	54,647	37%	145,953	37%	647,365	42%	1,370,615	41%	34,349,105	41%
37	11%	15,862	11%	37,116	9%	196,876	13%	392,002	12%	9,057,856	11%
38											
39		**258,404**		**770,396**		**2,510,096**		**5,630,574**		**140,692,652**	
40											
41	9%	24,719	10%	81,841	11%	177,787	7%	526,419	9%	15,267,762	11%
42	91%	233,685	90%	688,554	89%	2,332,309	93%	5,104,155	91%	125,424,890	89%
43	55%	143,396	55%	389,745	51%	1,596,007	64%	3,552,742	63%	81,785,278	58%
44	35%	90,289	35%	298,810	39%	736,302	29%	1,551,413	28%	43,639,612	31%
45											
46		$ 28,379		$ 31,923		$ 34,925		$ 30,953		$ 30,517	

SPRINGFIELD HOSPITAL
Sitewise Online
Current Year Estimated Households by Household

Current Year Estimated Households by Household Income	SPRINGFIELD HOSPITAL 0 - 5 mi		SPRINGFIELD HOSPITAL 0 - 10 mi		CROZER CHESTER MEDICAL CENTER 0 - 5 mi		CROZER CHESTER MEDICAL CENTER 0 - 10 mi		TAYLOR HOSPITAL 0 - 5 mi		TAYLOR HOSPI 0 - 10 mi
		%		%		%		%		%	
Current Year Estimated Households by Household Income	**138,008**		**459,581**		**75,951**		**281,323**		**108,540**		**466,808**
Less than $10,000	6,796	5%	40,382	9%	4,883	6%	18,646	7%	7,294	7%	39,815
$10,000 to $14,999	5,193	4%	23,681	5%	3,326	4%	12,871	5%	5,161	5%	23,886
$15,000 to $19,999	5,621	4%	22,918	5%	3,603	5%	13,136	5%	5,323	5%	23,574
$20,000 to $24,999	5,939	4%	22,320	5%	3,741	5%	13,212	5%	5,157	5%	23,299
$25,000 to $29,999	6,146	4%	21,131	5%	3,617	5%	13,231	5%	5,130	5%	21,655
$30,000 to $34,999	5,886	4%	21,114	5%	3,121	4%	12,598	4%	5,182	5%	21,650
$35,000 to $39,999	5,591	4%	19,345	4%	3,059	4%	11,871	4%	4,866	4%	19,956
$40,000 to $44,999	5,926	4%	19,461	4%	3,253	4%	12,227	4%	5,204	5%	20,364
$45,000 to $49,999	5,084	4%	16,424	4%	2,602	3%	10,316	4%	4,201	4%	17,255
$50,000 to $54,999	5,295	4%	16,554	4%	2,797	4%	10,254	4%	4,104	4%	17,334
$55,000 to $59,999	5,325	4%	16,035	3%	2,834	4%	10,048	4%	4,090	4%	16,644
$60,000 to $64,999	4,792	3%	14,423	3%	2,622	3%	9,612	3%	3,816	4%	15,196
$65,000 to $69,999	4,721	3%	13,531	3%	2,614	3%	9,138	3%	3,790	3%	14,255
$70,000 to $74,999	4,280	3%	12,411	3%	2,347	3%	8,221	3%	3,424	3%	12,958
$75,000 to $79,999	4,159	3%	11,821	3%	2,314	3%	7,865	3%	3,199	3%	12,371
$80,000 to $84,999	3,914	3%	11,037	2%	2,161	3%	7,391	3%	2,992	3%	11,573
$85,000 to $89,999	3,639	3%	10,292	2%	2,008	3%	6,841	2%	2,772	3%	10,789
$90,000 to $94,999	3,335	2%	9,494	2%	1,850	2%	6,325	2%	2,552	2%	9,954
$95,000 to $99,999	3,106	2%	8,727	2%	1,704	2%	5,895	2%	2,326	2%	9,152
$100,000 to $124,999	14,588	11%	37,754	8%	8,044	11%	26,620	9%	10,737	10%	39,470
$125,000 to $149,999	9,452	7%	25,157	5%	4,719	6%	17,185	6%	6,553	6%	25,532
$150,000 to $174,999	7,034	5%	19,001	4%	3,273	4%	13,001	5%	4,169	4%	19,364
$175,000 to $199,999	5,423	4%	15,871	3%	2,309	3%	10,212	4%	2,975	3%	14,270
$200,000 to $249,999	3,794	3%	17,209	4%	1,769	2%	8,193	3%	1,979	2%	14,851
$250,000 to $499,999	1,615	1%	7,338	2%	753	1%	3,491	1%	840	1%	6,327
$500,000 or more	1,352	1%	6,150	1%	628	1%	2,922	1%	703	1%	5,315
Median Household Income	$ 66,492		$ 57,014		$ 62,171		$ 61,171		$ 58,237		$ 56,387
Average Household Income	$ 86,178		$ 87,259		$ 80,108		$ 83,353		$ 75,620		$ 81,431

	M	N	O	P	Q	R	S	T	U	V	W
1											
2											
3											
4	**ncome**										
5											
6											
7	**ITAL**	**DELAWARE COUNTY MEMORIAL HOSPITAL 0 - 5 mi**		**DELAWARE COUNTY MEMORIAL HOSPITAL 0 - 10 mi**		**Philadelphia-Camden-Wilmington, PA-NJ-DE-MD Metro Area**		**Pennsylvania**		**United States**	
8	%		%		%		%		%		%
9		**233,685**		**688,554**		**2,332,309**		**5,104,155**		**125,424,890**	
10											
11	9%	24,081	10%	75,273	11%	153,021	7%	327,439	6%	8,455,639	7%
12	5%	14,471	6%	42,262	6%	97,847	4%	252,583	5%	6,169,045	5%
13	5%	13,084	6%	39,378	6%	101,894	4%	264,442	5%	6,229,725	5%
14	5%	12,529	5%	36,368	5%	100,641	4%	261,106	5%	6,332,065	5%
15	5%	11,631	5%	33,592	5%	96,655	4%	252,102	5%	6,066,430	5%
16	5%	12,227	5%	32,815	5%	97,897	4%	250,524	5%	6,097,315	5%
17	4%	11,032	5%	29,615	4%	91,557	4%	233,476	5%	5,708,552	5%
18	4%	10,838	5%	29,267	4%	94,217	4%	232,549	5%	5,641,404	4%
19	4%	8,999	4%	24,726	4%	84,362	4%	209,756	4%	5,127,126	4%
20	4%	9,011	4%	24,871	4%	84,096	4%	205,351	4%	4,920,904	4%
21	4%	8,704	4%	23,877	3%	81,842	4%	201,777	4%	4,777,200	4%
22	3%	7,399	3%	21,280	3%	79,354	3%	192,089	4%	4,604,779	4%
23	3%	6,798	3%	19,428	3%	71,759	3%	176,439	3%	4,183,780	3%
24	3%	6,257	3%	17,742	3%	66,267	3%	159,490	3%	3,786,882	3%
25	3%	5,768	2%	16,556	2%	67,314	3%	151,687	3%	3,606,313	3%
26	2%	5,361	2%	15,350	2%	62,187	3%	140,384	3%	3,343,665	3%
27	2%	4,938	2%	14,338	2%	58,180	2%	129,645	3%	3,092,165	2%
28	2%	4,510	2%	13,194	2%	53,661	2%	119,187	2%	2,845,307	2%
29	2%	4,110	2%	12,110	2%	49,780	2%	109,471	2%	2,624,629	2%
30	8%	17,517	7%	50,721	7%	223,935	10%	441,086	9%	10,730,549	9%
31	5%	10,817	5%	32,854	5%	153,745	7%	267,276	5%	6,648,970	5%
32	4%	7,784	3%	24,598	4%	116,773	5%	177,480	3%	4,649,411	4%
33	3%	5,868	3%	19,899	3%	96,252	4%	132,798	3%	3,841,286	3%
34	3%	5,586	2%	21,550	3%	83,527	4%	121,060	2%	3,331,013	3%
35	1%	2,371	1%	9,182	1%	35,670	2%	51,521	1%	1,419,788	1%
36	1%	1,994	1%	7,707	1%	29,876	1%	43,437	1%	1,190,948	1%
37											
38		$ 48,862		$ 50,197		$ 65,193		$ 56,555		$ 57,056	
39		$ 72,945		$ 78,174		$ 90,314		$ 76,742		$ 79,527	

SPRINGFIELD HOSPITAL
Sitewise Online
Current Year Estimated Households by Wealth &

Current Year Estimated Households by Wealth & Poverty	SPRINGFIELD HOSPITAL 0 - 5 mi		SPRINGFIELD HOSPITAL 0 - 10 mi		CROZER CHESTER MEDICAL CENTER 0 - 5 mi		CROZER CHESTER MEDICAL CENTER 0 - 10 mi		TAYLOR HOSPITAL 0 - 5 mi		TAYLOR HOSP 0 - 10 mi
		%		%		%		%		%	
Estimated Households by Wealth	**138,008**		**459,581**		**75,951**		**281,323**		**108,540**		**466,808**
$0 and under*	23,777	17%	84,318	18%	13,480	18%	49,589	18%	19,573	18%	86,129
$1 to $4,999	11,632	8%	42,629	9%	6,762	9%	24,684	9%	9,889	9%	43,732
$5,000 to $9,999	6,239	5%	22,166	5%	3,556	5%	13,021	5%	5,184	5%	22,693
$10,000 to $24,999	8,732	6%	29,928	7%	4,884	6%	17,971	6%	7,060	7%	30,586
$25,000 to $49,999	9,482	7%	31,335	7%	5,228	7%	19,324	7%	7,504	7%	31,963
$50,000 to $99,999	14,351	10%	46,581	10%	7,892	10%	29,176	10%	11,263	10%	47,469
$100,000 to $249,999	25,325	18%	80,930	18%	13,770	18%	51,108	18%	19,524	18%	82,113
$250,000 to $499,999	18,273	13%	57,735	13%	9,785	13%	36,497	13%	13,769	13%	58,236
$500,000+	20,196	15%	63,960	14%	10,595	14%	39,953	14%	14,772	14%	63,887
Average Household Wealth	$ 240,137		$ 228,987		$ 231,613		$ 234,501		$ 227,253		$ 226,366
Median Household Wealth	$ 81,850		$ 70,840		$ 75,761		$ 77,545		$ 72,459		$ 69,277
Estimated Households by Poverty	**138,008**		**459,581**		**75,951**		**281,323**		**108,540**		**466,808**
In Poverty	13,173	10%	76,912	17%	9,180	12%	35,491	13%	14,175	13%	76,818
Married	1,863	1%	7,610	2%	1,024	1%	4,545	2%	1,510	1%	8,130
Male Householder	727	1%	3,267	1%	519	1%	1,820	1%	795	1%	3,464
Female Householder	3,816	3%	20,340	4%	3,058	4%	11,327	4%	4,889	5%	20,732
Non-family	6,249	5%	38,515	8%	4,264	6%	16,621	6%	6,482	6%	37,687
Non-family Student	518	0%	7,180	2%	314	0%	1,177	0%	500	0%	6,805
Above Poverty	124,834	90%	382,669	83%	66,772	88%	245,832	87%	94,364	87%	389,989

*The data range reaches from negative wealth (household debts outstrip assets) to zero (assets equal liabilities)

Poverty

	M	N	O	P	Q	R	S	T	U	V	W
7	ITAL	DELAWARE COUNTY MEMORIAL HOSPITAL 0 - 5 mi		DELAWARE COUNTY MEMORIAL HOSPITAL 0 - 10 mi		Philadelphia-Camden-Wilmington, PA-NJ-DE-MD Metro Area		Pennsylvania		United States	
8	%		%		%		%		%		%
9		**233,685**		**688,554**		**2,332,309**		**5,104,155**		**125,424,890**	
10	18%	43,976	19%	131,125	19%	409,978	18%	901,967	18%	22,635,786	18%
11	9%	22,635	10%	67,880	10%	202,946	9%	454,656	9%	11,431,151	9%
12	5%	11,625	5%	34,605	5%	107,217	5%	238,198	5%	5,955,278	5%
13	7%	15,465	7%	45,778	7%	148,668	6%	328,988	6%	8,163,842	7%
14	7%	16,064	7%	47,131	7%	159,765	7%	351,718	7%	8,650,804	7%
15	10%	23,838	10%	69,443	10%	240,340	10%	531,554	10%	12,927,730	10%
16	18%	40,846	17%	118,755	17%	422,137	18%	928,247	18%	22,442,389	18%
17	12%	28,521	12%	83,262	12%	304,048	13%	658,072	13%	15,941,928	13%
18	14%	30,716	13%	90,575	13%	337,210	14%	710,755	14%	17,275,982	14%
19											
20		$ 219,800		$ 218,989		$ 237,118		$ 231,519		$ 228,756	
21		$ 64,847		$ 62,786		$ 78,622		$ 76,013		$ 72,725	
22											
23		**233,685**		**688,554**		**2,332,309**		**5,104,155**		**125,424,890**	
24	16%	45,993	20%	144,187	21%	295,237	13%	652,561	13%	17,984,735	14%
25	2%	4,527	2%	13,221	2%	37,831	2%	95,012	2%	3,403,493	3%
26	1%	2,245	1%	6,752	1%	15,108	1%	33,262	1%	987,291	1%
27	4%	13,089	6%	41,874	6%	82,225	4%	169,880	3%	4,852,088	4%
28	8%	21,826	9%	70,990	10%	142,187	6%	315,834	6%	7,805,576	6%
29	1%	4,307	2%	11,350	2%	17,886	1%	38,573	1%	936,287	1%
30	84%	187,692	80%	544,367	79%	2,037,072	87%	4,451,594	87%	107,440,155	86%
31											
32											

	A	B	C	D	E	F	G	H	I
1									
2	**SOUTHERN NEW ENGLAND REHABILITATION CENTER, ROGER WILLIAMS MEDICAL**								
3	**ENTER, Rhode Island, Providence-Warwick, RI-MA Metro Area, United States...**								
4	**Sitewise Online**								
5									
6									
7									
8	**Study Area Maps**								
9	Bossier City - Cornerstone								
10									
11									
12	**Profile Tables**								
13	STI: PopStats Population Summary								
14	STI: PopStats Household Summary								
15	Current Year Estimated Households by Household Income								
16	Current Year Estimated Households by Wealth & Poverty								
17									
18									
19	**Prepared on: 2/28/2019 10:20:57 PM**								

	A	B	C	D	E	F	G	H
1		2018 Estimate	Growth 2018-2010	Growth 2023-2018	**2018 Median Age**	**Median Household Income**	In Poverty	
2	**SOUTHERN NEW ENGLAND REHABILITATION CENTER 0 - 5 mi**	338,328	0.55%	0.42%	35.9	$ 44,056	22.00%	
3	**SOUTHERN NEW ENGLAND REHABILITATION CENTER 0 - 10 mi**	655,007	1.24%	0.76%	39.2	$ 54,825	16.00%	
4	**ROGER WILLIAMS MEDICAL CENTER 0 - 5 mi**	404,708	0.60%	0.48%	36.6	$ 45,371	21.00%	
5	**ROGER WILLIAMS MEDICAL CENTER 0 - 10 mi**	684,361	1.13%	0.70%	39.4	$ 55,746	16.00%	
6	**Rhode Island**	1,063,358	1.03%	0.79%	40.9	$ 59,985	14.00%	
7	**Providence-Warwick, RI-MA Metro Area**	1,630,285	1.84%	0.62%	41.2	$ 60,216	14.00%	
8	**United States**	331,654,968	6.14%	3.92%	38.6	$ 57,056	14.00%	
9								
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12								
13		Age 0 to 4	Age 5 to 14	Age 14 to 18	Age 18 to 22	Age 22 to 25	Age 25 to 30	Age 30 to 35
14	**SOUTHERN NEW ENGLAND REHABILITATION CENTER 0 - 5 mi**	20,019	36,146	15,968	27,414	15,690	23,820	25,587
15	**SOUTHERN NEW ENGLAND REHABILITATION CENTER 0 - 10 mi**	36,060	65,633	30,049	46,013	28,898	43,058	42,942
16	**ROGER WILLIAMS MEDICAL CENTER 0 - 5 mi**	23,883	42,897	18,796	31,108	18,359	28,086	30,007
17	**ROGER WILLIAMS MEDICAL CENTER 0 - 10 mi**	37,554	68,278	31,398	47,633	30,031	44,888	44,619
18	**Rhode Island**	55,257	100,992	47,773	75,214	45,815	68,105	65,813
19	**Providence-Warwick, RI-MA Metro Area**	85,335	157,544	74,372	109,151	69,692	103,664	98,616
20	**United States**	20,794,278	37,242,032	16,874,771	20,964,824	13,408,411	21,065,812	20,375,330

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13	Age 35 to 40	Age 40 to 45	Age 45 to 50	Age 50 to 55	Age 55 to 60	Age 60 to 65	Age 65 to 70	Age 70 to 75	Age 75 to 80	Age 80 to 85	Age 85 and over
14	23,996	21,420	20,668	21,068	20,634	18,767	15,497	11,751	7,991	5,663	6,229
15	41,590	40,002	41,558	44,814	45,855	42,366	35,158	26,652	17,828	12,580	13,949
16	28,480	25,665	24,763	25,372	25,153	23,213	19,367	14,643	9,885	7,067	7,965
17	43,246	41,674	43,401	47,083	48,345	44,644	37,027	28,071	18,744	13,184	14,541
18	62,280	60,865	65,974	74,551	79,041	73,886	62,945	48,399	31,661	21,468	23,319
19	94,749	94,740	104,160	116,892	121,988	112,684	95,857	74,246	48,930	33,073	34,592
20	20,879,834	20,395,006	20,828,811	21,756,547	22,477,727	20,922,928	17,946,207	14,049,812	9,656,941	6,483,156	5,532,541

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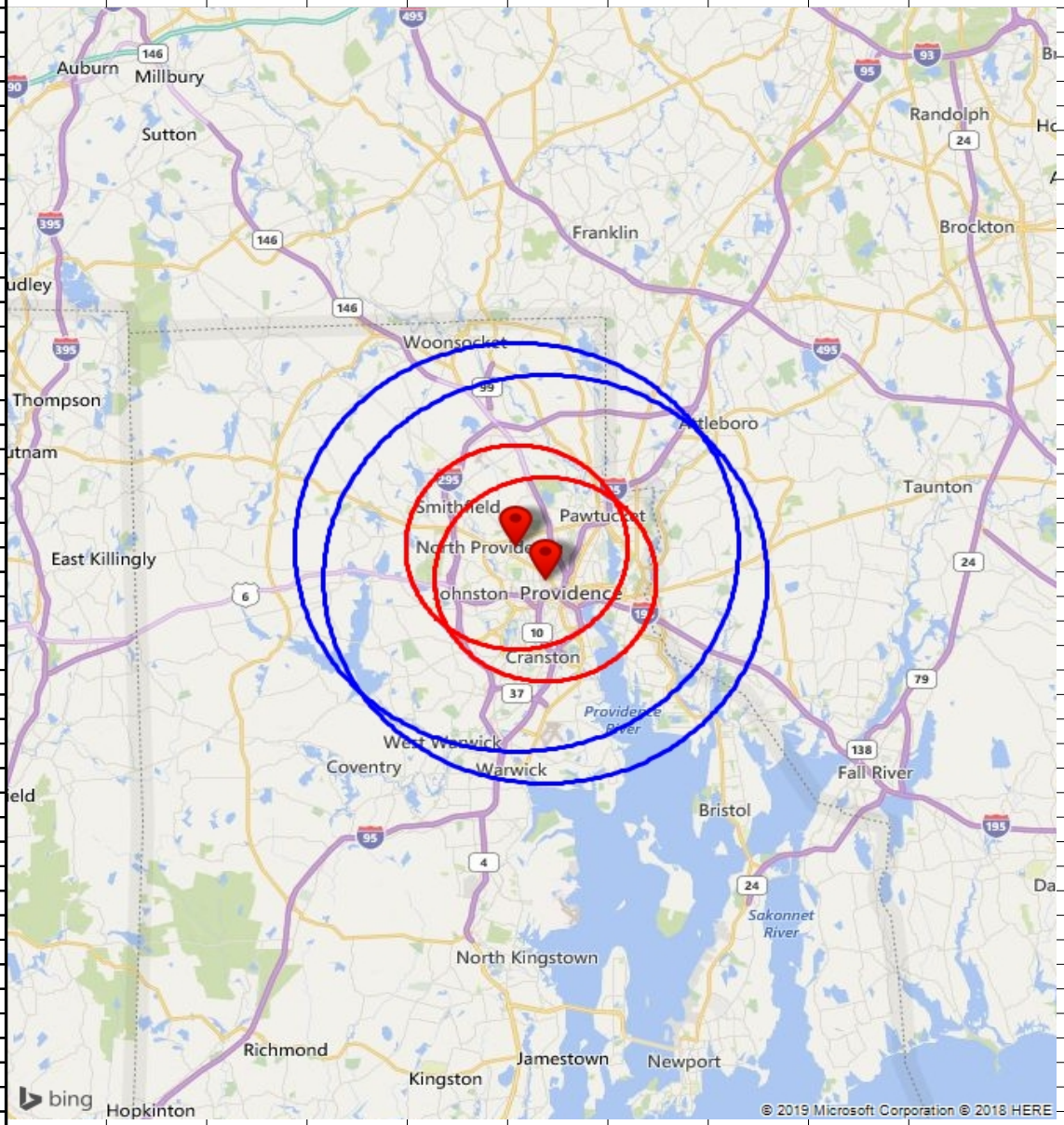
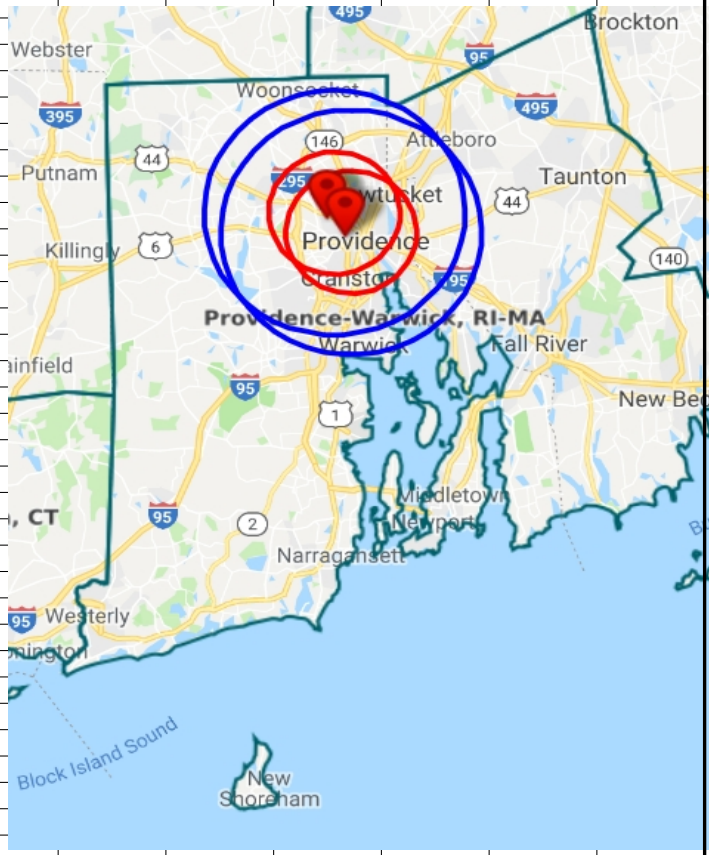
12														
13	**2018 Estimated Total Population by Age**	CHECK			0-18	%	19-64	%	65+	%		CHECK		
14	338,328	338,328	0		72,133	*21.32%*	219,064	*64.75%*	47,131	*13.93%*		338,328	-	100.00%
15	655,007	655,005	2		131,742	*20.11%*	417,096	*63.68%*	106,167	*16.21%*		655,005	-	100.00%
16	404,708	404,709	-1		85,576	*21.15%*	260,206	*64.29%*	58,927	*14.56%*		404,709	-	100.00%
17	684,361	684,361	0		137,230	*20.05%*	435,564	*63.65%*	111,567	*16.30%*		684,361	-	100.00%
18	1,063,358	1,063,358	0		204,022	*19.19%*	671,544	*63.15%*	187,792	*17.66%*		1,063,358	-	100.00%
19	1,630,285	1,630,285	0		317,251	*19.46%*	1,026,336	*62.95%*	286,698	*17.59%*		1,630,285	-	100.00%
20	331,654,968	331,654,968	0		74,911,081	*22.59%*	203,075,230	*61.23%*	53,668,657	*16.18%*		331,654,968	-	100.00%

Bossier City - Cornerstone





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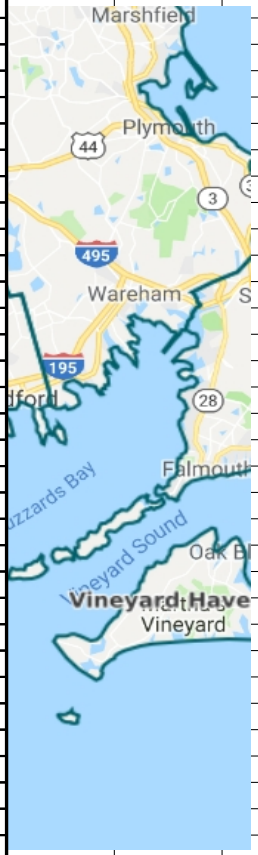

SOUTHERN NEW ENGLAND REHABILITATION CENTER
Sitewise Online
STI: PopStats Population Summary

STI: PopStats Population Summary	SOUTHERN NEW ENGLAND REHABILITATION CENTER 0 - 5 mi	%	SOUTHERN NEW ENGLAND REHABILITATION CENTER 0 - 10 mi	%	ROGER WILLIAMS MEDICAL CENTER 0 - 5 mi	%	ROGER WILLIAMS MEDICAL CENTER 0 - 10 mi	%	Rhode Island	%	Providence-Warwick, RI-MA Metro Area
Population											
2028 Forecast	342,188		665,257		409,682		694,378		1,081,330		1,650,368
2023 Projection	339,765		659,981		406,652		689,144		1,071,718		1,640,357
2018 Estimate	338,328		655,007		404,708		684,361		1,063,358		1,630,285
2010 Census	336,492		646,992		402,276		676,742		1,052,567		1,600,852
2000 Census	331,643		640,907		398,552		672,333		1,048,318		1,583,033
1990 Census	312,409		607,780		382,673		639,238		999,920		1,506,288
Growth 2028-2023	0.71%		0.80%		0.75%		0.76%		0.90%		0.61%
Growth 2023-2018	0.42%		0.76%		0.48%		0.70%		0.79%		0.62%
Growth 2018-2010	0.55%		1.24%		0.60%		1.13%		1.03%		1.84%
Growth 2010-2000	1.46%		0.95%		0.93%		0.66%		0.41%		1.13%
2018 Estimated Population by Ethnicity	**338,328**		**655,007**		**404,708**		**684,361**		**1,063,358**		**1,630,285**
White	213,626	63%	488,802	75%	261,469	65%	516,778	76%	865,978	81%	1,364,709
Black	41,239	12%	54,184	8%	47,658	12%	54,409	8%	62,477	6%	81,581
Asian	15,063	4%	24,394	4%	18,233	5%	24,621	4%	31,774	3%	42,681
Other	68,401	20%	87,626	13%	77,347	19%	88,553	13%	103,129	10%	141,314
2018 Estimated Population Hispanic or Latino	95,918		118,580		106,653		119,460		134,941		170,441
2018 Estimated Total Population by Age	**338,328**		**655,007**		**404,708**		**684,361**		**1,063,358**		**1,630,285**
Age 0 to 4	20,019	6%	36,060	6%	23,883	6%	37,554	5%	55,257	5%	85,335
Age 5 to 14	36,146	11%	65,633	10%	42,897	11%	68,278	10%	100,992	9%	157,544
Age 14 to 18	15,968	5%	30,049	5%	18,796	5%	31,398	5%	47,773	4%	74,372
Age 18 to 22	27,414	8%	46,013	7%	31,108	8%	47,633	7%	75,214	7%	109,151
Age 22 to 25	15,690	5%	28,898	4%	18,359	5%	30,031	4%	45,815	4%	69,692
Age 25 to 30	23,820	7%	43,058	7%	28,086	7%	44,888	7%	68,105	6%	103,664
Age 30 to 35	25,587	8%	42,942	7%	30,007	7%	44,619	7%	65,813	6%	98,616
Age 35 to 40	23,996	7%	41,590	6%	28,480	7%	43,246	6%	62,280	6%	94,749
Age 40 to 45	21,420	6%	40,002	6%	25,665	6%	41,674	6%	60,865	6%	94,740
Age 45 to 50	20,668	6%	41,558	6%	24,763	6%	43,401	6%	65,974	6%	104,160
Age 50 to 55	21,068	6%	44,814	7%	25,372	6%	47,083	7%	74,551	7%	116,892
Age 55 to 60	20,634	6%	45,855	7%	25,153	6%	48,345	7%	79,041	7%	121,988
Age 60 to 65	18,767	6%	42,366	6%	23,213	6%	44,644	7%	73,886	7%	112,684
Age 65 to 70	15,497	5%	35,158	5%	19,367	5%	37,027	5%	62,945	6%	95,857
Age 70 to 75	11,751	3%	26,652	4%	14,643	4%	28,071	4%	48,399	5%	74,246
Age 75 to 80	7,991	2%	17,828	3%	9,885	2%	18,744	3%	31,661	3%	48,930
Age 80 to 85	5,663	2%	12,580	2%	7,067	2%	13,184	2%	21,468	2%	33,073
Age 85 and over	6,229	2%	13,949	2%	7,965	2%	14,541	2%	23,319	2%	34,592

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6			
7		**United States**	
8	%		%
9			
10		358,353,705	
11		344,641,184	
12		331,654,968	
13		312,471,327	
14		281,421,872	
15		251,960,433	
16			
17		3.98%	
18		3.92%	
19		6.14%	
20		11.03%	
21			
22		**331,654,968**	
23	84%	241,306,419	73%
24	5%	41,212,782	12%
25	3%	16,259,425	5%
26	9%	32,876,342	10%
27			
28		58,069,917	
29			
30		**331,654,968**	
31	5%	20,794,278	6%
32	10%	37,242,032	11%
33	5%	16,874,771	5%
34	7%	20,964,824	6%
35	4%	13,408,411	4%
36	6%	21,065,812	6%
37	6%	20,375,330	6%
38	6%	20,879,834	6%
39	6%	20,395,006	6%
40	6%	20,828,811	6%
41	7%	21,756,547	7%
42	7%	22,477,727	7%
43	7%	20,922,928	6%
44	6%	17,946,207	5%
45	5%	14,049,812	4%
46	3%	9,656,941	3%
47	2%	6,483,156	2%
48	2%	5,532,541	2%
49			

	A	B	C	D	E	F	G	H	I	J	K	L
50	**2018 Median Age**	35.9		39.2		36.6		39.4		40.9		41.2
51	**2018 Average Age**	38.0		40.0		38.4		40.1		41.0		41.0
52												
53	**2018 Estimated Population Age 25+ by Educational Attainment**	**223,092**		**448,352**		**269,665**		**469,467**		**738,307**		**1,134,191**
54	Less than 9th grade	23,805	11%	34,386	8%	27,628	10%	34,838	7%	42,677	6%	75,858
55	Some High School, no diploma	22,143	10%	37,395	8%	25,856	10%	38,558	8%	53,930	7%	84,730
56	High School Graduate (or GED)	65,135	29%	129,579	29%	79,389	29%	134,163	29%	203,776	28%	322,433
57	Some College, no degree	39,245	18%	82,223	18%	47,827	18%	86,430	18%	135,053	18%	206,720
58	Associate Degree	15,056	7%	36,188	8%	19,172	7%	38,395	8%	62,612	8%	98,503
59	Bachelor's Degree	33,422	15%	77,460	17%	40,990	15%	82,735	18%	142,879	19%	210,057
60	Master's Degree	15,548	7%	35,640	8%	18,732	7%	37,501	8%	68,785	9%	98,426
61	Professional School Degree	4,204	2%	8,375	2%	5,142	2%	9,166	2%	15,697	2%	20,795
62	Doctorate Degree	4,533	2%	7,105	2%	4,930	2%	7,681	2%	12,898	2%	16,669

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50		38.6	
51		39.3	
52			
53		**222,370,652**	
54	7%	12,727,575	6%
55	7%	16,614,199	7%
56	28%	61,085,466	27%
57	18%	46,461,896	21%
58	9%	18,236,971	8%
59	19%	41,780,322	19%
60	9%	18,081,465	8%
61	2%	4,408,614	2%
62	1%	2,974,144	1%

SOUTHERN NEW ENGLAND REHABILITATION CENTER
Sitewise Online
STI: PopStats Household Summary

STI: PopStats Household Summary	SOUTHERN NEW ENGLAND REHABILITATION CENTER 0 - 5 mi	%	SOUTHERN NEW ENGLAND REHABILITATION CENTER 0 - 10 mi	%	ROGER WILLIAMS MEDICAL CENTER 0 - 5 mi	%	ROGER WILLIAMS MEDICAL CENTER 0 - 10 mi	%	Rhode Island	%	Providence-Warwi MA Metro Ar
Households											
2028 Forecast	131,124		257,661		158,549		269,601		425,801		646,571
2023 Projection	130,076		255,476		157,228		267,426		421,805		642,524
2018 Estimate	129,347		253,349		156,254		265,370		418,158		638,396
2010 Census	128,414		250,037		154,987		262,293		413,600		626,610
2000 Census	127,928		247,887		155,297		260,563		408,422		613,846
1990 Census	119,615		231,596		147,434		243,752		377,050		564,271
Growth 2028-2023	0.81%		0.86%		0.84%		0.81%		0.95%		0.63%
Growth 2023-2018	0.56%		0.84%		0.62%		0.77%		0.87%		0.65%
Growth 2018-2010	0.73%		1.32%		0.82%		1.17%		1.10%		1.88%
Growth 2010-2000	0.38%		0.87%		-0.20%		0.66%		1.27%		2.08%
Population in Households											
2028 Forecast	326,370		638,580		391,700		667,770		1,039,140		1,592,510
2023 Projection	323,946		633,305		388,666		662,532		1,029,530		1,582,496
2018 Estimate	322,514		628,345		386,726		657,763		1,021,045		1,572,317
Average Household Size											
2028 Forecast	2.49		2.48		2.47		2.48		2.44		2.46
2023 Projection	2.49		2.48		2.47		2.48		2.44		2.46
2018 Estimated	2.49		2.48		2.47		2.48		2.44		2.46
2018 Estimated Families by Number of Workers in Family	**77,260**		**159,880**		**93,678**		**167,654**		**264,813**		**411,334**
No workers	11,427	15%	22,116	14%	13,906	15%	23,057	14%	37,507	14%	59,106
1 worker	27,874	36%	51,139	32%	33,195	35%	53,159	32%	83,104	31%	126,210
2 workers	28,914	37%	65,626	41%	35,723	38%	69,521	41%	110,430	42%	172,129
3 or more workers	9,045	12%	20,999	13%	10,855	12%	21,917	13%	33,772	13%	53,889
2018 Estimated Housing Units by Tenure	**143,909**		**275,483**		**172,907**		**288,208**		**467,452**		**705,453**
Vacant Housing Units	14,562	10%	22,134	8%	16,653	10%	22,838	8%	49,294	11%	67,057
Occupied Housing Units	129,347	90%	253,349	92%	156,254	90%	265,370	92%	418,158	89%	638,396
Owner-Occupied	57,508	40%	144,258	52%	72,972	42%	153,454	53%	254,209	54%	391,715
Renter-Occupied	71,838	50%	109,091	40%	83,281	48%	111,917	39%	163,949	35%	246,681
2018 Estimated Per Capita Income	$ 25,838		$ 29,382		$ 25,848		$ 29,771		$ 32,469		$ 32,018

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7	**ick, RI-ea**	**United States**	
8	%		%
9			
10		135,414,907	
11		130,290,401	
12		125,424,890	
13		118,092,823	
14		106,741,406	
15		93,032,986	
16			
17		3.93%	
18		3.88%	
19		6.21%	
20		10.63%	
21			
22			
23		350,415,610	
24		336,703,088	
25		323,722,908	
26			
27			
28		2.59	
29		2.58	
30		2.58	
31			
32		**83,944,145**	
33			
34	14%	12,684,788	15%
35	31%	27,852,396	33%
36	42%	34,349,105	41%
37	13%	9,057,856	11%
38			
39		**140,692,652**	
40			
41	10%	15,267,762	11%
42	90%	125,424,890	89%
43	56%	81,785,278	58%
44	35%	43,639,612	31%
45			
46		$ 30,517	

SOUTHERN NEW ENGLAND REHABILITATION CENTER
Sitewise Online
Current Year Estimated Households by Household Income

Current Year Estimated Households by Household Income	SOUTHERN NEW ENGLAND REHABILITATION CENTER 0 - 5 mi		SOUTHERN NEW ENGLAND REHABILITATION CENTER 0 - 10 mi		ROGER WILLIAMS MEDICAL CENTER 0 - 5 mi		ROGER WILLIAMS MEDICAL CENTER 0 - 10 mi		Rhode Island		Providence-Warwi MA Metro Ar
		%		%		%		%		%	
Current Year Estimated Households by Household Income	**129,347**		**253,349**		**156,254**		**265,370**		**418,158**		**638,396**
Less than $10,000	14,058	11%	20,432	8%	16,103	10%	20,953	8%	30,016	7%	43,241
$10,000 to $14,999	9,623	7%	15,135	6%	11,097	7%	15,550	6%	21,902	5%	35,566
$15,000 to $19,999	7,330	6%	12,524	5%	8,576	5%	13,151	5%	19,483	5%	31,094
$20,000 to $24,999	7,641	6%	12,976	5%	9,159	6%	13,504	5%	19,972	5%	30,183
$25,000 to $29,999	7,463	6%	12,536	5%	8,966	6%	12,801	5%	18,621	4%	28,085
$30,000 to $34,999	6,775	5%	11,836	5%	8,145	5%	12,299	5%	18,852	5%	27,910
$35,000 to $39,999	6,386	5%	11,389	4%	7,649	5%	11,719	4%	17,450	4%	26,896
$40,000 to $44,999	6,653	5%	11,538	5%	7,979	5%	12,008	5%	17,852	4%	26,512
$45,000 to $49,999	4,861	4%	9,539	4%	6,107	4%	9,929	4%	15,396	4%	23,668
$50,000 to $54,999	4,603	4%	9,091	4%	5,765	4%	9,374	4%	14,808	4%	22,594
$55,000 to $59,999	4,464	3%	8,997	4%	5,671	4%	9,367	4%	14,771	4%	22,494
$60,000 to $64,999	4,237	3%	9,097	4%	5,446	3%	9,551	4%	14,870	4%	22,109
$65,000 to $69,999	3,520	3%	7,788	3%	4,491	3%	8,233	3%	12,915	3%	20,039
$70,000 to $74,999	3,497	3%	7,592	3%	4,438	3%	7,972	3%	12,280	3%	18,621
$75,000 to $79,999	3,241	3%	7,515	3%	4,127	3%	7,910	3%	12,521	3%	19,156
$80,000 to $84,999	2,967	2%	6,966	3%	3,798	2%	7,343	3%	11,759	3%	17,991
$85,000 to $89,999	2,734	2%	6,410	3%	3,482	2%	6,757	3%	10,821	3%	16,578
$90,000 to $94,999	2,510	2%	5,910	2%	3,186	2%	6,220	2%	9,985	2%	15,297
$95,000 to $99,999	2,314	2%	5,387	2%	2,938	2%	5,693	2%	9,152	2%	14,019
$100,000 to $124,999	8,762	7%	21,747	9%	11,055	7%	23,391	9%	39,283	9%	60,499
$125,000 to $149,999	5,242	4%	13,386	5%	6,510	4%	14,292	5%	25,064	6%	39,562
$150,000 to $174,999	3,560	3%	9,263	4%	4,030	3%	9,957	4%	17,485	4%	27,228
$175,000 to $199,999	2,835	2%	7,217	3%	3,138	2%	7,611	3%	13,084	3%	20,398
$200,000 to $249,999	2,282	2%	5,100	2%	2,471	2%	5,499	2%	11,117	3%	16,082
$250,000 to $499,999	966	1%	2,161	1%	1,045	1%	2,328	1%	4,729	1%	6,839
$500,000 or more	821	1%	1,819	1%	883	1%	1,959	1%	3,970	1%	5,735
Median Household Income	$ 44,056		$ 54,825		$ 45,371		$ 55,746		$ 59,985		$ 60,216
Average Household Income	$ 65,441		$ 74,148		$ 64,925		$ 75,033		$ 80,695		$ 79,997

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7	**ick, RI-ea**	**United States**	
8	%		%
9		**125,424,890**	
10			
11	7%	8,455,639	7%
12	6%	6,169,045	5%
13	5%	6,229,725	5%
14	5%	6,332,065	5%
15	4%	6,066,430	5%
16	4%	6,097,315	5%
17	4%	5,708,552	5%
18	4%	5,641,404	4%
19	4%	5,127,126	4%
20	4%	4,920,904	4%
21	4%	4,777,200	4%
22	3%	4,604,779	4%
23	3%	4,183,780	3%
24	3%	3,786,882	3%
25	3%	3,606,313	3%
26	3%	3,343,665	3%
27	3%	3,092,165	2%
28	2%	2,845,307	2%
29	2%	2,624,629	2%
30	9%	10,730,549	9%
31	6%	6,648,970	5%
32	4%	4,649,411	4%
33	3%	3,841,286	3%
34	3%	3,331,013	3%
35	1%	1,419,788	1%
36	1%	1,190,948	1%
37			
38		$ 57,056	
39		$ 79,527	

SOUTHERN NEW ENGLAND REHABILITATION CENTER
Sitewise Online
Current Year Estimated Households by Wealth & Poverty

Current Year Estimated Households by Wealth & Poverty	SOUTHERN NEW ENGLAND REHABILITATION CENTER 0 - 5 mi		SOUTHERN NEW ENGLAND REHABILITATION CENTER 0 - 10 mi		ROGER WILLIAMS MEDICAL CENTER 0 - 5 mi		ROGER WILLIAMS MEDICAL CENTER 0 - 10 mi		Rhode Island		Providence-Warw MA Metro Ar
		%		%		%		%		%	
Estimated Households by Wealth	**129,347**		**253,349**		**156,254**		**265,370**		**418,158**		**638,396**
$0 and under*	25,996	20%	47,503	19%	31,067	20%	49,503	19%	75,909	18%	116,179
$1 to $4,999	13,999	11%	24,632	10%	16,637	11%	25,573	10%	38,557	9%	59,258
$5,000 to $9,999	6,954	5%	12,576	5%	8,303	5%	13,089	5%	19,971	5%	30,572
$10,000 to $24,999	8,921	7%	16,783	7%	10,717	7%	17,521	7%	27,149	6%	41,545
$25,000 to $49,999	8,905	7%	17,441	7%	10,780	7%	18,259	7%	28,639	7%	43,805
$50,000 to $99,999	12,903	10%	25,807	10%	15,674	10%	27,063	10%	42,721	10%	65,390
$100,000 to $249,999	21,526	17%	44,223	17%	26,234	17%	46,464	18%	74,276	18%	113,387
$250,000 to $499,999	14,708	11%	31,047	12%	17,980	12%	32,695	12%	52,969	13%	80,591
$500,000+	15,433	12%	33,337	13%	18,863	12%	35,202	13%	57,967	14%	87,669
Average Household Wealth	$ 203,028		$ 220,085		$ 205,225		$ 221,490		$ 229,167		$ 227,734
Median Household Wealth	$ 49,713		$ 64,995		$ 51,990		$ 66,146		$ 72,066		$ 71,287
Estimated Households by Poverty	**129,347**		**253,349**		**156,254**		**265,370**		**418,158**		**638,396**
In Poverty	28,272	22%	40,349	16%	32,127	21%	41,262	16%	58,600	14%	87,960
Married	3,392	3%	4,939	2%	4,037	3%	5,143	2%	7,269	2%	10,908
Male Householder	1,262	1%	1,776	1%	1,484	1%	1,801	1%	2,421	1%	4,287
Female Householder	8,248	6%	11,370	4%	9,298	6%	11,492	4%	15,404	4%	23,641
Non-family	13,381	10%	19,831	8%	15,156	10%	20,352	8%	30,102	7%	44,831
Non-family Student	1,989	2%	2,432	1%	2,151	1%	2,473	1%	3,404	1%	4,293
Above Poverty	101,074	78%	213,000	84%	124,127	79%	224,109	84%	359,558	86%	550,436

*The data range reaches from negative wealth (household debts outstrip assets) to zero (assets equal liabilities)

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7	**ick, RI-ea**	**United States**	
8	%		%
9		**125,424,890**	
10	18%	22,635,786	18%
11	9%	11,431,151	9%
12	5%	5,955,278	5%
13	7%	8,163,842	7%
14	7%	8,650,804	7%
15	10%	12,927,730	10%
16	18%	22,442,389	18%
17	13%	15,941,928	13%
18	14%	17,275,982	14%
19			
20		$ 228,756	
21		$ 72,725	
22			
23		**125,424,890**	
24	14%	17,984,735	14%
25	2%	3,403,493	3%
26	1%	987,291	1%
27	4%	4,852,088	4%
28	7%	7,805,576	6%
29	1%	936,287	1%
30	86%	107,440,155	86%
31			
32			

	A	B	C	D	E	F	G	H	I
1									
2	**NIX SPECIALTY HEALTH CENTER, NIX HOSPITALS SYSTEM LCC, 1975 Babcock Rd, San Antonio, TX 78229, San Antonio, TX, Texas, United States...**								
3									
4	**Sitewise Online**								
5									
6									
7									
8	**Study Area Maps**								
9	Bossier City - Cornerstone								
10									
11									
12	**Profile Tables**								
13	STI: PopStats Population Summary								
14	STI: PopStats Household Summary								
15	Current Year Estimated Households by Household Income								
16	Current Year Estimated Households by Wealth & Poverty								
17									
18									
19	**Prepared on: 2/28/2019 10:00:37 PM**								

	A	B	C	D	E	F	G	H
1		2018 Estimate	Growth 2018-2010	Growth 2023-2018	**2018 Median Age**	**Median Household Income**	In Poverty	
2	**NIX SPECIALTY HEALTH CENTER 0 - 5 mi**	353,462	6.30%	0.90%	35.7	$ 48,053	18.00%	
3	**NIX SPECIALTY HEALTH CENTER 0 - 10 mi**	1,160,300	9.24%	2.94%	34.9	$ 51,669	17.00%	
4	**NIX HOSPITALS SYSTEM LCC 0 - 5 mi**	375,287	4.56%	-0.04%	34.2	$ 34,252	28.00%	
5	**NIX HOSPITALS SYSTEM LCC 0 - 10 mi**	1,016,124	6.49%	1.13%	33.8	$ 41,237	22.00%	
6	**1975 Babcock Rd, San Antonio, TX 78229 0 - 5 mi**	385,085	6.84%	1.60%	34.6	$ 46,718	19.00%	
7	**1975 Babcock Rd, San Antonio, TX 78229 0 - 10 mi**	1,174,273	11.44%	4.83%	34.1	$ 52,238	17.00%	
8	**San Antonio, TX**	2,839,279	15.50%	6.90%	35.5	$ 56,337	15.00%	
9	**Texas**	28,604,720	13.76%	7.02%	35.2	$ 58,169	15.00%	
10	**United States**	331,654,968	6.14%	3.92%	38.6	$ 57,056	14.00%	
11								
12								
13								
14								
15		Age 0 to 4	Age 5 to 14	Age 14 to 18	Age 18 to 22	Age 22 to 25	Age 25 to 30	Age 30 to 35
16	**NIX SPECIALTY HEALTH CENTER 0 - 5 mi**	29,301	43,651	15,772	21,081	12,639	22,350	28,307
17	**NIX SPECIALTY HEALTH CENTER 0 - 10 mi**	90,548	146,275	60,065	77,305	47,613	78,011	82,614
18	**NIX HOSPITALS SYSTEM LCC 0 - 5 mi**	26,834	48,317	21,517	24,378	17,733	27,348	25,624
19	**NIX HOSPITALS SYSTEM LCC 0 - 10 mi**	78,877	133,790	56,372	65,009	45,705	71,910	73,395
20	**1975 Babcock Rd, San Antonio, TX 78229 0 - 5 mi**	32,549	50,160	18,984	22,558	14,339	25,640	31,036
21	**1975 Babcock Rd, San Antonio, TX 78229 0 - 10 mi**	92,868	151,582	62,281	81,310	50,512	79,899	84,406
22	**San Antonio, TX**	207,891	358,409	158,904	187,820	122,520	189,536	175,830
23	**Texas**	2,142,024	3,734,289	1,641,381	1,893,652	1,168,045	1,862,157	1,796,306
24	**United States**	20,794,278	37,242,032	16,874,771	20,964,824	13,408,411	21,065,812	20,375,330

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14											
15	Age 35 to 40	Age 40 to 45	Age 45 to 50	Age 50 to 55	Age 55 to 60	Age 60 to 65	Age 65 to 70	Age 70 to 75	Age 75 to 80	Age 80 to 85	Age 85 and over
16	27,451	22,119	20,131	19,667	20,559	19,222	16,907	13,151	8,906	6,359	5,888
17	79,883	71,596	69,720	69,531	70,459	63,195	53,345	40,470	26,637	18,112	14,920
18	23,642	21,533	21,259	21,940	22,525	20,515	17,266	13,251	9,225	6,565	5,814
19	70,084	61,156	57,592	56,884	57,749	52,772	44,836	34,537	23,893	17,100	14,463
20	29,908	24,545	22,172	21,143	21,419	19,625	17,161	13,374	8,931	6,255	5,286
21	82,954	74,645	70,714	68,422	68,114	60,566	50,878	38,543	25,428	17,185	13,968
22	178,273	173,236	174,760	175,955	176,952	159,380	137,031	107,210	72,132	47,613	35,827
23	1,882,936	1,848,643	1,830,188	1,784,555	1,762,816	1,582,304	1,303,192	984,690	656,569	422,375	308,598
24	20,879,834	20,395,006	20,828,811	21,756,547	22,477,727	20,922,928	17,946,207	14,049,812	9,656,941	6,483,156	5,532,541

	T	U	V	W	X	Y	Z	AA	AB	AC	AD	AE	AF	AG
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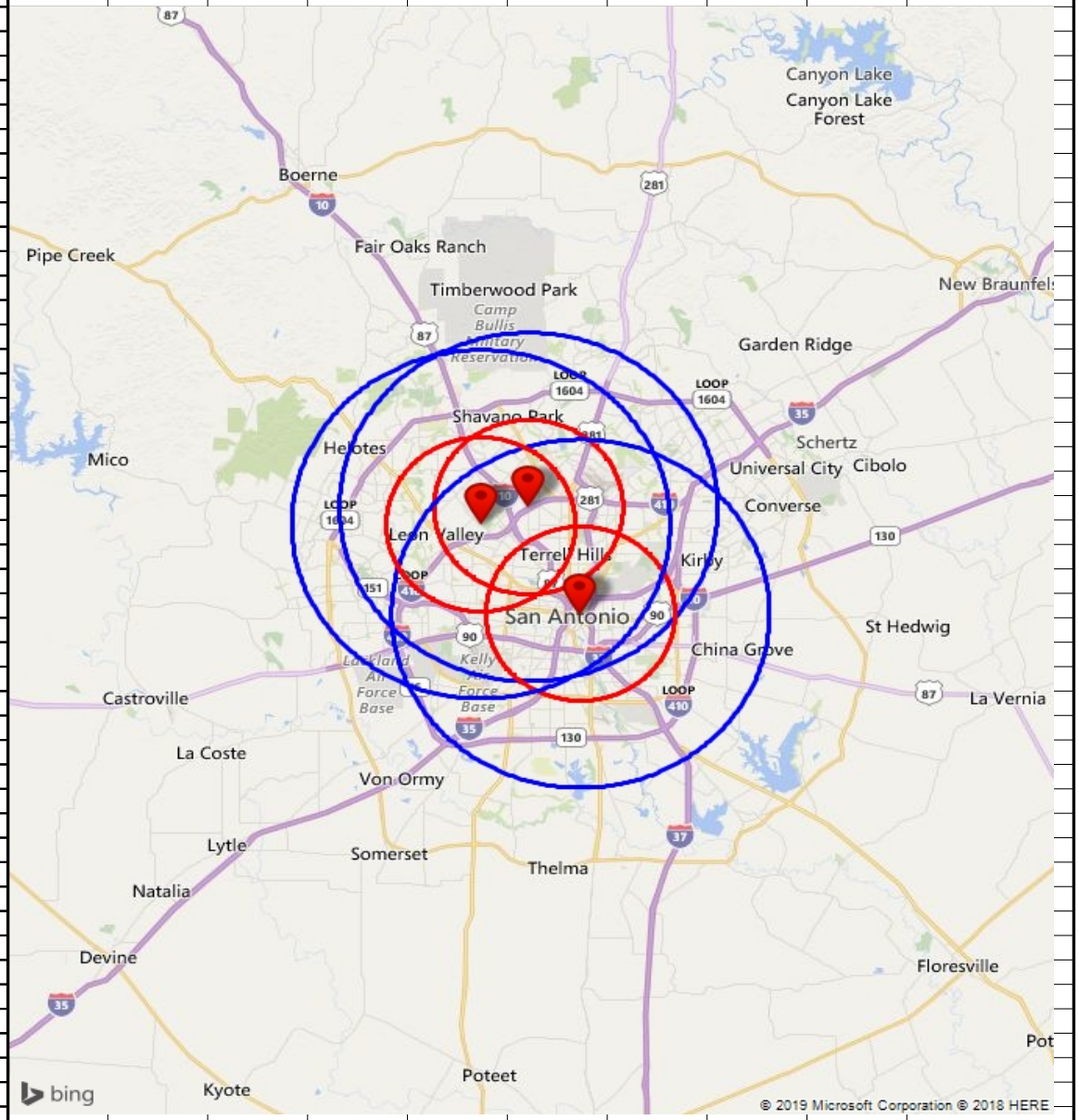
10														
11														
12														
13														
14														
15	**2018 Estimated Total Population by Age**	CHECK			0-18	%	19-64	%	65+	%		CHECK		
16	353,462	353,461	1		88,724	*25.10%*	213,526	*60.41%*	51,211	*14.49%*		353,461	-	100.00%
17	1,160,300	1,160,299	1		296,888	*25.59%*	709,927	*61.18%*	153,484	*13.23%*		1,160,299	-	100.00%
18	375,287	375,286	1		96,668	*25.76%*	226,497	*60.35%*	52,121	*13.89%*		375,286	-	100.00%
19	1,016,124	1,016,124	0		269,039	*26.48%*	612,256	*60.25%*	134,829	*13.27%*		1,016,124	-	100.00%
20	385,085	385,085	0		101,693	*26.41%*	232,385	*60.35%*	51,007	*13.25%*		385,085	-	100.00%
21	1,174,273	1,174,275	-2		306,731	*26.12%*	721,542	*61.45%*	146,002	*12.43%*		1,174,275	-	100.00%
22	2,839,279	2,839,279	0		725,204	*25.54%*	1,714,262	*60.38%*	399,813	*14.08%*		2,839,279	-	100.00%
23	28,604,720	28,604,720	0		7,517,694	*26.28%*	17,411,602	*60.87%*	3,675,424	*12.85%*		28,604,720	-	100.00%
24	331,654,968	331,654,968	0		74,911,081	*22.59%*	203,075,230	*61.23%*	53,668,657	*16.18%*		331,654,968	-	100.00%

Bossier City - Cornerstone



NIX SPECIALTY HEALTH CENTER
Sitewise Online
STI: PopStats Population Summary

STI: PopStats Population Summary	NIX SPECIALTY HEALTH CENTER 0 - 5 mi		NIX SPECIALTY HEALTH CENTER 0 - 10 mi		NIX HOSPITALS SYSTEM LCC 0 - 5 mi		NIX HOSPITALS SYSTEM LCC 0 - 10 mi		1975 Babcock Rd, San Antonio, TX 78229 0 - 5 mi		1975 Babcock Rd, San Antonio, TX 78229 0 - 10 mi
		%		%		%		%		%	
Population											
2028 Forecast	369,381		1,251,024		386,652		1,065,301		406,839		1,302,805
2023 Projection	356,647		1,194,362		375,143		1,027,557		391,258		1,231,039
2018 Estimate	353,462		1,160,300		375,287		1,016,124		385,085		1,174,273
2010 Census	332,503		1,062,192		358,912		954,193		360,436		1,053,725
2000 Census	322,802		951,261		370,112		908,918		335,080		907,264
1990 Census	284,773		820,641		368,872		862,671		294,736		787,684
Growth 2028-2023	3.57%		4.74%		3.07%		3.67%		3.98%		5.83%
Growth 2023-2018	0.90%		2.94%		-0.04%		1.13%		1.60%		4.83%
Growth 2018-2010	6.30%		9.24%		4.56%		6.49%		6.84%		11.44%
Growth 2010-2000	3.01%		11.66%		-3.03%		4.98%		7.57%		16.14%
2018 Estimated Population by Ethnicity	**353,462**		**1,160,300**		**375,287**		**1,016,124**		**385,085**		**1,174,273**
White	275,661	78%	874,327	75%	273,128	73%	736,546	72%	292,576	76%	888,371
Black	16,297	5%	76,800	7%	23,933	6%	79,038	8%	19,316	5%	70,073
Asian	10,954	3%	33,659	3%	2,202	1%	16,894	2%	12,527	3%	32,701
Other	50,551	14%	175,513	15%	76,025	20%	183,646	18%	60,667	16%	183,128
2018 Estimated Population Hispanic or Latino	210,844		684,345		297,531		704,847		255,924		719,137
2018 Estimated Total Population by Age	**353,462**		**1,160,300**		**375,287**		**1,016,124**		**385,085**		**1,174,273**
Age 0 to 4	29,301	8%	90,548	8%	26,834	7%	78,877	8%	32,549	8%	92,868
Age 5 to 14	43,651	12%	146,275	13%	48,317	13%	133,790	13%	50,160	13%	151,582
Age 14 to 18	15,772	4%	60,065	5%	21,517	6%	56,372	6%	18,984	5%	62,281
Age 18 to 22	21,081	6%	77,305	7%	24,378	6%	65,009	6%	22,558	6%	81,310
Age 22 to 25	12,639	4%	47,613	4%	17,733	5%	45,705	4%	14,339	4%	50,512
Age 25 to 30	22,350	6%	78,011	7%	27,348	7%	71,910	7%	25,640	7%	79,899
Age 30 to 35	28,307	8%	82,614	7%	25,624	7%	73,395	7%	31,036	8%	84,406
Age 35 to 40	27,451	8%	79,883	7%	23,642	6%	70,084	7%	29,908	8%	82,954
Age 40 to 45	22,119	6%	71,596	6%	21,533	6%	61,156	6%	24,545	6%	74,645
Age 45 to 50	20,131	6%	69,720	6%	21,259	6%	57,592	6%	22,172	6%	70,714
Age 50 to 55	19,667	6%	69,531	6%	21,940	6%	56,884	6%	21,143	5%	68,422
Age 55 to 60	20,559	6%	70,459	6%	22,525	6%	57,749	6%	21,419	6%	68,114
Age 60 to 65	19,222	5%	63,195	5%	20,515	5%	52,772	5%	19,625	5%	60,566
Age 65 to 70	16,907	5%	53,345	5%	17,266	5%	44,836	4%	17,161	4%	50,878
Age 70 to 75	13,151	4%	40,470	3%	13,251	4%	34,537	3%	13,374	3%	38,543
Age 75 to 80	8,906	3%	26,637	2%	9,225	2%	23,893	2%	8,931	2%	25,428
Age 80 to 85	6,359	2%	18,112	2%	6,565	2%	17,100	2%	6,255	2%	17,185
Age 85 and over	5,888	2%	14,920	1%	5,814	2%	14,463	1%	5,286	1%	13,968

	M	N	O	P	Q	R	S
1							
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6							
7		**San Antonio, TX**		**Texas**		**United States**	
8	%		%		%		%
9							
10		3,246,449		32,802,955		358,353,705	
11		3,035,318		30,612,601		344,641,184	
12		2,839,279		28,604,720		331,654,968	
13		2,458,276		25,145,561		312,471,327	
14		2,007,075		20,851,809		281,421,872	
15		1,663,156		16,974,075		251,960,433	
16							
17		6.96%		7.16%		3.98%	
18		6.90%		7.02%		3.92%	
19		15.50%		13.76%		6.14%	
20		22.48%		20.59%		11.03%	
21							
22		**2,839,279**		**28,604,720**		**331,654,968**	
23	76%	2,208,370	78%	20,514,617	72%	241,306,419	73%
24	6%	175,709	6%	3,352,767	12%	41,212,782	12%
25	3%	57,838	2%	1,184,240	4%	16,259,425	5%
26	16%	397,361	14%	3,553,096	12%	32,876,342	10%
27							
28		1,529,320		10,639,649		58,069,917	
29							
30		**2,839,279**		**28,604,720**		**331,654,968**	
31	8%	207,891	7%	2,142,024	7%	20,794,278	6%
32	13%	358,409	13%	3,734,289	13%	37,242,032	11%
33	5%	158,904	6%	1,641,381	6%	16,874,771	5%
34	7%	187,820	7%	1,893,652	7%	20,964,824	6%
35	4%	122,520	4%	1,168,045	4%	13,408,411	4%
36	7%	189,536	7%	1,862,157	7%	21,065,812	6%
37	7%	175,830	6%	1,796,306	6%	20,375,330	6%
38	7%	178,273	6%	1,882,936	7%	20,879,834	6%
39	6%	173,236	6%	1,848,643	6%	20,395,006	6%
40	6%	174,760	6%	1,830,188	6%	20,828,811	6%
41	6%	175,955	6%	1,784,555	6%	21,756,547	7%
42	6%	176,952	6%	1,762,816	6%	22,477,727	7%
43	5%	159,380	6%	1,582,304	6%	20,922,928	6%
44	4%	137,031	5%	1,303,192	5%	17,946,207	5%
45	3%	107,210	4%	984,690	3%	14,049,812	4%
46	2%	72,132	3%	656,569	2%	9,656,941	3%
47	1%	47,613	2%	422,375	1%	6,483,156	2%
48	1%	35,827	1%	308,598	1%	5,532,541	2%
49							

	A	B	C	D	E	F	G	H	I	J	K	L
50	**2018 Median Age**	35.7		34.9		34.2		33.8		34.6		34.1
51	**2018 Average Age**	37.2		36.6		36.8		36.2		36.2		35.9
52												
53	**2018 Estimated Population Age 25+ by Educational Attainment**	**231,017**		**738,494**		**236,509**		**636,371**		**246,495**		**735,721**
54	Less than 9th grade	16,852	7%	59,430	8%	38,147	16%	73,127	11%	21,376	9%	60,046
55	Some High School, no diploma	17,131	7%	62,014	8%	36,869	16%	76,545	12%	21,311	9%	62,000
56	High School Graduate (or GED)	53,023	23%	176,820	24%	71,128	30%	184,605	29%	62,500	25%	175,811
57	Some College, no degree	52,315	23%	169,357	23%	43,658	18%	140,703	22%	58,671	24%	169,842
58	Associate Degree	16,568	7%	53,936	7%	11,599	5%	40,347	6%	18,053	7%	54,964
59	Bachelor's Degree	46,017	20%	137,226	19%	21,926	9%	78,062	12%	41,781	17%	134,898
60	Master's Degree	18,640	8%	54,486	7%	8,266	3%	29,256	5%	16,144	7%	54,037
61	Professional School Degree	6,720	3%	15,869	2%	3,284	1%	8,649	1%	3,947	2%	15,187
62	Doctorate Degree	3,751	2%	9,356	1%	1,633	1%	5,076	1%	2,712	1%	8,937

	M	N	O	P	Q	R	S
50		35.5		35.2		38.6	
51		37.1		36.5		39.3	
52							
53		**1,803,735**		**18,025,329**		**222,370,652**	
54	8%	149,245	8%	1,607,777	9%	12,727,575	6%
55	8%	154,758	9%	1,571,113	9%	16,614,199	7%
56	24%	474,602	26%	4,507,547	25%	61,085,466	27%
57	23%	415,172	23%	4,031,645	22%	46,461,896	21%
58	7%	138,916	8%	1,228,489	7%	18,236,971	8%
59	18%	304,551	17%	3,344,090	19%	41,780,322	19%
60	7%	121,094	7%	1,263,471	7%	18,081,465	8%
61	2%	27,752	2%	277,744	2%	4,408,614	2%
62	1%	17,645	1%	193,453	1%	2,974,144	1%

NIX SPECIALTY HEALTH CENTER
Sitewise Online
STI: PopStats Household Summary

STI: PopStats Household Summary	NIX SPECIALTY HEALTH CENTER 0 - 5 mi	%	NIX SPECIALTY HEALTH CENTER 0 - 10 mi	%	NIX HOSPITALS SYSTEM LCC 0 - 5 mi	%	NIX HOSPITALS SYSTEM LCC 0 - 10 mi	%	1975 Babcock Rd, San Antonio, TX 78229 0 - 5 mi	%	1975 Babcock R: Antonio, TX 78 0 - 10 mi
Households											
2028 Forecast	156,857		474,598		131,304		385,234		162,773		480,685
2023 Projection	151,186		452,081		126,981		370,835		156,198		453,622
2018 Estimate	149,476		438,001		126,681		366,140		153,152		432,508
2010 Census	139,601		398,402		120,504		341,969		142,114		386,089
2000 Census	133,027		348,332		121,320		322,410		129,133		327,352
1990 Census	117,281		296,294		119,047		300,321		112,464		279,645
Growth 2028-2023	3.75%		4.98%		3.40%		3.88%		4.21%		5.97%
Growth 2023-2018	1.14%		3.21%		0.24%		1.28%		1.99%		4.88%
Growth 2018-2010	7.07%		9.94%		5.13%		7.07%		7.77%		12.02%
Growth 2010-2000	4.94%		14.37%		-0.67%		6.07%		10.05%		17.94%
Population in Households											
2028 Forecast	362,830		1,223,930		369,080		1,032,570		403,050		1,268,150
2023 Projection	350,089		1,167,311		357,574		994,832		387,468		1,196,390
2018 Estimate	346,905		1,133,387		357,755		983,852		381,301		1,140,015
Average Household Size											
2028 Forecast	2.31		2.58		2.81		2.68		2.48		2.64
2023 Projection	2.32		2.58		2.82		2.68		2.48		2.64
2018 Estimated	2.32		2.59		2.82		2.69		2.49		2.64
2018 Estimated Families by Number of Workers in Family	**83,134**		**280,271**		**83,570**		**236,143**		**92,774**		**280,810**
No workers	10,975	13%	36,369	13%	13,906	17%	34,696	15%	12,291	13%	35,539
1 worker	32,133	39%	103,805	37%	34,900	42%	93,465	40%	35,398	38%	102,893
2 workers	33,026	40%	110,888	40%	26,487	32%	82,964	35%	35,740	39%	112,129
3 or more workers	7,000	8%	29,210	10%	8,277	10%	25,018	11%	9,346	10%	30,249
2018 Estimated Housing Units by Tenure	**164,459**		**477,686**		**142,417**		**404,436**		**166,788**		**470,546**
Vacant Housing Units	14,984	9%	39,685	8%	15,736	11%	38,296	9%	13,637	8%	38,039
Occupied Housing Units	149,476	91%	438,001	92%	126,681	89%	366,140	91%	153,152	92%	432,508
Owner-Occupied	68,715	42%	243,372	51%	69,019	48%	191,591	47%	74,919	45%	242,181
Renter-Occupied	80,761	49%	194,629	41%	57,663	40%	174,549	43%	78,232	47%	190,327
2018 Estimated Per Capita Income	$ 29,433		$ 27,610		$ 19,255		$ 21,335		$ 24,549		$ 27,151

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7	**d, San :229**	**San Antonio, TX**		**Texas**		**United States**	
8	%		%		%		%
9							
10		1,152,600		11,650,440		135,414,907	
11		1,077,405		10,875,362		130,290,401	
12		1,008,566		10,166,926		125,424,890	
13		871,135		8,922,933		118,092,823	
14		700,644		7,393,338		106,741,406	
15		573,833		6,078,344		93,032,986	
16							
17		6.98%		7.13%		3.93%	
18		6.83%		6.97%		3.88%	
19		15.78%		13.94%		6.21%	
20		24.33%		20.69%		10.63%	
21							
22							
23		3,180,620		32,224,990		350,415,610	
24		2,969,487		30,034,634		336,703,088	
25		2,774,274		28,029,239		323,722,908	
26							
27							
28		2.76		2.77		2.59	
29		2.76		2.76		2.58	
30		2.75		2.76		2.58	
31							
32		**715,897**		**7,161,091**		**83,944,145**	
33							
34	13%	96,796	14%	850,010	12%	12,684,788	15%
35	37%	254,553	36%	2,558,523	36%	27,852,396	33%
36	40%	283,645	40%	2,974,664	42%	34,349,105	41%
37	11%	80,903	11%	777,894	11%	9,057,856	11%
38							
39		**1,115,083**		**11,275,495**		**140,692,652**	
40							
41	8%	106,517	10%	1,108,569	10%	15,267,762	11%
42	92%	1,008,566	90%	10,166,926	90%	125,424,890	89%
43	51%	656,742	59%	6,493,954	58%	81,785,278	58%
44	40%	351,824	32%	3,672,972	33%	43,639,612	31%
45							
46		$ 27,127		$ 29,040		$ 30,517	

NIX SPECIALTY HEALTH CENTER
Sitewise Online
Current Year Estimated Households by Household Income

Current Year Estimated Households by Household Income	NIX SPECIALTY HEALTH CENTER 0 - 5 mi		NIX SPECIALTY HEALTH CENTER 0 - 10 mi		NIX HOSPITALS SYSTEM LCC 0 - 5 mi		NIX HOSPITALS SYSTEM LCC 0 - 10 mi		1975 Babcock Rd, San Antonio, TX 78229 0 - 5 mi		1975 Babcock R Antonio, TX 78 0 - 10 mi
		%		%		%		%		%	
Current Year Estimated Households by Household Income	**149,476**		**438,001**		**126,681**		**366,140**		**153,152**		**432,508**
Less than $10,000	12,524	8%	34,840	8%	15,831	12%	35,461	10%	13,304	9%	33,324
$10,000 to $14,999	7,878	5%	22,792	5%	11,267	9%	24,825	7%	8,438	6%	22,055
$15,000 to $19,999	8,163	5%	22,979	5%	10,343	8%	24,775	7%	8,698	6%	22,127
$20,000 to $24,999	8,891	6%	23,965	5%	9,997	8%	25,518	7%	9,231	6%	23,383
$25,000 to $29,999	9,304	6%	24,594	6%	9,148	7%	25,559	7%	9,941	6%	24,527
$30,000 to $34,999	7,741	5%	22,334	5%	7,942	6%	21,673	6%	8,273	5%	21,954
$35,000 to $39,999	8,127	5%	21,772	5%	6,575	5%	20,554	6%	8,359	5%	21,423
$40,000 to $44,999	7,698	5%	20,233	5%	6,535	5%	19,017	5%	7,706	5%	20,328
$45,000 to $49,999	7,226	5%	19,837	5%	5,622	4%	18,201	5%	7,640	5%	19,593
$50,000 to $54,999	5,883	4%	16,944	4%	4,641	4%	14,639	4%	6,192	4%	16,845
$55,000 to $59,999	6,008	4%	17,407	4%	4,526	4%	14,865	4%	6,241	4%	17,364
$60,000 to $64,999	5,680	4%	16,541	4%	3,959	3%	13,620	4%	6,095	4%	16,597
$65,000 to $69,999	5,214	3%	14,916	3%	3,333	3%	12,075	3%	5,627	4%	15,058
$70,000 to $74,999	4,656	3%	13,473	3%	3,042	2%	10,823	3%	5,075	3%	13,580
$75,000 to $79,999	4,136	3%	12,201	3%	2,346	2%	8,972	2%	4,514	3%	12,246
$80,000 to $84,999	3,667	2%	10,968	3%	2,050	2%	7,890	2%	3,945	3%	11,050
$85,000 to $89,999	3,357	2%	10,141	2%	1,922	2%	7,238	2%	3,625	2%	10,147
$90,000 to $94,999	3,011	2%	9,153	2%	1,734	1%	6,523	2%	3,243	2%	9,204
$95,000 to $99,999	2,708	2%	8,431	2%	1,568	1%	5,884	2%	2,941	2%	8,506
$100,000 to $124,999	9,632	6%	33,692	8%	5,206	4%	19,275	5%	10,265	7%	33,223
$125,000 to $149,999	5,702	4%	20,767	5%	2,504	2%	10,282	3%	5,631	4%	20,624
$150,000 to $174,999	3,652	2%	12,715	3%	1,627	1%	5,849	2%	2,940	2%	12,616
$175,000 to $199,999	3,179	2%	11,498	3%	1,784	1%	4,907	1%	2,112	1%	11,479
$200,000 to $249,999	3,053	2%	8,861	2%	1,787	1%	4,335	1%	1,749	1%	8,551
$250,000 to $499,999	1,300	1%	3,785	1%	761	1%	1,833	1%	741	0%	3,655
$500,000 or more	1,086	1%	3,162	1%	633	0%	1,544	0%	625	0%	3,050
Median Household Income	$ 48,053		$ 51,669		$ 34,252		$ 41,237		$ 46,718		$ 52,238
Average Household Income	$ 68,400		$ 71,987		$ 54,398		$ 57,569		$ 61,288		$ 72,302

	M	N	O	P	Q	R	S
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6							
7	**d, San 229**	**San Antonio, TX**		**Texas**		**United States**	
8	%		%		%		%
9		**1,008,566**		**10,166,926**		**125,424,890**	
10							
11	8%	66,863	7%	640,222	6%	8,455,639	7%
12	5%	47,889	5%	468,159	5%	6,169,045	5%
13	5%	49,099	5%	484,804	5%	6,229,725	5%
14	5%	51,536	5%	507,927	5%	6,332,065	5%
15	6%	51,037	5%	495,658	5%	6,066,430	5%
16	5%	48,401	5%	494,926	5%	6,097,315	5%
17	5%	47,698	5%	464,382	5%	5,708,552	5%
18	5%	46,210	5%	457,303	4%	5,641,404	4%
19	5%	44,154	4%	421,964	4%	5,127,126	4%
20	4%	40,403	4%	402,492	4%	4,920,904	4%
21	4%	41,102	4%	387,532	4%	4,777,200	4%
22	4%	39,212	4%	374,264	4%	4,604,779	4%
23	3%	35,303	4%	343,683	3%	4,183,780	3%
24	3%	31,804	3%	310,718	3%	3,786,882	3%
25	3%	29,834	3%	292,792	3%	3,606,313	3%
26	3%	27,677	3%	270,925	3%	3,343,665	3%
27	2%	25,526	3%	250,009	2%	3,092,165	2%
28	2%	23,475	2%	230,020	2%	2,845,307	2%
29	2%	21,867	2%	214,137	2%	2,624,629	2%
30	8%	87,722	9%	888,711	9%	10,730,549	9%
31	5%	52,597	5%	553,775	5%	6,648,970	5%
32	3%	33,247	3%	386,259	4%	4,649,411	4%
33	3%	30,351	3%	351,848	3%	3,841,286	3%
34	2%	19,947	2%	265,899	3%	3,331,013	3%
35	1%	8,503	1%	113,394	1%	1,419,788	1%
36	1%	7,105	1%	95,123	1%	1,190,948	1%
37							
38		$ 56,337		$ 58,169		$ 57,056	
39		$ 75,245		$ 80,847		$ 79,527	

NIX SPECIALTY HEALTH CENTER
Sitewise Online
Current Year Estimated Households by Wealth & Poverty

Current Year Estimated Households by Wealth & Poverty	NIX SPECIALTY HEALTH CENTER 0 - 5 mi		NIX SPECIALTY HEALTH CENTER 0 - 10 mi		NIX HOSPITALS SYSTEM LCC 0 - 5 mi		NIX HOSPITALS SYSTEM LCC 0 - 10 mi		1975 Babcock Rd, San Antonio, TX 78229 0 - 5 mi		1975 Babcock R Antonio, TX 78 0 - 10 mi
		%		%		%		%		%	
Estimated Households by Wealth	**149,476**		**438,001**		**126,681**		**366,140**		**153,152**		**432,508**
$0 and under*	29,506	20%	83,783	19%	25,647	20%	73,255	20%	30,472	20%	82,744
$1 to $4,999	15,543	10%	43,427	10%	14,181	11%	39,572	11%	16,143	11%	42,816
$5,000 to $9,999	7,903	5%	22,223	5%	6,824	5%	19,618	5%	8,160	5%	21,949
$10,000 to $24,999	10,296	7%	29,534	7%	8,745	7%	25,365	7%	10,616	7%	29,194
$25,000 to $49,999	10,302	7%	30,312	7%	8,810	7%	25,507	7%	10,653	7%	29,987
$50,000 to $99,999	14,881	10%	44,414	10%	12,913	10%	37,194	10%	15,412	10%	43,911
$100,000 to $249,999	25,086	17%	75,422	17%	21,273	17%	61,731	17%	25,740	17%	74,491
$250,000 to $499,999	17,427	12%	52,699	12%	14,127	11%	41,607	11%	17,639	12%	52,028
$500,000+	18,531	12%	56,186	13%	14,161	11%	42,291	12%	18,317	12%	55,387
Average Household Wealth	$ 208,975		$ 215,541		$ 195,132		$ 199,738		$ 204,231		$ 215,335
Median Household Wealth	$ 53,987		$ 60,944		$ 47,539		$ 49,758		$ 51,725		$ 60,890
Estimated Households by Poverty	**149,476**		**438,001**		**126,681**		**366,140**		**153,152**		**432,508**
In Poverty	26,169	18%	75,964	17%	35,367	28%	79,271	22%	28,481	19%	73,690
Married	4,598	3%	13,731	3%	6,540	5%	15,531	4%	5,523	4%	13,948
Male Householder	1,064	1%	3,994	1%	2,399	2%	4,696	1%	1,247	1%	3,677
Female Householder	6,209	4%	21,960	5%	11,586	9%	25,064	7%	7,500	5%	21,285
Non-family	12,769	9%	31,929	7%	13,991	11%	31,439	9%	12,687	8%	30,521
Non-family Student	1,529	1%	4,350	1%	850	1%	2,541	1%	1,524	1%	4,259
Above Poverty	123,307	82%	362,037	83%	91,315	72%	286,869	78%	124,670	81%	358,818

*The data range reaches from negative wealth (household debts outstrip assets) to zero (assets equal liabilities)

	M	N	O	P	Q	R	S
1							
2							
3							
4							
5							
6							
7	**d, San :229**	**San Antonio, TX**		**Texas**		**United States**	
8	%		%		%		%
9		**1,008,566**		**10,166,926**		**125,424,890**	
10	19%	185,260	18%	1,872,299	18%	22,635,786	18%
11	10%	94,400	9%	951,101	9%	11,431,151	9%
12	5%	48,808	5%	492,444	5%	5,955,278	5%
13	7%	66,476	7%	670,739	7%	8,163,842	7%
14	7%	70,067	7%	706,169	7%	8,650,804	7%
15	10%	104,261	10%	1,045,939	10%	12,927,730	10%
16	17%	179,038	18%	1,796,167	18%	22,442,389	18%
17	12%	125,929	12%	1,268,238	12%	15,941,928	13%
18	13%	134,327	13%	1,363,830	13%	17,275,982	14%
19							
20		$ 223,182		$ 223,910		$ 228,756	
21		$ 68,833		$ 68,678		$ 72,725	
22							
23		**1,008,566**		**10,166,926**		**125,424,890**	
24	17%	151,431	15%	1,503,717	15%	17,984,735	14%
25	3%	33,613	3%	365,878	4%	3,403,493	3%
26	1%	8,304	1%	79,194	1%	987,291	1%
27	5%	44,723	4%	444,084	4%	4,852,088	4%
28	7%	59,073	6%	544,124	5%	7,805,576	6%
29	1%	5,718	1%	70,437	1%	936,287	1%
30	83%	857,135	85%	8,663,209	85%	107,440,155	86%
31							
32							

AMENDED AND RESTATED
MASTER RESTRUCTURING AGREEMENT
(Vista Investment)

THIS AMENDED AND RESTATED MASTER RESTRUCTURING AGREEMENT (this "Agreement") is made and entered into effective as of this 23rd day of May, 2023, by and among **PROSPECT MEDICAL HOLDINGS, INC.**, a Delaware corporation ("Prospect Medical"), **PHP HOLDINGS, LLC**, a Delaware limited liability company ("PHP Holdings"), **PROSPECT HEALTHCARE FACILITIES MANAGEMENT, LLC** f/k/a PHC HoldCo, Inc., a Delaware limited liability company ("ManageCo"), and each of their respective undersigned Affiliates (such Affiliates, together with Prospect Medical, PHP Holdings, and ManageCo, collectively, the "Prospect Parties") on the one hand, and **MPT PICASSO INVESTORS TRS, LLC**, a Delaware limited liability company ("MPT Picasso TRS"), and its undersigned Affiliates (such Affiliates, together with MPT Picasso TRS, collectively, the "MPT Parties") on the other hand. The Prospect Parties and the MPT Parties are herein sometimes referred to individually as a "Party" and collectively, as the "Parties".

W I T N E S E T H:

WHEREAS, the capitalized terms used in these recitals and throughout this Agreement have the respective meanings ascribed to them in the Glossary of Defined Terms attached hereto as ***ANNEX A***;

WHEREAS, (a) the Master Lease I Lessors and Master Lease I Lessees are parties to Master Lease I, pursuant to which such Master Lease I Lessors lease to such Master Lease I Lessees certain real property and improvements consisting of multiple healthcare facilities, as more particularly described in Master Lease I; (b) the Master Lease II Lessors and Master Lease II Lessees are parties to Master Lease II, pursuant to which such Master Lease II Lessors lease to such Master Lease II Lessees certain real property and improvements consisting of multiple healthcare facilities, as more particularly described in Master Lease II; (c) the MPT Foothill Lender, Alta Newport, and Foothill Propco (as assignee) are parties to the Foothill Mortgage Loan Agreement, pursuant to which the MPT Foothill Lender made certain mortgage loans to Alta Newport, as evidenced by the Foothill Mortgage Loan Note and secured by, among other things, the Foothill Mortgage (and Alta Newport assigned all of its rights, title, and interest to the Foothill Facility (and certain related realty assets described therein) to Foothill Propco as described in Section 3.1(c) hereof); (d) the MPT TRS Lender made a term loan to Prospect Medical in the amount of One Hundred Twelve Million Nine Hundred Thirty Seven Thousand Two Hundred Four and No/100 Dollars ($112,937,204.00), which term loan is evidenced by the TRS Note; and (e) MPT Picasso TRS made a convertible term loan to PHP Holdings in the amount of Fifty Million and No/100 Dollars ($50,000,000.00), which convertible term loan is evidenced by the MPT Advance Convertible Note;

WHEREAS, the Released Defaults of certain of the Prospect Parties currently exist under the foregoing documents and certain other agreements entered into by certain of the Prospect Parties in connection therewith, each being subject to the Forbearance Agreement;

WHEREAS, pursuant to the terms of that certain Term Sheet dated March 30, 2023 between MPT Picasso TRS and Prospect Medical (as amended or modified from time to time, the "Restructuring Term Sheet"), the Parties now desire: (a) that the MPT Parties agree to release, waive, and refrain from exercising available rights and remedies against the Prospect Parties and their respective Affiliates with respect to, the Released Defaults, and (b) that the Parties engage in the Equity Rollover Transactions and the Restructuring Transactions herein described, it being the intent of the Parties that PHP Holdings obtained prior hereto, and will hereafter own at all times, all of the Managed Care Business which will be operated separately from the portfolio of other entities previously owned and controlled by Prospect Medical;

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WHEREAS, in connection therewith, the Parties desire to amend and restate the Original Restructuring Agreement in order to effect the Equity Rollover Transactions and the Restructuring Transactions as further described herein; and

WHEREAS, as a result of the direct and indirect benefits (financial and otherwise) that each of the Prospect Parties and the MPT Parties has derived, and will continue to derive, from the transactions described in this Agreement, as a condition to the release and waiver of the Released Defaults and consummation of the Equity Rollover Transaction and the Restructuring Transactions as described herein, the Parties desire to enter into this Agreement and the other Restructuring Documents, to reflect certain additional rights, covenants, and obligations of the Parties.

NOW, THEREFORE, in consideration of the promises and mutual agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby amend and restate the Original Restructuring Agreement as set forth herein and agree as follows:

ARTICLE I
DEFINED TERMS; INTERPRETATION

1.1. Certain Defined Terms. Capitalized terms used herein shall have the respective meanings ascribed to them in the Glossary of Defined Terms attached hereto as ***ANNEX A***.

1.2. Interpretation; Terms Generally. The definitions set forth in Section 1.1 and elsewhere in this Agreement shall apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. Unless otherwise indicated, the words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation." The words "herein", "hereof" and "hereunder" and words of similar import shall be deemed to refer to this Agreement (including the Schedules and Exhibits) in its entirety and not to any part hereof, unless the context shall otherwise require. All references herein to parties, Articles, Sections, Schedules and Exhibits shall be deemed to refer to parties, Articles, Sections and Schedules of, and Exhibits to, this Agreement, unless the context shall otherwise require. Unless the context shall otherwise require, any references to any agreement or other instrument or statute or regulation are to it as amended and supplemented from time to time (and, in the case of a statute or regulation, to any corresponding provisions of successor statutes or regulations). Any reference in this Agreement to a "day" or number of "days" that does not refer explicitly to a "Business Day" or "Business Days" shall be interpreted as a reference to a calendar day or number of calendar days. If any action or notice is to be taken or given on or by a particular calendar day, and such calendar day is not a Business Day, then such action or notice shall be deferred until, or may be taken or given on, the next Business Day.

ARTICLE II
ACKNOWLEDGMENTS; RELEASES AND WAIVERS

2.1. General Inducement. The Outstanding Obligations represent valid and enforceable, secured, cross-collateralized, and cross-defaulted indebtedness obligations of substantial value of Prospect Medical owed to the MPT Parties. The preferred financial rights granted to the holder of PHPH Series A-1 Preferred Units, together with the consent rights related to major decisions granted to the holder of PHPH Series A-1 Preferred Units (including, without limitation, the right of MPT Picasso TRS to consent to any bankruptcy, dilutive events, incurrence of debt, insolvency, liquidation or dissolution of PHP Holdings), are a material inducement to the applicable MPT Parties to enter into this Agreement, to waive, release and

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refrain from exercising the MPT Parties' rights and remedies with respect to the Released Defaults, and to participate in the Equity Rollover Transaction and the Restructuring Transactions contemplated herein.

2.2. Outstanding Obligations. The Prospect Parties hereby acknowledge that the amount of each of the Outstanding Obligations as of the date hereof is the amount set forth in the attached ***EXHIBIT A***, and that certain of the Outstanding Obligations are cross-collateralized and guaranteed by Prospect Medical pursuant to, and to the extent provided in, the Master Lease I, Master Lease II, the Foothill Mortgage Loan Documents, the TRS Note, the MPT Advance Convertible Note, and any other related agreements and security documents entered into by certain of the Prospect Parties in connection therewith.

2.3. Financial and Structural Matters. The Parties hereby acknowledge and agree that the transactions contemplated herein are being entered into by each of them based upon the following assumptions:

(a) the ownership and structure of the Prospect Parties and their respective Subsidiaries as reflected on the Organizational Chart attached hereto as ***EXHIBIT B*** (the "Prospect Organizational Chart") are complete, true, and correct in all respects on the date hereof, effective immediately following the closing of the Phase I Transactions;

(b) the aggregate *net equity value* of PHP Holdings and its Subsidiaries is equal to One Hundred Fifty-Three Million Six Hundred Sixty-Two Thousand Four Hundred Two Dollars Twenty-Six Cents ($153,662,402.26) (the "PHPH Net Equity Value") and, for the purposes of issuance of any of PHP Holdings' Equity Interests or any convertible notes (including, as applicable, the PHPH Series A-1 Preferred Units issued upon conversion of such convertible notes) to MPT Picasso TRS as contemplated herein on the date hereof, the PHPH Net Equity Value of PHP Holdings shall be used for purposes of determining the amount and value of such PHP Holdings' Equity Interests or convertible notes received by MPT Picasso TRS;

(c) on the date hereof, PhysicianCo Term Loan Lenders have made a term loan to PHPH MidCo and Physician Holdings (collectively, the "PhysicianCo Term Loan Borrowers") in the aggregate original principal amount of Three Hundred Seventy-Five Million and No/100 Dollars ($375,000,000.00) (the "PhysicianCo Term Loan");

(d) on the date hereof, MPT Picasso TRS provided a delayed draw term loan facility to Prospect Medical in the maximum principal amount of Seventy-Five Million and No/100 Dollars ($75,000,000.00), pursuant to the terms of the HospitalCo Term Loan Agreement; and

(e) PHP Holdings shall conduct its business as a Bankruptcy Remote Entity at all times after the date hereof in accordance with the terms hereof.

2.4. Satisfaction of Released Defaults.

(a) Immediately upon consummation of the Phase I Transactions contemplated in this Agreement, each of the Released Defaults shall, without further action by the MPT Parties, for themselves and their heirs, personal representatives, administrators, successors, and assigns (collectively, including the MPT Parties, the "MPT Releasing Parties"), be forever expressly released, cured, discharged, and waived, unconditionally and irrevocably as against the Prospect Parties and their respective Affiliates, and each of their heirs, personal representatives, officers, directors, managers, employees, administrators, agents, successors, and assigns (collectively, the "Prospect Released Parties").

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(b) Each MPT Releasing Party, for itself and on behalf of any other MPT Releasing Party, acknowledges that the legal requirements of many states provide substantially the following:

> "A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR."

The MPT Parties for itself and on behalf of any MPT Releasing Parties understand that the foregoing gives the MPT Releasing Parties the right not to release existing claims of which the MPT Releasing Parties are not aware, unless the MPT Releasing Parties voluntarily choose to waive this right. Having been so apprised, but subject in all respects to Section 2.4(e) hereof, the MPT Parties for itself and on behalf of any MPT Releasing Parties nevertheless hereby voluntarily elect to and waive the rights described above solely with respect to the Released Defaults (or such other comparable statute, rule, regulation or order), and elect to assume all risks for claims that exist, existed or may hereafter exist in its favor, known or unknown, suspected or unsuspected, solely arising out of or related to the Released Defaults, in each case, effective upon the date hereof. The MPT Parties for itself and on behalf of any MPT Releasing Parties acknowledge and agree that the foregoing waiver is an essential and material term of the release of the Released Defaults by the MPT Releasing Parties and that, without such waiver, the Prospect Released Parties would not have agreed to the terms of this release.

(c) The MPT Parties hereby represent and warrant to the Prospect Parties that the MPT Parties have no actual knowledge (and without inquiry by any such MPT Party) that any "Event of Default" (as defined in the applicable Obligation Documents) exists as of the date hereof other than the Released Defaults and the Uncured Defaults.

(d) At least two (2) days prior to the Closing Date of each of the Phase II Transactions and the Phase III Transactions, each of the MPT Parties, on the one hand, and Prospect Parties, on the other hand, will (i) provide to one another an updated list of Events of Default then in existence as of such date that are actually known by such Parties, and (ii) represent and warrant to one another that such Parties have no actual knowledge (and without inquiry by any such Party) that any Event of Default exists as of such Closing Date other than such updated Events of Defaults described per clause (i) hereof (collectively, the "Default Representation").

(e) Notwithstanding the foregoing, the MPT Parties are not waiving or refraining from exercising any rights or remedies with respect to any default or Event of Default that is not a Released Default *as of the date hereof* (including any future Event of Default), and expressly reserve the right to exercise all such rights and remedies with respect to any such other default or Event of Default (including any Uncured Defaults) in accordance with the applicable agreements (including, without limitation, any failure to pay rents, interests, or other amounts payable after the date hereof in accordance with their applicable terms). The existence of any new Events of Default, if any, occurring after the date hereof shall not effect or delay the closing of the Phase II Transactions or the Phase III Transactions. This is not a waiver, release, or extension of any future requirement or other obligation under any of Master Lease I, Master Lease II, the Foothill Mortgage Loan Documents, the TRS Note, the MPT Advance Convertible Note, the Phase I Convertible Note, the Pennsylvania Restructuring Documents, the Amended and Restated Security Agreements, or any other related agreements, and this provision is without prejudice to, and the MPT Parties expressly reserve any and all rights and remedies thereunder, under applicable law, or otherwise with respect to any such future requirements or other obligations.

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(f) Without limiting the generality of the foregoing subsection, the Prospect Parties hereby acknowledge the existence of the Uncured Defaults and shall take all actions reasonably necessary to cure such defaults in all respects within thirty (30) Business Days following the date hereof; provided, however, the Prospect Parties may enter into a payment plan or other arrangement, which would be deemed to satisfy the Prospect Parties' obligations in this Section 2.4(f), so long as such payment plan or other arrangement is approved in advance by the MPT Parties (which shall be in the MPT Parties' sole discretion but not to be unreasonably delayed). Any failure to cure any of such Uncured Defaults within the specified time period shall be deemed an Event of Default under the applicable Obligation Documents.

2.5. Release and Waiver of MPT Parties. Contemporaneously herewith, each of the Prospect Parties has executed and delivered to the MPT Parties a Release and Waiver Agreement in the form attached hereto as ***EXHIBIT C***. As of the Closing Date of each of the Phase II Transactions and the Phase III Transactions, the Prospect Parties shall simultaneously execute and deliver to the MPT Parties an additional Release and Waiver Agreement, to be effective as of each such Closing Date.

2.6. Termination of Forbearance Agreement. The Forbearance Agreement is hereby terminated, and shall be of no further force or effect after the date hereof.

2.7. Termination of Collateral Assignments of Assignable Option Agreement. The Collateral Assignments are hereby terminated, and shall be of no further force or effect after the date hereof.

ARTICLE III
PHASE I TRANSACTIONS

The Phase I Transactions are comprised of the events provided in this ARTICLE III, which Phase I Transactions are occurring as of the Closing Date of the Phase I Transactions (unless expressly otherwise provided):

3.1. PhysicianCo Term Loan; Transfer and Leaseback of Foothill Facility; Redemption of Series A-2 Preferred Units. As a condition to the MPT Parties entering into this Agreement and effecting the transactions contemplated herein, on the date hereof:

(a) PhysicianCo Term Loan. The PhysicianCo Term Loan Lenders and the PhysicianCo Term Loan Borrowers have entered into the PhysicianCo Term Loan Agreement, pursuant to which the PhysicianCo Term Loan Lenders have made a term loan to the PhysicianCo Term Loan Borrowers in the original principal amount of Three Hundred Seventy-Five Million and No/100 Dollars ($375,000,000.00), of which the sum of One Hundred Thirty-One Million Four Hundred Sixty-Nine Thousand Four Hundred Eighty-Nine Dollars Fifty-Three Cents ($131,469,489.53) will be distributed by PHPH Midco to PHP Holdings and Fifty-Six Million Four Hundred Sixty-Nine Thousand Four Hundred Eighty-Nine Dollars Fifty-Three Cents ($56,469,489.53) will be distributed by PHP Holdings to Prospect Medical (immediately prior to MPT Picasso TRS acquiring any Equity Interests in PHP Holdings).

(b) Intercreditor Agreements. The PhysicianCo Term Loan Lenders and certain of the MPT Parties (and their Affiliates) have entered into the PhysicianCo Intercreditor Agreement and the HospitalCo Intercreditor Agreement, pursuant to which they have agreed upon (i) the priority of their Encumbrances on certain collateral securing their respective obligations and liabilities from certain of the Prospect Parties, and (ii) certain of their other respective rights and remedies, as set forth therein.

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(c) Transfer and Leaseback of Foothill Facility. Prior to the consummation of the Phase I Transactions, (i) Alta Newport transferred, assigned, and conveyed all of its rights, title, and interest to the Foothill Facility (and certain related realty assets described therein) to Foothill Propco (subject in all respects to the Foothill Mortgage and all obligations owed by Alta Newport to the MPT Foothill Lender under the other Foothill Mortgage Loan Documents), and (ii) Foothill Propco leased the Foothill Facility to Alta Newport pursuant to that certain Hospital Lease Agreement, dated May 16, 2023 ("Foothill Lease"), and which Foothill Lease is secured as set forth therein. Contemporaneously with the closing of the balance of the Phase I Transactions, the Foothill Mortgage and all obligations owed by Alta Newport and Foothill Propco to the MPT Foothill Lender under the other Foothill Mortgage Loan Documents will be released in accordance with Section 3.5(a).

(d) Redemption of Outstanding Series A-2 Preferred Units. Prior to the date hereof, PHP Holdings issued 32,402,885 Series A-2 Preferred Units as follows: (i) 29,795,354 PHPH Series A-2 Preferred Units to Prospect Provider Group, LLC ("PPG"), and (ii) 2,607,531 PHPH Series A-2 Preferred Units to PHS Holdings, LLC ("PHS"). Prior to the consummation of the Phase I Transactions, PHP Holdings redeemed all of such 32,402,885 Series A-2 Preferred Units from PPG and PHS pursuant to the Redemption Agreements and, as a result thereof, there are no PHPH Series A-2 Preferred Units issued and outstanding as of the date hereof.

3.2. Issuance of Preferred Units and Convertible Notes for Certain Outstanding Obligations.

(a) PHPH Series A-1 Preferred Units. Immediately following the consummation of the transactions contemplated in Section 3.1, on the date hereof:

(i) Pursuant to the Series A-1 Subscription Agreement, MPT Picasso TRS has received PHPH Series A-1 Preferred Units comprising Forty-Nine Percent (49%) of the outstanding Equity Interest in PHP Holdings, which the Parties hereby agree the value of which equals Seventy-Five Million Two Hundred Ninety-Four Thousand Five Hundred Seventy-Seven Dollars Eleven Cents ($75,294,577.11) (based upon the PHPH Net Equity Value);

(ii) each of PHP Holdings, MPT Picasso TRS, and Prospect Medical has entered into the PHP Holdings LLC Agreement (pursuant to which ManageCo shall serve as the manager thereof following the date hereof); and

(iii) in accordance with the terms of the PHP Holdings LLC Agreement, each of the Subsidiaries of PHP Holdings (but not including Prospect Health Plan, Inc. solely to the extent prohibited by applicable laws or regulations), has amended (or, no later than ten (10) days following the Closing Date of the Phase I Transactions will, amend) its respective articles or certificate of incorporation, bylaws, operating agreements, limited liability company agreements, partnership agreements, and other similar organizational and governing documents to include certain provisions and protections for the benefit of MPT Picasso TRS (collectively, the "PHPH Subsidiary Amendments").

(b) PHP Convertible Notes. Contemporaneously herewith, PHP Holdings has issued MPT Picasso TRS the "Phase I Convertible Note" in the original principal amount of Six Hundred Forty-Six Million Three Hundred Thirty-Seven Thousand Five Hundred Ninety-Seven Dollars Seventy-Four Cents ($646,337,597.74), which amount the Parties intend to equal the following:

(i) the Phase I Outstanding Obligations described in Section 3.2(c) hereof, *less*

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(ii) the agreed upon value of the PHPH Series A-1 Preferred Units issued to MPT Picasso TRS as set forth above in Section 3.2(a) hereof.

(c) Phase I Outstanding Obligations. MPT Picasso TRS is accepting the Phase I Convertible Note in lieu of additional PHPH Series A-1 Preferred Units because issuance of any additional PHPH Series A-1 Preferred Units to MPT Picasso TRS on the date hereof beyond those described in Section 3.2(a) hereof requires certain regulatory notices and approvals (as described in Section 4.1 hereof) and, thus, the issuance of such PHPH Series A-1 Preferred Units and Phase I Convertible Note, on a combined basis, are intended to be in full and complete satisfaction of the following Outstanding Obligations (collectively, the "Phase I Outstanding Obligations"):

(i) the outstanding balance (if any) of the MPT Advance Convertible Note described in Section 3.3 hereof;

(ii) the Deferred Amounts and Outstanding Property Insurance described in Section 3.4 hereof;

(iii) the outstanding balance of the Foothill Mortgage Loan Note described in Section 3.5(a) hereof;

(iv) the outstanding balance of the TRS Note described in Section 3.6 hereof;

(v) the Agreed Pennsylvania Shortfall Amount as described in Section 3.7 hereof; and

(vi) the Agreed Connecticut Shortfall Amount as described in Section 5.1 hereof.

Subject to the specific terms and conditions of this Agreement, the priority of payment and amounts allocated to the Phase I Outstanding Obligations shall be allocated and applied in accordance with, as applicable, Master Lease I, Master Lease II, the Foothill Mortgage Loan Documents, the TRS Note, any other existing Obligation Documents, and as otherwise determined by the MPT Parties in their sole and absolute discretion, provided however, such allocation shall in no event result in less than the full and complete satisfaction of the Phase I Outstanding Obligations.

3.3. MPT Advance Convertible Note. MPT Picasso TRS hereby notifies PHP Holdings, pursuant to Section 5(a)(i) of the MPT Advance Convertible Note, of MPT Picasso TRS's election to convert the outstanding aggregate principal amount of the MPT Advance Convertible Note and any accrued but unpaid interest thereon as of the date hereof, in full, into PHPH Series A-1 Preferred Units, which PHPH Series A-1 Preferred Units have been authorized and reserved for issuance pursuant to the PHP Holdings LLC Agreement. Notwithstanding anything to the contrary set forth in the MPT Advance Convertible Note, contemporaneously herewith: (a) the original principal amount of Fifty Million and No/100 Dollars ($50,000,000.00) of the MPT Advance Convertible Note and accrued but unpaid interest thereon in the amount of Five Hundred Eighty-Eight Thousand Eight Hundred Eighty-Eight and 89/100 Dollars ($588,888.89) have been fully satisfied by the issuance to MPT Picasso TRS of the PHPH Series A-1 Preferred Units and the Phase I Convertible Note, each as more particularly described in Section 3.2 hereof, and (b) as a result of the full satisfaction of all amounts owed under the MPT Advance Convertible Note pursuant to the Phase I Transactions, (i) the MPT TRS Lender has cancelled the MPT Advance Convertible Note and returned the same to Prospect Medical, (ii) the MPT Advance Convertible Note shall be deemed terminated and of no further force or effect, and (iii) PHPH shall have no further obligations thereunder and all obligations set forth thereunder shall be immediately deemed satisfied in full and extinguished in their entirety, including with respect to any interest amounts accrued prior to the date hereof. The Parties

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acknowledge that: (1) prior to the closing of the Phase I Transactions, PHP Holdings is a wholly-owned and controlled Subsidiary of Prospect Medical, (2) MPT Picasso TRS is a wholly-owned and controlled Subsidiary (directly or indirectly) of MPT Op, and (3) the issuances of such PHPH Series A-1 Preferred Units and the Phase I Convertible Note are being made to MPT Picasso TRS for the respective benefit of the Parties. MPT Picasso TRS represents and warrants that immediately prior to the conversion of the MPT Advance Convertible Note, MPT Picasso TRS is the sole owner of and sole beneficiary under the MPT Advance Convertible Note and has not transferred, pledged, hypothecated or otherwise encumbered the MPT Advance Convertible Note or any amounts due thereunder.

3.4. Deferred Amounts and Outstanding Property Insurance. The aggregate outstanding amounts of: (i) the Deferred Base Rent, (ii) the Deferred Interest, (iii) the accrued but unpaid base interest under the Foothill Mortgage Loan Note, and the TRS Note through the date hereof, and (vi) to the extent not included in the foregoing clauses, all Deferred Base Rent and Deferred Interest that may hereafter be deferred as described in the Term Sheet (collectively, the "Deferred Amounts"), are equal to One Hundred Ninety-Three Million Nine Hundred Seventy-Five Thousand One Hundred Seventy-Five Dollars Ninety-Six Cents ($193,975,175.96). The aggregate amount of Outstanding Property Insurance is Seven Hundred Eight-Three Thousand Seven Hundred Eight and No/100 Dollars ($783,708.00).

(a) Satisfaction of Deferred Amount and Outstanding Property Insurance. At the closing of the Phase I Transactions contemporaneously herewith, all of the Deferred Amounts and Outstanding Property Insurance have been satisfied by the issuance to MPT Picasso TRS of the PHPH Series A-1 Preferred Units and the Phase I Convertible Note, each as more particularly described in Section 3.2 hereof.

(b) Acknowledgements. The Parties acknowledge that as of immediately prior to the closing of the Phase I Transactions: (i) Alta Newport, the Master Lease I Lessees, and the Master Lease II Lessees are wholly-owned and controlled Subsidiaries (directly or indirectly) of Prospect Medical, and PHP Holdings is owned by Prospect Medical, PPG and PHS, (ii) Prospect Medical guarantees their respective obligations to the MPT Parties pursuant to certain of the Obligation Documents, (iii) the MPT Foothill Lender, the Master Lease I Lessors, the Master Lease II Lessors, and MPT Picasso TRS are wholly-owned and controlled Subsidiaries (directly or indirectly) of MPT Op, and (iv) the satisfaction in full, of the Deferred Amounts and Outstanding Property Insurance by Prospect Medical as set forth in this agreement, to the applicable MPT Parties, and the issuances of such PHPH Series A-1 Preferred Units and the Phase I Convertible Note to MPT Picasso TRS, are being made for the respective benefit of the Parties.

3.5. Foothill Transaction.

(a) Mortgage Payment. Contemporaneously herewith, Prospect Medical has paid the sum of One Hundred Sixty Million Four Hundred Four Thousand Two Hundred and No/100 Dollars ($160,404,200.00), which amount is comprised of the sum of (and full satisfaction of) (i) the Tranche I Advance, (ii) the Tranche 2 Advances, and (iii) the Tranche 2 Additional Interest (in each case owed by Alta Newport and Foothill Propco and to the MPT Foothill Lender), by the issuance to MPT Picasso TRS of the PHPH Series A-1 Preferred Units and the Phase I Convertible Note, each as more particularly described in Section 3.2 hereof. Contemporaneously therewith, the MPT Foothill Lender has caused the Foothill Mortgage to be terminated and released in the official records of Orange County, California.

(b) Acknowledgements. The Parties acknowledge that as of immediately prior to the closing of the Phase I Transactions: (i) Alta Newport, the Master Lease I Lessees, and the Master Lease II Lessees are wholly-owned and controlled Subsidiaries (directly or indirectly) of Prospect Medical, and PHP Holdings

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is owned by Prospect Medical, PPG and PHS, (ii) Prospect Medical guarantees their respective obligations to the MPT Parties pursuant to certain of the Obligation Documents, (iii) the MPT Foothill Lender, the Master Lease I Lessors, the Master Lease II Lessors, and MPT Picasso TRS are wholly-owned and controlled Subsidiaries (directly or indirectly) of MPT Op, and (iv) the satisfaction in full, of the Deferred Amounts by Prospect Medical as set forth in this agreement, to the applicable MPT Parties, and the issuances of such PHPH Series A-1 Preferred Units and the Phase I Convertible Note to MPT Picasso TRS, are being made for the respective benefit of the Parties.

3.6. TRS Note. Contemporaneously herewith, (a) the original principal amount of One Hundred Twelve Million Nine Hundred Thirty Seven Thousand Two Hundred Four and No/100 Dollars ($112,937,204.00) of the TRS Note has been fully satisfied by the issuance to MPT Picasso TRS of the PHPH Series A-1 Preferred Units and the Phase I Convertible Note, each as more particularly described in Section 3.2 hereof, and (b) as a result of the full satisfaction of all amounts owed under the TRS Note pursuant to the Phase I Transactions, the MPT TRS Lender has cancelled the TRS Note and returned the same to Prospect Medical. The Parties acknowledge that: (1) as of immediately prior to the closing of the Phase I Transactions PHP Holdings is owned by Prospect Medical, PPG and PHS, (2) both the MPT TRS Lender and MPT Picasso TRS are wholly-owned and controlled Subsidiaries (directly or indirectly) of MPT Op, and (3) the issuances of such PHPH Series A-1 Preferred Units and the Phase I Convertible Note are being made to MPT Picasso TRS for the respective benefit of the Parties.

3.7. Pennsylvania Transaction.

(a) Purchase and Sale; Intercompany Lease.

(i) Contemporaneously herewith: (A) the Pennsylvania Lessors and Prospect CCMC have entered into the Pennsylvania Purchase Agreement, pursuant to which the Pennsylvania Lessors have sold and conveyed to Prospect CCMC, and Prospect CCMC has purchased and accepted from the Pennsylvania Lessors, all of the Pennsylvania Lessors' respective right, title and interest in and to the Pennsylvania Facilities (and certain related assets described therein) for an aggregate purchase price of Two Hundred Fifty Million and No/Dollars ($250,000,000.00) (the "Pennsylvania Purchase Price"), of which amount has been contemporaneously paid as set forth in Section 3.7(b) below, and (B) each of the Pennsylvania Facilities, Pennsylvania Lessors, and Pennsylvania Lessees have been severed and removed from Master Lease I and Master Lease II, as applicable.

(ii) Immediately after the transactions described in clause (i) hereof: (A) Prospect CCMC leased the Pennsylvania Facility commonly known as "Delaware County Memorial Hospital" to Prospect DCMH pursuant to a lease agreement between them, and (B) Prospect DCMH joined in the execution and delivery of the Amended and Restated Security Documents, and (C) Prospect DCMH delivered that certain Subordination and Attornment Agreement, dated of even date herewith, to the Pennsylvania Mortgage Lenders (as described below) and their Affiliates (the "Pennsylvania Subordination and Attornment Agreement").

(b) Payment of the Pennsylvania Purchase Price. The Pennsylvania Purchase Price is being paid as follows:

(i) *Pennsylvania Mortgage Loan*. One Hundred Fifty Million and No/100 Dollars ($150,000,000.00) of the Pennsylvania Purchase Price has been satisfied by the issuance of a

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mortgage loan in such amount (plus an additional Five Million Two Hundred Twenty-Two Thousand Five Hundred Seventeen Dollars and Fifty-Four Cents ($5,222,517.54) for transfer taxes, as contemplated in Section 11.15(b) hereof) made by the Pennsylvania Lessors (hereinafter also referred to as the Pennsylvania Mortgage Lenders) to Prospect CCMC (hereinafter also referred to as the Pennsylvania Mortgage Borrower) in accordance with that certain Real Estate Loan Agreement, dated of even date herewith, by and among the Pennsylvania Mortgage Borrower and the Pennsylvania Mortgage Lenders (the "Pennsylvania Mortgage Loan Agreement"), and which:

(A) is evidenced by a Promissory Note, dated of even date herewith, made by the Pennsylvania Mortgage Borrower in favor of the Pennsylvania Mortgage Lenders (the "Pennsylvania Mortgage Loan Note"), with a term of five (5) years, and which will bear interest at: (1) a per annum rate of Nine Percent (9%), to be paid in kind from March 1, 2024 thru May 31, 2025 (which shall be added to the principal balance of the Pennsylvania Mortgage Loan Note), and (2) a per annum rate of Twelve Percent (12%), payable in cash thereafter, and

(B) will be cross-defaulted and cross-collateralized in the same manner as the obligations under Master Lease I and Master Lease II, and otherwise secured by, among other things, that certain Mortgage, Security Agreement and Fixture Filing, dated of even date herewith, made by Prospect CCMC in favor of the Pennsylvania Mortgage Lenders (the "Pennsylvania Mortgage") and the Amended and Restated Security Documents.

(ii) *PHPH Series A-1 Preferred Units or Convertible Note*. One Hundred Million and No/100 Dollars ($100,000,000.00) (the "Agreed Pennsylvania Shortfall Amount") of the Pennsylvania Purchase Price has been satisfied by the issuance to MPT Picasso TRS of the PHPH Series A-1 Preferred Units and the Phase I Convertible Note, each as more particularly described in Section 3.2 hereof. The Parties acknowledge that: (i) the Pennsylvania Mortgage Borrower is a wholly-owned and controlled Subsidiary (directly or indirectly) of Prospect Medical, and as of immediately prior to the closing of the Phase I Transactions PHP Holdings is owned by Prospect Medical, PPG and PHS, (ii) Prospect Medical guarantees their respective obligations to the MPT Parties pursuant to certain of the Obligation Documents, (iii) both the Pennsylvania Mortgage Lenders and MPT Picasso TRS are wholly-owned and controlled Subsidiaries (directly or indirectly) of MPT Op, and (iv) the issuances of such PHPH Series A-1 Preferred Units and the Phase I Convertible Note are being made to MPT Picasso TRS for the respective benefit of the Parties.

(iii) *Remaining Pennsylvania Purchase Price*. In lieu of any further consideration for the Pennsylvania Purchase Price, MPT Picasso TRS has received a right to receive certain distributions on an accelerated, profits-interest basis under the distribution provisions of the PHP Holdings LLC Agreement.

(c) Taxes, Insurance, Utilities. All utility charges, insurance, and real and personal property taxes related to the Pennsylvania Facilities: (i) for any periods (or portions thereof) ending on or prior to the date hereof shall be the responsibility of the Pennsylvania Lessees and their Affiliates pursuant to the terms of Master Lease I and Master Lease II, and (ii) for any periods (or portions thereof) ending after the date hereof, shall be the responsibility of Pennsylvania Mortgage Borrower and their Affiliates pursuant to the terms of the Pennsylvania Mortgage Loan Agreement. In no event shall any of the MPT Parties have any responsibility for payment of such amounts, *provided*, *however*, for the avoidance of doubt, MPT Parties

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must pay the amounts owed by it pursuant to Section 11.15 of this Agreement (which shall be added to the Pennsylvania Mortgage Loan Note).

3.8. Connecticut Master Agreement. In connection with the transactions contemplated above, on the date hereof: (i) the applicable Prospect Parties and the applicable MPT Parties have entered into that certain Amendment to Connecticut Master Agreement, dated of even date herewith (the "Amendment to Connecticut Master Agreement"), pursuant to which the parties have modified the Connecticut Master Agreement to address the transactions to be consummated in accordance with this Agreement (including ARTICLE V hereof), and (ii) such Prospect Parties have delivered to such MPT Parties the written consent from Yale New Haven Health Services Corporation to such Amendment to Connecticut Master Agreement, as required pursuant to the terms and conditions of the Underlying Acquisition Agreement (as defined in the Connecticut Master Agreement) (the "Yale Consent").

3.9. Phase I Deliverables.

(a) Deliverables by Prospect Parties. Prior to or contemporaneously herewith, the applicable Prospect Parties have delivered (or caused to be delivered) to the MPT Parties the following:

(i) Copies of the PhysicianCo Term Loan Agreement, and all other loan documents entered into or delivered by any of the Prospect Parties or any of their Affiliates in connection therewith, duly executed by the applicable Prospect Parties and the PhysicianCo Term Loan Lenders;

(ii) PhysicianCo Intercreditor Agreement, duly executed by the PhysicianCo Term Loan Lenders and the applicable Prospect Parties;

(iii) Evidence reasonably satisfactory to the MPT Parties of repayment in full of the indebtedness and other obligations outstanding under the ABL Credit Agreement dated as of February 22, 2018 among PMH, as borrower, JPMorgan Chase Bank, N.A, as administrative agent and issuing bank, the lenders party thereto and the other agents, arrangers and bookrunners identified therein, as amended from time to time .

(iv) Master Lease I Amendment, duly executed by the Master Lease I Lessees;

(v) Master Lease II Amendment, duly executed by the applicable Master Lease II Lessees;

(vi) the Amended and Restated Security Documents, duly executed by the applicable Prospect Parties and their applicable Affiliates;

(vii) the PHP Holdings Pledge Agreement, duly executed by PHP Holdings;

(viii) the Intercompany Subordination Agreement, duly executed by the applicable Prospect Parties and their applicable Affiliates;

(ix) Amendments to each of the existing Memoranda of Lease relating to Master Lease I, Master Lease II, the termination of the Foothill Mortgage Loan Agreement, and the addition of Obligation Documents contemplated herein, each duly executed by the applicable Prospect Parties;

(x) Amendments to each of the existing Assignment of Rents and Leases relating to Master Lease I, Master Lease II, the termination of the Foothill Mortgage Loan Agreement, and the

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addition of Obligation Documents contemplated herein, each duly executed by the applicable Prospect Parties;

(xi) Redemption Agreements, duly executed by PHP Holdings, Prospect Medical, and each of PPG and PHS (respectively);

(xii) Series A-1 Subscription Agreement, duly executed by PHP Holdings and Prospect Medical;

(xiii) PHP Holdings LLC Agreement, duly executed by PHP Holdings, and Prospect Medical;

(xiv) PHPH Subsidiary Amendments, duly executed by PHP Holdings and its applicable Subsidiaries (to the extent available, it being understood that certain PHPH Subsidiary Amendments may be delivered no more than ten (10) days following the closing of the Phase I Transactions);

(xv) Service Mark Assignment Agreement, duly executed by Prospect Medical and Prospect Medical Systems, LLC;

(xvi) Trademark License Agreement, duly executed by Prospect Medical and PMH;

(xvii) Phase I Convertible Note, duly executed by PHP Holdings;

(xviii) An amendment to the Support Services Agreement, duly executed by PHP Holdings and Prospect Medical;

(xix) Termination of Foothill Loan Agreement and Foothill Mortgage, duly executed by Alta Newport and Prospect Medical;

(xx) Copies of the Foothill Lease and any other documents entered into by any of the Prospect Parties or their Affiliates in connection therewith, duly executed by the applicable Prospect Parties;

(xxi) Pennsylvania Purchase Agreement, the Pennsylvania Mortgage Loan Agreement, the Pennsylvania Mortgage Loan Note, the Pennsylvania Subordination and Attornment Agreement, and each of the other Pennsylvania Restructuring Documents, duly executed by the applicable Pennsylvania Lessees and their applicable Affiliates;

(xxii) Amendment to Connecticut Master Agreement, duly executed by the applicable Prospect Parties;

(xxiii) Copy of the Yale Consent (to the Amendment to Connecticut Master Agreement);

(xxiv) Evidence of Letter of Credit (if available, or within 30 days hereafter);

(xxv) A Release and Waiver Agreement, duly executed by all of the Prospect Parties;

(xxvi) Resolutions or consents of the respective governing bodies of each of the Prospect Parties authorizing their respective execution, delivery, and performance of this Agreement and all other documents or agreements to be executed by any of them in connection herewith (including, without

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limitation, any such documents and agreements to be entered into by any of the Prospect Parties after the date hereof) (collectively, the "Prospect Parties' Resolutions");

(xxvii) An Officers' Certificate in form and substance reasonably satisfactory to the MPT Parties and executed by a duly authorized executive officer of Prospect Medical on behalf of Prospect Medical, its Designated Subsidiaries, and the Other Applicable Subsidiaries (other than PHP Holdings and its Designated Subsidiaries):

(A) certifying to the MPT Parties on behalf of all of Prospect Medical, its Designated Subsidiaries, and the Other Applicable Subsidiaries that: (1) all of the representations and warranties of Prospect Medical, its Designated Subsidiaries, and the Other Applicable Subsidiaries set forth in this Agreement and the other Restructuring Documents are true and correct as of the date hereof, and (2) Prospect Medical, its Designated Subsidiaries, and the Other Applicable Subsidiaries, as applicable, have delivered, performed, observed and complied in all material respects with all of the items, instruments, documents, covenants, agreements and conditions required by this Agreement and the other Restructuring Documents to be delivered, performed, observed and complied with by Prospect Medical, its Designated Subsidiaries, and the Other Applicable Subsidiaries as of the date hereof;

(B) certifying to the MPT Parties on behalf of Prospect Medical, its Designated Subsidiaries, and the Other Applicable Subsidiaries that: (1) with respect to Prospect Medical, as to the Certificate of Incorporation and Bylaws, each as in effect from the date of this Agreement, (2) with respect to each of Prospect Medical's Designated Subsidiaries and Other Applicable Subsidiaries, as to their respective articles or certificate of incorporation, bylaws, operating agreements, limited liability company agreements, partnership agreements, and other similar organizational and governing documents, each as in effect from the date of this Agreement, and (3) a copy of each of the applicable Prospect Parties' Resolutions from Prospect Medical, its Designated Subsidiaries, and the Other Applicable Subsidiaries; and

(C) providing specimen signatures of the officers or authorized agents of each of Prospect Medical, its Designated Subsidiaries, and the Other Applicable Subsidiaries;

(xxviii) An Officers' Certificate in form and substance reasonably satisfactory to the MPT Parties and executed by a duly authorized executive officer of PHP Holdings on behalf of PHP Holdings and its Designated Subsidiaries:

(A) certifying to the MPT Parties on behalf of all of PHP Holdings and such Designated Subsidiaries that: (1) all of the representations and warranties of PHP Holdings and such Designated Subsidiaries set forth in this Agreement (subject to the disclosures made in the Disclosure Schedules) and the other Restructuring Documents are true and correct as of the date hereof, and (2) PHP Holdings and such Designated Subsidiaries, as applicable, have delivered, performed, observed and complied in all material respects with all of the items, instruments, documents, covenants, agreements and conditions required by this Agreement and the other Restructuring Documents to be delivered, performed, observed and complied with by PHP Holdings and such Designated Subsidiaries as of the date hereof;

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(B) certifying to the MPT Parties on behalf of PHP Holdings and such Designated Subsidiaries that: (1) with respect to PHP Holdings, as to the Certificate of Formation and the PHP Holdings LLC Agreement, each as in effect from the date of this Agreement, (2) with respect to each of PHP Holdings' Designated Subsidiaries, as to their respective articles or certificate of incorporation, bylaws, operating agreements, limited liability company agreements, partnership agreements, and other similar organizational and governing documents, each as in effect from the date of this Agreement, and (3) a copy of each of the applicable Prospect Parties' Resolutions from PHP Holdings and such Designated Subsidiaries; and

(C) providing specimen signatures of the officers or authorized agents of each of PHP Holdings and such Designated Subsidiaries;

(xxix) Certificates of existence and good standing of each of the Prospect Parties, their respective Designated Subsidiaries, and the Other Applicable Subsidiaries, dated within thirty (30) days prior to the date hereof, from each such entity's State of incorporation or formation and, to the extent in which the character of its properties or in which the transaction of its business makes such qualification necessary, from the States of California and Connecticut and the Commonwealth of Pennsylvania;

(xxx) A closing statement in form and substance mutually satisfactory to the Parties, duly executed by each of the applicable Prospect Parties; and

(xxxi) Such other amendments, certificates, financing statements, tax filings, instruments and documents as any of the MPT Parties reasonably deems necessary to effectuate the transactions contemplated hereby.

(b) Deliverables by MPT Parties. Contemporaneously herewith, the applicable MPT Parties have delivered (or caused to be delivered) to the Prospect Parties the following:

(i) PhysicianCo Intercreditor Agreement, duly executed by the applicable MPT Parties;

(ii) Series A-1 Subscription Agreement, duly executed by MPT Picasso TRS;

(iii) PHP Holdings LLC Agreement, duly executed by MPT Picasso TRS;

(iv) Cancelled Foothill Mortgage Loan Note;

(v) Termination of Foothill Loan Agreement and Foothill Mortgage, duly executed by MPT Foothill Lender;

(vi) Cancellation of TRS Note;

(vii) Cancellation of the MPT Advance Convertible Note;

(viii) Pennsylvania Purchase Agreement, the Pennsylvania Mortgage Loan Agreement, the Pennsylvania Mortgage Loan Note, the Pennsylvania Subordination and Attornment Agreement, and each of the other Pennsylvania Restructuring Documents, duly executed by the applicable Pennsylvania Lessors and their applicable Affiliates;

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(ix) Master Lease I Amendment, duly executed by the applicable Master Lease I Lessors;

(x) Master Lease II Amendment, duly executed by the applicable Master Lease II Lessors;

(xi) the Amended and Restated Security Documents, duly executed by the applicable MPT Parties and their applicable Affiliates;

(xii) the PHP Holdings Pledge Agreement, duly executed by MPT Picasso TRS;

(xiii) [Intentionally Omitted];

(xiv) Amendments to each of the existing Memoranda of Lease relating to Master Lease I, Master Lease II, the termination of the Foothill Mortgage Loan Agreement, and the addition of Obligation Documents contemplated herein, each duly executed by the applicable Prospect Parties;

(xv) Amendments to each of the existing Assignment of Rents and Leases relating to Master Lease I, Master Lease II, the termination of the Foothill Mortgage Loan Agreement, and the addition of Obligation Documents contemplated herein, each duly executed by the applicable Prospect Parties;

(xvi) Amendment to Connecticut Master Agreement, duly executed by the applicable MPT Parties;

(xvii) Resolutions or consents of the respective governing bodies of each of the MPT Parties authorizing their respective execution, delivery, and performance of this Agreement and all other documents or agreements to be executed by any of them in connection herewith (including, without limitation, any such documents and agreements to be entered into by any of the MPT Parties after the date hereof) (collectively, the "MPT Parties' Resolutions");

(xviii) An Officers' Certificate in form and substance reasonably satisfactory to the Prospect Parties and executed by a duly authorized executive officer of MPT OP:

(A) certifying to the Prospect Parties on behalf of all of the MPT Parties that: (1) all of the representations and warranties of the MPT Parties set forth in this Agreement and the other Restructuring Documents are true and correct as of the date hereof, and (2) the applicable MPT Parties have delivered, performed, observed and complied in all material respects with all of the items, instruments, documents, covenants, agreements and conditions required by this Agreement and the other Restructuring Documents to be delivered, performed, observed and complied with by such MPT Parties as of the date hereof;

(B) certifying to the Prospect Parties on behalf of all of the MPT Parties that: (1) with respect to each of the MPT Parties, as to each of such MPT Parties' respective articles or certificate of incorporation, bylaws, operating agreements, limited liability company agreements, partnership agreements, and other similar organizational and governing documents, each as in effect from the date of this Agreement, and (2) a copy of each of the MPT Parties' Resolutions; and

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(C) providing specimen signatures of the officers or authorized agents of each of the MPT Parties;

(xix) Certificates of existence and good standing of each of the MPT Parties, dated within thirty (30) days prior to the date hereof, from each such entity's State of incorporation or formation and, to the extent in which the character of its properties or in which the transaction of its business makes such qualification necessary, from the States of California and Connecticut and the Commonwealth of Pennsylvania;

(xx) A closing statement in form and substance mutually satisfactory to the Parties, duly executed by each of the applicable MPT Parties; and

(xxi) Such other amendments, certificates, financing statements, tax filings, instruments and documents as any of the Prospect Parties reasonably deems necessary to effectuate the transactions contemplated hereby (it being acknowledged by the Prospect Parties that certain affidavits typically provided by owners of real property may be limited due to the Prospect Parties' sole use and possession of the Facilities prior to the date hereof).

ARTICLE IV
PHASE II TRANSACTIONS

The Phase II Transactions are comprised of the events provided in this ARTICLE IV, which Phase II Transactions are occurring as of the Closing Date of the Phase II Transactions (unless expressly otherwise provided):

4.1. Regulatory Consents and Approvals.

(a) Promptly following the date hereof, Prospect Medical and the other applicable Prospect Parties shall take all actions necessary to obtain any approval or consent of, or to provide written notification to, any Governmental Body or any other Person that is required in connection with the Prospect Parties' (and their respective Affiliates') consummation and performance of the Phase II Transactions, including, without limitation: (i) filing all reports or other documents required or requested by any Governmental Bodies concerning the transactions contemplated hereby (including without limitation, the health care regulatory filings set forth in Section 4.1(b)), (ii) comply within the timeframe set forth in such request or if no timeframe is requested then within a commercially reasonable time period after receiving the request (recognizing that time is of the essence), and any other requests by any Governmental Body for additional information concerning such Phase II Transactions, (iii) take all actions necessary to obtain any approval or consent of, or to provide written notification to, any other Governmental Body or any other Person described in Section 7.3 hereof and (iv) take any other actions required by Governmental Bodies or any other Person to approve such Phase II Transactions, to allow the applicable Governmental Body or Person to approve the Phase II Transactions as promptly as possible. Notwithstanding anything in this Section 4.1 to the contrary, the MPT Parties acknowledge and agree that the Prospect Parties will not be required to incur unreimbursed costs, be deemed to be in breach of this Section 4.1 or agree to conditions not currently known, or anticipated, by any of the Prospect Parties as of the date hereof (whether in kind or magnitude) if any conditions imposed on the Prospect Parties by the Governmental Body or non-approval by a Governmental Body of any approval required under this Agreement is a direct result of the information provided or omission of information by the MPT Parties, or the structure required by the MPT Parties to

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comply with applicable REIT requirements (and the MPT Parties shall be responsible for all costs associated with such changes).

(b) The Prospect Parties shall promptly: (i) submit a notice of material modification by or on behalf of Prospect Health Plan, Inc. to the DMHC, which notifies and requests the approval the DMHC of the Phase II Transactions, (ii) submit an application and request for the issuance of a temporary pharmacy license (and subsequently the issuance of a permanent license) with the California Board of Pharmacy in connection with the pharmacy license issued to Alta Newport for the operations of its pharmacy, which license will allow the continued operation of the pharmacy at its current location, and (iii) submit an application with the CDPH as required by applicable Law.

(c) The Prospect Parties shall permit the MPT Parties and their representatives to review and provide comments within five (5) Business Days after receipt by the applicable MPT Parties to any documents to be submitted to any Governmental Bodies or any other Person in connection with any material regulatory consents or approvals. Notwithstanding the foregoing, for the filings set forth in Section 4.1(b), the MPT Parties will provide comments within three (3) Business Days after receipt of such documents. Subject to the last sentence of Section 4.1(a), the Prospect Parties shall (i) incorporate any comments from the MPT Parties with respect to (A) the MPT Parties' legal, tax, accounting, or financial status which comments shall be limited to changes the MPT Parties required to comply with applicable REIT requirements or PHP Holdings' operation as a Bankruptcy Remote Entity, or (B) known to the Prospect Parties of the date hereof and directly related to the structure and subsequent documentation of the Phase I Transactions or Phase II Transactions and which comments are not inconsistent with the terms of this Agreement, and (ii) consider any other comments provided by the MPT Parties, in good faith, which are received within the timeframes set forth in this Section 4.1(c).

(d) To the extent any information is necessary or required by law from any of the MPT Parties for the submission, processing, and/or granting of any such notices or approvals, the applicable MPT Parties will cooperate with the applicable Prospect Parties and promptly provide such information to the applicable Prospect Parties. The Parties intend that the foregoing conditions are to be completed and all such regulatory approvals, consents and confirmations shall be obtained by the Prospect Parties no later than November 30, 2023, to the extent that each applicable Governmental Body is able to provide such consent, approval or confirmation prior to such date, and shall act in good faith and cooperate in all material respects to meet such intended deadline.

(e) Notwithstanding anything to the contrary in this Agreement, in the event of an Organic Change (as defined in the Phase I Convertible Note) or similar event, if:

(i) Prospect Medical and the other applicable Prospect Parties are unable to obtain the approvals or consents of any Governmental Body and other Persons contemplated by this Section 4.1 that are necessary to allow MPT Picasso TRS to convert the Phase I Convertible Note (as described in Section 4.4 below) (the "Required Consents") prior to the occurrence of any Organic Change or similar event; and

(ii) as a result of the inability to convert due to the circumstances described in Section 4.1(e)(i) above:

(A) the aggregate amount that MPT Picasso TRS would receive at the time of such Organic Change from the sum of (1) the Convertible Amounts (as defined in the Phase I Convertible

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Note) payable under the Phase I Convertible Note as of the date of such Organic Change, and (2) the distributions of "Available Cash" pursuant to the PHP Holdings LLC Agreement in connection with such Organic Change or similar event, is *less than*

(B) the aggregate amount that MPT Picasso TRS would have received solely from distributions of Available Cash pursuant to the PHP Holdings LLC Agreement had MPT Picasso TRS fully converted the Phase I Convertible Note prior to such Organic Change or similar event,

(such difference, a "Conversion Shortfall"), then the Convertible Amount due and payable under the Phase I Convertible Note immediately prior to the occurrence of such Organic Change or similar event in accordance with the terms of the Phase I Convertible Note shall automatically be increased by an amount equal to such Conversion Shortfall and, for all other purposes to the fullest extent permitted by applicable laws, MPT Picasso TRS shall be treated as if the Phase I Convertible Note has been fully converted as of the occurrence of such Organic Change or similar event. It is hereby understood and agreed that the Parties intend that MPT Picasso TRS' economic and financial rights shall not be diminished for any reason due to Prospect Medical's and the other applicable Prospect Parties' failure to obtain the Required Consents prior to such Organic Change or similar event, and that each of the Parties shall act in good faith, take all actions reasonably necessary, and otherwise reasonably cooperate in all material respects to fulfill such intent of the Parties, including providing one another reasonable access to financial and other information reasonably necessary to determine and agree upon the amount of any Conversion Shortfall. Nothing in this subsection is intended to limit or modify the Parties' rights to bring an action for breach of contract or for specific performance (and to seek other equitable relief) in connection with any breach or violation, or any attempted breach or violation, of the provisions of this Article.

4.2. Transfer of Alta Newport to PHP Holdings. Immediately following the receipt of all requisite approvals from Governmental Bodies in accordance with Section 4.1 hereof, the Prospect Parties shall cause: (a) Alta Newport to be merged with and into Foothill Propco, with Alta Newport being the surviving entity that will thereafter be owned by PHPH MidCo (the "Merger"), and (b) Alta Newport and Foothill Propco to terminate the Foothill Lease (and any related security documents). As consideration for the Merger of Alta Newport with and into Foothill Propco, Prospect Medical shall exchange the number of Class A-1 Units held by Prospect Medical representing reasonable value for Alta Newport, as mutually agreed to by the Parties, into PHPH Series A-2 Preferred Units, and will transfer such PHPH Series A-2 Preferred Units to Alta Hospitals System, LLC, a California limited liability company ("ALTA"). PHP Holdings will record such transfer and issuance of PHPH Series A-2 Preferred Units to ALTA, which such units shall at all times prior to the Merger be reserved by PHPH for issuance pursuant to this Section 4.2. The MPT Parties hereby approve the exchange, transfer and issuance of PHPH Series A-2 Preferred Units to ALTA.

4.3. Joinder to Management Agreement. Contemporaneously with the transactions contemplated in Section 4.2 hereof, PHP Holdings, ManageCo and Alta Newport shall enter into the Management Agreement with ManageCo, pursuant to which ManageCo shall serve as an "eligible independent contractor" as defined in Section 856(d)(9)(A) of the Code (an "EIK") to manage and operate any and all Health Care Facilities now or hereafter owned or leased by PHP Holdings and its Subsidiaries (but, for sake of clarity, any such Management Agreement will not cover the regulated operations of Prospect Health Plan, Inc. as conducted on the date hereof) during the term of the Management Agreement, and which Management Agreement shall provide that, at all times that MPT Picasso TRS, or any of its Affiliates shall own any Equity Interest (or securities convertible into Equity Interest) in PHP Holdings: (a) ManageCo shall remain an EIK and manage all aspects of operating such Health Care Facilities, including control of

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day-to-day operations, (b) the Management Agreement may not be terminated, amended, modified or supplemented without the prior written consent of MPT Picasso TRS and any of its Affiliates which then directly hold any Equity Interests (or securities convertible into Equity Interests) in PHP Holdings, and (c) ManageCo will earn an arm's-length management fee for services rendered under the Management Agreement.

4.4. Conversion of Phase I Convertible Note. Following the receipt of all requisite approvals or confirmations from Governmental Bodies in accordance with Section 4.1 hereof, if MPT Picasso TRS determines in its reasonable discretion that all principal, interests and other amounts payable under the Phase I Convertible Note, as applicable may then be converted on a dollar-for-dollar basis into the applicable Equity Interests provided therein (based upon the PHPH Net Equity Value) in compliance with all applicable laws (including, without limitation, any provisions of the Code relating to real estate investment trusts), then MPT Picasso TRS may deliver written notice at any time thereafter of such conversions (in whole or in part) to PHP Holdings, which conversions shall be effective immediately upon receipt of such written notice by PHP Holdings. PHP Holdings, Prospect Medical, and MPT Picasso TRS shall execute and deliver to one another such documents and instruments as may be reasonably necessary to: (a) evidence the issuance of such PHPH Series A-1 Preferred Units by PHP Holdings to MPT Picasso TRS in connection with any such whole or partial conversion, and (b) make all such PHPH Series A-1 Preferred Units subject to the PHP Holdings LLC Agreement (which shall be amended and modified by the applicable Parties if and to the extent necessary to complete such issuance).

4.5. Phase II Deliverables.

(a) Deliverables by Prospect Parties. On or prior to the Closing Date of the Phase II Transactions, each of the applicable Prospect Parties shall deliver (or cause to be delivered) to the MPT Parties the following:

(i) Copies or evidence of all material regulatory notices, consents and approvals required from each such Governmental Body pursuant to the terms of Section 4.1 (or confirmation from such a Governmental Body that the closing of the Phase II Transactions will not cause a lapse in the applicable license or permit), to the extent such Governmental Body is able to provide such notice, consent, approval or confirmation prior to the Closing Date;

(ii) Management Agreement, duly executed by ManageCo, PHP Holdings, and all of its applicable Subsidiaries (including Alta Newport) that constitute "Operators" as such term is defined in the Management Agreement;

(iii) Copies of all Merger documents entered into by the applicable Prospect Parties as contemplated in Section 4.2 hereof, including, without limitation, the Certificate of Merger filed with the California Secretary of State which provides for a merger date as of the Closing Date of the Phase II transactions, the applicable Agreement and Plan of Merger (or similar instrument), all applicable governing body approvals from the Prospect Parties approving the Merger, and evidence of all applicable notices provided to Governmental Bodies;

(iv) To the extent applicable, amendments to the PHP Holdings LLC Agreement and any other documents reasonably necessary to evidence the issuance of the PHPH Series A-1 Preferred Units, duly executed by PHP Holdings, Prospect Medical, and any other members of PHP Holdings (other than MPT Picasso TRS);

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(v) A Release and Waiver Agreement, duly executed by all of the Prospect Parties in favor of the MPT Parties;

(vi) A Default Representation, duly executed by all of the Prospect Parties;

(vii) An Officers' Certificate in form and substance reasonably satisfactory to the MPT Parties and executed by a duly authorized executive officer of Prospect Medical on behalf of Prospect Medical, its Designated Subsidiaries, and the Other Applicable Subsidiaries (other than PHP Holdings and its Designated Subsidiaries):

(A) certifying to the MPT Parties on behalf of all of Prospect Medical, its Designated Subsidiaries, and the Other Applicable Subsidiaries that: (1) all of the representations and warranties of Prospect Medical, its Designated Subsidiaries, and the Other Applicable Subsidiaries set forth in this Agreement (subject to the disclosures made in the Disclosure Schedules, as updated pursuant to Section 11.10) and the other Restructuring Documents are true and correct as of such Closing Date, and (2) Prospect Medical, its Designated Subsidiaries, and the Other Applicable Subsidiaries, as applicable, have delivered, performed, observed and complied in all material respects with all of the items, instruments, documents, covenants, agreements and conditions required by this Agreement and the other Restructuring Documents to be delivered, performed, observed and complied with by Prospect Medical, its Designated Subsidiaries, and the Other Applicable Subsidiaries as of such Closing Date;

(B) certifying to the MPT Parties on behalf of Prospect Medical, its Designated Subsidiaries, and the Other Applicable Subsidiaries that: (1) with respect to Prospect Medical, as to its Certificate of Incorporation and Bylaws, each as in effect on such Closing Date, (2) with respect to each of Prospect Medical's Designated Subsidiaries and the Other Applicable Subsidiaries as to their respective articles or certificate of incorporation, bylaws, operating agreements, limited liability company agreements, partnership agreements, and other similar organizational and governing documents, each as in effect on such Closing Date, and (3) a copy of each of the applicable Prospect Parties' Resolutions from Prospect Medical, its Designated Subsidiaries, and the Other Applicable Subsidiaries; and

(C) providing specimen signatures of the officers or authorized agents of each of Prospect Medical, its Designated Subsidiaries, and the Other Applicable Subsidiaries;

(viii) An Officers' Certificate in form and substance reasonably satisfactory to the MPT Parties and executed by a duly authorized executive officer of PHP Holdings on behalf of PHP Holdings and its Designated Subsidiaries:

(A) certifying to the MPT Parties on behalf of all of PHP Holdings and such Designated Subsidiaries that: (1) all of the representations and warranties of PHP Holdings and such Designated Subsidiaries set forth in this Agreement and the other Restructuring Documents are true and correct as of such Closing Date, and (2) PHP Holdings and such Designated Subsidiaries, as applicable, have delivered, performed, observed and complied in all material respects with all of the items, instruments, documents, covenants, agreements and conditions required by this Agreement and the other Restructuring

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Documents to be delivered, performed, observed and complied with by PHP Holdings and such Designated Subsidiaries as of such Closing Date;

(B) certifying to the MPT Parties on behalf of PHP Holdings and such Designated Subsidiaries that: (1) with respect to PHP Holdings, as to the Certificate of Formation and the PHP Holdings LLC Agreement, each as in effect on such Closing Date, (2) with respect to each of PHP Holdings' Designated Subsidiaries, as to their respective articles or certificate of incorporation, bylaws, operating agreements, limited liability company agreements, partnership agreements, and other similar organizational and governing documents, each as in effect on such Closing Date, and (3) a copy of each of the applicable Prospect Parties' Resolutions from PHP Holdings and such Designated Subsidiaries; and

(C) providing specimen signatures of the officers or authorized agents of each of PHP Holdings and such Designated Subsidiaries;

(ix) Certificates of existence and good standing of each of the Prospect Parties, their respective Designated Subsidiaries, and the Other Applicable Subsidiaries, dated within thirty (30) days prior to such Closing Date, from each such entity's State of incorporation or formation and, to the extent in which the character of its properties or in which the transaction of its business makes such qualification necessary, from the States of California and Connecticut and the Commonwealth of Pennsylvania;

(x) A closing statement in form and substance mutually satisfactory to the Parties, duly executed by each of the applicable Prospect Parties; and

(xi) Such other amendments, certificates, financing statements, tax filings, instruments and documents as any of the MPT Parties reasonably deems necessary to effectuate the transactions contemplated hereby.

(b) Deliverables by MPT Parties. On or prior to the applicable Closing Date of the Phase II Transactions each of the applicable MPT Parties shall deliver (or cause to be delivered) to the Prospect Parties the following:

(i) Amendments to the PHP Holdings LLC Agreement and any other documents reasonably necessary to evidence the issuance of the PHPH Series A-1 Preferred Units, duly executed by MPT Picasso TRS, if applicable;

(ii) A Default Representation, duly executed by the MPT Parties;

(iii) An Officers' Certificate in form and substance reasonably satisfactory to the Prospect Parties and executed by a duly authorized executive officer of MPT OP:

(A) certifying to the Prospect Parties on behalf of all of the MPT Parties that: (1) all of the representations and warranties of the MPT Parties set forth in this Agreement and the other Restructuring Documents are true and correct as of such Closing Date, and (2) the applicable MPT Parties have delivered, performed, observed and complied in all material respects with all of the items, instruments, documents, covenants, agreements and conditions required by this Agreement and the other Restructuring Documents to be

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delivered, performed, observed and complied with by such MPT Parties as of such Closing Date;

(B) certifying to the Prospect Parties on behalf of all of the MPT Parties that: (1) with respect to each of the MPT Parties, as to each of such MPT Parties' respective articles or certificate of incorporation, bylaws, operating agreements, limited liability company agreements, partnership agreements, and other similar organizational and governing documents, each as in effect on such Closing Date, and (2) each of the MPT Parties' Resolutions remain true, correct and in full force and effect as of such Closing Date; and

(C) providing specimen signatures of the officers or authorized agents of each of the MPT Parties;

(iv) Certificates of existence and good standing of each of the MPT Parties, dated within thirty (30) days prior to such Closing Date, from each such entity's State of incorporation or formation and, to the extent in which the character of its properties or in which the transaction of its business makes such qualification necessary, from the States of California and Connecticut and the Commonwealth of Pennsylvania;

(v) A closing statement in form and substance mutually satisfactory to the Parties, duly executed by each of the applicable Prospect Parties; and

(vi) Cancellation of the Phase I Convertible Note (if and only to the extent that it is fully converted); and

(vii) Such other amendments, certificates, financing statements, tax filings, instruments and documents as any of the Prospect Parties reasonably deems necessary to effectuate the transactions contemplated hereby.

ARTICLE V
PHASE III TRANSACTIONS

The Phase III Transactions are comprised of the events provided in this ARTICLE V, which Phase III Transactions are occurring as of the Closing Date of the Phase III Transactions (unless expressly otherwise provided):

5.1. Connecticut Transaction. The aggregate purchase price (the "Connecticut Purchase Price") for the "Acquired Assets" (as defined in the Connecticut Master Agreement) is Four Hundred Fifty-Seven Million Nine Hundred Forty-Two Thousand Nine Hundred Ninety-Eight and No/100 Dollars ($457,942,998.00). The Parties intend that the Connecticut Transaction and the other transactions described in this Article shall be consummated no later than September 30, 2023, and shall act in good faith and cooperate in all material respects to meet such intended deadline. The Parties have amended the Connecticut Master Agreement contemporaneously with this Agreement in order to evidence the obligations of the Parties hereunder.

(a) Satisfaction of Shortfall. At the Closing of the Connecticut Transaction in accordance with the Connecticut Master Agreement, the applicable Prospect Parties shall pay (or cause to be paid) to the applicable MPT Parties an amount equal to the Net Transaction Proceeds (as defined in the Master Connecticut Agreement) of Three Hundred Fifty-Five Million and No/100 Dollars

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($355,000,000.00) (the "Connecticut Closing Payment"), which Net Transaction Proceeds shall be paid by the applicable Prospect Parties in cash to the applicable MPT Parties by wire transfer of immediately available funds to an account specified in writing by the MPT Parties. The Parties agree that the difference between (a) the Connecticut Purchase Price and (b) the maximum amount of the Connecticut Closing Payment is a Phase I Outstanding Obligation in the amount of One Hundred Two Million Nine Hundred Forty-Two Thousand Ninety-Eight Dollars ($102,942,998.00) (the "Agreed Connecticut Shortfall Amount"), which has been satisfied by the issuance to MPT Picasso TRS of the PHPH Series A-1 Preferred Units and the Phase I Convertible Note, each as more particularly described in Section 3.2 hereof.

(b) Acknowledgements. The Parties acknowledge that as of immediately prior to the date hereof: (i) the Prospect Parties subject to the Connecticut Master Agreement are wholly-owned and controlled Subsidiaries (directly or indirectly) of Prospect Medical, and PHP Holdings is owned by Prospect Medical, (ii) Prospect Medical guarantees their respective obligations to the MPT Parties pursuant to certain of the Obligation Documents, (iii) both the MPT Parties subject to the Connecticut Master Agreement and MPT Picasso TRS are wholly-owned and controlled Subsidiaries (directly or indirectly) of MPT Op, and (iv) the issuances of such PHPH Series A-1 Preferred Units and the Phase I Convertible Note are being made to MPT Picasso TRS for the respective benefit of the Parties.

5.2. Phase III Deliverables.

(a) Deliverables by Prospect Parties. On or prior to the Closing Date of the Phase III Transactions, each of the applicable Prospect Parties shall deliver (or cause to be delivered) to the MPT Parties the following:

(i) Cash payment of the Connecticut Closing Payment as contemplated in Section 5.1(a) above;

(ii) All documents and instruments required to be delivered by any of the Prospect Parties pursuant to the Master Connecticut Agreement;

(iii) Amendments to the PHP Holdings LLC Agreement and any other documents reasonably necessary to evidence the issuance of the PHPH Series A-1 Preferred Units, if applicable, duly executed by PHP Holdings, Prospect Medical, and any other members of PHP Holdings (other than MPT Picasso TRS);

(iv) A Release and Waiver Agreement, duly executed by all of the Prospect Parties in favor of the MPT Parties;

(v) A Default Representation, duly executed by all of the Prospect Parties;

(vi) An Officers' Certificate in form and substance reasonably satisfactory to the MPT Parties and executed by a duly authorized executive officer of Prospect Medical on behalf of Prospect Medical, its Designated Subsidiaries, and the Other Applicable Subsidiaries (other than PHP Holdings and its Designated Subsidiaries):

(A) certifying to the MPT Parties on behalf of all of Prospect Medical, its Designated Subsidiaries, and the Other Applicable Subsidiaries that: (1) all of the representations and warranties of Prospect Medical, its Designated Subsidiaries, and the Other Applicable Subsidiaries set forth in this Agreement (subject to the disclosures made in the Disclosure

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Schedules, as updated pursuant to Section 11.10) and the other Restructuring Documents are true and correct as of such Closing Date, and (2) Prospect Medical, its Designated Subsidiaries, and the Other Applicable Subsidiaries, as applicable, have delivered, performed, observed and complied in all material respects with all of the items, instruments, documents, covenants, agreements and conditions required by this Agreement and the other Restructuring Documents to be delivered, performed, observed and complied with by Prospect Medical, its Designated Subsidiaries, and the Other Applicable Subsidiaries as of such Closing Date;

(B) certifying to the MPT Parties on behalf of Prospect Medical, its Designated Subsidiaries, and the Other Applicable Subsidiaries that: (1) with respect to Prospect Medical, as to the Certificate of Incorporation and Bylaws, each as in effect on such Closing Date, (2) with respect to each of Prospect Medical's Designated Subsidiaries and the Other Applicable Subsidiaries as to their respective articles or certificate of incorporation, bylaws, operating agreements, limited liability company agreements, partnership agreements, and other similar organizational and governing documents, each as in effect on such Closing Date, and (3) a copy of each of the applicable Prospect Parties' Resolutions from Prospect Medical, its Designated Subsidiaries, and the Other Applicable Subsidiaries; and

(C) providing specimen signatures of the officers or authorized agents of each of Prospect Medical, its Designated Subsidiaries, and the Other Applicable Subsidiaries;

(vii) An Officers' Certificate in form and substance reasonably satisfactory to the MPT Parties and executed by a duly authorized executive officer of PHP Holdings on behalf of PHP Holdings and its Designated Subsidiaries:

(A) certifying to the MPT Parties on behalf of all of PHP Holdings and such Designated Subsidiaries that: (1) all of the representations and warranties of PHP Holdings and such Designated Subsidiaries set forth in this Agreement and the other Restructuring Documents are true and correct as of such Closing Date, and (2) PHP Holdings and such Designated Subsidiaries, as applicable, have delivered, performed, observed and complied in all material respects with all of the items, instruments, documents, covenants, agreements and conditions required by this Agreement and the other Restructuring Documents to be delivered, performed, observed and complied with by PHP Holdings and such Designated Subsidiaries as of such Closing Date;

(B) certifying to the MPT Parties on behalf of PHP Holdings and such Designated Subsidiaries that: (1) with respect to PHP Holdings, as to the Certificate of Formation and the PHP Holdings LLC Agreement, each as in effect on such Closing Date, (2) with respect to each of PHP Holdings' Designated Subsidiaries, as to their respective articles or certificate of incorporation, bylaws, operating agreements, limited liability company agreements, partnership agreements, and other similar organizational and governing documents, each as in effect on such Closing Date, and (3) a copy of each of the applicable Prospect Parties' Resolutions from PHP Holdings and such Designated Subsidiaries; and

(C) providing specimen signatures of the officers or authorized agents of each of PHP Holdings and such Designated Subsidiaries;

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(viii) Certificates of existence and good standing of each of the Prospect Parties, their respective Designated Subsidiaries, and the Other Applicable Subsidiaries, dated within thirty (30) days prior to such Closing Date, from each such entity's State of incorporation or formation and, to the extent in which the character of its properties or in which the transaction of its business makes such qualification necessary, from the States of California and Connecticut and the Commonwealth of Pennsylvania;

(ix) A closing statement in form and substance mutually satisfactory to the Parties, duly executed by each of the applicable Prospect Parties; and

(x) Such other amendments, certificates, financing statements, tax filings, instruments and documents as any of the MPT Parties reasonably deems necessary to effectuate the transactions contemplated hereby.

(b) Deliverables by MPT Parties. On or prior to the applicable Closing Date of the Phase III Transactions, each of the applicable MPT Parties shall deliver (or cause to be delivered) to the Prospect Parties the following:

(i) All documents and instruments required to be delivered by any of the MPT Parties pursuant to the Master Connecticut Agreement;

(ii) Amendments to the PHP Holdings LLC Agreement and any other documents reasonably necessary to evidence the issuance of the PHPH Series A-1 Preferred Units, duly executed by MPT Picasso TRS, if applicable;

(iii) A Default Representation, duly executed by the MPT Parties;

(iv) An Officers' Certificate in form and substance reasonably satisfactory to the Prospect Parties and executed by a duly authorized executive officer of MPT OP:

(A) certifying to the Prospect Parties on behalf of all of the MPT Parties that: (1) all of the representations and warranties of the MPT Parties set forth in this Agreement and the other Restructuring Documents are true and correct as of such Closing Date, and (2) the applicable MPT Parties have delivered, performed, observed and complied in all material respects with all of the items, instruments, documents, covenants, agreements and conditions required by this Agreement and the other Restructuring Documents to be delivered, performed, observed and complied with by such MPT Parties as of such Closing Date;

(B) certifying to the Prospect Parties on behalf of all of the MPT Parties that: (1) with respect to each of the MPT Parties, as to each of such MPT Parties' respective articles or certificate of incorporation, bylaws, operating agreements, limited liability company agreements, partnership agreements, and other similar organizational and governing documents, each as in effect on such Closing Date, and (2) each of the MPT Parties' Resolutions remain true, correct and in full force and effect as of such Closing Date; and

(C) providing specimen signatures of the officers or authorized agents of each of the MPT Parties;

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(v) Certificates of existence and good standing of each of the MPT Parties, dated within thirty (30) days prior to such Closing Date, from the State of each such entity's incorporation or formation and, to the extent in which the character of its properties or in which the transaction of its business makes such qualification necessary, from the States of California and Connecticut and the Commonwealth of Pennsylvania;

(vi) A closing statement in form and substance mutually satisfactory to the Parties, duly executed by each of the applicable MPT Parties; and

(vii) Such other amendments, certificates, financing statements, tax filings, instruments and documents as any of the Prospect Parties reasonably deems necessary to effectuate the transactions contemplated hereby.

ARTICLE VI
ADDITIONAL COVENANTS AND OBLIGATIONS OF THE PROSPECT PARTIES

6.1. Cooperation. In addition to and without limiting the other terms and conditions contained in this Agreement, the Parties shall act in good faith and take all actions reasonably necessary to comply with their respective obligations set forth in this Agreement.

6.2. Information With Respect to PhysicianCo Term Loan. The Prospect Parties shall deliver to the MPT Parties complete, true, and correct copies of all of the PhysicianCo Term Loan Documents now or hereafter entered into by any of the Prospect Parties or their Affiliates. During the period in which any of the PhysicianCo Term Loan Documents remain in effect, the Prospect Parties shall provide the MPT Parties with reasonable access to all such PhysicianCo Term Loan Documents and promptly keep the MPT Parties informed regarding any of the Prospect Parties' negotiations or discussions with the PhysicianCo Term Loan Lenders (including, without limitation, providing copies of all material written notices and communications between the PhysicianCo Term Loan Lenders and any of the Prospect Parties) and drafts of any proposed agreements, modifications, acknowledgements or waivers prior to execution.

6.3. Bankruptcy Remote Entity. At all times that MPT Picasso TRS, or any of its Affiliates owns any Equity Interest (or securities convertible into an Equity Interest) in PHP Holdings, the applicable Prospect Parties shall: (a) except as specifically provided for in the PhysicianCo Term Loan Documents *executed as of the date hereof,* cause PHP Holdings to be operated as a Bankruptcy Remote Entity, (b) Prospect Medical shall own any of its Equity Interest (or securities convertible into Equity Interests) in PHP Holdings (and otherwise own any direct or indirect interest in the managed care business of PHP Holdings and its Subsidiaries as currently conducted by the Prospect Parties) only through ownership structures expressly provided for in this Agreement or as otherwise consented to in writing by the MPT Parties, and (c) except as specifically provided for in the PhysicianCo Term Loan Documents *executed as of the date hereof*, none of Prospect Medical or its other Affiliates (excluding PHP Holdings and its Subsidiaries) shall guarantee or otherwise obligate itself, with respect to the debts of any of PHP Holdings or its Subsidiaries.

6.4. Capital Transaction Covenants. Until such time as all of the Capital Transaction Covenant Conditions are satisfied in full, the HospitalCo Parties shall comply with the following covenants (each a "Capital Transaction Covenant" and collectively, the "Capital Transaction Covenants"):

(a) the HospitalCo Parties shall not, without the MPT Parties' prior written consent which may be given or denied in the MPT Parties' sole discretion, enter into or agree to enter into any Capital Transaction; *provided*, *however*, that the MPT Parties' prior written consent shall not be required for (i) any Capital

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Transaction that involves aggregate consideration of Five Million and No/100 Dollars ($5,000,000.00) or less (whether in cash, securities, or other property), or (ii) any Permitted Transaction, so long as the Net Capital Proceeds are used to pay retained liabilities relating to such Permitted Transaction.

(b) the HospitalCo Parties shall not make any Distribution or investment of Net Capital Proceeds without the prior written consent of the MPT Parties; *provided, however*, the HospitalCo Parties shall be permitted to make intercompany distributions or transfers: (i) among Prospect Medical and its Subsidiaries (other than PHP Holdings and its Subsidiaries), or (ii) among PHP Holdings and its Subsidiaries, in each case solely to facilitate repayment of their respective Outstanding Obligations and any other obligations under, as applicable, the Obligation Documents (subject, in the case of PHP Holdings, to any applicable approval rights in the PHP Holdings LLC Agreement). For purposes of clarity, this Section 6.4(b) shall not restrict Prospect Medical or its Affiliates from consummating the Permitted Transactions, so long as the Net Capital Proceeds are used to pay retained liabilities relating to such Permitted Transaction.

(c) None of the HospitalCo Parties shall: (i) pay or allow any other Distributions, (ii) issue, redeem or purchase (directly or indirectly) any direct or indirect Equity Interests in Prospect Medical or any of its Affiliates, (iii) other than in the ordinary course of business, incur or guaranty any new Indebtedness (directly or indirectly), (iv) make any advances or loans to (or repay, in whole or part, any loans from) any of Prospect Medical's direct or indirect stockholders (or their respective Affiliates), or (v) permit any Encumbrance of any kind or nature whatsoever on (A) any Equity Interest of any of Prospect Medical or its Subsidiaries, or (B) any of the Net Capital Proceeds, in each case, except as expressly contemplated in this Agreement or following the prior written consent of the MPT Parties (in their sole and absolute discretion).

The breach of any Capital Transaction Covenant shall automatically constitute a "Major Event of Default" under and as defined in the applicable Obligation Documents. The Parties acknowledge and agree that the Merger shall be excluded from any restrictions set forth in this Section 6.4 and Section 6.5 and consummation of the Merger shall not be deemed a breach of this Section 6.4 and Section 6.5.

6.5. Additional Covenants of the Prospect Parties. In addition to the Capital Transaction Covenants, the HospitalCo Parties (as applicable) agree as follows:

(a) Any and all intercompany debt among the HospitalCo Parties and their Affiliates hereby is and shall be subordinated to the amounts owed to the applicable MPT Parties pursuant to the Obligation Documents (subject to the PhysicianCo Intercreditor Agreement).

(b) Prospect Medical shall provide to (or cause to be provided to) the MPT Parties all financial, operating and other data or information relating to any proposed Capital Transaction, as may be reasonably requested by the MPT Parties in connection with its due diligence review.

(c) The HospitalCo Parties shall (i) promptly inform the MPT Parties regarding any potential Capital Transactions, (ii) promptly provide to the MPT Parties copies of any indications of interest, or other agreements or documentation regarding any potential Capital Transaction that the HospitalCo Parties are interested in or otherwise desire to enter into, including without limitation, any term sheets or letters of intent executed by the HospitalCo Parties (it being understood that the HospitalCo Parties' execution of any binding agreements with respect to any Capital Transaction are subject to the terms and conditions of this Agreement), and (iii) reasonably cooperate with the MPT Parties and keep the MPT Parties reasonably informed of the status of any such transaction on a frequent basis or as otherwise requested from time to

time by the MPT Parties.

(d) The HospitalCo Parties will reasonably cooperate, at no cost to the HospitalCo Parties, with the MPT Parties regarding any actions by the MPT Parties relating to qualification and compliance matters relating to "real estate investment trusts" under the Code (or any related rules or regulations), including, without limitation, the filing of any "TRS" elections with respect to any of PHP Holdings' Subsidiaries, as reasonably deemed necessary or appropriate by the MPT Parties; *provided*, *that*, the Prospect Parties shall not be required to take any action that is not commercially reasonable or that would otherwise be materially detrimental to the Prospect Parties or their respective Affiliates. The MPT Parties shall pay to or reimburse the HospitalCo Parties within thirty (30) days demand for all reasonable expenses which may be incurred by the HospitalCo Parties or their Affiliates with respect to any cooperation or actions taken by the HospitalCo Parties or their Affiliates pursuant to this Section 6.5(d).

6.6. No Waiver of Rights. Nothing herein shall be deemed (a) to obligate the MPT Parties to consent to any Capital Transaction, or (b) to limit or modify the consent rights of the MPT Parties with respect to any Capital Transaction otherwise set forth herein or any other rights and remedies of the MPT Parties set forth in any of the Obligation Documents.

6.7. Delivery of Audited Financial Statements. As soon as reasonably practicable, but in no event more than five (5) days after completion, the Prospect Parties shall deliver to the MPT Parties true, correct and complete copies of the audited consolidated balance sheets of Prospect Medical, PHP Holdings, and each of their respective Subsidiaries as of September 30, 2022, and the related audited consolidated statements of income, cash flow and changes in stockholders' equity of Prospect Medical and its Subsidiaries (excluding PHP Holdings) for the fiscal year then ended, and the related unaudited consolidated statements of income, cash flow and changes in stockholders' equity of PHP Holdings for the fiscal year then ended.

ARTICLE VII
REPRESENTATIONS AND WARRANTIES OF PROSPECT PARTIES

Each of (i) Prospect Medical and its Designated Subsidiaries, jointly and severally, and (ii) PHP Holdings and its Designated Subsidiaries, jointly and severally, in each case hereby represent, warrant and covenant to the MPT Parties as follows:

7.1. Existence; Good Standing; Enforceability.

(a) Each of Prospect Medical, PHP Holdings, their respective Designated Subsidiaries, and the Other Applicable Subsidiaries is a corporation or limited liability company (as applicable) duly formed, validly existing, and in good standing under the laws of the applicable State of its formation. Each of Prospect Medical, PHP Holdings, their respective Designated Subsidiaries, and the Other Applicable Subsidiaries has all requisite power and authority to own, operate, and lease its properties and carry on its business as currently conducted. Each of Prospect Medical, PHP Holdings, their respective Designated Subsidiaries, and the Other Applicable Subsidiaries is duly licensed and qualified to do business as a foreign entity and is in good standing under the laws of each jurisdiction in which the character of its properties or in which the transaction of its business makes such qualification necessary except where failure to be so qualified, licensed or in good standing would not individually or in the aggregate be material to Prospect Medical, PHP Holdings, and their respective Designated Subsidiaries, and the Other Applicable Subsidiaries. The copies of the respective articles or certificate of incorporation, bylaws, operating agreements, limited

liability company agreements, partnership agreements, and other similar organizational and governing documents (collectively, the "Governing Documents") of Prospect Medical, PHP Holdings, their respective Designated Subsidiaries, and the Other Applicable Subsidiaries, each as amended to date and provided by Prospect Medical, PHP Holdings, their respective Designated Subsidiaries, and the Other Applicable Subsidiaries to the MPT Parties, are complete and correct, and no amendments thereto are pending. Each of Prospect Medical, PHP Holdings, their respective Designated Subsidiaries, and the Other Applicable Subsidiaries is in compliance with its Governing Documents in all material respects.

(b) Each of Prospect Medical, PHP Holdings, their respective Designated Subsidiaries, and the Other Applicable Subsidiaries has all requisite power and authority to execute and deliver this Agreement and each other Restructuring Document to which it is or will become a party and to perform its obligations hereunder and thereunder. The execution and delivery of this Agreement and each other Restructuring Document to which any of Prospect Medical, PHP Holdings, their respective Designated Subsidiaries, and the Other Applicable Subsidiaries is a party, the performance by Prospect Medical, PHP Holdings, their respective Designated Subsidiaries, and the Other Applicable Subsidiaries of respective their obligations hereunder and thereunder and the consummation of the transactions contemplated hereby and thereby have been duly authorized by all necessary action on the part of all of Prospect Medical, PHP Holdings, their respective Designated Subsidiaries, and the Other Applicable Subsidiaries, and no further action on the part of any of Prospect Medical, PHP Holdings, their respective Designated Subsidiaries, and the Other Applicable Subsidiaries is necessary to authorize the execution and delivery by Prospect Medical, PHP Holdings, their respective Designated Subsidiaries, and the Other Applicable Subsidiaries of this Agreement or such other Restructuring Documents, and the consummation of the transactions contemplated hereby and thereby, except for approvals from any Governmental Bodies, and informational filings with Governmental Bodies, required under applicable legal requirements, as further addressed in Section 7.3(b) hereof.

(c) This Agreement and the other Restructuring Documents to which any of Prospect Medical, PHP Holdings, their respective Designated Subsidiaries, and the Other Applicable Subsidiaries is or will become a party have been (or with respect to certain Restructuring Documents to be executed after the date hereof, will be) duly executed and delivered by Prospect Medical, PHP Holdings, their respective Designated Subsidiaries, and the Other Applicable Subsidiaries and, assuming the due authorization, execution and delivery of this Agreement and such other Restructuring Documents by each of the other Parties hereto and thereto, constitute (or, as applicable with respect to certain Restructuring Documents to be executed after the date hereof, shall constitute) legal, valid and binding obligations of Prospect Medical, PHP Holdings, their respective Designated Subsidiaries, and the Other Applicable Subsidiaries, enforceable against Prospect Medical, PHP Holdings, their respective Designated Subsidiaries, and the Other Applicable Subsidiaries, as applicable in accordance with the terms and conditions hereof and thereof, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally and by general equitable principles (regardless of whether enforcement is sought in a proceeding at law or in equity).

7.2. Capitalization of PHP Holdings.

(a) The PHP Holdings LLC Agreement executed contemporaneously herewith sets forth a description of all of the Equity Interests of all of its members outstanding as of the date hereof. The Prospect Organizational Chart is complete, true, and correct in all respects, and discloses all of the respective Subsidiaries and other Persons owned in whole or in party, directly or indirectly, by an of Prospect Medical, PHP Holdings, their respective Designated Subsidiaries, or the Other Applicable Subsidiaries, all of which

are held of record on the date hereof by the Persons described therein effective immediately at the closing of the Phase I Transactions.

(b) Except as expressly set forth in this Agreement, the PHP Holdings LLC Agreement, the Phase I Convertible Note, and the other Governing Documents of PHP Holdings and its Designated Subsidiaries, each as amended to date and provided by the Prospect Parties to the MPT Parties: (i) there are no outstanding subscriptions, options, warrants, commitments, preemptive rights, deferred compensation rights, agreements, arrangements or commitments of any kind to which any of Prospect Medical, PHP Holdings, or any of their respective Designated Subsidiaries is a party relating to the issuance of, or outstanding securities convertible into or exercisable or exchangeable for, any Equity Interest of PHP Holdings or any of its Designated Subsidiaries, (ii) there are no agreements to which Prospect Holdings, PHP Holdings, or any of their respective Designated Subsidiaries is a party with respect to the voting of any shares of Equity Interest of PHP Holdings or any of its Designated Subsidiaries or which restrict the transfer of any such Equity Interests, and (iii) there are no outstanding contractual obligations of Prospect Medical, PHP Holdings, or any of their respective Designated Subsidiaries to repurchase, redeem or otherwise acquire any shares of Equity Interests or any other securities of PHP Holdings or any of its Designated Subsidiaries.

7.3. No Conflict; Consents.

(a) Except as set forth on ***Schedule 7.3(a)***, and provided any required approvals from Governmental Bodies are obtained, and required information filings with Governmental Bodies are made, as further addressed in Section 7.3(b) below, the execution and delivery by each of Prospect Medical, PHP Holdings, their Designated Subsidiaries, and the Other Applicable Subsidiaries of this Agreement and each other Restructuring Document to which each of them is (or will become) a party, and the consummation of the transactions contemplated hereby and thereby in accordance with their respective terms, do not: (i) violate, conflict with or result in a default (whether after the giving of notice, lapse of time or both) under, or give rise to a right of termination, amendment, acceleration or cancellation of, or result in the triggering of any payments or the creation of an Encumbrance on any property or asset of any of Prospect Medical, PHP Holdings, or any of their respective Designated Subsidiaries under any Material Contract or License (including, without limitation, all Healthcare Licenses) to which any of Prospect Medical, PHP Holdings, or any of their respective Designated Subsidiaries is a party or by which any of their respective assets are bound; (ii) conflict with, or result in any violation of, any provision of their respective Governing Documents; or (iii) violate or result in a violation of or constitute a default under (whether after the giving of notice, lapse of time or both), or result in the triggering of any payments or the creation of an Encumbrance on any property or asset of any of Prospect Medical, PHP Holdings, or any of their respective Designated Subsidiaries under any provision of any law, regulation or rule, or any order of, or any restriction imposed by, any court or other Governmental Body applicable to any of Prospect Medical, PHP Holdings, or any of their respective Designated Subsidiaries, including, without limitation, all applicable Laws regarding the paying, making, or declaring dividends or distributions by any of Prospect Medical, PHP Holdings, their respective Designated Subsidiaries, and the Other Applicable Subsidiaries, except in the case of clause (i) and (iii) above, for such conflicts, violations, breaches, defaults or failure to receive consents that would not individually or in the aggregate be material to any of Prospect Medical, PHP Holdings, or any of their respective Designated Subsidiaries.

(b) The execution and delivery by Prospect Medical, PHP Holdings, and their respective Designated Subsidiaries of this Agreement and each other Restructuring Document to which any of them is (or will become) a party, and the consummation by Prospect Medical, PHP Holdings, any of their respective

Designated Subsidiaries or any Other Applicable Subsidiaries of the transactions contemplated hereby and thereby in accordance with their respective terms, do not require from Prospect Medical, PHP Holdings, any of their respective Designated Subsidiaries or any Other Applicable Subsidiaries any notice to, declaration or material filing with, or material consent or approval of any Governmental Body, except for as otherwise set forth on ***Schedule 7.3(b)***.

7.4. Financial Statements.

(a) ***Schedule 7.4(a)*** sets forth true, correct and complete copies of (i) the audited consolidated balance sheets of Prospect Medical and its Subsidiaries as of September 30, 2021 (the "Audited Balance Sheet"), and the related audited consolidated statements of income, cash flow and changes in stockholders' equity of Prospect Medical and its Subsidiaries for the fiscal year then ended (the "Audited Financials"), (ii) in all material respects, the unaudited consolidated balance sheets of Prospect Medical and its Subsidiaries and PHP Holdings and its Subsidiaries as of September 30, 2022 (the "Balance Sheet Date") and the related unaudited consolidated statements of income, and cash flow of Prospect Medical and its Subsidiaries for the fiscal year then ended and the related unaudited consolidated statements of income of PHP Holdings and its Subsidiaries for the fiscal year then ended (the "Most Recent Annual Financials"), (iii) in all material respects, the unaudited consolidated balance sheets of Prospect Medical, PHP Holdings, and each of their respective Subsidiaries as of March 31, 2023, and the related unaudited consolidated statements of income and cash flow of Prospect Medical, PHP Holdings, and each of their respective Subsidiaries for the six (6) months then ended (the "Most Recent Balance Sheet"), and (iv) the consolidated pro forma consolidated statements of income of PHP Holdings and its Subsidiaries for the twelve (12) month period ending on March 31, 2023 (the "PHP Holdings Pro Forma Financials" and, together with the Audited Financials, the Most Recent Annual Financials, and the Most Recent Balance Sheet, the "Financial Statements").

(b) The Financial Statements fairly present, in all material respects, the consolidated financial position of Prospect Medical, PHP Holdings, and each of their respective Subsidiaries, as of the respective dates thereof, and the results of operations and the changes in cash flows of Prospect Medical, PHP Holdings, and their respective Subsidiaries, for the respective periods set forth therein; *provided, that*, the PHP Holdings Pro Forma Financials fairly present, in all material respects, the consolidated financial position of PHP Holdings and its Subsidiaries on a pro forma basis and the projections and assumptions expressed therein were prepared in good faith and represent management's opinion based on the information available to PHP Holdings at the time of this Agreement and, since the preparation thereof, there has occurred no change in the business, financial condition, operations, or prospects of any of PHP Holdings or any of its Subsidiaries, or PHP Holdings and its Subsidiaries taken as a whole, which has had or could reasonably be expected to have a Material Adverse Effect on PHP Holdings, its Subsidiaries, or the Managed Care Business. Each of the Financial Statements (including all related notes) (i) is consistent with the books and records of the applicable Prospect Parties, (ii) was derived from the books and records of the applicable Prospect Parties, and (iii) has been prepared, in all material respects, in accordance with GAAP applied on a consistent basis during the periods involved, except (A) any deviations as are otherwise specifically noted therein, (B) in the case of the Most Recent Balance Sheet, subject to normal year-end adjustments and the absence of footnote disclosures, none of which, individually or in the aggregate, will be material, and (C) in the case of the PHP Holdings Pro Forma Financials, which were prepared on a pro forma basis as described herein.

(c) Prospect Medical, PHP Holdings, and their respective Subsidiaries maintain internal controls designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements of Prospect Medical, PHP Holdings, and their respective Subsidiaries, including

the Financial Statements. None of the boards of directors or managers of Prospect Medical, PHP Holdings, or any of their respective Subsidiaries or any audit committee of Prospect Medical, PHP Holdings, or any of their respective Subsidiaries have been advised by their accountants or consultants of: (i) any significant deficiencies or material weaknesses in the design or operation of the internal controls over financial reporting of any of Prospect Medical, PHP Holdings, or any of their respective Subsidiaries which would reasonably be expected to materially and adversely affect its ability to record, process, summarize and report financial data relating to the business of Prospect Medical, PHP Holdings, and their respective Subsidiaries or (ii) any fraud, whether or not material, that involves management or other employees who have a role in the internal controls over financial reporting of Prospect Medical, PHP Holdings, or any of their respective Subsidiaries. The books and records of Prospect Medical, PHP Holdings, and their respective Subsidiaries are and have been properly prepared and maintained in form and substance adequate in all material respects for preparing audited consolidated financial statements, in accordance with GAAP and any other applicable legal and accounting requirements.

7.5. No Undisclosed Liabilities. None of Prospect Medical, PHP Holdings, or any of their respective Subsidiaries has any material Liabilities *except*: (a) as reflected in or reserved against in the Financial Statements, (b) as set forth on ***Schedule 7.5***, (c) for liabilities incurred in the Ordinary Course of Business, (d) for liabilities under an executory portion of a Contract that have not yet been performed, (e) for Liabilities under this Agreement or entered into in connection herewith, or (f) Liabilities that are not material to Prospect Medical, PHP Holdings, or any of their respective Subsidiaries (as applicable).

7.6. Title to Personal Property; Related Matters. Except for Priming Liens and Permitted Encumbrances, and except as set forth on ***Schedule 7.6***, Prospect Medical, PHP Holdings, and their respective Designated Subsidiaries own, have a valid leasehold interest in, or a valid license to use, all of the material tangible personal properties, assets and equipment owned or used by any of Prospect Medical, PHP Holdings, or their respective Designated Subsidiaries and necessary in connection with the ownership and operation of the Facilities and the Managed Care Business, as applicable.

7.7. Absence of Litigation; Orders.

(a) Except as set forth on ***Schedule 7.7(a)***, there is no, and since the Balance Sheet Date there has not been any claim, demand, citation, action, arbitration, suit, litigation, complaint, proceeding or investigation of any kind whatsoever, at law or in equity (including actions or proceedings seeking injunctive relief), by or before any Governmental Body ("Litigation") pending or, to the Knowledge of the Prospect Parties, threatened by or against Prospect Medical, PHP Holdings, or any of their respective Subsidiaries or affecting any of their respective properties or assets, other than (i) claims made in the Ordinary Course of Business with respect to professional liability which do not seek class status and which are fully insured (subject to any applicable deductibles), (ii) claims that do not involve amounts in excess of $1,000,000 or are otherwise not reasonably expected to be material to Prospect Medical, PHP Holdings, or any of their respective Subsidiaries, and (iii) investigations which have not resulted, and would not reasonably be expected to result in, a civil or criminal subpoena, civil investigative demand, or other similar formal initiation of investigation proceedings.

(b) Except as set forth on ***Schedule 7.7(b)***, none of Prospect Medical, PHP Holdings, or any of their respective Subsidiaries is, and since the Balance Sheet Date has been a party to or subject to, or in violation, default or breach under, any judgment, order, injunction, stipulation, settlement agreement, consent agreement, memorandum of understanding, disciplinary agreement, decree, ruling, writ, assessment or arbitration award of, or entered into by or with any, Governmental Body ("Orders") applicable to Prospect

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Medical or such Subsidiaries or any of their respective properties or assets, except for such violation, default or breach which would not, individually or in the aggregate, be material to any of Prospect Medical, PHP Holdings, their respective Designated Subsidiaries, or any Other Applicable Subsidiaries.

(c) Except as set forth on ***Schedule 7.7(c)***, since the Balance Sheet Date, none of Prospect Medical, PHP Holdings, or any of their respective Subsidiaries: (i) has received any written notification or, to the Knowledge of the Prospect Parties, any other communication from any Governmental Body asserting that any of Prospect Medical, PHP Holdings, or any of their respective Subsidiaries is not in compliance in any material respect with any Order, or (ii) entered into or been subject to any material Order.

7.8. Taxes.

(a) Each of such Prospect Parties and their respective Subsidiaries has (i) filed or caused to be filed with the appropriate Governmental Bodies all income and other material Tax Returns required to be filed by it, and (ii) paid all Taxes due and payable by it to the appropriate Governmental Body, except to the extent such amounts are being contested in good faith and for which appropriate reserves have been established in accordance with GAAP. All such Tax Returns were correct and complete in all material respects solely in relation to the ultimate Tax liability calculated and reflected on such Tax Returns.

(b) Except as set forth on ***Schedule 7.8(b)***, there are no outstanding waivers or agreements regarding the application of the statute of limitations with respect to any material Taxes or material Tax Returns of any of the Prospect Parties or their respective Subsidiaries (other than pursuant to an extension of time to file).

(c) No unresolved federal, state, local or foreign audits or other administrative proceedings have been formally commenced or are pending with regard to any Taxes or Tax Returns of any of the Prospect Parties or their respective Subsidiaries for which any of the Prospect Parties or their respective Subsidiaries has not made adequate provisions (in accordance with GAAP), and no written or, to the Knowledge of the Prospect Parties, any other notification has been received by any of the Prospect Parties or their respective Subsidiaries that such an audit or other proceeding has been proposed or, to the Knowledge of the Prospect Parties, threatened.

(d) The provision for Taxes on the Most Recent Balance Sheet is sufficient for all accrued and unpaid Taxes of any of the Prospect Parties and their respective Subsidiaries as of the date thereof, and will be sufficient for all accrued and unpaid Taxes of any of the Prospect Parties and their respective Subsidiaries through the end of the applicable Closing Date as adjusted for the passage of time through the end of the applicable Closing Date in accordance with the past custom and practice of Prospect Medical, PHP Holdings, and each of their respective Subsidiaries in filing their Tax Returns.

(e) No unresolved written claim has been made by a Governmental Body with respect to Taxes in a jurisdiction where any of the Prospect Parties or their respective Subsidiaries does not file Tax Returns that any of such Prospect Parties or Subsidiaries is or may be subject to taxation by or required to file Tax Returns in that jurisdiction.

(f) There are no Encumbrances for Taxes (other than Permitted Encumbrances) upon any of the Facilities or the Managed Care Business.

(g) Except as set forth on ***Schedule 7.8(g)***, none of Prospect Medical, PHP Holdings, or any of their respective Designated Subsidiaries are party to any Tax abatement agreements relating to any of its properties or assets.

7.9. Employee Benefit Plans/ERISA.

(a) ***Schedule 7.9(a)*** sets forth the "Benefit Plans" which are defined as (i) each employee benefit plan within the meaning of Section 3(3) of ERISA that is sponsored or maintained by any of Prospect Medical, PHP Holdings, or any of their respective Subsidiaries, and (ii) each "multiemployer plan" as defined in Section 3(37) of ERISA to which any of Prospect Medical, PHP Holdings, or any of their respective Subsidiaries is obligated to contribute as of the date hereof or has been so obligated within the preceding six (6) years pursuant to a collective bargaining agreement or participation agreement (a "Multiemployer Plan"). There has been no termination or partial termination of any Benefit Plan within the meaning of Section 411(d)(3) of the Code.

(b) Except as disclosed in ***Schedule 7.9(b)***, (i) all amounts that are required under the terms of any collective bargaining agreement or participation agreement to be paid as contributions to a Multiemployer Plan on or prior to the Closing Date have been paid; (ii) no accumulated funding deficiency or liquidity shortfall (as those terms are defined in Section 302 of ERISA and Section 412 of the Code), whether or not waived, exists with respect to the Multiemployer Plan; (iii) the value of the assets of each Multiemployer Plan exceeds the amount of all benefit liabilities (determined on an ongoing basis using the actuarial assumptions currently in effect for the Multiemployer Plan) of such Multiemployer Plan. The funded status of each Benefit Plan is disclosed on ***Schedule 7.9(b)*** in a manner consistent with the Accounting Standards Codification 715. None of the transactions contemplated in this Agreement will subject any of Prospect Medical, PHP Holdings, or their respective Designated Affiliates or any of the MPT Parties to any withdrawal liability under Part 1 of Subtitle E of Title IV of ERISA as a "complete withdrawal" (as defined in ERISA Section 4203) or a "partial withdrawal" (as defined in ERISA Section 4205) from any Multiemployer Plan.

(c) Except as set forth on ***Schedule 7.9(c)***, the Benefit Plans have been administered in accordance with the applicable provisions of ERISA and the Code, and are in compliance with all other applicable laws and regulations respecting such Benefit Plans. None of Prospect Medical, PHP Holdings, or any of their respective Subsidiaries has any liability for (i) any lien imposed under Section 303(k) of ERISA or Section 430(k) of the Code, or (ii) for any interest payments required under Section 303(j) of ERISA or Section 430(j) of the Code.

(d) Except as set forth on ***Schedule 7.9(d)***, neither the execution and delivery of this Agreement and the other Restructuring Documents, nor the consummation of the transactions contemplated hereby and thereby, will result (i) in any "parachute payment" as defined in Section 280G of the Code, (ii) any "change in control" or other payment under any Benefit Plan or employment agreement or non-qualified deferred compensation plan or agreement, (iii) entitle any current or former director, officer, employee or consultant of any of Prospect Medical, PHP Holdings, or any of their respective Subsidiaries to severance pay, termination pay, unemployment compensation or any other payment or benefit under any Benefit Plan, (iv) accelerate the time of payment or vesting of benefits, or increase the amount of compensation, due to any such director, officer, employee or consultant under any Benefit Plan, (v) trigger any funding obligation under any Benefit Plan, or (vi) impose any restrictions or limitations on the sponsoring employer's rights to administer, amend or terminate any Benefit Plan.

(e) Except as set forth on ***Schedule 7.9(e)***, no "reportable event" within the meaning of Section 4043 of ERISA has occurred with respect to any Benefit Plan in the prior three (3) years and with respect to any of the transactions contemplated in this Agreement, to the extent such transaction is a reportable event, with respect to which the reporting requirement has not been waived, each Prospect Medical, PHP Holdings, and/or their respective Subsidiaries has provided (or intends to provide) to the PBGC the required notice of such reportable event in all cases as required by all applicable laws and requisite reporting period.

7.10. Labor Matters.

(a) Except as set forth on ***Schedule 7.10(a)***, none of Prospect Medical, PHP Holdings, or any of their respective Subsidiaries is a party to any collective bargaining agreement or similar Contract with any labor organization or other employee representative body (a "Collective Bargaining Agreement").

(b) No grievance, unfair labor practice charge, or arbitration proceeding arising out of or under any Collective Bargaining Agreement, which could reasonably be anticipated to result in liability in excess of One Million and No/100 Dollars ($1,000,000.00), is pending.

(c) Since the Look-Back Date, there has not been, nor is there, any pending or, to the Knowledge of the Prospect Parties, any threatened (i) material labor dispute between Prospect Medical, PHP Holdings, or any of their respective Subsidiaries with any labor organization, or any material strike, work slowdown, work stoppage or other similar organized labor activity involving any employee of Prospect Medical, PHP Holdings, or any of their respective Subsidiaries, which could reasonably be anticipated to result in liability in excess of One Million and No/100 Dollars ($1,000,000.00) or (ii) union organizing, or union election activity involving any employee of Prospect Medical, PHP Holdings, or any of their respective Subsidiaries with respect to their employment by Prospect Medical, PHP Holdings, or any of their respective Subsidiaries which could reasonably be anticipated to result in liability in excess of One Million and No/100 Dollars ($1,000,000.00).

(d) Each of Prospect Medical, PHP Holdings, or any of their respective Subsidiaries is, and has been since the Look-Back Date, in compliance in all material respects with all Laws regarding labor, employment and employment practices, and conditions of employment, including occupational safety and health, immigration, discrimination, harassment, wrongful termination, misclassification of employees and independent contractors, and wages and hours, including any bargaining or other obligations under the National Labor Relations Act. Except as set forth on ***Schedule 7.7(a)***, there are no complaints, actions, suits, investigations, or other Litigation pending or, to the Knowledge of the Prospect Parties, threatened against Prospect Medical, PHP Holdings, or any of their respective Subsidiaries in connection with the employment of any current or former employee or temporary employee or current or former independent contractor that would reasonably be expected to result in material liability to, or have a material impact on, Prospect Medical, PHP Holdings, or any of their respective Subsidiaries, taken as a whole.

(e) Each of Prospect Medical, PHP Holdings, and their respective Subsidiaries is (and has been since the Look-Back Date), in material compliance with the Worker Adjustment and Retraining and Notification Act ("WARN") and similar state Laws and has no material Liabilities pursuant thereto. Each of Prospect Medical, PHP Holdings, and their respective Subsidiaries have not implemented a "mass layoff" or "plant closing" (as defined in WARN) within the last twelve months preceding the date hereof.

(f) Each of Prospect Medical, PHP Holdings, and their respective Subsidiaries have been, and is, in compliance and has not violated, the terms of the Immigration Reform and Control Act of 1988, as

amended, and all related regulations promulgated thereunder and any other immigration laws, except, in each case, as would not reasonably be expected to result in any material Liability for Prospect Medical, PHP Holdings, and their respective Subsidiaries. Since the Look-Back Date, none of Prospect Medical, PHP Holdings, or their respective Subsidiaries have been warned, fined, or otherwise penalized by any Governmental Body by reason of its failure to materially comply immigration laws.

7.11. Contracts and Commitments; Enforceability.

(a) Each of the Material Contracts is the legal, valid and binding obligation of Prospect Medical, PHP Holdings, and/or their respective Designated Subsidiaries (and, to the Prospect Parties' Knowledge, of the other parties thereto), enforceable against them (and, to the Prospect Parties' Knowledge, of the other parties thereto), in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights generally and by general equitable principles (regardless of whether enforcement is sought in a proceeding at law or in equity).

(b) Further (i) each Material Contract is in full force and effect, (ii) none of Prospect Medical, PHP Holdings, any of their respective Designated Subsidiaries, or any Other Applicable Subsidiaries is and, to the Knowledge of the Prospect Parties, no other party to any such agreement is in default under any such agreement, (iii) no party has received any unresolved written notice of any default, offset, counterclaim or defense under any Material Contract, and (iv) to the Prospect Parties' Knowledge, no condition or event has occurred which with the passage of time or the giving of notice or both would constitute a default or breach by any of Prospect Medical, PHP Holdings, any of their respective Designated Subsidiaries, or any Other Applicable Subsidiaries under the terms of any Material Contract, in each case except for such matters, defaults or breaches as to which requisite waivers or consents have been obtained and except for such matters, defaults or breaches that would not individually or in the aggregate be material to any of Prospect Medical, PHP Holdings, or any of their respective Designated Subsidiaries.

7.12. Insurance.

(a) ***Schedule 7.12(a)*** contains a complete and correct list of all material insurance policies maintained by, on behalf of or for the benefit of any of Prospect Medical, PHP Holdings, and their respective Designated Subsidiaries as of the date hereof (the "Insurance Policies"). The Insurance Policies are in full force and effect, no written notice of default or termination has been received in respect thereof and all premiums due thereon have been paid. None of Prospect Medical, PHP Holdings, or their respective Designated Subsidiaries is in material breach or default, and neither Prospect Medical nor any Subsidiary of Prospect Medical has taken any action or failed to take any action which, with notice or the lapse of time, would constitute such a material breach or default, or permit termination or modification, of any of the Insurance Policies.

(b) ***Schedule 7.12(b)*** sets forth a list of all claims involving a sum of money for a potential loss in excess of One Million and No/100 Dollars ($1,000,000.00) made by any of Prospect Medical, PHP Holdings, and their respective Subsidiaries since the Look-Back Date against any insurer in respect of coverage under any insurance policy.

(c) Except as set forth on ***Schedule 7.12(c)***, there are no claims involving a sum of money for a potential loss in excess of One Million and No/100 Dollars ($1,000,000.00) by any of Prospect Medical, PHP Holdings, and their respective Subsidiaries pending under any Insurance Policies as to which coverage

has been questioned, denied or disputed by the underwriters of such Insurance Policies or bonds or in respect of which such underwriters have reserved their rights.

(d) Except as set forth in ***Schedule 7.12(d)***, none of Prospect Medical, PHP Holdings, or any of their respective Subsidiaries has any self-insurance or co-insurance programs.

7.13. Licenses; Reimbursement; Accreditation.

(a) ***Schedule 7.13(a)*** contains a complete and accurate list, as of the date hereof, of all material Healthcare Licenses.

(b) Except as set forth in ***Schedule 7.13(b)***, Prospect Medical, PHP Holdings, and their respective Designated Subsidiaries and/or the Facilities and each Person operating any portion of the Managed Care Business, as applicable, possess all material Healthcare Licenses, and such material Healthcare Licenses are in full force and effect.

(c) Except as set forth on ***Schedule 7.13(c)***, (i) Prospect Medical, PHP Holdings, their respective Designated Subsidiaries, and the Other Applicable Subsidiaries are in compliance, in all material respects, with the requirements of all material Healthcare Licenses, (ii) no suspension or cancellation of any such Healthcare Licenses is pending, or to the Knowledge of the Prospect Parties, threatened, and (iii) none of Prospect Medical, PHP Holdings, or their respective Designated Subsidiaries have received any written notice from any Governmental Body with respect to, as applicable, the threatened or pending denial, revocation, termination, or suspension of any of the material Healthcare Licenses.

7.14. Healthcare Compliance.

(a) In each case except as set forth on ***Schedule 7.14(a)***, the businesses and operations of Prospect Medical, PHP Holdings, and each of their respective Subsidiaries are, and since the Look-Back Date have been, to the Knowledge of the Prospect Parties, in compliance in all material respects with all applicable Healthcare Laws. In each case except as set forth in ***Schedule 7.14(a)***, there is no material Litigation pending or, to the Knowledge of the Prospect Parties, threatened against Prospect Medical, PHP Holdings, or any of their respective Subsidiaries, alleging any material failure to comply with Healthcare Laws which would have a Material Adverse Effect on Prospect Medical or PHP Holdings, or any of their respective Subsidiaries.

(b) In each case except as set forth in ***Schedule 7.14(b)***, since the Look-Back Date, none of Prospect Medical, PHP Holdings, or any of their respective Subsidiaries: (i) has been assessed a civil monetary penalty under Section 1128A of the Social Security Act, (ii) has been excluded, suspended, debarred from, or convicted of a crime that would reasonably be expected to lead to any such exclusion, suspension or debarment from, participation in any Government Program, (iii) has been subject to either mandatory or permissive exclusion from participation in any Government Program pursuant to 42 USC § 1320a-7, (iv) has been convicted of, or, to the Knowledge of the Prospect Parties, charged with, a violation of any Healthcare Law related to fraud, theft, embezzlement, bribe, payoff, kickback or inducement, whether of money, property or services; or (v) listed on the "General Services Administration" published list of parties excluded from federal procurement programs and non-procurement programs.

(c) In each case except as set forth in ***Schedule 7.14(c)***, (i) to the Knowledge of the Prospect Parties, all billing practices (including, without limitation, billing, coding, filing and claims practices) of Prospect Medical, PHP Holdings, and each of their respective Subsidiaries with respect to all Payor Programs are,

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and since the Look-Back Date have been, conducted in material compliance with all Healthcare Laws and in material compliance with any applicable policies, procedures, rules and requirements of any such Payor Programs; (ii) to the Knowledge of the Prospect Parties, there is not pending or threatened any material recoupment, repayment, or other similar action sought by any Payor Program which exceeds $250,000 (individually) against Prospect Medical, PHP Holdings, or any of their respective Subsidiaries not in the Ordinary Course of Business; and (iii) to the Knowledge of the Prospect Parties, no material fine, penalty or sanction in connection with a Payor Program has been imposed by any Governmental Body on any of Prospect Medical, PHP Holdings, or their respective Subsidiaries.

(d) Each of (i) Prospect Medical, (ii) PHP Holdings, (iii) their respective Designated Subsidiaries, (iv) the Facilities, and (v) the Persons operating the Managed Care Business (as applicable), hold all material Healthcare Licenses which are currently necessary to own, lease or otherwise hold and operate their properties and assets and to conduct their respective businesses as currently conducted, and will maintain all such Healthcare Licenses up to the Closing Dates subject to applicable laws, including requirements by such Governmental Body that a new Healthcare License is required, which Healthcare License may be issued following the applicable Closing Date.

(e) All material Contracts between third party payors and any of Prospect Medical, PHP Holdings, or any of their respective Designated Subsidiaries (each, a "Payor Contract") were entered into in the Ordinary Course of Business. Prospect Medical, PHP Holdings, and their respective Designated Subsidiaries are, to the Knowledge of the Prospect Parties, in compliance with all Payor Contracts in all material respects, subject to any disputes with any third party payors being undertaken in the Ordinary Course of Business and any disputes which have been resolved.

(f) Each of the Facilities and the Persons operating the Managed Care Business, as applicable: (i) is enrolled and is a provider authorized to participate under the Government Programs; (ii) is in compliance in all material respects with all the conditions of participation for the Government Programs, (iii) has received all material approvals or qualifications necessary for capital reimbursement; and (iv) is in compliance in all material respects with 42 C.F.R. §§ 489.20 and 489.24 and their Medicare provider agreements.

(g) Set forth on ***Schedule 7.14(g)*** is a true and complete list and description (including locations) of all Healthcare Care Facilities (as that term is defined in the Code) owned or leased by PHP Holdings and its Subsidiaries (including, without limitation, all primary care centers, urgent care centers, physician clinics, and other ancillary healthcare centers now or hereafter to be operated as part of the Managed Care Business).

(h) As of the date hereof, none of PHP Holdings, its Subsidiaries or any other Person in which PHP Holdings or a Subsidiary of PHP Holdings owns any Equity Interests, directly or indirectly: (i) operates or manages, for itself or for any other entity, any Lodging Facility or Health Care Facility, or (ii) provides to any Person (under a franchise, license, or otherwise) rights to any brand name under which any Lodging Facility or Health Care Facility is operated. Except for the anticipated acquisition of the operations of Alta Newport in the Phase II Transaction, which will be operated and managed subject to the Management Agreement, as of the date hereof, PHP Holdings and its Subsidiaries have no present intention to conduct the activities described in clauses (i) and (ii) above.

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(i) As of the date hereof, PHP Holdings is under no contractual obligation to acquire any business entities or to organize and own any interests in any business entity in addition to the current Designated Subsidiaries of PHP Holdings.

(j) As of the date hereof none of PHP Holdings, its Subsidiaries, or any other Person in which any of them own any Equity Interests, directly or indirectly, holds a license to operate a Health Care Facility, to provide medical services, dispense pharmaceuticals, or conduct any other health care related activities and, except with respect to the operations of Alta Newport as described above, PHP Holdings, its Subsidiaries, and all other Person in which any of them own any Equity Interests have no present contractual obligation to acquire any such license.

(k) To the extent PHP Holdings, its Subsidiaries, and any other Person in which PHP Holdings or its Subsidiaries directly owns any Equity Interests contracts with or employs physicians and other licensed medical care providers to provide primary care medical services to patients to the Knowledge of the Prospect Parties such primary medical care services are provided under the license authority of the licensed physician or other licensed medical care provider and all participation in the Medicare program with respect to such primary care medical services is through such licensed professionals and absent a valid reassignment by such licensed medical care provider of such billing rights to such entity or otherwise legally compliant arrangement not through any license held by, as applicable, PHP Holdings, its Subsidiaries, or any other Person in which PHP Holdings or its Subsidiaries directly own any Equity Interests.

7.15. Transactions with Affiliates. ***Schedule 7.15*** sets forth a complete and correct list as of the date hereof of all Contracts requiring annual payments in excess of Five Hundred Thousand Dollars ($500,000) currently in effect between any of Prospect Medical, PHP Holdings, or any of their respective Designated Subsidiaries, on the one hand, and any Person that is an Affiliate of any of Prospect Medical, PHP Holdings, or any of their respective Designated Subsidiaries, on the other hand (other than Contracts for compensation and benefits received as employees, directors, officers or consultants of Prospect Medical, PHP Holdings, or any of their respective Subsidiaries).

7.16. No Brokers. None of Prospect Medical, PHP Holdings, or any of their respective Designated Subsidiaries has entered into any contract, arrangement or understanding with any Person or firm that may result in the obligation of such entity or any of the MPT Parties or their Affiliates to pay any finder's fees, brokerage or agent's commissions or other like payments in connection with the negotiations leading to this Agreement or consummation of the transactions contemplated in this Agreement.

7.17. Patriot Act Compliance.

(a) To the extent applicable to Prospect Medical, PHP Holdings, or any of their respective Subsidiaries, each of them has complied in all material respects with the International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001, which comprises Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "Patriot Act") and the regulations promulgated thereunder, and the rules and regulations administered by the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC").

(b) None of Prospect Medical, PHP Holdings, or any of their respective Subsidiaries is included on the List of Specially Designated Nationals and Blocked Persons maintained by the OFAC, and none of Prospect Medical, PHP Holdings, or any of their respective Subsidiaries is a resident in, or organized or chartered under the laws of, (i) a jurisdiction that has been designated by the U.S. Secretary of the Treasury under

Section 311 or 312 of the Patriot Act as warranting special measures due to money laundering concerns or (ii) any foreign country that has been designated as non-cooperative with international anti-money laundering principles or procedures by an intergovernmental group or organization, such as the Financial Action Task Force on Money Laundering, of which the United States is a member and with which designation the United States representative to the group or organization continues to concur.

7.18. Ability to Grant Security Interest. Subject to the provisions of the PhysicianCo Intercreditor Agreement, Prospect Medical, its Designated Subsidiaries (other than Alta Newport Hospital, LLC), and any Other Applicable Subsidiaries, as applicable, may grant the MPT Parties the first priority security interests to the extent contemplated under the Obligation Documents and each of the Restructuring Documents in all of (a) the outstanding Equity Interest of each of Prospect Medical's Designated Subsidiaries and the Other Applicable Subsidiaries subject to the Amended and Restated Pledge Agreement, and (b) the Licenses (including, without limitation, the Healthcare Licenses); *provided, however*, it is acknowledged that in the event the MPT Parties seek to exercise remedies in connection with such liens, the transfer of such Equity Interests and Licenses, may require the parties to undertake change of ownership processes with, provide notices to and seek approvals from Governmental Bodies, as further contemplated and addressed in the Obligation Documents.

7.19. Licenses/Compliance with Laws. Except as set forth on ***Schedule 7.19***, (i) each of Prospect Medical, PHP Holdings, their respective Designated Subsidiaries, and the Other Applicable Subsidiaries possess all material Licenses required under applicable Laws to own, lease and operate its properties and assets and to carry on its business as currently operated, and (ii) there is no Litigation or Order pending or, to the Knowledge of the Prospect Parties, threatened regarding the revocation, suspension, cancellation, withdrawing, modification or limitation of any such material License or a declaration of any such License as invalid. Except as set forth on ***Schedule 7.19***, each material License is in full force and effect, and each of Prospect Medical, PHP Holdings, and their respective Subsidiaries is in compliance in all material respects with such License (and its obligations with respect to such License) and with all Laws and Orders applicable to it or by or to which any of its properties or assets is bound or subject, and none of Prospect Medical, PHP Holdings, or any of their respective Subsidiaries has received any written notice alleging material non-compliance.

7.20. Solvency.

(a) Prospect Medical and each of its subsidiaries (other than PHP Holdings and its Subsidiaries), and PHP Holdings and each of its Subsidiaries will each be Solvent immediately after giving effect to each of the transactions contemplated herein (including with respect to the obligations under the PhysicianCo Term Loan Documents).

(b) No transfer of property is being made and no obligation is being incurred in connection with the transactions contemplated herein with the intent to hinder, delay, or defraud either present or future creditors of Prospect Medical, PHP Holdings, or any of their respective Subsidiaries.

(c) None of Prospect Medical, PHP Holdings, or any of their respective Subsidiaries are involved in any proceeding by or against it as a debtor before any Governmental Bodies under Title 11 of the United States Bankruptcy Code or any other insolvency or debtors' relief act, whether state, federal or foreign, or for the appointment of a trustee, receiver, liquidator, assignee, sequestrator or other similar official for any part of any properties of any of Prospect Medical, PHP Holdings, or their respective Subsidiaries.

7.21. Other Events of Default; Bring-Down.

(a) Other than the Released Defaults and Uncured Defaults, to the Knowledge of the Prospect Parties, there exists no Event of Default (as defined in each of Master Lease I, Master Lease II, the Foothill Mortgage Loan Agreement, the TRS Note, or the MPT Advance Convertible Note, respectively), or any event, condition or circumstance that, with notice or a passage of time, would constitute such an event of default, by any of the Prospect Parties or any of their Affiliates under or pursuant to any of the Master Lease I, Master Lease II, the Foothill Mortgage Loan Agreement, the TRS Note, the MPT Advance Convertible Note or any of the other Obligation Documents entered into in connection therewith.

(b) Each of the respective representations and warranties of the Prospect Parties and their Affiliates contained in Master Lease I, Master Lease II, the Foothill Mortgage Loan Agreement, the TRS Note, the MPT Advance Convertible Note, the Pennsylvania Mortgage Loan Agreement, or any of the other Obligation Documents are true and correct as of the date of this Agreement; *provided*, *however*, the representation in this Section 7.21(b) is limited to those representations and warranties in Master Lease I, Master Lease II, the Foothill Mortgage Loan Agreement, the TRS Note, the MPT Advance Convertible Note, the Pennsylvania Mortgage Loan Agreement, or any of the other Obligation Documents that, if untrue or incorrect, such untruth or incorrectness would result, in a material adverse effect with respect to the Managed Care Business, the Facilities, the Properties (as defined in the applicable Obligation Documents), the Prospect Parties' ability to pay any obligations under the Obligation Documents (as determined in the MPT Parties' reasonable discretion), or the transactions contemplated by this Agreement.

ARTICLE VIII
REPRESENTATIONS AND WARRANTIES OF MPT PARTIES

Each of the MPT Parties, jointly and severally, hereby represent, warrant and covenant to the Prospect Parties as follows:

8.1. Existence; Good Standing; Enforceability.

(a) Each of such MPT Parties is a corporation or limited liability company (as applicable) duly formed, validly existing, and in good standing under the laws of the applicable State of its formation. Each of such MPT Parties has all requisite power and authority to own, operate, and lease its properties and carry on its business as currently conducted. Each of such MPT Parties is duly licensed and qualified to do business as a foreign entity and is in good standing under the laws of each jurisdiction in which the character of its properties or in which the transaction of its business makes such qualification necessary except where failure to be so qualified, licensed or in good standing would not individually or in the aggregate be material to such MPT Party. Each of such MPT Parties is in compliance with its Governing Documents in all material respects.

(b) Each of such MPT Parties has all requisite power and authority to execute and deliver this Agreement and each other Restructuring Document to which it is or will become a party and to perform its obligations hereunder and thereunder. The execution and delivery of this Agreement and each other Restructuring Document to which any of the MPT Parties is a party, the performance by the MPT Parties of their obligations hereunder and thereunder and the consummation of the transactions contemplated hereby and thereby have been duly authorized by all necessary action on the part of all of the MPT Parties, and no further action on the part of any of the MPT Parties is necessary to authorize the execution and delivery by the MPT Parties of this Agreement or such other Restructuring Documents, and the

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consummation of the transactions contemplated hereby and thereby, except for approvals from any Governmental Bodies, and informational filings with Governmental Bodies, required under applicable legal requirements, as further addressed in Section 8.2(b) hereof.

(c) This Agreement and the other Restructuring Documents to which any of the MPT Parties is or will become a party have been (or with respect to certain Restructuring Documents to be executed after the date hereof, will be) duly executed and delivered by such MPT Parties and, assuming the due authorization, execution and delivery of this Agreement and such other Restructuring Documents by each of the other Parties hereto and thereto, constitute (or, as applicable with respect to certain Restructuring Documents to be executed after the date hereof, shall constitute) legal, valid and binding obligations of such MPT Parties, enforceable against the applicable MPT Parties in accordance with the terms and conditions hereof and thereof, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally and by general equitable principles (regardless of whether enforcement is sought in a proceeding at law or in equity).

8.2. No Conflict; Consents.

(a) Provided any required approvals from Governmental Bodies are obtained, and required information filings with Governmental Bodies are made, as further addressed in Section 4.1 above, the execution and delivery by each of the MPT Parties of this Agreement and each other Restructuring Document to which each of them is (or will become) a party, and the consummation of the transactions contemplated hereby and thereby in accordance with their respective terms, do not: (i) violate, conflict with or result in a default (whether after the giving of notice, lapse of time or both) under, or give rise to a right of termination, amendment, acceleration or cancellation of, or result in the triggering of any payments or the creation of an Encumbrance on any property or asset of any of the MPT Parties or their respective Subsidiaries under any material contract, license, or similar instrument to which any of the MPT Parties or their respective Subsidiaries is a party or by which any of the MPT Parties' or their respective Subsidiaries' assets are bound; (ii) conflict with, or result in any violation of, any provision of such MPT Parties' or their respective Subsidiaries' applicable Governing Documents; or (iii) violate or result in a violation of or constitute a default under (whether after the giving of notice, lapse of time or both), or result in the triggering of any payments or the creation of an Encumbrance on any property or asset of any of the MPT Parties or their respective Subsidiaries under any provision of any law, regulation or rule, or any order of, or any restriction imposed by, any court or other Governmental Body applicable to any of the MPT Parties or their respective Subsidiaries, including, without limitation, all applicable Laws regarding the paying, making, or declaring dividends or distributions by any of the MPT Parties, except in the case of clause (i) and (iii) above, for such conflicts, violations, breaches, defaults or failure to receive consents that would not individually or in the aggregate be material to any of such MPT Parties or Subsidiaries.

(b) The execution and delivery by each of the MPT Parties and their respective Subsidiaries of this Agreement and each other Restructuring Document to which any of them is (or will become) a party, and the consummation by the MPT Parties and their respective Subsidiaries of the transactions contemplated hereby and thereby in accordance with their respective terms, do not require from the MPT Parties and their respective Subsidiaries any notice to, declaration or material filing with, or material consent or approval of any Governmental Body, except for those required to be obtained by the Prospect Parties as contemplated in Section 4.1 hereof.

8.3. Litigation. There is no Litigation, action, suit, proceeding, claim, arbitration or investigation pending or, to the actual knowledge of the MPT Parties, threatened in writing against any of the MPT

Parties, nor are any of the MPT Parties subject to any outstanding order, writ, judgment, injunction or decree, in either case, which would (a) prevent, hinder or materially delay the consummation of the transactions contemplated in this Agreement, or (b) otherwise prevent, hinder or materially delay performance by any of the MPT Parties of any of their material obligations under this Agreement.

8.4. **No Brokers**. None of the MPT Parties or any of their respective Subsidiaries has entered into any contract, arrangement or understanding with any Person or firm that may result in the obligation of such entity or any of the Prospect Parties or their Affiliates to pay any finder's fees, brokerage or agent's commissions or other like payments in connection with the negotiations leading to this Agreement or consummation of the transactions contemplated in this Agreement.

ARTICLE IX
CONFIDENTIALITY

The Parties hereto will, and will cause each of their Affiliates and Representatives to maintain the confidentiality of this Agreement. The Parties agree that public announcements or press release, if any, with respect to this Agreement or the transactions contemplated hereby shall be mutually approved in advance by the Parties; *provided*, however, that, notwithstanding any provision hereof to the contrary, a Party, without the prior consent of the other Parties hereto, may: (a) issue or cause publication of any such press release or public announcement to the extent that such party reasonably determines, after consultation with outside legal counsel, such action to be required by law or by the rules of any applicable self-regulatory organization (including, without limitation, federal and state securities laws and the rules and regulations of the NYSE or NASDAQ), in which event such Party will use its commercially reasonable efforts to allow the other Parties hereto reasonable time to comment on such press release or public announcement in advance of its issuance, and (b) disclose that it has entered into this Agreement and the other Restructuring Documents, and may provide and disclose information regarding this Agreement, the Parties to this Agreement and the other Restructuring Documents, the Facilities, the Managed Care Business, and the other assets and properties subject hereto and thereto, and such additional information which such party may reasonably deem necessary, to its proposed investors in connection with a public offering or private offering of securities (including, without limitation, the offerings to be conducted by Medical Properties Trust, Inc. in anticipation of the transactions contemplated herein), or any current or prospective lenders with respect to its financing (including, without limitation, the PhysicianCo Term Loan Lenders), and to investors, analysts and other parties in connection with earnings calls and other normal communications with investors, analysts and other parties, or (c) include any information in a prospectus, prospectus supplement or other offering circular or memorandum in connection with public or private capital raising or other activities undertaken by such party.

ARTICLE X
INDEMNIFICATION

10.1. **Prospect Medical**. Prospect Medical and each of its Subsidiaries (other than PHP Holdings and its Subsidiaries), jointly and severally, shall indemnify, defend and hold harmless the MPT Parties, their Affiliates, and their respective officers, managers, members, (general and limited) partners, shareholders, employees, agents and representatives (collectively, the "MPT Indemnified Parties") from and against all Liabilities, demands, claims, actions, losses, damages, penalties, taxes, costs and expenses (including, without limitation, attorneys' and accountants' fees, settlement costs, arbitration costs and any reasonable other expenses for investigating or defending any action or threatened action) asserted against or incurred by MPT Indemnified Parties or any of them arising out of or in connection with or resulting from (a) any

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breach of, misrepresentation associated with, or failure to perform under any covenant, representation, warranty or agreement under, this Agreement, the Restructuring Documents or the other agreements contemplated hereby or thereby on the part of Prospect Medical or such Subsidiaries (other than PHP Holdings and its Subsidiaries), or (b) any operation or management of the Managed Care Business of Prospect Medical or its Subsidiaries prior to the date hereof.

10.2. PHP Holdings. PHP Holdings and each of its Subsidiaries, jointly and severally, shall indemnify, defend and hold harmless the MPT Indemnified Parties from and against all Liabilities, demands, claims, actions, losses, damages, penalties, taxes, costs and expenses (including, without limitation, attorneys' and accountants' fees, settlement costs, arbitration costs and any reasonable other expenses for investigating or defending any action or threatened action) asserted against or incurred by MPT Indemnified Parties or any of them arising out of or in connection with or resulting from (a) any breach of, misrepresentation associated with, or failure to perform under any covenant, representation, warranty or agreement under, this Agreement, the Restructuring Documents or the other agreements contemplated hereby or thereby on the part of PHP Holdings or such Subsidiaries, or (b) any operation or management of the Managed Care Business of PHP Holdings or its Subsidiaries prior to the date hereof.

10.3. MPT Parties. The MPT Parties and each of their Subsidiaries, jointly and severally, shall indemnify, defend and hold harmless the Prospect Parties, their Affiliates, and their respective officers, managers, members, (general and limited) partners, shareholders, employees, agents and representatives (collectively, the "Prospect Indemnified Parties") from and against all Liabilities, demands, claims, actions, losses, damages, penalties, taxes, costs and expenses (including, without limitation, attorneys' and accountants' fees, settlement costs, arbitration costs and any reasonable other expenses for investigating or defending any action or threatened action) asserted against or incurred by Prospect Indemnified Parties or any of them arising out of or in connection with or resulting from (a) any breach of, misrepresentation associated with, or failure to perform under any covenant, representation, warranty or agreement under, this Agreement, the Restructuring Documents or the other agreements contemplated hereby or thereby on the part of the MPT Parties or their respective Subsidiaries, or (b) adverse tax consequences under the REIT qualification sections of the Code that are not caused by the breach of any covenant, representation, warranty or agreement under this Agreement, the PHP Holdings, LLC Agreement, or any of the other Restructuring Documents by any of the Prospect Parties or their respective Affiliates.

10.4. Other Rights to Indemnification. Nothing in this Article is intended or shall be deemed to modify or limit any rights of indemnification in favor of any of the Parties or their respective Affiliates as may be set forth in any Master Lease I, Master Lease II, the Foothill Mortgage Loan Documents, the TRS Note, the Phase I Convertible Note, the Pennsylvania Restructuring Documents, the PHP Holdings LLC Agreement, or any other agreements, documents, or instruments entered into in connection therewith, all of which shall remain in full force and effect in accordance with their respective terms.

ARTICLE XI
MISCELLANEOUS

11.1. Specific Performance. In addition to any rights and remedies available to the Parties hereunder or at law, each Party shall be entitled to bring an action for specific performance and to seek other equitable relief in connection with any breach or violation, or any attempted breach or violation, of the provisions of

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this Agreement (including, without limitation, the covenants set forth in ARTICLE VI hereof), without the necessity of showing actual damages or furnishing bond or other security.

11.2. Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE APPLICABLE TO CONTRACTS EXECUTED AND PERFORMED IN SUCH STATE, WITHOUT GIVING EFFECT TO CONFLICTS OF LAW PRINCIPLES.

11.3. Jurisdiction and Venue. THE PARTIES CONSENT TO PERSONAL JURISDICTION IN THE STATE OF DELAWARE. THE PARTIES AGREE THAT ANY ACTION OR PROCEEDING ARISING FROM OR RELATED TO THIS AGREEMENT SHALL BE BROUGHT AND TRIED EXCLUSIVELY IN THE STATE OR FEDERAL COURTS OF DELAWARE. EACH OF THE PARTIES IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY OBJECTION TO THE LAYING OF VENUE OF ANY SUCH ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT. THE PARTIES EXPRESSLY ACKNOWLEDGE THAT DELAWARE IS A FAIR, JUST AND REASONABLE FORUM AND AGREE NOT TO SEEK REMOVAL OR TRANSFER OF ANY ACTION FILED BY THE OTHER PARTY IN SAID COURTS. FURTHER, EACH PARTY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY CLAIM THAT SUCH SUIT, ACTION OR PROCEEDING HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. SERVICE OF ANY PROCESS, SUMMONS, NOTICE OR DOCUMENT BY CERTIFIED MAIL ADDRESSED TO A PARTY AT THE ADDRESS DESIGNATED PURSUANT TO SECTION 11.6 SHALL BE EFFECTIVE SERVICE OF PROCESS AGAINST SUCH PARTY FOR ANY ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT. A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT MAY BE ENFORCED IN ANY OTHER COURT TO WHOSE JURISDICTION ANY OF THE PARTIES IS OR MAY BE SUBJECT.

11.4. Waiver of Jury Trial. TO THE MAXIMUM EXTENT PERMITTED BY LAW, EACH OF THE PARTIES HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE THE RIGHT TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON, ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENT (WHETHER VERBAL OR WRITTEN) OR ACTION OF EITHER PARTY OR ANY EXERCISE OF ANY PARTY OF THEIR RESPECTIVE RIGHTS HEREUNDER OR IN ANY WAY RELATING TO THIS AGREEMENT OR THE REAL PROPERTY (INCLUDING ANY CLAIM OR DEFENSE ASSERTING THAT THIS AGREEMENT WAS FRAUDULENTLY INDUCED OR IS OTHERWISE VOID OR VOIDABLE). THIS WAIVER IS A MATERIAL INDUCEMENT FOR LENDER TO ENTER INTO THIS AGREEMENT.

11.5. Binding Effect; Assignment. This Agreement shall be binding upon and inure to the benefit of the Parties hereto and their respective successors and permitted assigns; provided that neither this Agreement nor any of the rights, interests or obligations hereunder may be assigned or delegated by any Party without the prior written consent of the other Parties (except in connection with any Prospect Parties' assignment of its rights and interest under any of the Obligation Documents to which it is a party to the extent permitted thereunder). Notwithstanding the foregoing, the MPT Parties may at any time and without the consent of the Prospect Parties assign all of its respective rights and obligations hereunder to any Person.

11.6. Notices. All notices, demands and other communications to be given or delivered under or by reason of the provisions of this Agreement shall be in writing and shall be deemed to have been given (a) when personally delivered, (b) when transmitted via telecopy (or other facsimile device) to the number set

forth below if the sender on the same day sends a conforming copy of such notice by recognized overnight delivery service (charges prepaid), (c) when delivered via Electronic Transmission to the email address set forth below if the sender on the same day sends a conforming copy of such notice by recognized overnight delivery service (charges prepaid), (d) the day following the day (except if not a Business Day then the next Business Day) on which the same has been delivered prepaid to a reputable national overnight air courier service or (e) the third Business Day following the day on which the same is sent by certified or registered mail, postage prepaid. Notices, demands and communications, in each case to the respective parties, shall be sent to the applicable address set forth below, unless another address has been previously specified in writing:

If to any Prospect Parties:

c/o Prospect Medical Holdings, Inc.
[redacted]
Los Angeles, California 90034
Attention: Redacted
Email: [redacted]
Facsimile: Redacted

With a copy to:

c/o Prospect Medical Holdings, Inc.
[redacted]
Los Angeles, California 90034
Attention: Redacted, General Counsel
Email: Redacted
Facsimile: Redacted

and

Sheppard Mullin Richter & Hampton LLP
Redacted
Los Angeles, CA 90067-6017
Attention: Redacted
Email: Redacted
Redacted
Facsimile: Redacted

If to any MPT Parties:

c/o MPT Operating Partnership, L.P.
[redacted]
Birmingham, Alabama 35242
Attention: Legal Department
Email: Redacted
Facsimile: Redacted

With a copy to:

Baker, Donelson, Bearman, Caldwell & Berkowitz, PC
Redacted
Birmingham, Alabama 35203
Attention: Redacted
Email: Redacted
Facsimile: Redacted

or to such other address as either party may hereafter designate in writing, and shall be effective upon receipt. A notice, demand, consent, approval, request and other communication shall be deemed to be duly received (i) if delivered in person or by a recognized delivery service, when left at the address of the recipient, (ii) if sent by facsimile, upon receipt by sender of an acknowledgment or transmission report generated by the machine from which the facsimile was sent indicating that the facsimile was sent in its entirety to the recipient's facsimile number, and (iii) if sent by Electronic Transmission when sent to the recipient's email address, if the sender on the same day sends a conforming copy of such notice by recognized overnight delivery service (charges prepaid); provided that if a notice, demand, consent, approval, request or other communication is served by hand or is received by facsimile or Electronic Transmission on a day which is not a Business Day, or after 5:00 p.m. on any Business Day (based upon Birmingham, Alabama time), such notice or communication shall be deemed to be duly received by the recipient at 9:00 a.m. (based upon Birmingham, Alabama time) on the first Business Day thereafter.

11.7. Calculation of Time Period. When calculating the period of time before which, within which or following which any act is to be done or step taken, the date that is the reference date in calculating such period shall be excluded. If the last day of such period is not a Business Day, the period in question shall end of the next succeeding Business Day.

11.8. Captions. The section and paragraph headings or captions appearing in this Agreement are for convenience only, are not a part of this Agreement, and are not to be considered in interpreting this Agreement.

11.9. Entire Agreement; Modification. This Agreement, together with all exhibits, schedules and the other documents referred to herein, embody and constitute the entire understanding between the parties with respect to the subject matter hereof in any way. The Parties have not relied upon, and shall not be entitled to rely upon, any prior or contemporaneous agreements, understandings, representations or statements (oral or written) other than this Agreement in effecting the transactions contemplated herein or otherwise (including, without limitation, the Original Restructuring Agreement and the Restructuring Term Sheet). Neither this Agreement, any exhibit or schedule attached hereto, nor any provision hereof or thereof may be modified or amended except by an instrument in writing signed by all of the parties hereto.

11.10. Supplement to Disclosure Schedules. From time to time prior to the Closing Date of the Phase II Transactions or Phase III Transactions, as applicable, upon written notice to the MPT Parties, the Prospect Parties shall have the right (but not the obligation) to supplement or amend the Disclosure Schedules hereto with respect to any fact, circumstance, condition, change, event, occurrence, or matter arising after the effective date of this Agreement or of which the Prospect Parties become aware after the effective date hereof (each a "Schedule Supplement"). Any such Schedule Supplement shall be made, and written notice shall be provided to the MPT Parties, at least five (5) days prior to the Closing Date of the Phase II Transactions or Phase III Transactions, as applicable. Unless the event that requires such Schedule Supplement constitutes or arises out of a breach of any covenant or obligation of the Prospect Parties under this Agreement, (a) such updated Schedule Supplements shall be incorporated into this Agreement; and (b) any disclosure in any such Schedule Supplement shall be deemed to have cured any inaccuracy in or breach of any representation or warranty contained in this Agreement that would exist at the Closing Date of the Phase II Transaction or Phase III Transaction, in the absence of such Schedule Supplement.

11.11. Annexes, Schedules, and Exhibits. All Annexes, Schedules and Exhibits referred to in this Agreement shall be deemed a part of this Agreement and are hereby incorporated herein by reference. The statements in the Schedules referred to in this Agreement, and those in any supplement thereto, relate only

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to the provisions in the Section of this Agreement to which they expressly relate and not to any other provision in this Agreement. Further, nothing set forth in such Schedule shall be deemed adequate to disclose an exception to a representation or warranty related thereto unless such Schedule identifies the exception with reasonable particularity and describes the relevant facts in reasonable detail.

11.12. Necessary Action. Each party shall perform any further acts and execute and deliver any documents that may be reasonably necessary to carry out the provisions of this Agreement.

11.13. Counterparts. This Agreement may be executed in multiple counterparts, any one of which need not contain the signature of more than one party, but all such counterparts taken together shall constitute one and the same instrument.

11.14. Delivery by Electronic Transmission. This Agreement and any signed agreement entered into in connection herewith or contemplated hereby, and any amendments hereto or thereto, to the extent signed and delivered by means of a facsimile machine or by .pdf, .tif, .gif, .jpeg or similar attachment to electronic mail, shall be treated in all manner and respects as an original contract and shall be considered to have the same binding legal effects as if it were the original signed version thereof delivered in person. At the request of any party hereto or to any such contract, each other party hereto or thereto shall re-execute original forms thereof and deliver them to all other parties. No Party hereto or to any such contract shall raise the use of a facsimile machine or by .pdf, .tif, .gif, .jpeg or similar attachment to electronic mail to deliver a signature or the fact that any signature or contract was transmitted or communicated through the use of facsimile machine or by .pdf, .tif, .gif, .jpeg or similar attachment to electronic mail as a defense to the formation of a contract and each such party forever waives any such defense.

11.15. Expenses.

(a) In General. Prospect Medical is responsible for, and shall pay or reimburse to the MPT Parties upon demand for all expenses (including but not limited to legal, accounting, and other fees and expenses) which may be incurred by the MPT Parties or their Affiliates with respect to the Equity Rollover Transaction, the Restructuring Transactions, this Agreement and the other Restructuring Documents, and the transactions and documents contemplated hereby and thereby. In addition, Prospect Medical shall be responsible for, and shall pay to the MPT Parties or the applicable third parties upon demand, all third-party costs of all surveys, inspections, title policies, environmental and other third-party reports required by any of the Parties, recording fees, and all other reasonable third-party expenses incurred in the transactions contemplated in this Agreement.

(b) Taxes. In addition, Prospect Medical shall be responsible for, and shall pay to the MPT Parties or the applicable third parties upon demand, all transfer taxes, lease taxes, mortgage taxes, income taxes, and all other taxes imposed as a result of the transactions contemplated in this Agreement (including, without limitation, any taxes imposed on any of the Parties as a result of the internal restructuring of the Prospect Parties or the issuance of any Equity Interests in PHP Holdings); *provided, however*, the MPT Parties will pay on behalf of itself or PMH, as applicable, the sum of Five Million Two Hundred Twenty-Two Thousand Five Hundred Seventeen Dollars and Fifty-Four Cents ($5,222,517.54), which amount is to be applied to the transfer taxes arising out of or in connection with the transactions effected pursuant to the Pennsylvania Restructuring Documents as contemplated in Section 3.7 hereof, it being understood that any such amounts paid by any of the MPT Parties pursuant to this subsection (b) shall be added to the Pennsylvania Mortgage Loan Note.

(c) For the avoidance of doubt, either Party may submit to the other Party after execution of this Agreement copies of any invoices relating to costs and expenses for which such Party is responsible for pursuant to this Section 11.15, and the responsible Party shall reimburse the other Party within thirty (30) days after receipt thereof.

11.16. No Third Party Beneficiaries. Nothing expressed or referred to in this Agreement will be construed to give any Person other than the parties to this Agreement any legal or equitable right, remedy, or claim under or with respect to this Agreement or any provision of this Agreement.

11.17. Joint Drafting. The parties hereto and their respective counsel have participated in the drafting and redrafting of this Agreement and the general rules of construction which would construe any provisions of this Agreement in favor of or to the advantage of one party as opposed to the other as a result of one party drafting this Agreement as opposed to the other or in resolving any conflict or ambiguity in favor of one party as opposed to the other on the basis of which party drafted this Agreement are hereby expressly waived by all parties to this Agreement.

11.18. Joint and Several Obligations.

(a) Prospect Medical and its Subsidiaries (other than PHP Holdings and its Subsidiaries) shall be jointly and severally liable for all of the liabilities and obligations of Prospect Medical and such Subsidiaries under this Agreement. Additionally, each of Prospect Medical and such Subsidiaries acknowledge and agrees that all of their respective representations, warranties, covenants, obligations, conditions, and agreements terms contained in this Agreement and the Restructuring Documents shall be applicable to and shall be binding upon and enforceable against any one or more of Prospect Medical and such Subsidiaries.

(b) PHP Holdings and its Subsidiaries shall be jointly and severally liable for all of the liabilities and obligations of PHP Holdings and such Subsidiaries under this Agreement. Additionally, each of PHP Holdings and such Subsidiaries acknowledge and agrees that all of their respective representations, warranties, covenants, obligations, conditions, and agreements contained in this Agreement and the Restructuring Documents shall be applicable to and shall be binding upon and enforceable against any one or more of PHP Holdings and such Subsidiaries.

(c) MPT Parties and their Subsidiaries (other than PHP Holdings and its Subsidiaries) shall be jointly and severally liable for all of the liabilities and obligations of MPT Parties and such Subsidiaries under this Agreement. Additionally, each MPT Party and such Subsidiaries acknowledge and agrees that all of their respective representations, warranties, covenants, obligations, conditions, and agreements terms contained in this Agreement and the Restructuring Documents shall be applicable to and shall be binding upon and enforceable against any one or more of MPT Parties and such Subsidiaries.

11.19. No Waiver. Any provision of this Agreement or Exhibits hereto may be amended or waived only in a writing signed by the parties hereto. No waiver of any provision hereunder or any breach or default thereof shall extend to or affect in any way any other provision or prior or subsequent breach or default.

11.20. Severability. The parties agree that each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement or any application of this Agreement (as to any party or otherwise) is held to be prohibited by or invalid under applicable law, such provision or application shall be ineffective only to the extent of such prohibition or

invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement or any other applications of this Agreement.

11.21. Representatives.

(a) Prospect Medical and its Subsidiaries (other than PHP Holdings and its Subsidiaries) hereby appoint Prospect Medical as their duly authorized agent and representative (the "Prospect Representative") to take all actions and enforce all rights of Prospect Medical and its Subsidiaries under this Agreement and the other Restructuring Documents, including, without limitation, (i) giving and receiving any notice or instruction permitted or required under this Agreement and the other Restructuring Documents, (ii) interpreting all of the terms and provisions of this Agreement and the other Restructuring Documents, (iii) authorizing payments or obtaining reimbursement as may be provided for herein, (iv) consenting to, compromising, or settling all disputes with the MPT Parties under this Agreement and the other Restructuring Documents, (v) conducting negotiations and dealing with the MPT Parties under this Agreement and the other Restructuring Documents, and (vi) taking any other actions on behalf of Prospect Medical and such Subsidiaries relating to their respective rights, claims, duties, and obligations under this Agreement and the other Restructuring Documents. In the performance of the MPT Parties' duties and obligations hereunder, the MPT Parties shall be authorized and permitted to correspond and transact with the Prospect Representative on behalf of all Prospect Medical and such Subsidiaries and the MPT Parties shall be entitled to rely upon any document or instrument executed and delivered by the Prospect Representative.

(b) PHP Holdings and its Subsidiaries hereby appoint ManageCo as their duly authorized agent and representative (the "PHP Holdings Representative") to take all actions and enforce all rights of PHP Holdings and its Subsidiaries under this Agreement and the other Restructuring Documents, including, without limitation, (i) giving and receiving any notice or instruction permitted or required under this Agreement and the other Restructuring Documents, (ii) interpreting all of the terms and provisions of this Agreement and the other Restructuring Documents, (iii) authorizing payments or obtaining reimbursement as may be provided for herein, (iv) consenting to, compromising, or settling all disputes with the MPT Parties under this Agreement and the other Restructuring Documents, (v) conducting negotiations and dealing with the MPT Parties under this Agreement and the other Restructuring Documents, and (vi) taking any other actions on behalf of PHP Holdings and such Subsidiaries relating to their respective rights, claims, duties, and obligations under this Agreement and the other Restructuring Documents. In the performance of the MPT Parties' duties and obligations hereunder, the MPT Parties shall be authorized and permitted to correspond and transact with the PHP Holdings Representative on behalf of all Prospect Medical and such Subsidiaries and the MPT Parties shall be entitled to rely upon any document or instrument executed and delivered by the PHP Holdings Representative.

(c) The MPT Parties hereby appoint MPT Picasso TRS as their duly authorized agent and representative (the "MPT Representative") to take all actions and enforce all rights of the MPT Parties under this Agreement and the other Restructuring Documents, including, without limitation, (i) giving and receiving any notice or instruction permitted or required under this Agreement, (ii) interpreting all of the terms and provisions of this Agreement and the other Restructuring Documents, (iii) authorizing payments or obtaining reimbursement as may be provided for herein, (iv) consenting to, compromising, or settling all disputes with the Prospect Parties under this Agreement and the other Restructuring Documents, (v) conducting negotiations and dealing with the Prospect Parties under this Agreement and the other Restructuring Documents, and (vi) taking any other actions on behalf of the Prospect Parties relating to their respective rights, claims, duties, and obligations under this Agreement and the other Restructuring

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Documents. In the performance of the Prospect Parties duties and obligations hereunder, the Prospect Parties shall be authorized and permitted to correspond and transact with the MPT Representative on behalf of all the MPT Parties and the Prospect Parties shall be entitled to rely upon any document or instrument executed and delivered by the MPT Representative.

11.22. One Action Waiver. To the extent permitted by applicable law, the Prospect Parties waive any and all rights or defenses arising by reason of: (i) any "one action" or "anti-deficiency" law or any other law which may prevent the MPT Parties from bringing any action, including a claim for deficiency, against any one or more of the Prospect Parties, before or after the MPT Parties' commencement or completion of any foreclosure or similar action or actions, either judicially or by exercise of a power of sale; (ii) any election of remedies by the MPT Parties which destroys or otherwise adversely affects any one or more of the Prospect Parties' subrogation rights or rights to proceed against any Person for reimbursement, including, without limitation, any loss of rights the Prospect Parties may suffer by reason of any law limiting, qualifying, or discharging the obligations under this Agreement or the Obligation Documents (as applicable); (iii) any right to claim discharge of the obligations under this Agreement on the basis of unjustified impairment of any collateral for such obligations; or (iv) any defenses given to guarantors, sureties, and/or co-makers at law or in equity other than actual payment and performance of the Prospect Parties' obligations under this Agreement or the Obligation Documents (as applicable).

[Signatures Appear on the Following Pages.]

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IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their duly authorized officers on the date first written above.

MPT PARTIES:

MPT PICASSO INVESTORS TRS, LLC

By: MPT Operating Partnership, L.P.
Its: Sole Member

By: _____
Name: R. Steven Hamner
Title: Executive VP & CFO

MPT TRS LENDER PMH, LLC

By: MPT Development Services, Inc.
Its: Sole Member

By: _____
Name: R. Steven Hamner
Title: Executive VP & CFO

MPT CONFIDENTIAL

MPT OF UPPER DARBY PMH, LLC
MPT OF MANCHESTER PMH, LLC
MPT OF ROCKVILLE PMH, LLC
MPT OF SPRINGFIELD PMH, LLC
MPT OF RIDLEY PARK PMH, LLC
MPT OF UPLAND PMH, LLC
MPT OF WATERBURY PMH, LLC

By: MPT Operating Partnership, L.P.
Its: Sole Member of each above-referenced entity

By:_____
Name: R. Steven Hamner
Title: Executive VP & CFO

MPT OF VAN NUYS PMH, L.P.

By: MPT of Van Nuys PMH GP, LLC
Its: General Partner

MPT OF HOLLYWOOD PMH, L.P.
By: MPT of Hollywood PMH GP, LLC
Its: General Partner

MPT OF LOS ANGELES PMH, L.P.
By: MPT of Los Angeles PMH GP, LLC
Its: General Partner

MPT OF CULVER CITY PMH, L.P.
By: MPT of Culver City PMH GP, LLC
Its: General Partner

MPT OF BELLFLOWER PMH, L.P.
By: MPT of Bellflower PMH GP, LLC
Its: General Partner

MPT OF NORWALK PMH, L.P.
By: MPT of Norwalk PMH GP, LLC
Its: General Partner

MPT OF TUSTIN PMH, L.P.
By: MPT of Tustin PMH GP, LLC
Its: General Partner

By: MPT Operating Partnership, L.P.
Its: Sole Member of each above-referenced General Partner entity.

By:_____
Name: R. Steven Hamner
Title: Executive VP & CFO

MPT CONFIDENTIAL

PROSPECT PARTIES:

PROSPECT MEDICAL HOLDINGS, INC.

By:_____
Name: Samuel Lee
Title: Chief Executive Officer

PROSPECT HEALTHCARE FACILITIES MANAGEMENT, LLC

By:_____
Name: Samuel Lee
Title: Chief Executive Officer

PHP HOLDINGS, LLC

By: Prospect Healthcare Facilities Management, LLC
Title: Manager

By:_____
Name: Samuel Lee
Title: Chief Executive Officer

PROSPECT INTERMEDIATE HOLDINGS, LLC

By: PHP Holdings, LLC
Title: Sole Member

By: Prospect Healthcare Facilities Management, LLC
Title: Manager

By:_____
Name: Samuel Lee
Title: Chief Executive Officer

PROSPECT DCMH, LLC

By:_____
Name: Samuel Lee
Title: Senior Vice President

PROSPECT CCMC, LLC

By:_____
Name: Samuel Lee
Title: Senior Vice President

MPT CONFIDENTIAL

PROSPECT MANCHESTER HOSPITAL, INC.

By:_____
Name: Samuel Lee
Title: Senior Vice President

PROSPECT ROCKVILLE HOSPITAL, INC.

By:_____
Name: Samuel Lee
Title: Senior Vice President

SOUTHERN CALIFORNIA HEALTHCARE SYSTEM, INC.

By:_____
Name: Samuel Lee
Title: President

ALTA LOS ANGELES HOSPITALS, INC.

By:_____
Name: Samuel Lee
Title: President

PROSPECT WATERBURY, INC.

By:_____
Name: Samuel Lee
Title: Senior Vice President

ALTA NEWPORT HOSPITAL, LLC

By:_____
Name: Samuel Lee
Title: President

FRMC HOSPITAL PROPERTY, LLC

By:_____
Name: Samuel Lee
Title: Senior Vice President

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ANNEX A

GLOSSARY OF DEFINED TERMS

The following terms (whether or not capitalized and whether used in the singular or plural) shall have the following meanings as used in this Agreement:

"Affiliate" with respect to any Person, (i) any Person that, directly or indirectly, controls or is controlled by or is under common control with such Person, or (ii) any other Person that owns, beneficially, directly or indirectly, 25% or more of the outstanding capital stock, shares or Equity Interests of such Person; *provided, however*, that (i) none of Green Equity Investors Side V, LP, Green Equity Investors V, LP or Ivy LGP Co-Invest LLP shall be considered to be "Affiliates" of any of the Prospect Parties for purposes of this definition, (ii) none of MPT Picasso TRS or the other MPT Parties shall be considered to be "Affiliates" of PHP Holdings (or any of the Prospect Parties) following consummation of the Phase I Transactions, and (iii) PHP Holdings and its Subsidiaries, and following the consummation of the Merger, Alta Newport, shall not be considered to be "Affiliates" of any of Prospect Medical and its other Subsidiaries. For the purposes of this definition, "control" (including the correlative meanings of the terms "controlled by" and "under common control with"), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, through the ownership of voting securities or otherwise.

"Agreed Connecticut Shortfall Amount" has the meaning set forth in Section 5.1(a).

"Agreed Pennsylvania Shortfall Amount" has the meaning set forth in Section 3.7(b)(ii).

"Agreement" has the meaning set forth in the preamble hereof.

"ALTA" has the meaning set forth in Section 4.2.

"Alta Newport" means Alta Newport Hospital, LLC, a California limited liability company.

"Amended and Restated Environmental Indemnity" means that certain Amended and Restated Environmental Indemnification Agreement, dated of even date herewith, by and among certain of the Prospect Parties and certain of the MPT Parties, as the same may be modified, amended, or restated from time to time.

"Amended and Restated Guaranty" means that certain Amended and Restated Guaranty Agreement, dated of even date herewith, made by Prospect Medical and certain of the Prospect Parties in favor of certain of the MPT Parties, as the same may be modified, amended, or restated from time to time.

"Amended and Restated Noncompetition Agreement" means that certain Amended and Restated Noncompetition Agreement, dated of even date herewith, by and among certain of the Prospect Parties and certain of the MPT Parties, as the same may be modified, amended, or restated from time to time.

"Amended and Restated Pledge Agreement" means that certain Amended and Restated Pledge Agreement, dated of even date herewith, by and among certain of the Prospect Parties and certain of the MPT Parties, as the same may be modified, amended, or restated from time to time.

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"Amended and Restated Security Agreement" means that certain Amended and Restated Security Agreement, dated of even date herewith, by and among certain of the Prospect Parties and certain of the MPT Parties, as the same may be modified, amended, or restated from time to time.

"Amended and Restated Security Documents" means, collectively: (i) the Amended and Restated Security Agreement, (ii) the Amended and Restated Pledge Agreement, (iii) the Amended and Restated Guaranty, (iv) the Amended and Restated Environmental Indemnity, (v) the Amended and Restated Noncompetition Agreement, (vi) Omnibus Amendment of Collateral Lease Assignments, and (vii) any other documents securing any obligations of any of the Prospect Parties (or their respective Affiliates) to any of the MPT Parties (or their respective Affiliates) entered into in connection herewith.

"Amendment to Connecticut Master Agreement" has the meaning set forth in Section 3.8.

"Audited Balance Sheet" has the meaning set forth in Section 7.4(a).

"Audited Financials" has the meaning set forth in Section 7.4(a).

"Balance Sheet Date" has the meaning set forth in Section 7.4(a).

"Bankruptcy Remote Entity" means, with respect to PHP Holdings, an entity that: (a) generally operates in a manner intended to isolate all financial risks to the fullest extent reasonably practicable, and to minimize the risk of being involved in any voluntary or involuntary bankruptcy proceedings (including any initiated by the PhysicianCo Term Loan Lenders or any other creditors); (b) has implemented governance procedures, organizational structure or other arrangements designed to make PHP Holdings less likely to become the subject of a bankruptcy or insolvency event or to become consolidated into a bankruptcy proceeding of Prospect Medical or its other Affiliates (or any other Person); (c) has implemented arrangements that ensure that the assets of PHP Holdings and its Subsidiaries will not be available to the creditors of, or otherwise be consolidated with, any of Prospect Medical or its other Affiliates (or any other Person); (d) exist solely for the purpose of owning and operating the Subsidiaries that control the Managed Care Business (as reflected on the Prospect Organizational Chart) and activities incidental thereto; (e) engages (directly or indirectly) in no other business or activity other than the Managed Care Business and activities incidental thereto; (f) conducts business only in its own name (or a state-approved fictitious name); (g) does not hold, directly or indirectly, any ownership interest (legal or equitable) in any entity or any real or personal property other than the Equity Interest which it owns as reflected in the Prospect Organizational Chart and the other assets incident to the Managed Care Business (subject to the transfer of Alta Newport as contemplated in this Agreement) without the prior written consent of the MPT Parties; (h) does not have any debt, or guarantee or otherwise obligate itself, with respect to the debts of any other Person (other than its Subsidiaries in connection with the Managed Care Business), including, without limitation, Prospect Medical or its other Affiliates; (i) maintains its own separate books, records and financial statements (subject to consolidation with its Subsidiaries); (j) holds itself out as being a legal entity that is not part of any other legal entity (promptly corrects any known misunderstanding regarding its separate legal identity), and (k) maintains all entity formalities independent of any other entity (including Prospect Medical and its other Affiliates).

"Benefit Plans" has the meaning set forth in Section 7.9(a).

"Business Day" means any day other than Saturday, Sunday, or any day on which the principal commercial banks in the State of New York are authorized or obligated to close under applicable law.

"Capital Transaction" means any transaction (or series of transactions) that involves aggregate consideration of One Million and No/100 Dollars ($1,000,000.00) or more (whether in cash, securities, or other property), involving (i) the sale or transfer of all or substantially all of the assets of Prospect Medical or any of its Affiliates, (ii) the sale or transfer of any direct or indirect Equity Interests in Prospect Medical or any of its Affiliates, (iii) the sale or transfer of any direct or indirect Equity Interests owned or held by Prospect Medical or any of its Affiliates (including any joint venture interests), or (iv) any other sale, transfer, merger, reorganization, or consolidation or other transaction that would result in any Person who is not currently an Affiliate of Prospect Medical operating or otherwise having voting control over Prospect Medical or any such Affiliates.

"Capital Transaction Covenants" has the meaning set forth in Section 6.4.

"Capital Transaction Covenant Conditions" means, collectively, the occurrence of all of the following events:

(i) if any payment obligations under the Pennsylvania Mortgage Loan Note (and related Pennsylvania Mortgage Loan Agreement and Pennsylvania Mortgage) remain outstanding, then:

(A) all such payment obligations then due have been paid through the then current date;

(B) if, for two (2) consecutive trailing calendar quarters, "Consolidated EBITDAR" (as defined in the Pennsylvania Mortgage Loan Agreement) of Prospect Medical and its Subsidiaries shall greater than Three Hundred Percent (300%) of the Realty Payments (as defined in the Pennsylvania Mortgage Loan Agreement) (as determined utilizing the trailing twelve (12) month operating and financial results of Prospect Medical and its Subsidiaries and measured on a calendar quarterly basis); and

(C) if, for two (2) consecutive trailing calendar quarters, "Consolidated EBITDAR" (as defined in the Pennsylvania Mortgage Loan Agreement) of the Borrowers (under and as defined in the Pennsylvania Mortgage Loan Agreement) shall greater than One Hundred Twenty-Five Percent (125%) of the Realty Payments (as defined in the Pennsylvania Mortgage Loan Agreement) (as determined utilizing the trailing twelve (12) month operating and financial results of such Borrowers and measured on a calendar quarterly basis);

(ii) Prospect Medical and its applicable Subsidiaries are in full compliance with the financial covenants contained in Section 16.1(j) and (k) of Master Lease I and Master Lease II at the time of the Capital Transaction;

(iii) Prospect Medical and its applicable Subsidiaries have paid all amounts then due and owing by any of them to any of the MPT Parties or their Affiliates; and

(iv) if all of the foregoing conditions are satisfied in full, no uncured Event of Default then exists under any of the then existing Obligation Documents.

"CDPH" means the California Department of Public Health.

"Closing Date" means, as applicable: (a) with respect to the Phase I Transactions, the effective date of this Agreement, (b) with respect to the Phase II Transactions, the date of the closing of Phase II Transactions as contemplated in ARTICLE IV, and (c) with respect to the Phase III Transactions, the date of the closing of Phase III Transactions as contemplated in ARTICLE V.

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Collateral Assignment I" means that certain Collateral Assignment of Fifth Amended and Restated Assignable Option Agreement, dated March 30, 2023, made by Prospect Medical Systems, LLC, a Delaware Limited Liability Company, to and for the benefit of MPT of Upper Darby PMH, LLC, MPT of Manchester PMH, LLC, MPT of Rockville PMH, LLC, MPT of Springfield PMH, LLC, MPT of Ridley Park PMH, LLC, MPT of Upland PMH, LLC, MPT of Waterbury PMH, LLC, MPT TRS Lender PMH, LLC, each a Delaware limited liability company, MPT of Van Nuys PMH, L.P., MPT of Hollywood PMH, L.P., MPT of Los Angeles PMH, L.P., MPT OF Culver City PMH, L.P., MPT of Bellflower PMH, L.P., MPT of Tustin PMH, L.P., and MPT of Norwalk PMH, L.P., each a Delaware limited partnership.

"Collateral Assignment II" means that certain Collateral Assignment of Ninth Amended and Restated Assignable Option Agreement ("Collateral Assignment B"), dated March 30, 2023, made by Prospect Medical Systems, LLC, a Delaware Limited Liability Company, to and for the benefit of MPT of Upper Darby PMH, LLC, MPT of Manchester PMH, LLC, MPT of Rockville PMH, LLC, MPT of Springfield PMH, LLC, MPT of Ridley Park PMH, LLC, MPT of Upland PMH, LLC, MPT of Waterbury PMH, LLC, MPT TRS Lender PMH, LLC, each a Delaware limited liability company, MPT of Van Nuys PMH, L.P., MPT of Hollywood PMH, L.P., MPT of Los Angeles PMH, L.P., MPT OF Culver City PMH, L.P., MPT of Bellflower PMH, L.P., MPT of Tustin PMH, L.P., and MPT of Norwalk PMH, L.P., each a Delaware limited partnership.

"Collateral Assignments" means Collateral Assignment I and Collateral Assignment II.

"Collective Bargaining Agreement" has the meaning set forth in Section 7.10(a).

"Connecticut Closing Payment" has the meaning set forth in Section 5.1(a).

"Connecticut Master Agreement" means that certain Master Agreement (Connecticut Property Dispositions), dated as of October 5, 2022, entered into by certain of the Prospect Parties and certain of the MPT Parties named therein, as the same has been or may be modified, amended, or restated from time to time.

"Connecticut Properties" means the Manchester Property, the Rockville Property, and the Waterbury Property, each as defined in the Connecticut Master Agreement.

"Connecticut Transaction" means the applicable MPT Parties sale of the Connecticut Properties to the applicable Prospect Parties (or to such Person designated by the Prospect Parties) pursuant to the terms of the Connecticut Master Agreement and the other transactions contemplated therein and in the Underlying Acquisition Agreement (as defined in the Connecticut Master Agreement).

"Contracts" means all written contractual agreements relating to or affecting the assets or the operation of the Facilities to which any of the Prospect Parties or their respective Subsidiaries is a party, and all contracts or agreements with regard to the development and construction of any additional Health Care Facilities.

"Conversion Shortfall" has the meaning set forth in Section 4.1(e).

"Default Representation" has the meaning set forth in Section 2.4(d) hereof.

"Deferred Amounts" has the meaning set forth in Section 3.3.

"Deferred Base Rent" has the meaning set forth in Master Lease I and Master Lease II, respectively (and including past due amounts, together with overdue interests and late payment penalties on all past due amounts).

"Deferred Interest" has the meaning set forth in the Foothill Mortgage Loan Note and the TRS Note, respectively (and including past due amounts, together with overdue interests and late payment penalties on all past due amounts).

"Designated Subsidiaries" means:

(a) with respect to Prospect Medical, each of (i) ManageCo, (ii) Prospect DCMH, LLC, (iii) Prospect CCMC, LLC, (iv) Prospect Manchester Hospital, Inc., (v) Prospect Rockville Hospital, Inc., (vi) Southern California Healthcare System, Inc., (vii) Alta Los Angeles Hospitals, Inc., (viii) Prospect Waterbury, Inc., and (ix) Alta Newport Hospital, Inc., and

(b) with respect to PHP Holdings, all of its Subsidiaries (including Foothill Propco).

"Disclosure Schedules" means the Disclosure Schedules delivered by the Prospect Parties concurrently with the execution and delivery of this Agreement.

"Distribution" means any dividend or distribution (whether in cash, securities or other property) made by Prospect Medical to any Person with respect to any direct or indirect Equity Interest in Prospect Medical or any of its Affiliates.

"DMHC" means the California Department of Managed Health Care, together with any successor agency thereto.

"EIK" has the meaning set forth in Section 4.3.

"Electronic Transmission" means any form of communication (including, without limitation, by electronic mail) not directly involving the physical transmission of paper, that creates a record that may be retained, retrieved, and reviewed by a recipient of such record, and that may be directly reproduced in paper form by such a recipient through an automated process.

"Encumbrance" means any mortgage, deed of trust, pledge, hypothecation, assignment, charge or deposit arrangement, lien (statutory or otherwise) or preference, security interest, restrictions or easements or other encumbrance of any kind or nature whatsoever.

"Equity Interests" means with respect to any Person, the voting power, ownership, or other equitable interests of such Person, including any interest represented by any capital stock, convertible or participating debt instruments, membership interest, partnership interest, or any similar interest therein.

"Equity Rollover Transactions" means the applicable MPT Parties exchanging certain of the Outstanding Obligations for PHPH Series A-1 Preferred Units in PHP Holdings as described in this Agreement.

"Facility" has the meaning set forth in Master Lease I, Master Lease II, and the Foothill Mortgage Loan Agreement, as applicable.

"Financial Statements" has the meaning set forth in Section 7.4(a).

"Foothill Facility" has the meaning ascribed thereto in the Foothill Mortgage Loan Agreement.

"Foothill Lease" has the meaning set forth in Section 3.1(c).

"Foothill Mortgage" means that certain Deed of Trust, Security Agreement and Fixture Filing, dated August 23, 2019, and filed of record on August 29, 2019 under Document Number 2019000324068 in the official records of Orange County, California, and amended pursuant to that certain Amendment to Deed of Trust, Security Agreement and Fixture Filing, dated July 26, 2022, and filed of record on August 9, 2022 under Document Number 2022000272512 in the official records of Orange County, California, as the same have been or shall be further amended, modified, or restated from time to time.

"Foothill Mortgage Loan Agreement" means, collectively, that certain Real Estate Loan Agreement, dated August 23, 2019, as amended by that certain Amendment to Real Estate Loan Agreement (Tranche 2 Advances), dated July 26, 2022, as further modified, amended, or restated from time to time.

"Foothill Mortgage Loan Documents" means, collectively, the Foothill Mortgage Loan Agreement, the Foothill Mortgage Loan Note, the Foothill Mortgage, and all of the other documents entered into in connection therewith, as each of the same may be as modified, amended, or restated from time to time.

"Foothill Mortgage Loan Note" means that certain Amended and Restated Promissory Note (Mortgage Loan), dated as of July 26, 2022, made by Alta Newport in favor of MPT Foothill Lender in the amount of One Hundred and Fifty-One Million Two Hundred Sixty-Six Thousand Seven Hundred and No/100 Dollars ($151,266,700.00), as the same has been or may be modified, amended or restated from time to time.

"Foothill Propco" means FRMC Hospital Property, LLC, a California limited liability company and a wholly-owned subsidiary of PHP Holdings.

"Forbearance Agreement" means that certain Second Amended and Restated Forbearance Agreement, dated as of March 24, 2023, by and among Prospect Medical and certain of the other Prospect Parties named therein and certain of the MPT Parties named therein, as the same may have been amended, modified, supplemented, or extended from time to time.

"GAAP" shall mean generally accepted accounting principles in the United States as in effect from time to time and applied consistently throughout the periods involved.

"Governing Documents" has the meaning set forth in Section 7.1(a).

"Governmental Body" means any (a) national, federal, state, provincial, county, municipal or local government, foreign or domestic, (b) political subdivision of any of the foregoing or (c) entity, authority, agency, ministry or other similar body exercising any legislative, executive, judicial, regulatory or

administrative authority or functions of or pertaining to government, including any court, commission, tribunal or other quasi-governmental entity established to perform any such function (including, without limitation, the Securities and Exchange Commission, the Internal Revenue Service, the DMHC, and the California Board of Pharmacy).

"Government Programs" means all state and federal health benefit programs sponsored by a Governmental Body, including any "federal health care program" as defined in 42 U.S.C. § 1320a-7b(f), Medicare and Medicare Advantage, state Medicaid programs, state CHIP programs, TRICARE and similar or successor programs with or for the benefit of any Governmental Body.

"Health Care Facility" has the meaning set forth in Section 856(e)(3)(D)(ii) of the Code.

"Healthcare Laws" shall mean all applicable Laws relating to health care providers and facilities, participation in Government Programs, participation in Payor Programs, Information Privacy and Security Laws, institutional and professional licensure, pharmacology and dispensing medicines or controlled substances, medical documentation and professional orders, medical record retention, laboratory services, unprofessional conduct, fee-splitting, corporate practice of medicine, referrals, billing and submission of false or fraudulent claims, claims processing, quality, safety, medical necessity, informed consent, the hiring of employees or acquisition of services or supplies from Persons excluded from participation in Government Programs, standards of care, quality assurance, risk management, utilization review, peer review, mandated reporting of incidents, occurrences, diseases and events, advertising or marketing of health care services, and the enforceability of restrictive covenants on health care professionals, including: (a) the Federal anti-kickback law (42 U.S.C. § 1320a-7b(b)), the Federal False Claims Law (42 U.S.C. § 1320a-7b(a)), the Federal physician self-referral law (42 U.S.C. § 1395nn), the Federal False Claims Act (31 U.S.C. § 3729, *et seq.*), the Federal Civil Monetary Penalties Law (42 U.S.C. § 1320a-7a), the Federal Program Fraud Civil Remedies Act (31 U.S.C. § 3801 *et seq.*) and the Federal Health Care Fraud Law (18 U.S.C. § 1347), the Beneficiary Inducement Statute (42 U.S.C. § 1320a-7a(a)(5)), the Confidentiality of Alcohol and Drug Abuse Patient Records Act (42 U.S.C. § 290ee-3, *et seq.*), the Clinical Laboratory Improvement Act (42 U.S.C. § 263a, *et seq.*), the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (P.L. 108-173, 117 Stat. 2066), the Food, Drug and Cosmetic Act of 1938 (21 U.S.C. § 301, *et seq.*), the Prescription Drug Marketing Act of 1987 (P.L. 100-293, 102 Stat. 95), the Deficit Reduction Act of 2005 (P.L. 109-171, 120 Stat. 4), the Controlled Substances Act (21 U.S.C. 801, *et seq.*); (b) Title XVIII of the Social Security Act, 42 U.S.C. §§ 1395-1395hhh (the Medicare statute), including the amendments implemented by the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 and the Medicare Improvements for Patients and Providers Act of 2008; (c) Title XIX of the Social Security Act, 42 U.S.C. §§1396-1396v (the Medicaid statute); (d) TRICARE, 10 U.S.C. §1071 *et seq.*; (e) the Patient Protection and Affordable Care Act (Pub. L. 111-148) as amended by the Health Care and Education Reconciliation Act of 2010 (Pub. L. 111-152); and (f) all applicable regulations promulgated under each of the foregoing Healthcare Laws.

"Healthcare Licenses" means, collectively, all applicable licenses, approvals, qualifications, variances, certificates of need, franchises, accreditations, certificates, certifications, consents, permits and other authorizations and contracts issued by any Governmental Body which may be (i) necessary for the operation of the Managed Care Business or of each of the Facilities as a general acute care hospital facility (and for such other legal ancillary uses as may be necessary in connection with or incidental to such uses), or (ii) required for certification and participation under Medicare and Medicaid legislation and regulations, the provider programs of any Governmental Body for the Managed Care Business and each particular Facility, the United States Department of Health and Human Services, and the Centers for Medicare and Medicaid

Services, and/or state or federal Title XVIII and/or Title XIX provider programs applicable for each such Facility.

"HIPAA" shall mean the Health Insurance Portability and Accountability Act of 1996, as the same may be amended, modified or supplemented from time to time, and any successor statute thereto, and any and all rules or regulations promulgated from time to time thereunder.

"HospitalCo Intercreditor Agreement" means that certain Intercreditor Agreement, dated of even date herewith, entered into between the certain of the MPT Parties and the PhysicianCo Term Loan Lenders under the HospitalCo Term Loan Agreement, as the same may be amended, modified, or restated from time to time.

"HospitalCo Term Loan Agreement" means that certain Financing Agreement, dated of even date herewith, entered into between certain Prospect Medical and MPT Picasso TRS, pursuant to which MPT Picasso TRS has made a term loan to Prospect Medical in the original principal amount of Seventy-Five Million and No/100 Dollars ($75,000,000.00), as the same may be amended, modified, or restated from time to time.

"HospitalCo Parties" means all of the Prospect Parties, other than PHP Holdings and its Subsidiaries, and Alta Newport.

"Indebtedness" means any obligation (whether incurred as a principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent.

"Information Privacy and Security Laws" shall mean HIPAA and any other laws concerning the privacy and/or security of personal information, including but not limited to the Gramm-Leach-Bliley Act, state data breach notification laws, state health information privacy laws, the Federal Trade Commission Act and state consumer protection laws.

"Insurance Policies" has the meaning set forth in Section 7.12(a).

"Intercompany Subordination Agreement" means that certain Intercompany Subordination Agreement, to be dated of even date herewith, entered into by (a) certain of the Prospect Parties and certain of their Affiliates, (b) MPT TRS Lender PMH, LLC (in its capacity as administrative agent and collateral agent for the "HospitalCo Creditors" as defined therein), (c) Wilmington Trust, National Association, in its capacity as administrative agent and collateral agent for the "CB Creditors" as defined therein), and (d) certain of the MPT Parties named therein.

"Knowledge" or "Knowledge of the Prospect Parties" shall mean with respect to the Prospect Parties, the actual or deemed knowledge of a particular fact or matter if (i) with respect to any of the Prospect Parties, its chief executive officer, president, Samuel Lee, George Pillari, and Redacted (collectively, "Knowledge Group"), has actual knowledge of such fact or matter or (ii) any of such Knowledge Group would reasonably be expected to discover or otherwise become aware of such fact or matter after conducting a reasonably diligent inquiry.

"Law" means any federal, state or local statute, rule, regulation, ordinance, order, code, policy or rule of common law, now or hereafter in effect, and in each case as amended, and any judicial or administrative interpretation thereof by a Governmental Body or otherwise, including, without limitation, any judicial or administrative order, consent, decree or judgment.

"Letter of Credit" means the "Letter of Credit" as defined in each of Master Lease I, Master Lease II, and the Pennsylvania Mortgage Loan Agreement.

"Liability" shall mean any and all debts, liabilities, expenses, commitments, obligations, actions and damages of any kind, character or description, whether direct or indirect, contingent or absolute, matured or unmatured, accrued or not accrued, asserted or not asserted, known or unknown, disputed or undisputed, joint or several, secured or unsecured, liquidated or unliquidated, determined, determinable or otherwise, whenever or however arising (including whether arising under any Law, Litigation or Order and those arising under any Contract), and whether or not the same would be required by GAAP to be reflected in financial statements or disclosed in the notes thereto.

"Licenses" shall mean all notifications, accreditations, licenses, Permits, franchises, certificates and certifications, approvals, exemptions, classifications, registrations and other similar documents and authorizations issued by any Governmental Body (including, without limitation, all Healthcare Licenses), and applications, amendments and modifications of any of the foregoing.

"Litigation" has the meaning set forth in Section 7.7(a).

"Lodging Facility" has the meaning set forth in Section 856(d)(9)(D)(ii) of the Code.

"Look-Back Date" shall mean July 19, 2019.

"ManageCo" has the meaning set forth in the preamble hereof.

"Managed Care Business" means value-based-managed care business operated by Prospect Medical, PHP Holdings, and certain of their respective Affiliates.

"Management Agreement" means that certain Management Services Agreement to hereafter be entered into in connection with the Phase II Transactions by and among ManageCo, PHP Holdings, and Alta Newport (and any other applicable Subsidiaries required be joined thereto), substantially in the form attached hereto as ***EXHIBIT D***.

"Master Lease I" means that certain Master Lease Agreement, dated August 23, 2019, by and among the Master Lease I Lessors and Master Lease I Lessees, as the same has been modified, amended, or restated from time to time.

"Master Lease I Amendment" means an amendment to Master Lease I to sever the applicable properties, Master Lease I Lessees, and Master Lease I Lessors (and to effect such other related actions) as described in this Agreement.

"Master Lease I Lessees" means, collectively, Prospect CCMC, LLC, Prospect DCMH, LLC, each a Pennsylvania limited liability company, Prospect Manchester Hospital, Inc., and Prospect Rockville Hospital, Inc., each a Connecticut corporation, and any other Person which becomes a "Lessee" under Master Lease I.

"Master Lease I Lessors" means, collectively, MPT of Upper Darby PMH, LLC, MPT of Manchester PMH, LLC, MPT of Rockville PMH, LLC, MPT of Springfield PMH, LLC, and MPT of Ridley Park PMH, LLC,

each a Delaware limited liability company and any other Person which becomes a "Lessor" under Master Lease I.

"Master Lease II" means that certain Master Lease Agreement, dated August 23, 2019, by and among the Master Lease II Lessors and Master Lease II Lessees, as the same has been modified, amended, or restated from time to time.

"Master Lease II Amendment" means an amendment to Master Lease II to sever the applicable properties, Master Lease II Lessees, and Master Lease II Lessors (and to effect such other related actions) as described in this Agreement.

"Master Lease II Lessees" means, collectively, Southern California Healthcare System, Inc., a California corporation, Alta Los Angeles Hospitals, Inc., a California corporation, Prospect Waterbury, Inc., a Connecticut corporation, and Prospect CCMC, LLC, a Pennsylvania limited liability company, and any other Person which becomes a "Lessee" under Master Lease II.

"Master Lease II Lessors" means, collectively, MPT of Van Nuys PMH, L.P., MPT of Hollywood PMH, L.P., MPT of Los Angeles PMH, L.P., MPT of Culver City PMH, L.P., MPT of Bellflower PMH, L.P., and MPT of Norwalk PMH, L.P., each a Delaware limited partnership, and MPT of Upland PMH, LLC, and MPT of Waterbury PMH, LLC, each a Delaware limited liability company, and any other Person which becomes a "Lessor" under Master Lease II.

"Master Leases" means, collectively, Master Lease I and Master Lease II.

"Material Adverse Effect" means, with respect to any Prospect Party, any change, event(s), occurrence(s) or effect(s), whether direct or indirect, that, both before and after giving effect to the transactions contemplated by this Agreement, could, individually or in the aggregate, have a material adverse effect, the cost of which exceeds or could reasonably be expected to exceed Ten Million and No/100 Dollars ($10,000,000.00), on (a) the business, properties, results of operations, assets, revenue, income or condition (financial or otherwise) of, or the ability to timely satisfy the obligations or liabilities (whether absolute or contingent) of, such Prospect Party, (b) such Prospect Party's business or assets, or (c) the ability of such Prospect Party to perform its obligations under, and/or consummate the transactions contemplated by, this Agreement within the time periods specified herein.

"Material Contracts" shall mean the following Contracts to the extent in effect as of the date hereof:

(a) any collective bargaining agreements;

(b) any equity purchase, option or similar plans;

(c) agreements or indentures relating to the borrowing of money or to mortgaging, pledging or otherwise placing an Encumbrance, except for Permitted Encumbrances, on any material portion of the assets of any of the Prospect Parties;

(d) any guaranty of any obligation for borrowed money or other material guaranty;

(e) any existing agreements relating to any material business acquisitions by any of the Prospect Parties or their respective Affiliates;

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(f) any Contract (other than confidentiality and non-solicitation agreements entered into in the ordinary course) which places any material limitation on any of the Prospect Parties from freely engaging in business anywhere in the world;

(g) any Contracts or orders with any Governmental Body for payments to any of the Prospect Parties in excess of Five Percent (5%) of the gross revenue of any such Prospect Parties in any given year;

(h) any Contract for capital expenditures or the acquisition or construction of fixed assets requiring payments by Prospect Medical or any of its Subsidiaries in excess of Five Million Dollars ($5,000,000);

(i) any material management agreement whereby either (i) any of the Prospect Parties or their respective Subsidiaries is managed by a third party or (ii) a material line of the operating business is managed by a third party at one or more of the Facilities; and

(j) any third-party participation, reimbursement, provider, managed care, or similar payor contract or agreement to which the Facilities are parties exceeding Five Percent (5%) of the gross revenue of the Facilities, as applicable, in any given year.

"Merger" has the meaning set forth in Section 4.2.

"Most Recent Annual Financials" has the meaning set forth in Section 7.4(a).

"Most Recent Balance Sheet" has the meaning set forth in Section 7.4(a).

"MPT Advance Convertible Note" means that certain Convertible Promissory Note, dated as of March 31, 2023, in the original principal amount of Fifty Million and No/100 Dollars ($50,000,000.00), made by PHP Holdings in favor of MPT Picasso TRS, as the same may be amended, modified, or restated from time to time.

"MPT Foothill Lender" means MPT of Tustin PMH, L.P., a Delaware limited partnership.

"MPT Indemnified Parties" has the meaning set forth in Section 10.1.

"MPT Op" means MPT Operating Partnership, L.P., a Delaware limited partnership.

"MPT Parties" has the meaning set forth in the preamble hereof.

"MPT Parties' Resolutions" has the meaning set forth in Section 3.9(b).

"MPT Picasso TRS" has the meaning set forth in the preamble hereof.

"MPT Representative" has the meaning set forth in Section 11.21(c).

"MPT TRS Lender" means MPT TRS Lender PMH, LLC, a Delaware limited liability company.

"Multiemployer Plan" has the meaning set forth in Section 7.9(a).

"Net Capital Proceeds" means an amount equal to the proceeds received by Prospect Medical or its Affiliates in connection with or as a result of any Capital Transaction, less (i) the payment of taxes, reasonable third party transaction fees, and payments to minority interest holders, in each case, with respect to such Capital Transaction, and (ii) an amount, not to exceed five percent (5%) of the purchase price of a Capital Transaction, to be reserved by Prospect Medical or its Affiliates for any post-closing net working capital adjustments provided for in the definitive agreement with respect to such Capital Transaction. Notwithstanding the foregoing, in connection with the CT Transaction, Net Capital Proceeds shall be equal to the Net Transaction Proceeds (as defined in the Connecticut Master Agreement).

"Obligation Documents" has the meaning set forth in the Master Lease I, Master Lease II, the Pennsylvania Restructuring Documents, together with the TRS Note, the MPT Advance Convertible Note, the Amended and Restated Security Documents, and any other guaranty agreements, security agreements, pledge agreements, subordination agreements, or other agreements, documents, or instruments entered into or delivered from time to time by any of the Prospect Parties or their Affiliates (or direct or indirect Equity Interest holders) in connection therewith.

"OFAC" has the meaning set forth in Section 7.17(e).

"Omnibus Amendment of Collateral Lease Assignments" means that certain Omnibus Amendment of Collateral Lease Assignments, dated of even date herewith, and among certain of the Prospect Parties and certain of the MPT Parties, as the same may be modified, amended, or restated from time to time (and including the requisite landlord counterparty consents thereto).

"Orders" has the meaning set forth in Section 7.7(b).

"Ordinary Course of Business" means, with respect to the business of Prospect Medical, PHP Holdings, and their respective Subsidiaries, the ordinary course of business consistent with past custom and practice (including with respect to quantity and frequency).

"Original Restructuring Agreement" means that certain Master Restructuring Agreement, dated as of July 26, 2022, by and among certain of the Prospect Parties and the MPT Parties named therein, as amended by that certain First Amendment to Master Restructuring Agreement, dated October 5, 2022, the same may be further modified, amended, or restated from time to time.

"Other Applicable Subsidiaries" shall mean, collectively, all Subsidiaries of Prospect Medical that are parties to the Amended and Restated Pledge Agreement (other than the Designated Subsidiaries).

"Outstanding Obligations" means (i) all amounts owed under the Foothill Mortgage Loan Note, including without limitation, all interest, principal, Deferred Interest, additional interest, and any other amounts owed thereunder, (ii) all amounts owed pursuant to the TRS Note, including without limitation, all principal, interest, Deferred Interest and any other amounts thereunder, (iii) all Deferred Base Rent due and payable under and as defined in Master Lease I, (iv) all Deferred Base Rent due and payable under and as defined in Master Lease II, (v) all amounts (if any) owed pursuant to the MPT Advance Convertible Note, including without limitation, all principal, interest, Deferred Interest and any other amounts thereunder, and (vi) any other outstanding payment obligations due and payable by any of Prospect Medical or its Affiliates to the applicable MPT Parties or their Affiliates when all of the foregoing obligations in subsections (i) through (v) above have been paid and satisfied in full to the MPT Parties (including any outstanding payment obligations now or hereafter arising under Master Lease I, Master Lease II, or the Pennsylvania

Restructuring Documents), in each case in the amounts as of the date hereof specified pursuant to Section 2.2 hereof.

"Outstanding Property Insurance" means the aggregate outstanding amount of the premiums and other costs for property insurance to be reimbursed by the applicable Prospect Parties to the applicable MPT Parties pursuant to Master Lease I, Master Lease II, and the Foothill Mortgage Loan Agreement, which amount is specified in the attached ***EXHIBIT A***.

"Party" and "Parties" have the meanings set forth in the preamble hereof.

"Patriot Act" has the meaning set forth in Section 7.17(a).

"Payor Contract" has the meaning set forth in Section 7.14(e).

"Payor Programs" means all Government Programs, and all other third-party healthcare benefit plans and programs (including, but not limited to, those offered or administered by health maintenance organizations, preferred provider organizations, health benefit plans, waiver provider organizations and health insurance plans), to which claims for payment are submitted, presented or paid (in whole or part) by any of the Prospect Parties or any of their respective Subsidiaries.

"PBGC" means the Pension Benefit Guaranty Corporation, or any successor thereto.

"Pennsylvania Facilities" means, collectively: (i) the Springfield Facility, the Taylor Facility, and the Delaware County Facility (as each such term is defined in Master Lease I) and (ii) the Crozer-Chester Facility (as such term is defined in Master Lease II).

"Pennsylvania Lessees" means, collectively, Prospect CCMC, LLC and Prospect DCMH, LLC, each a Pennsylvania limited liability company.

"Pennsylvania Lessors" means, collectively, MPT of Springfield PMH, LLC, MPT of Ridley Park PMH, LLC, MPT of Upper Darby PMH, LLC, and MPT of Upland PMC, LLC, each a Delaware limited liability.

"Pennsylvania Mortgage" has the meaning set forth in Section 3.7 hereof.

"Pennsylvania Mortgage Borrower" means the Pennsylvania Lessees.

"Pennsylvania Mortgage Lenders" means the Pennsylvania Lessors.

"Pennsylvania Mortgage Loan Agreement" has the meaning set forth in Section 3.7 hereof.

"Pennsylvania Mortgage Loan Note" has the meaning set forth in Section 3.7 hereof.

"Pennsylvania Purchase and Sale Agreement" means that certain Purchase and Sale Agreement, dated of even date herewith, by and among the Pennsylvania Lessees, as buyers, and the Pennsylvania Lessors, as sellers.

"Pennsylvania Purchase Price" has the meaning set forth in Section 3.7 hereof.

"Pennsylvania Restructuring Documents" means, collectively, the Pennsylvania Purchase Agreement, the Pennsylvania Mortgage Loan Agreement, the Pennsylvania Mortgage Loan Note, the Pennsylvania Subordination and Attornment Agreement, and each of the deeds, bills of sale, terminations, amendments, and other documents, instruments, certificates, or agreements contemplated therein or executed pursuant thereto, as each of the same may be amended or modified from time to time.

"Pennsylvania Subordination and Attornment Agreement" has the meaning set forth in Section 3.7 hereof.

"Permits" means any license, permit, consent, registration, authorization, approval, certificate or certificate of need (or similar Governmental Body approval) issued by or pending with any Governmental Body and accreditations.

"Permitted Encumbrance" shall mean each of (a) Encumbrances for or arising from current taxes not yet delinquent or which may hereafter be paid without penalty or which are being contested in good faith by appropriate proceedings; (b) defects or imperfections of title or other Encumbrances not interfering with the marketability or the Ordinary Course of Business of the Facilities or the Managed Care Business; and (c) any other matters, Encumbrances and defects that have been or are otherwise hereafter expressly approved in writing by any of the MPT Parties and/or provided as a "Permitted Encumbrance" (or similar words of import) in any document by and between any MPT Party, on the one hand, and any Prospect Party on the other (including those Encumbrances subject to the PhysicianCo Intercreditor Agreement and as expressly permitted in the Obligation Documents and in the Real Property Asset Purchase Agreement dated as of July 10, 2019).

"Permitted Transactions" means:

(a) the Connecticut Transaction, subject to the terms set forth in the Connecticut Master Agreement;

(b) the sale of all or substantially all of the assets of the Business and Joint Ventures (each as defined in the RI Purchase Agreement) on the terms set forth in such RI Purchase Agreement; or

(c) the sale of all or substantially all of the assets of Coordinated Regional Care Group, LLC ("CRCG") and/or any of its Subsidiaries (or Equity Interests in CRCG and its Subsidiaries holding such assets).

"Person" means an individual, a corporation, a limited liability company, a general or limited partnership, an unincorporated association, a joint venture, a governmental body or another entity or group.

"Phase I Convertible Note" means that certain Convertible Promissory Note, dated of even date herewith, made by PHP Holdings as more particularly described in Section 3.3(b) hereof, and pursuant to which PHP Holdings grants to the holder thereof the right to convert on a dollar-for-dollar basis all principal, interests and other amounts payable thereunder into PHPH Series A-1 Preferred Units in the manner set forth therein.

"Phase I Outstanding Obligations" has the meaning set forth in Section 3.2(c) hereof.

"Phase I Transactions" means, collectively, the transactions contemplated in ARTICLE III of this Agreement.

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"Phase II Transactions" means, collectively, the transactions contemplated in ARTICLE IV of this Agreement.

"Phase III Transactions" means, collectively, the transactions contemplated in ARTICLE V of this Agreement.

"PHP Holdings" has the meaning set forth in the preamble hereof.

"PHP Holdings LLC Agreement" means that certain Third Amended and Restated Limited Liability Company Agreement for PHP Holdings, dated contemporaneously herewith, by and among PHP Holdings, Prospect Medical and MPT Picasso TRS, as the same may be modified, amended or restated from time to time.

"PHP Holdings Pledge Agreement" means that certain Pledge Agreement, to be dated as of the date hereof, executed by PHP Holdings in favor of MPT Picasso TRS, pursuant to which PHP Holdings is pledging its equity in Prospect Health Plan, Inc. and Prospect Intermediate Holdings, LLC to secure PHP Holdings' obligations under the Phase I Convertible Note, as the same may be modified, amended or restated from time to time.

"PHP Holdings Pro Forma Financials" has the meaning set forth in Section 7.4(a).

"PHP Holdings Representative" has the meaning set forth in Section 11.21(b).

"PHPH MidCo" means Prospect Intermediate Holdings, LLC, a Delaware limited liability company.

"PHPH Net Equity Value" has the meaning set forth in Section 2.3.

"PHPH Series A-1 Preferred Units" means the "Series A-1 Preferred Units," as defined in the PHP Holdings LLC Agreement.

"PHPH Series A-2 Preferred Units" means the "Series A-2 Preferred Units," as defined in the PHP Holdings LLC Agreement.

"PHS" has the meaning set forth in Section 3.1(d).

"Physician Holdings" means Prospect Physician Holdings, Inc., a California professional medical corporation.

"PhysicianCo Intercreditor Agreement" means that certain Intercreditor Agreement, dated of even date herewith, entered into between the certain of the MPT Parties and the PhysicianCo Term Loan Lenders under the PhysicianCo Term Loan Agreement, as the same may be amended, modified, or restated from time to time.

"PhysicianCo Term Loan" has the meaning set forth in Section 2.3(b).

"PhysicianCo Term Loan Agreement" means that certain Financing Agreement, dated of even date herewith, entered into between certain Subsidiaries of PHP Holdings set forth therein and the PhysicianCo Term Loan Lenders, pursuant to which the PhysicianCo Term Loan Lenders have collectively made a term

loan to PhysicianCo Term Loan Borrowers in the original principal amount of Three Hundred Seventy-Five Million and No/100 Dollars ($375,000,000.00), as the same may be amended, modified, or restated from time to time.

"PhysicianCo Term Loan Borrowers" has the meaning set forth in Section 2.3(b).

"PhysicianCo Term Loan Documents" means the PhysicianCo Term Loan Agreement and any guaranty agreements, security agreements, pledge agreements, subordination agreements, or other agreements, documents, or instruments entered into or delivered from time to time by any of the Prospect Parties to the PhysicianCo Term Loan Lenders in connection therewith.

"PhysicianCo Term Loan Lenders" means those Persons that are lenders under and pursuant to the PhysicianCo Loan Agreement.

"PPG" has the meaning set forth in Section 3.1(d).

"Present Fair Salable Value" means the amount that may be realized if the aggregate assets of (a) Prospect Medical, PHP Holdings, and each of their respective Subsidiaries, or (b) PHP Holdings and its Subsidiaries, as applicable, are sold as an entirety with reasonable promptness in an arm's length transaction under then-present conditions for the sale of comparable business enterprises.

"Priming Lien" means any first priority lien granted by any Prospect Party in the tangible personal property (and products and proceeds thereof) to a lender providing financing for such Prospect Party to purchase such items of tangible personal property, and any extension, refinancing, replacement or renewal thereof.

"Prospect CCMC" means Prospect CCMC, LLC, a Pennsylvania limited liability company.

"Prospect DCMH" means Prospect DCMH, LLC, a Pennsylvania limited liability company.

"Prospect Indemnified Parties" has the meaning set forth in Section 10.3.

"Prospect Medical" has the meaning set forth in the preamble hereof.

"Prospect Organizational Chart" has the meaning set forth in Section 2.3.

"Prospect Parties" has the meaning set forth in the preamble hereof.

"Prospect Parties' Resolutions" has the meaning set forth in Section 3.9(a).

"Prospect Representative" has the meaning set forth in Section 11.21(a).

"Redemption Agreements" means those certain Redemption Agreements, dated of even date herewith, by and among the Company, and each of PPG, and PHS, pursuant to which the Company has redeemed all of the Series A-2 Preferred Units previously held by PPG and PHS.

"Release and Waiver Agreement" means a Release and Waiver Agreement, duly executed by all of the Prospect Parties and delivered to the MPT Parties as described in Section 2.5 hereof.

"Released Defaults" means only those certain defaults under the Obligation Documents by the Prospect Parties that are described on the attached ***EXHIBIT E,*** including with respect thereto all manner of action or actions, causes of action, whether in law or equity, suits, debts, liens, remedies, contracts, agreements, promises, liabilities, judgments, claims, demands, damages, counterclaims, defenses, assertions, allegations, rights of setoff, suits, sums of money owed, reckonings, bonds, covenants, contracts, controversies, proceedings, agreements, promises, doings, omissions, variances, losses, costs, attorneys' fees, and expenses of whatever nature or kind whatsoever, whether fixed or contingent, asserted or unasserted, at law or in equity, in contract or tort, unsecured, secured, priority, administrative or otherwise, whether asserted, unasserted, suspected, unsuspected, accrued, unaccrued, patent, latent, liquidated, unliquidated, fixed, contingent, pending, threatened, now existing, or which may arise in the future, and all resulting damages, including, but not limited to, all actual damages, compensatory damages, consequential damages, statutory damages, punitive and exemplary damages, prejudgment and post-judgment interest, attorneys' fees and costs of court, and all other damages related to or arising out of claims by any MPT Parties related to such defaults.

"Required Consents" has the meaning set forth in Section 4.1(e).

"Restructuring Documents" means this Agreement and any other documents, instruments, certificates, or agreements to entered into by any of the Parties in connection with the transactions contemplated herein.

"Restructuring Term Sheet" has the meaning set forth in the recitals to this Agreement.

"Restructuring Transactions" means those actions taken by the Parties, in addition to the Equity Rollover Transactions, to restructure the remaining Outstanding Obligations, as described in this Agreement.

"RI Purchase Agreement" means that certain Asset Purchase Agreement dated as of November 18, 2022, by and among Centurion Foundation, Inc., Prospect and each of Prospect CharterCare, LLC, Prospect CharterCARE RWMC, LLC, Prospect RI Home Health and Hospice, Prospect CharterCARE Home Health & Hospice, LLC, New University Medical Group, LLC, Prospect CharterCARE SJSHRI, LLC, Prospect CharterCARE Physicians, LLC, Prospect CharterCARE Ancillary Services, LLC and Prospect Blackstone Valley Surgicare, LLC.

"Schedule Supplement" has the meaning set forth in Section 11.10.

"Series A-1 Subscription Agreement" means that certain Series A Preferred Unit Subscription Agreement, dated of even date herewith, among PHP Holdings and MPT Picasso TRS, pursuant to which MPT Picasso TRS will subscribe for and acquire 69,494 units of Series A-1 Preferred Units as more particularly described in Section 3.2(a) hereof.

"Solvent" means, when used with respect to Prospect Medical or PHP Holdings, as applicable, means that, as of the applicable date of determination:

(a) the Present Fair Salable Value of the assets of, as applicable: (i) Prospect Medical and each of its Subsidiaries, or (i) PHP Holdings and each of its Subsidiaries, will, as of such date, exceed all of its debts, as of such date,

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(b) as applicable, (i) Prospect Medical and each of its Subsidiaries, or (ii) PHP Holdings and each of its Subsidiaries, will not have, or have access to, as of such date, an unreasonably small amount of capital for the business in which they are engaged or will be engaged, and

(c) as applicable, (i) Prospect Medical and each of its Subsidiaries, or (ii) PHP Holdings and each of its Subsidiaries, is able to pay their debts as they become absolute and mature, in the Ordinary Course of Business, taking into account the timing of and amounts of cash to be received by them and the timing of and amounts of cash to be payable on or in respect of its indebtedness, in each case after giving effect to the transactions contemplated herein.

The term "Solvency" shall have a correlative meaning. For purposes of the definition of "Solvent": (1) "debt" means liability on a "claim"; and (2) "claim" means any right to payment, whether or not such a right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, secured or unsecured or the right to an equitable remedy for breach of performance if such breach gives rise to a right to payment, whether or not such right to an equitable remedy is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, secured or unsecured.

"Subsidiary" or "Subsidiaries" mean, with respect to any Person, any other Person, of which an amount of the voting securities, voting ownership or voting partnership interests of which is sufficient to control such Person or elect at least a majority of its board of directors or other governing body (or, if there are no such control / voting interests, 50% or more of the Equity Interests of which), is owned directly or indirectly by such first Person. For the purposes hereof, the term Subsidiary shall include all Subsidiaries of any such Subsidiary.

"Support Services Agreement" means that certain Support Services Agreement, dated effective as of March 31, 2023, by and between Prospect Medical and PHP Holdings.

"Tax Returns" shall mean any report, return, document or other filing (including any additional or supporting material and any amendments or supplements) required to be supplied to any Governmental Body with respect to Taxes.

"Taxes" shall mean any and all taxes, charges, fees, levies or other assessments, including, without limitation, any and all income, gross receipts, excise, real and personal property (including leaseholds and interests in leaseholds), sales, use, occupation, transfer, license, ad valorem, gains, profits, gift, minimum estimated, alternative minimum, social security, unemployment, disability, premium, recapture, credit, payroll, withholding, severance, stamp, capital stock, value added leasing, franchise and other taxes or similar charges of any kind including any interest and penalties on or additions thereto or attributable to any failure to comply with any requirement regarding any tax return.

"Tranche 1 Advance" means the advance by MPT Foothill Lender to Alta Newport in the amount of Fifty-One Million Two Hundred Sixty-Six Thousand Seven Hundred and No/100 Dollars ($51,266,700.00), as evidenced by and further defined in the Foothill Mortgage Loan Note.

"Tranche 2 Additional Interest" means the outstanding "Additional Interest" (as defined in the Foothill Mortgage Loan Agreement) specified in the attached ***EXHIBIT A***.

"Tranche 2 Advances" means the additional loan advances made by MPT Foothill Lender to Alta Newport in the amount of (i) Fifty Million and No/100 Dollars ($50,000,000.00) on May 2, 2022 and (ii) Fifty Million and No/100 Dollars ($50,000,000.00) on May 31, 2022, as evidenced by and further defined in the Foothill Mortgage Loan Note.

"TRS Note" means that certain Promissory Note, dated as of August 23, 2019, in the original principal amount of One Hundred Twelve Million Nine Hundred Thirty Seven Thousand Two Hundred Four and No/100 Dollars ($112,937,204.00), made by Prospect Medical in favor of MPT TRS Lender, as amended by the Amendment to Promissory Note, dated May 27, 2021, as the same have been or may be amended, modified, or restated from time to time.

"Uncured Defaults" means those certain matters under the Obligation Documents by the Prospect Parties that are described on the attached ***EXHIBIT F***.

"WARN" has the meaning set forth in Section 7.10(e).

"Yale Consent" has the meaning set forth in Section 3.8.

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EXHIBIT A

OUTSTANDING OBLIGATIONS

Phase I Obligations	**Amount**
Tranche 1 Advance (Foothill Mortgage Loan)	$ 51,266,700.00
Tranche 2 Advance (Foothill Mortgage Loan)	$ 100,000,000.00
Tranche 2 Additional Interest (Foothill Mortgage Loan)	$9,137,500.00
Accrued Base Interest -- Foothill Mortgage	$6,433,187.69
TRS Note – Principal	$ 112,937,204.00
Accrued Base Interest – TRS Note	$4,936,603.11
MPT Advance Convertible Note - Principal	$50,000,000.00
Accrued Base Interest – MPT Advance Convertible Note	$588,888.89
Deferred Amounts	$182,605,385.16
Agreed Pennsylvania Shortfall Amount	$100,000,000.00
Agreed Connecticut Shortfall Amount	$102,942,998.00
2020/2021 & 2021/2022 Outstanding Property Insurance Premium	$783,708.00
TOTAL:	**$721,632,174.85**

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EXHIBIT B

PROSPECT ORGANIZATIONAL CHART

See Attached.

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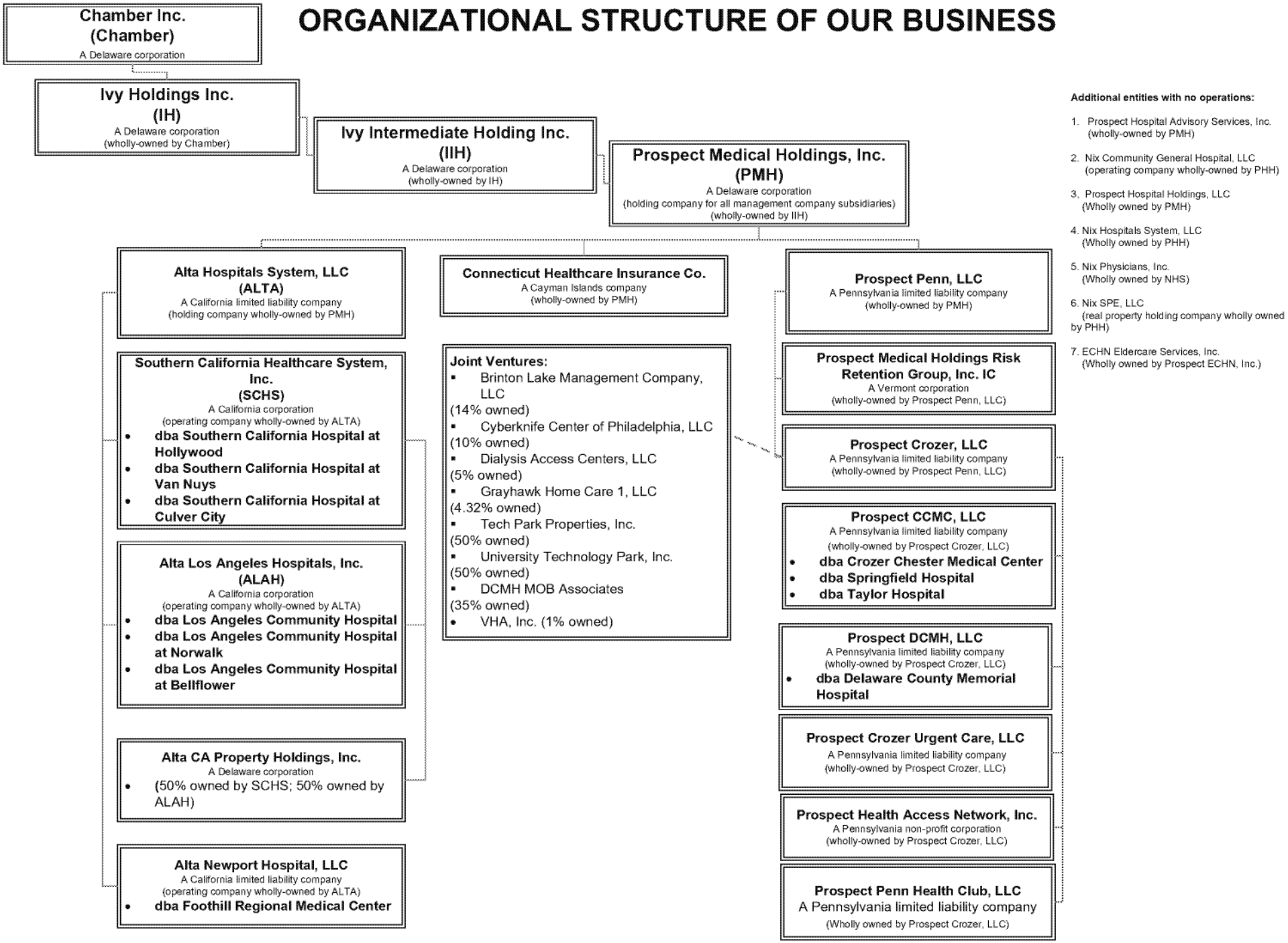
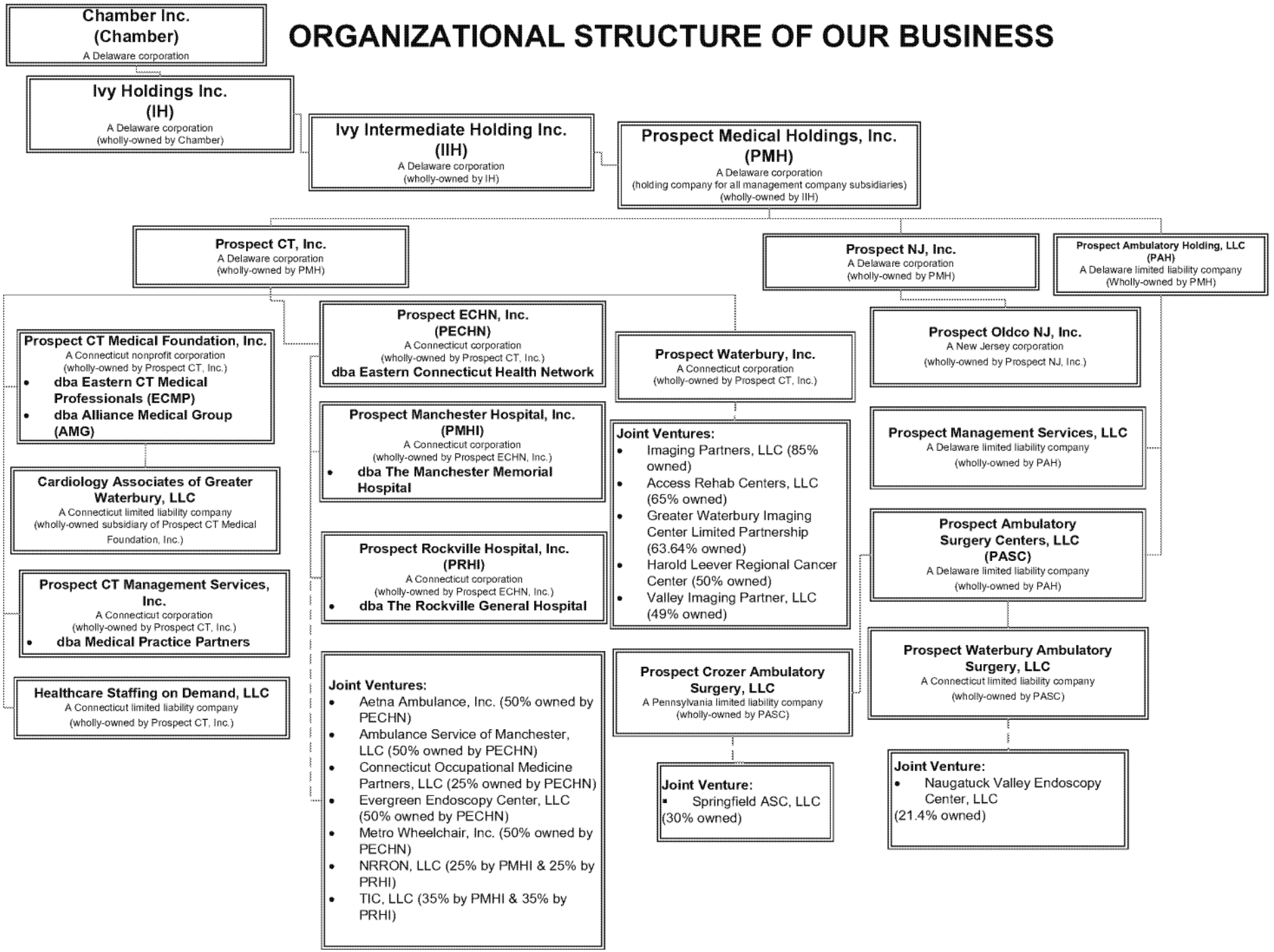
ORGANIZATIONAL STRUCTURE OF OUR BUSINESS



ORGANIZATIONAL STRUCTURE OF OUR BUSINESS



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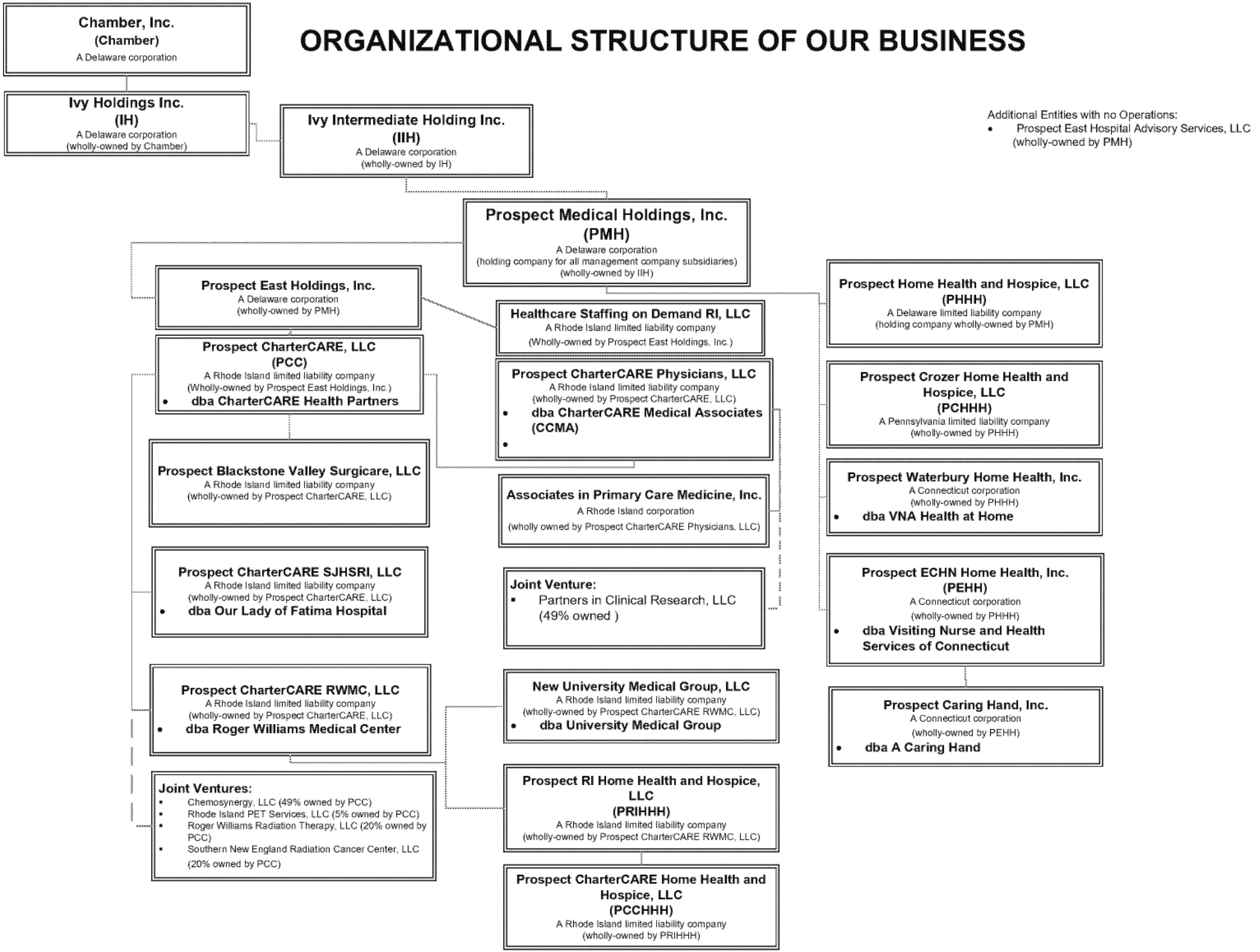
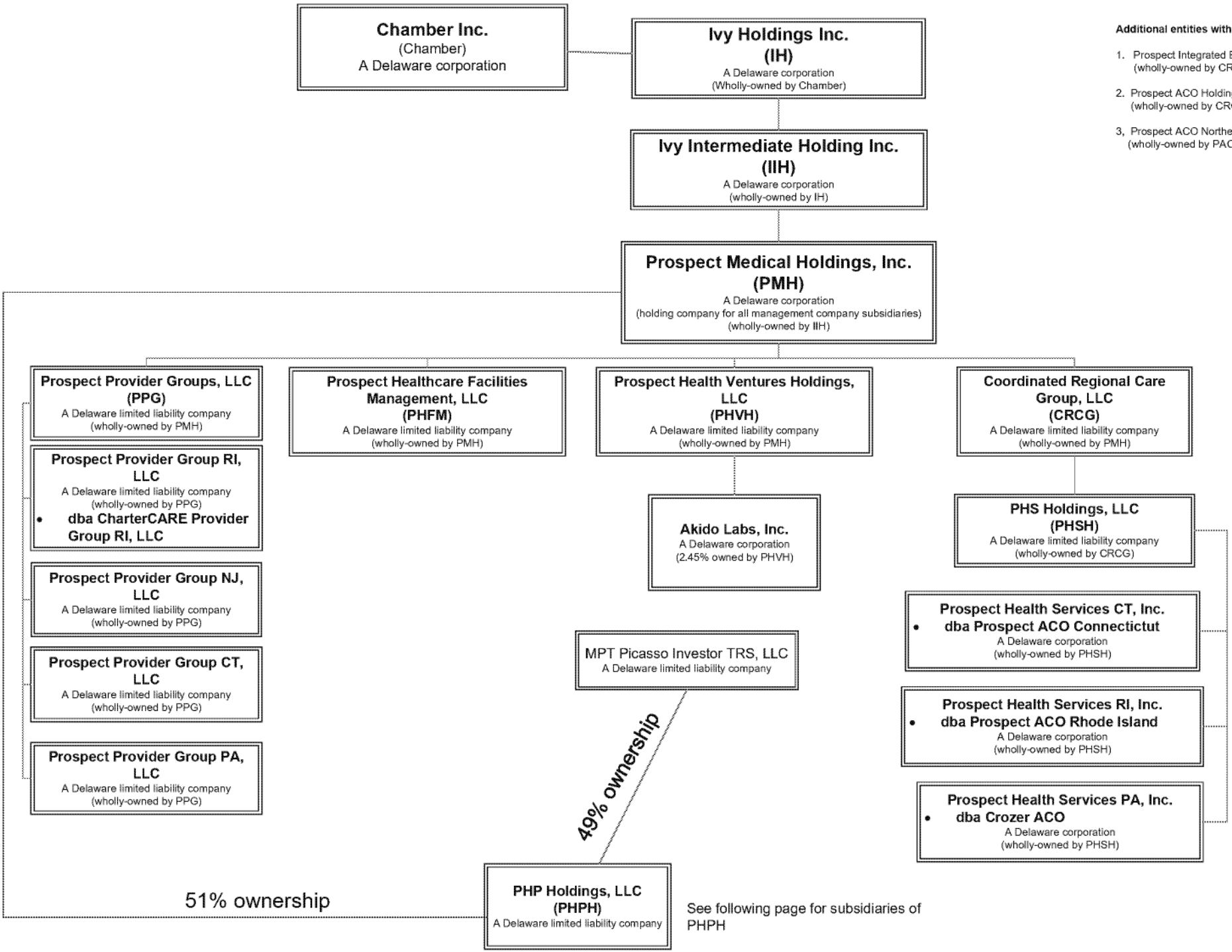


ORGANIZATIONAL STRUCTURE OF OUR BUSINESS



See following page for subsidiaries of PHPH

ORGANIZATIONAL STRUCTURE OF OUR BUSINESS

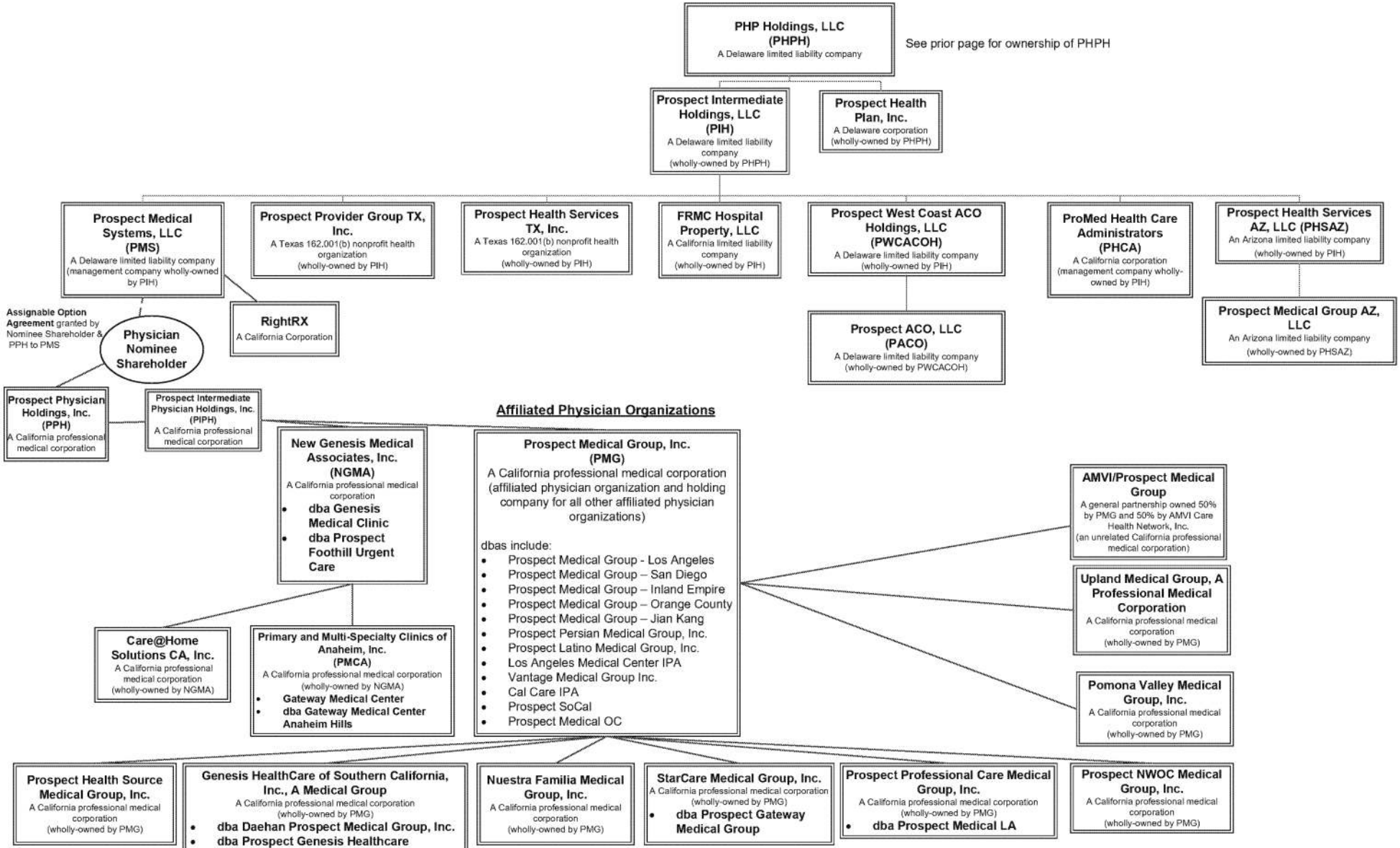


EXHIBIT C

FORM OF RELEASE AND WAIVER AGREEMENT

See Attached.

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MPT CONFIDENTIAL MPT_PROSPECT_00011514

RELEASE AND WAIVER AGREEMENT

THIS RELEASE AND WAIVER AGREEMENT (this "Release") is made and entered into effective as of this ____ day of _____, 202__ (the "Effective Date"), by **PROSPECT MEDICAL HOLDINGS, INC.**, a Delaware corporation ("Prospect Medical"), and each of its respective undersigned Affiliates (such Affiliates, together with Prospect Medical, collectively, the "Prospect Parties"), for the benefit and in favor of each of the undersigned Affiliates of MPT Operating Partnership, L.P., a Delaware limited partnership (collectively, the "MPT Parties"). The Prospect Parties, the MPT Parties, and certain of their respective affiliates have entered into that Amended and Restated Master Restructuring Agreement, dated as of May 23, 2023 (as amended, modified, or restated from time to time, the "Restructuring Agreement"). The Prospect Parties and the MPT Parties are herein sometimes referred to individually as a "Party" and collectively, as the "Parties."

W I T N E S S E T H:

WHEREAS, as an inducement for the MPT Parties to enter into and deliver the Restructuring Agreement and to consummate the transactions which are to be consummated on the Effective Date under the terms of the Restructuring Agreement, each of the Prospect Parties desire to enter into and deliver this Release to the MPT Parties.

NOW, THEREFORE, in consideration of the foregoing inducements, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Prospect Parties do hereby agree as follows:

1. **Defined Terms.** Capitalized terms used but not otherwise defined herein shall have the meaning ascribed thereto under the Restructuring Agreement, unless otherwise specifically noted.

2. **General Release and Waiver by Prospect Parties and Affiliates**.

(a) Subject to the other terms, conditions, and limitations set forth in this Release, the Prospect Parties, on behalf of themselves and their respective Affiliates and Subsidiaries, and each of their respective members, stockholders, managers, directors, officers, employees, partners, members, equityholders, controlling or controlled persons, managers, agents, advisors, representatives, and their respective successors and assigns (collectively, the "Prospect Releasors"), effective as of the Effective Date, hereby irrevocably and unconditionally release, waive, and forever discharge the MPT Parties and each of their respective Affiliates, members, stockholders, directors, officers, successors, assigns, agents, employees, representatives and attorneys, and all Persons acting by, through, under, or in concert with any of the aforesaid Persons (collectively, the "MPT Releasees"), from and against any and all demands, actions, causes of action, suits, covenants, contracts, controversies, agreements, promises, sums of money, accounts, bills, reckonings, damages and any and all other claims, counterclaims, defenses, rights of set-off, demands and liabilities whatsoever (individually, a "Claim" and collectively, "Claims") of every name and nature, known or unknown, suspected or unsuspected, both at law and in equity, which any of the Prospect Releasors may now or hereafter own, hold, have or claim to have against the MPT Releasees or any of them for, upon, or by reason of any circumstance, action, cause or thing whatsoever which arose prior to the Effective Date, for or on account of, or in relation to, or otherwise in connection with (i) the Outstanding Obligations (as of the date hereof), (ii) any of Master Lease I, Master Lease II, the TRS Note, the Foothill Mortgage Loan Documents, [the Pennsylvania Restructuring Documents, the Amended and Restated Security Documents, and all of the other Obligation Documents][1] and the MPT Advance Convertible Note,

[1] Note to From: To be included in the Phase II and Phase III Release and Waiver Agreements together with any other Obligation Documents then in effect.

or (iii) the Restructuring Agreement and any of the other documents or agreements contemplated therein, *provided*, *however*, that the Claims released and waived by the Prospect Releasors hereunder shall not include (x) any rights or Claims which cannot be waived as a matter of law, (y) any Claim that is determined in a final, non-appealable judgment by a court of competent jurisdiction to have resulted from the gross negligence, willful misconduct, or fraud of any MPT Releasee, or (z) any rights or Claims that arise on or after the Effective Date, including but not limited to, any Claims related to the agreements and transactions contemplated by the [Phase I Transactions, Phase II Transactions or Phase III Transactions][2] (as such terms are defined in the Restructuring Agreement), including, for the avoidance of doubt, the Restructuring Agreement and the PHP Holdings LLC Agreement (as defined in the Restructuring Agreement) or any other Claims arising under the Restructuring Agreement regardless of when such Claim arose.

(b) Each of the Prospect Parties, for itself and on behalf of any other Prospect Releasors, acknowledges that the legal requirements of many states provide substantially the following:

> "A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR."

Each of the Prospect Parties, for itself and on behalf of any other Prospect Releasors, understand that the foregoing gives the Prospect Parties the right not to release existing claims of which the Prospect Parties are not aware, unless the Prospect Parties voluntarily choose to waive this right. Having been so apprised, each of the Prospect Parties, for itself and on behalf of any other Prospect Releasors, nevertheless hereby voluntarily elect to and waive the rights described above (or such other comparable statute, rule, regulation or order) with respect to the Claims released in subsection (a) above, and elect to assume all risks for claims that exist, existed or may hereafter exist in its favor, known or unknown, suspected or unsuspected, solely arising out of or related to such released Claims, in each case, effective upon the Effective Date. Each of the Prospect Parties, for itself and on behalf of any other Prospect Releasors, acknowledge and agree that the foregoing waiver is an essential and material term of the released Claims by the Prospect Parties and that, without such waiver, the MPT Parties would not have agreed to the terms of this Release.

3. Representations and Warranties. The Parties acknowledge and agree that the respective representations and warranties of the Prospect Parties to the MPT Parties as set forth in the Restructuring Agreement shall be applicable to this Release in all respects. The Prospect Parties, jointly and severally, further represent and warrant to the MPT Parties that none of the Prospect Parties (nor any of the Prospect Releasees) have (a) assigned, transferred, or conveyed, or (b) purported to assign, transfer, or convey, or (c) placed or permitted any Encumbrance on, and each Party covenants that such Party will not assign, transfer, or convey to any third party, or place or permit any lien or encumbrance on any right or interest that it may have in or with respect to any Claim (or portion thereof or interest therein) that is released, waived, or discharged pursuant by this Release.

4. Covenants. Each of the Prospect Parties, on behalf of itself and each of the Prospect Releasors, hereby absolutely, unconditionally and irrevocably, covenants and agrees with and in favor of each of the MPT Releasees that none of the Prospect Parties nor any of the Prospect Releasors shall (a) assign, transfer, or convey to any unaffiliated third party, or place or permit any Encumbrance on, any right or interest that it may have in or with respect to any Claim (or portion thereof or interest therein) that is

[2] Note to From: To be updated at each closing.

released, waived, and discharged pursuant by this Release, or (b) absent suits related to matters expressly carved-out in Section 2 above, sue (at law, in equity, in any regulatory or arbitration proceeding or otherwise) on the basis of any Claim released, waived, or discharged pursuant to this Release.

5. Effect of Releases.

(a) The Prospect Parties understand there is a risk that, subsequent to the execution of this Release, they may discover claims or facts in addition to, or different from, those which they know or believe to exist, in connection with the Claims released, waived, and discharged pursuant by this Release and that, notwithstanding the foregoing, it is the Prospect Parties' intention to assume the risk of such unknown and unanticipated claims and facts with respect to such Claims. For the purpose of implementing a full and complete release and settlement of such Claims, the Prospect Parties expressly acknowledge that this Release is intended to include all Claims arising out of, arising under, or related to the relationship between and among the Parties from the beginning of time to the Effective Date, even those which any one or more of the Parties do not know or suspect to exist at the time this Release is signed, and further, that this Release extinguishes and discharges any and all such Claims described herein, and the relationship between and among the Parties from the beginning of time to the Effective Date, except as specifically set forth in this Release. The Prospect Parties acknowledge that this Release was bargained for, and that there are no representations by, or conduct of, anyone being relied upon by them in entering into this Release, except as specifically provided herein.

(b) Each of the Parties acknowledge and agree that (i) the releases, waivers and discharges set forth in this Release may be pleaded as a full and complete defense and may be used as a basis for an injunction against any action, suit or other proceeding which may be instituted, prosecuted or attempted in breach of the provisions hereof, and (ii) no fact, event, circumstance, evidence or transaction which could now be asserted or which may hereafter be discovered shall affect in any manner the final, absolute and unconditional nature of the provisions set forth above. The provisions of this Release shall survive the consummation of the transactions contemplated by the Restructuring Agreement but shall only apply to the Claims released under this Release and shall not be expanded by the consummation of the transactions contemplated by the Restructuring Agreement.

6. Joint Drafting by Counsel. Each Party acknowledges and represents and warrants to the other Parties that such Party has been represented by and relied upon counsel of such party's own choosing in the negotiation, preparation and execution of this Release. The Parties and their respective counsel have participated in the drafting and redrafting of this Release and the general rules of construction which would construe any provisions of this Release in favor of or to the advantage of one Party as opposed to the other as a result of one Party drafting this Release as opposed to the other or in resolving any conflict or ambiguity in favor of one Party as opposed to the other on the basis of which Party drafted this Release are hereby expressly waived by all Parties to this Release.

7. Counterparts. This Release may be executed in multiple counterparts, any one of which need not contain the signature of more than one party, but all such counterparts taken together shall constitute one and the same instrument.

8. Delivery by Electronic Transmission. This Release and any signed agreement entered into in connection herewith or contemplated hereby, and any amendments hereto or thereto, to the extent signed and delivered by means of a facsimile machine or by .pdf, .tif, .gif, .jpeg or similar attachment to electronic mail, shall be treated in all manner and respects as an original contract and shall be considered to have the same binding legal effects as if it were the original signed version thereof delivered in person. At the request of any party hereto or to any such contract, each other party hereto or thereto shall re-execute original forms thereof and deliver them to all other parties. No Party hereto or to any such contract shall raise the use of a facsimile machine or by .pdf, .tif, .gif, .jpeg or similar attachment to electronic mail to

deliver a signature or the fact that any signature or contract was transmitted or communicated through the use of facsimile machine or by .pdf, .tif, .gif, .jpeg or similar attachment to electronic mail as a defense to the formation of a contract and each such party forever waives any such defense.

9. Binding Effect. This Release shall be binding upon and inure to the benefit of the Parties hereto and their respective successors and assigns.

10. Severability. Whenever possible, each provision of this Release shall be interpreted in such manner as to be effective and valid under applicable Law, but if any provision of this Release is held to be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Release, unless the severance of such provision would be in opposition to the parties' intent with respect to such provision. If, for any reason, any part of this Release is deemed to be prohibited, invalid or unenforceable with respect to any particular Party, that shall not affect or impair the operation or effect of this Release with respect to all of the other Parties.

11. Further Actions. Each of the Parties shall (and shall cause their respective Affiliates to) perform any further acts and execute and deliver any documents or instruments that may be reasonably necessary to carry out the provisions of this Release.

12. Injunctive Relief. Each of the Prospect Parties recognizes and affirms that in the event of a breach of this Release by any Prospect Releasor, money damages may be inadequate and the MPT Releasees may have no adequate remedy at law. Accordingly, the Prospect Parties agree that the MPT Releasees shall have the right, in addition to any other rights and remedies existing in their favor at law or in equity, to enforce their rights and the Prospect Releasors' obligations hereunder not only by an action or actions for damages but also by an action or actions for specific performance, injunctive and/or other equitable relief (without posting of bond or other security). The Prospect Parties agree not to assert that a remedy of specific performance or other equitable relief is unenforceable, invalid, contrary to law or inequitable for any reason, and not to assert that a remedy of monetary damages would provide an adequate remedy or that the MPT Releasees otherwise have an adequate remedy at law.

13. Expenses. Should any Party bring suit to enforce this Release against the other Party, or otherwise seek any remedy against any of the Parties hereunder, whether at law or equity, for any alleged breach or violation of this Release, the prevailing Party or Parties in any such proceeding shall be entitled to recover its/their expenses incurred in connection therewith from the opposing Parties, including, without limitation, all reasonable attorneys' fees and expert and consultant fees and costs, all court costs, all reproduction and information management expenses, all court report and transcription costs, all communication charges, and the like.

14. Governing Law. THIS RELEASE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE APPLICABLE TO CONTRACTS EXECUTED AND PERFORMED IN SUCH STATE, WITHOUT GIVING EFFECT TO CONFLICTS OF LAW PRINCIPLES.

15. Jurisdiction and Venue. THE PARTIES CONSENT TO PERSONAL JURISDICTION IN THE STATE OF DELAWARE. THE PARTIES AGREE THAT ANY ACTION OR PROCEEDING ARISING FROM OR RELATED TO THIS RELEASE SHALL BE BROUGHT AND TRIED EXCLUSIVELY IN THE STATE OR FEDERAL COURTS OF DELAWARE. EACH OF THE PARTIES IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY OBJECTION TO THE LAYING OF VENUE OF ANY SUCH ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT. THE PARTIES EXPRESSLY ACKNOWLEDGE THAT DELAWARE IS A FAIR, JUST AND REASONABLE FORUM AND AGREE NOT TO SEEK REMOVAL OR TRANSFER OF ANY ACTION

FILED BY THE OTHER PARTY IN SAID COURTS. FURTHER, EACH PARTY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY CLAIM THAT SUCH SUIT, ACTION OR PROCEEDING HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. SERVICE OF ANY PROCESS, SUMMONS, NOTICE OR DOCUMENT BY CERTIFIED MAIL ADDRESSED TO A PARTY AT THE ADDRESS DESIGNATED PURSUANT TO RESTRUCTURING AGREEMENT SHALL BE EFFECTIVE SERVICE OF PROCESS AGAINST SUCH PARTY FOR ANY ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT. A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT MAY BE ENFORCED IN ANY OTHER COURT TO WHOSE JURISDICTION ANY OF THE PARTIES IS OR MAY BE SUBJECT.

16. **Waiver of Jury Trial**. TO THE MAXIMUM EXTENT PERMITTED BY LAW, EACH OF THE PARTIES HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE THE RIGHT TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON, ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS RELEASE, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENT (WHETHER VERBAL OR WRITTEN) OR ACTION OF EITHER PARTY OR ANY EXERCISE OF ANY PARTY OF THEIR RESPECTIVE RIGHTS HEREUNDER OR IN ANY WAY RELATING TO THIS RELEASE OR THE REAL PROPERTY (INCLUDING ANY CLAIM OR DEFENSE ASSERTING THAT THIS RELEASE WAS FRAUDULENTLY INDUCED OR IS OTHERWISE VOID OR VOIDABLE). THIS WAIVER IS A MATERIAL INDUCEMENT FOR LENDER TO ENTER INTO THIS RELEASE.

17. **Entire Agreement; Modification**. This Release and the documents referred to herein (including the Restructuring Agreement, Restructuring Documents under the Restructuring Agreement and for the limited purposes set forth herein, the Restructuring Agreement constitute the entire agreement and understanding of the Parties hereto pertaining to the Claims and other subject matter contained herein and supersedes all prior oral or written agreements, representations, warranties and understandings of the Parties hereto with respect to the subject matter hereof. It is expressly agreed that there are no verbal understandings or agreements which in any way change the terms, covenants, and conditions set forth in this Release, and that no modification of this Release and no waiver of any of its terms and conditions shall be effective unless it is made in writing and duly executed by the Parties. The Parties have not relied upon, and shall not be entitled to rely upon, any prior or contemporaneous agreements, understandings, representations or statements (oral or written) other than this Release in effecting the transactions contemplated herein or otherwise.

[SIGNATURES ARE ON THE FOLLOWING PAGES]

IN WITNESS WHEREOF, the parties have caused this Release and Waiver Agreement to be executed by their duly authorized officers to be effective as of the Effective Date.

PROSPECT PARTIES:

PROSPECT MEDICAL HOLDINGS, INC.

By:_____
Name:_____
Title:_____

PROSPECT HEALTHCARE FACILITIES MANAGEMENT, LLC

By:_____
Name:_____
Title:_____

PHP HOLDINGS, LLC

By: Prospect Healthcare Facilities Management, LLC
Title: Manager

By:_____
Name:_____
Title:_____

PROSPECT INTERMEDIATE HOLDINGS, LLC

By: PHP Holdings, LLC
Title: Sole Member

By: Prospect Healthcare Facilities Management, LLC
Title: Manager

By:_____
Name:_____
Title:_____

PROSPECT DCMH, LLC

By:_____
Name:_____
Title:_____

PROSPECT CCMC, LLC

By:_____
Name:_____
Title:_____

[*Signatures Continue on Following Page*]

PROSPECT MANCHESTER HOSPITAL, INC.

By:_____
Name:_____
Title:_____

PROSPECT ROCKVILLE HOSPITAL, INC.

By:_____
Name:_____
Title:_____

SOUTHERN CALIFORNIA HEALTHCARE SYSTEM, INC.

By:_____
Name:_____
Title:_____

ALTA LOS ANGELES HOSPITALS, INC.

By:_____
Name:_____
Title:_____

PROSPECT WATERBURY, INC.

By:_____
Name:_____
Title:_____

ALTA NEWPORT HOSPITAL, LLC

By:_____
Name:_____
Title:_____

FRMC HOSPITAL PROPERTY, LLC

By: _____
Name: _____
Title: _____

[*Signatures Continue on Following Page*]

MPT CONFIDENTIAL

MPT PARTIES:

MPT OF UPPER DARBY PMH, LLC
MPT OF MANCHESTER PMH, LLC
MPT OF ROCKVILLE PMH, LLC
MPT OF SPRINGFIELD PMH, LLC
MPT OF RIDLEY PARK PMH, LLC
MPT OF UPLAND PMH, LLC
MPT OF WATERBURY PMH, LLC

By: MPT Operating Partnership, L.P.
Its: Sole Member of each above-referenced entity

By:_____
Name:_____
Title:_____

MPT TRS LENDER PMH, LLC

By: MPT Development Services, Inc.
Its: Sole Member

By:_____
Name:_____
Title:_____

MPT OF VAN NUYS PMH, L.P.
By: MPT of Van Nuys PMH, GP, LLC
Its: General Partner

MPT OF HOLLYWOOD PMH, L.P.
By: MPT of Hollywood PMH, GP, LLC
Its: General Partner

MPT OF LOS ANGELES PMH, L.P.
By: MPT of Los Angles PMH, GP, LLC
Its: General Partner

MPT OF CULVER CITY PMH, L.P.
By: MPT of Culver City PMH, GP, LLC
Its: General Partner

[***Signatures Continue on Following Page***]

MPT CONFIDENTIAL MPT_PROSPECT_00011522

MPT OF BELLFLOWER PMH, L.P.
By: MPT of Bellflower PMH, GP, LLC
Its: General Partner

MPT OF NORWALK PMH, L.P.
By: MPT of Norwalk PMH, GP, LLC
Its: General Partner

MPT OF TUSTIN PMH, L.P.
By: MPT of Tustin PMH, GP, LLC
Its: General Partner

By: MPT Operating Partnership, L.P.
Its: Sole Member of each above-referenced general partnership entity

By: _____
Name: _____
Title: _____

MPT PICASSO INVESTORS TRS, LLC

By: MPT Operating Partnership, L.P.
Its: Sole Member

By: _____
Name: _____
Title: _____

MPT CONFIDENTIAL

EXHIBIT D

MANAGEMENT AGREEMENT

See Attached.

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MPT CONFIDENTIAL MPT_PROSPECT_00011524

MANAGEMENT SERVICES AGREEMENT

THIS MANAGEMENT SERVICES AGREEMENT (this "Agreement") is made and entered into as of this [____] day of [____], 2023 (the "Effective Date"), by and among **PROSPECT HEALTHCARE FACILITIES MANAGEMENT, LLC** f/k/a PHC Holdco, Inc., a Delaware limited liability company (the "Manager"), **PHP HOLDINGS, LLC**, a Delaware limited liability company (the "Company"), Alta Newport Hospital, LLC, a California limited liability company (the "Hospital Operator"), and each of the other entities which may from time to time, directly operate a Facility (as defined herein) and be joined to this Agreement, each of which is a direct or indirect subsidiary of the Company (each, an "Operator," and together with the Hospital Operator, the "Operators") (the Manager, the Company, and the Operators, individually may be referred to as a "Party" and collectively may be referred to as the "Parties").

Introductory Statements

As of the Effective Date, Hospital Operator operates Foothill Regional Medical Center "FRMC" and together with any new Healthcare Facilities that the Company (a) directly or indirectly owns, leases (as lessee), operates or manages, or hereafter becomes the operator or manager of or is deemed an operator or manager for purposes of Sections 856–861 of the Code; and (b) such Operator executes a document to become a Party to this Agreement, each a "Facility," and collectively, the "Facilities". For this purpose, a Healthcare Facility has the meaning given to it in Section 856(e)(6)(D)(ii) of the Internal Revenue Code of 1986, as amended or as may be amended from time to time (the "Code") and the treasury regulations promulgated thereunder.

Affiliates of the Manager have been in the business of operating and managing healthcare facilities historically, and have organized the Manager to engage in the business of operating and managing the Facilities.

The Company and the Operators desire to engage Manager to manage the day-to-day operations of any Facility as of the date the applicable Operator becomes a Party to this Agreement, and Manager is willing to be engaged in such capacity subject to the terms and conditions set forth herein.

As of the Effective Date, the Company, will be jointly owned by one or more Affiliates of the Manager and MPT Picasso Investors TRS, LLC, a Delaware limited liability company ("MPT Picasso TRS").

NOW, THEREFORE, in consideration of the promises and covenants herein contained and intending to be legally bound hereby, the Parties agree as follows:

ARTICLE I
RETENTION

1.1 Retention. For and during the Term (as defined herein), the Company and the Operators hereby engage Manager and grant to Manager the sole and exclusive right to operate, manage, supervise, direct, and control the management and operation of the Facilities (subject to

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the Operators retaining ultimate authority and responsibility for the Facilities as further described herein), and the Company and the Operators hereby engage Manager to provide certain other management services as set forth below. Manager and the Company agree that all new Operators formed or acquired, by Company or any of its direct or indirect subsidiaries will be required to, and will join as Parties to this Agreement by executing a joinder to this Agreement agreeing to be bound by and subject to the terms and restrictions of this Agreement.

1.2 Acceptance. Manager accepts such appointment and agrees that it will (a) perform its duties and responsibilities hereunder in accordance with this Agreement as modified from time to time; and (b) use commercially reasonable efforts to (i) provide the management services set forth in this Agreement in an efficient and cost effective manner, and (ii) comply, in all material respects, with all statutes, ordinances, rules and regulations established by any governmental authority having jurisdiction over the Facilities and which are applicable to the services provided by Manager under this Agreement. Subject to the foregoing and to the other provisions of this Agreement, Manager, without the approval of Company or the Operators (unless such approval is herein specifically required), shall have the exclusive control regarding the operation and management of the Facilities for purposes of furnishing services pursuant to this Agreement (including the exercise of its rights and performance of its duties provided for in Article III hereof); *provided*, *however*, that the Company and/or the Operators, as the case may be, shall retain the ultimate professional and administrative authority and responsibility for the Facilities in accordance with California Code of Regulations, Title 22, Section 70713 or the applicable regulations for the state in which a Facility is located along with all other obligations that the Company and the Operators are required to maintain pursuant to the provisions set forth in Article IV. All matters requiring professional medical judgments shall remain the responsibility of the Facilities' Medical Staff (as defined herein) and allied health professionals, and Manager shall have no responsibility, obligation, or liability whatsoever for such judgments. Without limiting the foregoing, and to the extent the Manager is the same Person acting as the manager of the Company, the Parties hereby agree that, when making any decision or taking, or refusing or refraining from taking, any actions, permitted or required to be made by the Manager under this Agreement, the Manager shall be entitled to consider such interests and factors as it desires without implicating any fiduciary duties or other obligations it may owe as manager of the Company. Any actions taken by the manager of the Company, who is also the Manager under this Agreement (including the withdrawal, resignation or removal of the manager of the Company) will not change or alter, or have any effect on, this Agreement and the terms and conditions set forth herein will control the terms and conditions applicable to the Manager in its capacity as manager under this Agreement.

1.3 Independent Contractor Relationship. It is expressly agreed by the Parties that Manager is at all times acting and performing under this Agreement as an independent contractor of the Company and the Operators, and that no act, commission or omission by the Company, the Operators and/or Manager shall be construed to make or constitute the other its partner, member, joint venturer or associate by virtue of this Agreement. Manager shall be responsible for the compensation and supervision of its own employees used to perform the management services under this Agreement. Manager shall determine the methods, manner and means by which such services will be performed. Manager shall be solely liable for the payment of all salaries, wages, and any unemployment, social security, and other payroll taxes for Manager and its officers and employees, including any related assessments or contributions required by law.

1.4 Licenses; Permits. The Company and/or the Operators, as applicable, shall be the holder of the respective licenses, permits and contracts pertaining to the Facilities, and shall be the "provider" within the meaning of all third-party contracts for the Facilities.

1.5 Interpretation. It is the express intent of the parties that Manager shall at all times during the Term, including any Renewal Term, be an "eligible independent contractor," as defined in Section 856(d)(9)(A) of the Internal Revenue Code of 1986, as amended, and the Treasury regulations promulgated thereunder (an "EIK"), with respect to MPT Picasso TRS and its Affiliates (specifically including Medical Properties Trust, Inc, collectively, "MPT"). In the event that MPT determines, in its sole and absolute discretion, that this Agreement should be amended in any manner in order to maintain such eligible independent contractor status or to comply with provisions of the Code regarding MPT's status as a real estate investment trust, the Parties hereby agree to such an amendment provided that the Parties shall in good faith negotiate the terms of such an amendment, and provided that any such amendment does not adversely affect the rights of Manager in any material respect or any of its direct or indirect owners or impose any additional financial or other material obligations thereon. For purposes of this Agreement, "Affiliate" shall mean, with respect to any individual, corporation, limited liability company, general or limited partnership, unincorporated association, joint venture, governmental entity or another entity or group (each a "Person"), (i) any other Person that, directly or indirectly, controls or is controlled by or is under common control with such Person, or (ii) any other Person that owns, beneficially, directly or indirectly, 50% or more of the outstanding capital stock, shares, voting power, ownership, or other equitable interests of such Person (including any interest represented by any capital stock, convertible or participating debt instruments, membership interest, partnership interest, or any similar interest therein). For the purposes hereof, "control" (including the correlative meanings of the terms "controlled by" and "under common control with"), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, through the ownership of voting securities or otherwise. Whenever the term Affiliate is used to describe MPT's Affiliates, it shall not be deemed to include the Company, the Operators, or any of their direct or indirect subsidiaries. Whenever the term Affiliate is used to describe Operator's Affiliates, it shall be deemed to include only the Manager, the Company, the Operators, and their respective direct or indirect subsidiaries.

ARTICLE II
TERM

The initial term (the "Initial Term") of this Agreement begins on the Effective Date (the "Commencement Date") and shall continue for a period of five (5) years. After the end of the Initial Term, this Agreement shall automatically continue for five (5) additional five (5) year terms (each a "Renewal Term") upon the same terms and conditions as are herein contained unless otherwise agreed or unless one hundred twenty (120) days' written notice is given by Company or Manager to the other Party prior to the end of the Initial Term or prior to the end of any Renewal Term. For purposes of this Agreement, "Term" shall mean the Initial Term and any Renewal Term. For purposes of this Agreement, the "Termination Date" shall be such date on which the final Term expires, or such date on which this Agreement terminates pursuant to Article VI hereof.

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ARTICLE III
RIGHTS AND DUTIES OF MANAGER

During the Term of this Agreement, the Manager will undertake the general day-to-day supervision and management of the Facilities and provide the following services regarding the operation of the Facilities:

3.1 General Responsibilities.

(a) Subject to the control that the Company or Operators must maintain under applicable law or under this Agreement, the Manager shall provide reasonably sufficient and qualified management personnel, with the applicable personnel holding any licensure required by law, to:

(i) Manage, and direct the hospital operations at the Facilities;

(ii) Manage the selection, retention, supervision and discharge of, the Facilities' chief executive officer(s), chief financial officer(s), department heads and all operating and service employees performing services in and about the Facilities *provided that* such persons may be employees of the Manager, Company or the Operators, as applicable and for employees of Company or the Operators the decision to hire or fire such individual shall ultimately lie with the entity employing such individual.

(iii) manage and oversee the Facilities' human resources department(s); provide guidance for personnel policies and guidelines for adoption by the applicable entity; and negotiate, on the Company's behalf and at the Company's expense, with any labor union lawfully entitled to represent the employees at the Facilities, but any collective bargaining agreement or labor contract resulting therefrom must first be approved by the relevant Operator, who shall be the only person(s) authorized to execute the same;

(iv) Subject to the obligations of the Company and Operators set forth in Section 4.6, procure and supervise for the Company and the Operators the appropriate types, categories and amounts of insurance to cover the real and personal property of the Facilities, and to supervise the actions of the staff in securing certificates of such insurance, each as may from time to time be required pursuant to any leases, loan agreements or similar agreements with any lessors or lenders of the Company or the Operators relating to the Facilities (and subject to any other terms and conditions thereof) or otherwise; *provided*, *however*, that the payment to any insurance provider shall be and remain the sole responsibility of the Company or the Operators, and Manager shall have no responsibility whatsoever for such payment;

(v) direct the food service operation at the Facilities;

(vi) supervise the purchasing of all food supplies, pharmaceutical supplies, medical supplies, materials, and equipment incidental to the operation of the Facilities *provided*, *however*, the payment to for these items shall be and remain the sole responsibility of the Company or the Operators, and Manager shall have no responsibility whatsoever for such payment;

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(vii) assist and supervise the Company's, the Operators' and the Facilities' compliance with all appropriate governmental requirements or regulations and with all the Company's, Operators' and Facilities' licenses and certifications and assist with the implementation of corporate compliance plan(s) for adoption by the Operators and/or the Facilities;

(viii) Subject to the provisions of Section 4.4, support and manage the Company's, Operators', and Facilities' information systems for the following areas: Accounts Payable, Contract Management, Payroll, Benefits, Financial Reporting, Marketing, Medical Records, Coding and Billing, and General Ledger;

(ix) supervise the Facilities' marketing department(s) or staff(s) and use commercially reasonable efforts to cause compliance by such Facilities' marketing departments with all applicable federal and state healthcare laws and regulations;

(x) Supervise quality assurance and performance improvement processes and assist the Company and the Operators with implementation of such systems at the Facilities, including risk management, patient/family satisfaction, licensing and accreditation, and program evaluation;

(xi) Subject to the legal authority of the governing body, manage the relationships of the Facilities with any partner, joint venturer, co-owner or similar party of any healthcare facility and to make all decisions and take all necessary or appropriate actions on behalf of the Facility according to the terms of any partnership agreement, joint venture agreement, limited liability company agreement, bylaws or any similar agreements or governing documents with respect to any such partnership, joint venture, limited liability company or similar entity of any kind, it being understood that Manager shall have the exclusive authority with respect to the affiliated subsidiary entities of the Operators;

(xii) Subject to the legal authority of the governing body, handle, on a timely basis, any negotiations, and discussions for the purpose of attempting to cure any defaults that may exist with respect to the Company's or an Operator's contractual or regulatory obligations (provided that the Manager shall have no obligation to cure any monetary default except with funds from the relevant Facility or Operator); and

(xiii) Subject to the Facilities' capital budgets and governing body approvals, supervise the maintenance and the undertaking of all alterations and repairs at each Facility, and to prepare and submit to the Company, on an annual basis no fewer than thirty (30) days prior to the end of the year, a list of, and a budget relating to, capital items to be acquired for, or altered or repaired at the Facilities. Such budget shall include an allocation for capital purchases, alterations and repairs to be undertaken by Manager, in its discretion, and which allocation may be modified by Manager, in its sole discretion, including by substitution, for such year so long as the aggregate budget for such item does not result in a Material Deviation (as defined herein); *provided*, *however*, that such amount may be increased to meet emergency needs if Manager determines such needs are commercially reasonable and provides prior written notice to the Company. Further, in the event capital purchases, alterations or repairs become necessary in order to preserve or procure necessary licenses and permits to operate the Facilities, the

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Company will convene within two (2) days at the request of Manager to authorize such additional expenditures as may be necessary to maintain necessary licenses and permits and approval of such expenses shall not be unreasonably withheld, conditioned or delayed. Notwithstanding, Manager is also authorized to make sure expenditure even without such approval to extent such expenditure is required by law. For purposes hereof, the determination of whether an expenditure constitutes a capital item shall be made in accordance with generally accepted accounting principles ("GAAP"), consistently applied. The term "Material Deviation" shall mean either (a) exceeding any individual line item in such budget by more than twenty percent (20%), or (b) exceeding the Permitted Expenditure Amount by more than ten percent (10%). The term "Permitted Expenditure Amount" shall mean the total expenditure amount of all line items in such budget.

(b) In performing its duties under this Agreement, Manager may rely on the recommendations of the Facilities' medical staff (and its designated committees) and departmental chairpersons (collectively "Medical Staff") relative to the quality of professional services provided by individuals with clinical privileges.

3.2 Financial Responsibilities. Manager shall use commercially reasonable efforts to:

(a) Manage the preparation of an annual operating budget for each Facility based on anticipated revenues and expenses at such Facility for the approval by the Company and endeavor to cause the Facilities to operate within its budget, notifying the Company in a reasonable time period of all material changes or deviations from the budget projections, and making recommendations to the Company concerning such changes or deviations;

(b) Oversee the timely preparation of financial and operating reports with respect to the Facilities, which shall include all reports required by any lender or lessor to the Company and/or the Operators, budgetary comparisons and capital improvement reports and periodic reports summarizing Manager's actions and performance hereunder; *provided*, *however*, that it shall be the sole responsibility of the Company and the Operators to solicit and retain, at the expense of the Company or the Operators, certified public accountants to undertake the year end audit of the Facilities' operations, and to cause said accountants to issue their certified statements of profit and loss and the balance sheet for the Facilities and for Company and Operators for each fiscal year;

(c) Oversee the Facilities' billing office(s) regarding the collection of all amounts due to the Facilities from all sources, including, but not limited to, amounts due from patients, and due under Medicare, Medicaid or other governmental or private insurance programs (the "Receivables"), and to retain on behalf of Company or an Operator, at the Facilities' expense, counsel to undertake litigation or similar action before any court, dispute resolution service, administrative agency or board in order to collect any of the Receivables;

(d) Review, when appropriate, the reserve requirements of Operator's lenders or governmental agencies with jurisdiction over the Facilities in an effort to assist in ensuring that all such reserve requirements are being met on a timely basis;

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(e) Supervise the preparation and filing of all material reports, statements of affairs or records required by any federal, state or local government, or by any agency thereof, with regard to the operations of the Facilities as may be necessary to obtain reimbursements or funds therefrom, provided that the retention of any third party for the preparation of such reports shall be an expense of the Facilities;

(f) Review the financial performance and the operations of any partnership, joint venture, or similar arrangements in which the Facility may be a party, member, or co-owner of any sort;

(g) Oversee the payroll records for the Facilities' staff(s);

(h) Oversee the payment of, all accounts payable, and all amounts owing, by the Facilities;

(i) To the extent such Facility does not have an existing depository Fund, select an appropriate financial institution to serve as depository for such Facility's' funds;

(j) Recommend to the Operator appropriate parties to sign checks on behalf of each Facility and upon Operator's designation of such individuals obtain proper authorization for said parties to sign checks on behalf of each Facility; and

(k) At the direction of the Company and the applicable Operator, review, oversee and negotiate the terms of any working capital or other similar loan agreements and related debt instruments with respect to the Company or any Operator which pertains to a Facility.

3.3 Third Party Contracts. Subject to the legal authority of the Facility's governing body, Manager, in the performance of its duties under this Agreement, may review, negotiate, and enter into (on behalf of the any Operator or Facility, as applicable) contracts with third parties regarding certain services for the Facilities. Such services may include, but shall not be limited to, therapy services, auditing services, coding services, lab services, ancillary services, insurance and brokerage services, food service, linens and other supplies, accounting services, consulting services, marketing, and bookkeeping services. Prior to entering into contracts for and on behalf of any of the Operators or Facilities with such persons that require or are likely to result in an annual expenditure that is not included in the annual operating budget of such Facility, Manager shall provide the Company and Operators with such information regarding such contracts as the Company or Operators may reasonably request and shall obtain all legally required Facility approvals. Such contracts for annual expenditures that are not included in the annual operating budget for such Facility or Operator shall be subject to the approval of the Company and the Facility governing body, which approval shall not be unreasonably withheld, conditioned or delayed.

3.4 Legal Matters. Manager will: (a) prepare or coordinate with outside legal counsel for the preparation of documents for the operation of the Facilities, including managed care contracts, supplier/vendor contracts, service contracts, equipment leases and other ancillary contracts; (b) prepare or coordinate licensure and other regulatory applications; (c) coordinate all litigation involving the Facilities with local counsel or the insurance company; (d) coordinate

with local counsel on local law issues affecting the Facilities; (e) process working capital requests and apply for, negotiate and obtain letters of credit; and (f) coordinate with local counsel to provide counsel to the Facilities' human resources department(s). The Parties acknowledge that all outside counsel expenses under this Section shall be an expense of the Company and/or Operators and that Manager shall retain the right to select such outside legal counsel or local counsel. Without the Company's or any Operator's prior written consent, Manager may initiate, settle, or otherwise dispose of litigation relating to the Facilities where the claim asserted is less than or equal to One Million Dollars ($1,000,000). Notwithstanding the foregoing, nothing shall limit Manager's ability to defend, settle or otherwise dispose of litigation against Manager in its individual capacity and not as an agent of the Company or the Operators.

3.5 Other Management Services. Manager shall have the authority to provide the applicable Parties and Facilities with other services the Parties determine are necessary or appropriate, including ongoing consulting and training in key areas, such as documentation, management systems, quality assurance, staffing efficiency and expense control, and risk management, provided that the retention of any third party to provide such services shall be an expense of the Facilities. For the avoidance of doubt, Manager's duties to the Company and/or the Operators shall be solely limited to services in support of or relating to the Facilities. Notwithstanding anything herein to the contrary, in no event shall Manager be delegated or otherwise responsible for any roles, responsibilities, or obligations in support of or relating to (a) Prospect Health Plan, Inc.; or (b) the provision of administrative or management services by any Affiliate of the Company to medical groups, independent practice associations, or similar provider organizations that are not Facilities.

3.6 Payment of Expenses. All debts, obligations, other liabilities and expenditures of every kind required or permitted by Manager under this Agreement, including, without limitation, any costs incurred in connection with the operation of the Facilities, are for the Company's or the applicable Operator's account, and the Company and the applicable Operator on account of which such expenditures were incurred shall be jointly and severally liable for all such expenditures ("Company Expenditures"), except for Manager's Staff Services (described below). For the avoidance of doubt, the Operators shall not be jointly and severally liable between themselves for Company Expenditures, and each separate Operator shall only be jointly and severally liable with the Company for Company Expenditures incurred on account of such Operator. Manager is authorized by the Company to pay all Company Expenditures from funds from the Company, Operators, and the Facilities. The Company and the Operators, as applicable, shall pay directly any Company Expenditures not paid from funds from the Facilities, and neither Manager nor any of its Affiliates shall be obligated to advance any of its own funds to or for the account of the Company, any Operator or Facility, or to incur any liability on behalf of the Company, any Operator or Facility, unless the Company or an Operator, as applicable, shall have furnished Manager with funds necessary for the discharge thereof prior to incurring such liability. Manager's "Staff Services", which are not reimbursable by the Company and the Operators, are exclusively limited to the salaries and benefits of Manager's employees, officers and home office staff, as well as Manager's home office overhead expenditures, including but not limited to lease expenditures, accountant and/or audit expenses, insurance policies, legal fees, third party accounts, payroll processing and human resources administration.

3.7 Serving as Officers and Directors. During the Term of this Agreement (but subject to the limited liability company agreement of the Company (as amended, restated, modified, or amended and restated, the "LLC Agreement") and applicable law, including duties that an Operator or Facility must retain under applicable law), Manager may appoint officers, directors, and managers with respect to the governing bodies of the Operators and Facilities (which officers, directors and managers may consist of employees, officers, directors, or managers of Manager). The Company, the Operators, and their affiliated operating subsidiaries, including, as applicable, Facilities (each individually and on behalf of their respective officers, directors, managers, and equity owners) and the Manager, (individually and on behalf of its officers, directors, managers, and equity owners) each waive any conflict of interest in connection therewith, though such conflicts of interest shall be disclosed in accordance with Facility policies.

3.8 Reserved.

3.9 Insurance of Manager.

(a) Manager shall procure appropriate general liability insurance coverage for Manager and its employees, and the cost of such insurance coverage (if any) shall be included within the Management Fee (as defined herein). Such general liability insurance coverage shall be provided under a policy that is issued by an insurer with at least an "A-" rating from A.M. Best Company that is properly licensed and qualified to do business in the State in which the Facility is located, and shall name as additional insured the Company and the Operators (and any entities affiliated therewith). No insurance may be maintained through "self-insurance" unless approved in writing in advance by the Company and the Requisite Series A-1 Holders (as such term is defined in the LLC Agreement). Manager shall use commercially reasonable efforts to ensure that all entities retained or hired by it maintain appropriate insurance coverage.

(b) Manager shall submit to the Company a Certificate of Insurance ("COI") evidencing the coverage required herein prior to the Commencement Date. The COI shall contain an unqualified requirement that the insurance company provide Company with thirty (30) days' written notice of any cancellation or lapse of said policy or any change to Company's additional insured status of said policy, unless related to the failure to pay any premium, in which event the insurance company shall provide Company with ten (10) days' written notice. All policies must contain a waiver of all rights of subrogation against Company.

ARTICLE IV
RIGHTS AND DUTIES OF COMPANY

During the Term of this Agreement:

4.1 Cooperation with Manager. The Company shall, and shall cause, the Operators and Facilities to promptly and fully cooperate in all reasonable respects with Manager in operating and supervising the operations of the Facilities.

4.2 Operating Capital. The Company shall use commercially reasonable efforts to ensure that the Facilities have access to a level of funding reasonable and necessary for the

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operation of the Facilities on a sound financial basis (including the payment of management fees and reimbursable expenses owed to Manager).

4.3 Capital Improvements. The Company shall, and shall cause the Operators to, ensure that the Facilities have access to working capital reasonable and necessary to make all necessary capital improvements to the Facilities in order to maintain and continue standards of operation of the Facilities as rehabilitation and long term acute care facilities, as applicable.

4.4 Support Operations. The Company shall, and shall cause the Operators to, provide (at no additional cost to Manager) and be responsible for administrative services, staffing, payroll, information technology systems, financial and accounting systems (including but not limited to billing, accounts payable, financial reports, and general ledger), and the signing of any reports or filings for the Facilities.

4.5 Reserved.

4.6 Insurance of Company and Operators.

(a) The Company shall, and shall cause each of the Operators to, maintain, at their sole expense, professional liability and general liability insurance, Workers Compensation, Property, Directors & Officers Liability, Employment Practices Liability, Managed Care E&O, Cyber Liability, Crime, Fiduciary and other customary policies as may be required by applicable law or contracts to which they are a party, which insurance shall cover the Company, the Operators, and their employees or anyone engaged by or acting on behalf of any of them at the Facilities. Such insurance coverages shall be provided an insurer with at least an "A-" rating from A.M. Best Company that is properly licensed and qualified to do business in the State in which the Facility is located. No insurance may be maintained through "self-insurance" unless approved in writing in advance by Manager, which approval will not be unreasonably withheld, conditioned or delayed. The Company shall name Manager as an additional insured in connection with such insurance.

(b) The Company shall submit to Manager a COI evidencing the coverage required herein prior to the Commencement Date. The COI shall contain an unqualified requirement that the insurance company provide Manager with thirty (30) days' written notice of any cancellation or lapse of said policy or any change to Manager's additional insured status of said policy, unless related to the failure to pay any premium, in which event the insurance company shall provide Manager with ten (10) days' written notice. All policies must contain a waiver of all rights of subrogation against Manager.

4.7 On-Site Management Facilities. As part of the consideration for Manager's services provided under this Agreement, the Company shall cause the Operators to provide adequate space at the Facilities for a management office, for the use of Manager to conduct the business of the management of the Facilities.

4.8 Responsibility of Company and Operators. Notwithstanding the authority granted to Manager in this Agreement, the governing body of the Facilities, including the Medical Staff of the Facilities, as the case may be, will at all times retain sole and ultimate control and authority over patient care (including the provision of all medical, clinical or professional

services rendered by or on behalf of the Facilities and Operators or such providers at the Facilities and otherwise); medical, clinical or professional services (including professional judgment relating thereto); the Facilities (including, among other things the all Facility assets and operations); and such other duties and responsibilities that must be retained under applicable law, each case to the fullest extent as may be required by applicable law, including but not limited to:

(a) The Operators shall have the sole and ultimate responsibility to be and remain the licensee of such Facilities and, as such, the Company and Operators shall be fully liable and legally accountable and responsible at all times to all patients and governmental organizations for all patient care and funds received, and for all other aspects of the operation and maintenance of the Facilities. In this regard, it is specifically emphasized that during the Term, the Company and the Operators shall be and remain fully liable and legally accountable and responsible to the governments of the United States and the applicable state where the Facility is located, and the agents of said governments, with respect to all matters concerning the Facilities' continued participation in the Medicare and Medicaid programs under Title XVIII and Title XIX of the Social Security Act (42 U.S.C. § 1395 et seq.; 42 U.S.C. § 1396 et seq.);

(b) Each Facility's governing body shall remain solely responsible for all obligations as set forth in 42 C.F.R. § 482.12 and California Code of Regulations, Title 22, Section 70713 or the applicable regulations for the state in which a Facility is located; and

(c) It is and will remain the ultimate responsibility of each Operator (or the board of the Medical Staff of a Facility, as the case may be) to approve all decisions to credential, recredential, appoint, grant clinical privileges to and discipline such Facility's Medical Staff in accordance with the medical staff bylaws and applicable law.

ARTICLE V
COMPENSATION

5.1 Management Fees.

(a) Upon the terms and subject to the conditions contained in this Agreement, the Company and/or the Operators shall pay Manager the management fees set forth on Schedule A (the "Management Fee") as consideration for the services rendered by Manager pursuant to this Agreement.

(b) The pro-rated portion of the Management Fee shall be payable monthly in arrears on the last business day of each month, or earlier, in the Company's sole discretion. Manager may invoice the Company on a monthly basis; *provided*, *however*, that the Management Fee shall be due and payable by the Company and/or the Operators as described herein regardless of whether an invoice is received.

(c) The Parties acknowledge that the components of the Management Fee associated with Foothill Regional Medical Center are based on Gross Patient Revenue (as defined in Schedule A) in accordance with monthly internally prepared financial statements that may subsequently be subject to adjustment, on periodic basis. Manager agrees to provide to the Company a quarterly summary and reconciliation of the Management Fee within thirty (30) days after the end of each calendar quarter. In the event the Company is entitled to a reimbursement

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on account of the total Management Fee paid by the Company to Manager in the previous quarter, then Manager shall deliver to the Company with such accounting, the total amount of reimbursements so owed to the Company. If the Company underpaid Manager, then within thirty (30) days after the receipt of the accounting by Manager, the Company shall pay Manager the amount of the underpayment.

(d) The Management Fee may be subject to adjustment effective as of the first (1st) anniversary of the Effective Date, and thereafter from time to time as the Parties shall agree, to reflect changes in the scope and/or nature of the services provided by Manager hereunder and/or the fair market value thereof, and that any such adjustment in the Management Fee shall be confirmed by written agreement of the Parties. Notwithstanding anything herein to the contrary, the Parties agree and acknowledge that, to the extent the Company and/or any Operator is able to provide any of the services to otherwise be provided by Manager pursuant to Article III in lieu of Manager, the Management Fee shall be adjusted to reflect the scope and/or nature of the services to be actually provided by Manager going forward and/or the fair market value thereof, and that any such adjustment in the Management Fee shall be confirmed by written agreement of the Parties.

5.2 Reimbursable Costs. In addition to the Management Fee, Manager shall be reimbursed for any reasonable out of pocket costs paid by Manager for the travel, lodging and meals expense of the Manager's home office staff who travel to the Facilities, and for any Company Expenditures or other amounts to which it is entitled pursuant to Section 3.6 or any other provisions hereof. Manager will provide receipts or other appropriate evidence of these expenses prior to Manager withdrawing such reimbursements from funds from the Facilities. In the event the funds from the Facilities are not sufficient to pay such reimbursements, the Company and/or the Operators shall pay to Manager any deficiency within five (5) days after receipt of Manager's written request therefore. If Manager is required by law to obtain a license in any jurisdiction in which the Company operates and in which Manager is not currently so licensed, the Company agrees to reimburse Manager for all reasonable expenses related thereto.

ARTICLE VI
TERMINATION RIGHTS

6.1 Termination by the Company. If at any time during the Term any of the following events shall occur and not be remedied within the applicable period of time herein specified (if any), then the Company shall have the right to terminate this Agreement immediately upon written notice:

(a) If at any time during the Term, Manager shall fail in any material respect to make any payment of any monetary obligation due and payable by the Manager pursuant to this Agreement (other than a failure to make any such payment resulting from a default by the Company or any Operator under this Agreement or otherwise caused by the Company or any Operator) within five (5) days following receipt by Manager of written notice thereof from any other Party hereto (*provided, however*, in no event shall the other parties hereto be required to give more than two (2) such written notices hereunder during any consecutive twelve (12) month period), then Company shall have the right to terminate this Agreement immediately upon written notice.

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(b) If at any time during the Term, Manager shall, in any material respect, fail to comply with, observe or perform any material non-monetary covenant, agreement, term or provision of this Agreement required to be complied with, observed, or performed by Manager (other than Section 6.1(a) above), and such material failure shall continue for a period of sixty (60) days after receipt of written notice thereof by the Company to Manager, unless such failure cannot be cured within a period of sixty (60) days, in which case such failure shall not be deemed to continue so long as Manager commences to cure such failure within the sixty (60) day period and Manager proceeds thereafter with due diligence and good faith to complete the curing.

(c) If at any time Manager shall apply for or consent to the appointment of a receiver, trustee, or liquidator such party, as applicable, or of all or a substantial part of its assets, file a voluntary petition in bankruptcy or admit in writing its inability to pay its debts as they become due, make a general assignment for the benefit of creditors, file a petition or any answer seeking reorganization or arrangement with creditors or take advantage of any insolvency law, or if an order, judgment or decree shall be entered by a court of competent jurisdiction, on the application of a creditor, adjudicating such party bankrupt or appointing a receiver, trustee, or liquidator of such party with respect to all or a substantial part of the assets of such party, and such order, judgment or decree shall continue unstayed and in effect for any period of sixty (60) consecutive days, then the Company shall have the right to terminate this Agreement immediately upon written notice.

(d) Notwithstanding anything herein to the contrary, the Company may terminate this Agreement at any time during the Term if the Manager (as such term is defined in the LLC Agreement) of the Company and the Requisite Series A-1 Holders (as such term is defined in the LLC Agreement) approve the termination of this Agreement.

6.2 Termination by Manager. If at any time during the Term any of the following events shall occur and not be remedied within the applicable period of time herein specified (if any), then the Manager shall have the right to terminate this Agreement immediately upon written notice:

(a) The Company and/or the Operators shall fail to keep, observe, or perform any material covenant, agreement, term or provision of this Agreement required to be kept, observed, or performed by any of them (except as described in Section 6.2(b) below) and such failure shall continue for a period of thirty (30) days after written notice thereof by Manager to Company, unless such failure cannot with due diligence be cured within a period of thirty (30) days (in Manager's reasonable discretion), in which case such failure shall not be deemed to continue so long as the Company and/or the Operators commence to cure such failure within the thirty (30) day period and proceeds with due diligence to complete the curing thereof within sixty (60) days after receipt by the Company and/or the Operators (as applicable) of a notice of default (or such longer period as is reasonably required to effect such cure if Company and/or the Operators (as applicable) are diligently proceeding to do so);

(b) The Company and/or the Operators shall fail to make any payment required hereunder and such default shall continue for a period of five (5) business days after written notice from Manager to Company (*provided, however*, in no event shall the other

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Manager be required to give more than two (2) such written notices hereunder during any consecutive twelve (12) month period);

(c) The Facilities or any material portion thereof shall be materially damaged or destroyed by fire or other casualty and (i) the Company shall fail to undertake to repair, restore, rebuild, or replace any such material damage or destruction within forty-five (45) days after such fire or other casualty, or shall fail to complete such work diligently, and (ii) Company shall fail to permit Manager to undertake to repair, restore, rebuild, or replace, at Company's expense, any such material damage or destruction within forty-five (45) days after such fire or other casualty;

(d) The Company and/or any of the Operators shall apply for or consent to the appointment of a receiver, trustee, or liquidator such party, as applicable, or of all or a substantial part of its assets, file a voluntary petition in bankruptcy or admit in writing its inability to pay its debts as they become due, make a general assignment for the benefit of creditors, file a petition or any answer seeking reorganization or arrangement with creditors or take advantage of any insolvency law, or if an order, judgment or decree shall be entered by a court of competent jurisdiction, on the application of a creditor, adjudicating such party bankrupt or appointing a receiver, trustee, or liquidator of such party with respect to all or a substantial part of the assets of such party, and such order, judgment or decree shall continue unstayed and in effect for any period of sixty (60) consecutive days; or

6.3 Survival Rights Upon Termination. If either Party exercises its option to terminate pursuant to this Article VI, each Party shall account for and pay to the other all sums due and owing pursuant to the terms of this Agreement within thirty (30) days after the effective date of termination. Any term or provision hereof relating to a disputed amount sum shall survive the termination hereof until the final resolution of the applicable dispute. Without limiting the generality of the foregoing, within thirty (30) days after the effective date of termination of this Agreement, Company and the Operators shall pay to Manager all accrued fees and reimbursable expenses of Manager, together with all accrued and unpaid interest thereon. All other rights and obligations of the Parties under this Agreement shall terminate (except as set forth in Article VII, Article VIII, Article XII, Section 6.3, Section 6.4, and Section 6.5 hereof).

6.4 Cooperation After Termination. Upon the expiration or earlier termination of this Agreement, Manager shall cooperate with the Company and use commercially reasonable efforts to effect an orderly transition to avoid any interruption in the rendering of the above-described services to the Facilities (including, continuing to provide management services for three (3) months following expiration or termination on the same compensation basis, provided, that, all fees then owing to Manager are paid and the fees for such three (3) month period is placed in an escrow account reasonably satisfactory to the Parties, which escrowed amount will be used solely to compensate the Manager pursuant hereto). In the event of such expiration or earlier termination, Manager shall promptly surrender to Company all keys, contracts, other documents and records maintained by Manager in connection with the operations of the Facilities as soon as practical, but in no event later than the later of thirty (30) days after the Termination Date or the date that Manager ceases providing services under this Agreement. In addition, upon the expiration or earlier termination of this Agreement, Manager shall return to the Company or the Operators, as appropriate, all original electronic and paper documents and all copies thereof,

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except for one copy which Manager may maintain for record purposes only, which relate in any way to the performance of services hereunder, and the operation and maintenance of the Facilities in the possession, custody or control of Manager. For any requests of Manager made after the Termination Date that do not involve obligations of Manager already required under this Agreement but not as yet completed prior to the Termination Date, Manager will be promptly reimbursed by the Company for any of Manager's reasonable and documented out-of-pocket costs and expenses (including but not limited to the reasonable expenses of Manager's travel expenses and reasonable, fees, disbursements and other reasonable and documented charges of legal counsel to Manager) and will be promptly and reasonably compensated by the Company for any material efforts made at the request of the Company.

6.5 No Personal Liability. The Parties agree that the liability of Company and Manager under the terms of this Agreement shall be limited solely to the assets of Company and the Operators, on the one hand, and the Manager, on the other hand, it being intended that no officers, manager(s), director(s) or members of the Company or officers, members or managers of the Manager shall be deemed personally liable for any judgment, costs or damages incurred by Manager or the Company hereunder.

ARTICLE VII
NO LIABILITY; INDEMNIFICATION; EXPENDITURE LIMITATION

7.1 Indemnification of Company By and Liability of Manager.

(a) If and only to the extent not otherwise covered by insurance, the Manager hereby agrees to defend, indemnify, protect and hold harmless the Company, the Operators and each of their respective members, Affiliates, and its and their respective agents, officers, directors, managers, and employees (the "Company Indemnitees"), from and against any and all liability, claims, loss, cost, damage or expense (including, without limitation, reasonable attorneys' fees and expenses and court costs, costs and expenses of defense, appeal and settlement of any proceedings instituted against any of such Company Indemnitees and all reasonable costs of investigation in connection therewith) incurred by any of them in connection with, by reason of, or arising out of any third party claims which are primarily caused by the Manager's fraud or willful misconduct in connection with the performance of its duties or obligations under this Agreement. The Manager's obligations under this Section 7.1(a) shall survive the expiration or earlier termination of this Agreement.

(b) Subject to Section 7.1(a) hereof, Manager assumes no liability whatsoever for any acts, omissions or delinquencies of the Company or any Operator or any of their members, managers, Affiliates, agents, officers, directors or employees, or any previous operators of the Facilities, or any previous property managers or other agents of either the Company or any Operator. Subject to Section 7.1(a) hereof, Manager assumes no liability for known or previously unknown violations of environmental, healthcare laws or other laws or regulations which become known during the Term. Any such environmental violations or hazards or healthcare violations or other violations of law discovered by Manager shall be brought to the attention of the Company and/or the Operators in writing and, except to the extent caused by a grossly negligent act or material omission of Manager, the Company and/or the Operators shall be responsible for such violations or hazards. In addition, except to the extent

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caused by a negligent act or omission of Manager, and subject to Section 7.1(a) hereof, Manager assumes no liability for any failure of computer hardware or software of miscellaneous computer systems to accurately process data (including, but not limited to, calculating, comparing, and sequencing) or for any damages arising from, incident to, or in connection with, the pre-existing conditions of the structure, equipment, or the environment of the Facilities.

(c) Further for the avoidance of doubt, Manager makes no, and hereby disclaims any, warranties whatsoever, including, without limitation, warranties of merchantability or fitness for a particular purpose or implied warranties, with regard to any goods or third-party services purchased or used by the Company, the Operators or the Facilities under this Agreement. The Company and Operators agree that neither the Company nor an Operator will make any claim against Manager for defects in any such product or service, for breach of warranty, or for any other claim arising out of any such product or services purchased or used by the Company, the Operators or the Facilities under this Agreement.

7.2 Indemnification of Manager by the Company and the Operators. The Company and the Operators, on a joint and several basis, agree to defend, indemnify, protect and hold harmless Manager and its members, Affiliates and its and their respective agents, officers, directors, managers and employees (the "Manager Indemnitees") to the greatest extent permitted by law, including, without limitation, from and against any and all liability, claims, loss, cost, damage or expense (including, without limitation, reasonable attorneys' fees and expenses and court costs, costs and expenses of defense, appeal and settlement of any proceedings instituted against any of such Manager Indemnitees and all reasonable costs of investigation in connection therewith) incurred by any of them in connection, by reason of, or arising out of: (a) Manager's performance of services or undertaking of responsibilities under this Agreement, unless (and then, only to the extent) caused by Manager's fraud or willful misconduct, or (b) any damage to property, or injury or death to persons, occurring in or with respect to any of the Facilities, unless (and then, only to the extent) caused by Manager's fraud or willful misconduct. The Company and the Operators shall pay to Manager all indemnifiable expenses as they are incurred by any Manager Indemnitee (the "Expense Advancement Obligation") in connection with any proceeding in advance of the final disposition of such proceeding; *provided*, that Manager shall be obligated to repay the amount of such expenses advanced to Manager if it is finally determined by a court of competent jurisdiction that Manager was not entitled under this Agreement to indemnification. Without limitation on their Expense Advancement Obligation, the Company and the Operators shall be permitted to satisfy their obligations under this Section 7.2 with any available insurance proceeds. No Manager Indemnitee shall be liable pursuant to this Agreement (a) for the acts, receipts, neglects, defaults or omissions of any other Manager Indemnitee or agent of the Company or any Operator, (b) for any loss on account of defect of title to any property of the Company or any Operator, (c) on account of the insufficiency of any security in or upon which any money of the Company or any Operator shall be invested or (d) for any loss incurred through any bank, broker or other similar person or entity; *provided*, that, the foregoing limitation shall not be applicable to the liability of Manager pursuant to the LLC Agreement or any other Transaction Documents (as defined therein). The Company's and the Operators' obligations under this Section 7.2 shall survive the expiration or earlier termination of this Agreement.

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7.3 Control of Defense of Indemnifiable Claims. The indemnified party shall promptly notify the indemnifying party in writing of any such claim and shall provide the indemnifying party with all available evidence in its possession to enable the indemnifying party to defend such claim; *provided, however*, that the failure to give any such notice shall not disqualify any indemnified party from the right to indemnification unless such failure is adversely prejudicial to the indemnifying party. The indemnifying party shall have the sole and exclusive right to select counsel and shall pay all expenses of the defense, including, without limitation, attorneys' fees and court costs. If necessary, the indemnified party shall join as a party to the suit, but shall be under no obligation to participate except to the extent that such participation is required as a result of being a named party to the suit. The indemnified party shall offer reasonable assistance to the indemnifying party in connection therewith at no charge to the indemnifying party except for reimbursement of reasonable out-of-pocket costs and expenses incurred by the indemnified party in rendering such assistance. The indemnified party shall have the right to participate and be represented in any such suit by its own counsel at its own expense. The indemnifying party shall not settle any such suit if such settlement would have an adverse effect on the rights of the indemnified party, including imposing a burden on the indemnified party or if the indemnifying party is not responsible for or does not pay all amounts owed in relation to such settlement, in each case, without obtaining the prior written consent of the indemnified party, which consent shall not be unreasonably withheld, conditioned or delayed. It is the intention of the Parties that, in the event that the indemnifying party wrongfully denies its indemnification obligations hereunder, and the indemnified party is required to enforce the indemnifying party's obligation hereunder, then the indemnified party shall be entitled to recover its reasonable attorneys' fees, expenses and costs incurred therein.

7.4 Limitation of Expenditure Obligation. Notwithstanding anything to the contrary in this Agreement, but excluding Manager's indemnity obligations set forth in Section 7.1 above, Manager shall have no obligation whatsoever to make any advance to or for the account of the Company or any Operator or Facility, or to pay any amount contemplated for, or required of, Manager under this Agreement, or to incur any expenditure obligation – whether ordinary or capital – except to the extent that funds are available for such purpose (in Manager's reasonable judgment) either from capital funds provided by Company, the Operators or otherwise from the Facilities' funds. Moreover, if Manager so requests, from time to time, the Company shall, and cause the Operators to, sign, as principal, any contract or agreement which Manager is authorized or required to execute pursuant to this Agreement to evidence that Manager is acting solely as Company's and the Operator's agent and not as principal.

7.5 COMPANY'S AND OPERATORS' REMEDIES. AS A MATERIAL PART OF THE CONSIDERATION TO MANAGER, THE COMPANY AND THE OPERATORS AGREE THAT, AND EXCEPT FOR COMPANY'S, OPERATORS' AND THEIR AFFILIATES RIGHTS, REMEDIES AND RECOVERIES UNDER SECTION 7.1 OF THIS AGREEMENT, IN NO EVENT WILL MANAGER OR ITS MEMBERS, PARTNERS, EQUITY HOLDERS, MANAGERS, DIRECTORS, OFFICERS, EMPLOYEES OR AFFILIATES, OR SUCH AFFILIATES' SHAREHOLDERS, MEMBERS, PARTNERS, EQUITY HOLDERS, MANAGERS, DIRECTORS, OFFICERS, OR EMPLOYEES, OR ANY SUCCESSORS OR ASSIGNS BE LIABLE TO COMPANY, OPERATORS OR ANY THIRD PARTY UNDER OR IN CONNECTION WITH THIS AGREEMENT OR ITS SUBJECT MATTER, UNDER ANY LEGAL OR EQUITABLE THEORY, INCLUDING, WITHOUT

LIMITATION, TORT (INCLUDING NEGLIGENCE), STRICT LIABILITY, AND OTHERWISE, FOR ANY CONSEQUENTIAL DAMAGES, INCIDENTAL DAMAGES, INDIRECT DAMAGES, EXEMPLARY DAMAGES, SPECIAL, ENHANCED DAMAGES, OR PUNITIVE DAMAGES, REGARDLESS OF WHETHER SUCH PERSONS WERE ADVISED OF THE POSSIBILITY OF SUCH LOSSES OR DAMAGES OR SUCH LOSSES OR DAMAGES WERE OTHERWISE FORESEEABLE, AND NOTWITHSTANDING THE FAILURE OF ANY AGREED UPON OR OTHER REMEDY OF ITS ESSENTIAL PURPOSE AND COMPANY HEREBY WAIVES ALL CLAIMS AGAINST THE FOREGOING ASSUMES ALL RISK RELATING TO THERETO, KNOWN AND UNKNOWN.

ARTICLE VIII
PROTECTION OF PROPRIETY INFORMATION

8.1 Property Interests/Confidentiality of Manager's Protected Information.

(a) Manager's Protected Information. All information concerning the Manager's businesses or assets that is not generally known to the public, including, but not limited to, the technical systems, methods, policies, procedures and controls, copyrights, trade names, trademarks, service marks, "know-how" and all other intellectual property rights related thereto employed by the Manager, along with the processes, procedures, and the information and materials compiled or prepared by or on behalf of Manager in connection with Manager's management of healthcare facilities, including without limitation marketing plans of Manager, business plans and strategies of Manager, pricing information of Manager, information on competition of Manager, demographics of relevance to Manager, suppliers and providers of services of Manager, structure, status and activities of the Manager; organizational documents of the Manager; books, records, tax returns, appraisals and similar documents of the Manager; financial and performance statements of the Manager; and financing arrangements of Manager (collectively "Manager Protected Information") are and shall remain the confidential property of the Manager and are not, at any time, to be utilized, distributed, copied or otherwise employed or acquired by the Company and/or the Operators and/or the Facilities, except as authorized in writing by the Manager or except as may be required by law. Manager Protected Information used in this Section 8.1 does not include any information collected or prepared by Manager exclusively for the benefit of or on behalf of the Company and/or the Operators.

(b) Ownership. The Manager shall own all rights, title and interest, including but not limited to all intellectual property rights, in and to Manager Protected Information. To the extent that ownership in such Manager Protected Information does not automatically vest in Manager, the Company on behalf of itself and the Operators and Facilities hereby transfer and assign to Manager, as applicable, all rights, title and interest which the Company or an Operator may have in the Manager Protected Information. The Company shall, and shall cause the Operators and Facilities to, complete and execute any other documents reasonably requested by Manager to confirm the conveyance of all Manager Protected Information.

(c) Survival. The provisions of this Section 8.1 shall survive the expiration or sooner termination of this Agreement.

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8.2 Property Interests/Confidentiality of Company's and Operators' Protected Information.

(a) Work Product. "Work Product" means all work, ideas, inventions, discoveries, processes and improvements, computer programs, specifications, operating instructions, notes, technical drawings, designs and all related documentation (whether or not patentable) created or first reduced to practice by Manager, alone or with others, in providing the services to the Company and the Operators under this Agreement and exclusively used in the provision of the services and not at any other location by Manager.

(b) Owner of Medical Records, Company Protected Information and Work Product.

(i) "Medical Records" mean all information concerning the healthcare services provided to an individual in any aspect of healthcare delivery by the Operator in a Facility, and/or documenting healthcare or health status of an individual. "Company Protected Information" means all information concerning the Company's and the Operators' businesses or assets that is not generally known to the public, including, but not limited to, information relating to the assets, business, operations, management, performance, structure, status and activities of the Company and the Operators; organizational documents of the Company and the Operators; books, records, tax returns, appraisals and similar documents of the Company and the Operators; financial and performance statements of the Company and the Operators; and business plans and strategies of the Company and the Operators. The Company and the Operators shall own all rights, title, and interest, including but not limited to all intellectual property rights, in and to all Company Protected Information and Work Product. To the extent that ownership in such Company Protected Information and Work Product does not automatically vest in Company or an Operator, Manager hereby transfers and assigns to Company and/or the Operator, as applicable, all rights, title, and interest which Manager may have in such Company Protected Information and Work Product. Manager agrees to complete and execute any other documents reasonably requested by Company to confirm the conveyance of all Company Protected Information and Work Product.

(c) Use and Disclosure of Medical Records, Protected Information and Work Product. Manager acknowledges that it will be given access to Medical Records, Company Protected Information and Work Product in connection with Company's and the Operators' businesses and their operations, and each of the Company and Operators acknowledges that it will be given access to Manager Protected Information in connection with Manager's businesses and their operations. Each Party shall comply with all applicable laws concerning the privacy, security and confidentiality of Medical Records. Each of the Parties further acknowledges that the other Parties have devoted and will devote substantial time, money and effort in the development of Manager Protected Information, Company Protected Information and Work Product (as applicable) and in maintaining the proprietary and confidential nature thereof. Each of the Parties expressly acknowledges and agrees that the Manager Protected Information, Company Protected Information and Work Product (as applicable) is proprietary and confidential and that if any of the Manager Protected Information, Company Protected Information and Work Product (as applicable) were used or imparted to a person or entity that is in competition with Manager, Company and/or the Operators (as applicable), such disclosure would result in

hardship, loss, irreparable injury and damage to Manager, Company and the Operators (as applicable), the measurement of which would be difficult, if not impossible, to determine. Accordingly, each of the Parties expressly agrees that the other Parties have a legitimate interest in protecting the Manager Protected Information, Company Protected Information and Work Product (as applicable) and their business goodwill, and that it is necessary for them to protect their businesses from such hardship, loss, irreparable injury and damage. Each of the Parties agrees that it will use commercially reasonable efforts and take steps to protect and safeguard the Manager Protected Information, Company Protected Information and Work Product (as applicable), that such Party will not, directly or indirectly, use, disclose, distribute, or disseminate to any other person, entity, business or corporation or otherwise employ the Manager Protected Information, Company Protected Information and Work Product (as applicable), either for such Party's own benefit or for the benefit of another, except as required in the ordinary course of Manager's engagement by Company, upon the approval of the owner of such information or as required by law. Each of the Parties shall use such Manager Protected Information, Company Protected Information and Work Product (as applicable) only in the course of its duties to the other Parties under this Agreement and for no other purpose.

(d) Duty Not to Use or Disclose After Termination. The confidentiality obligations set forth in Section 8.1 and Section 8.2 shall continue as long as the Company Protected Information, Manager Protected Information and Work Product and/or records remain confidential (except that the obligations shall continue if the Company Protected Information, Manager Protected Information or Work Product are disclosed and lose their confidential nature through improper means, including, but not limited to, any breach of this Agreement or otherwise) and shall survive the termination of this Agreement.

(e) Ownership of Records and Copies. Any and all documents, records and copies of records, including, but not limited to, hard copies or copies stored on a computer or disk, e-mail, databases, etc. pertaining to Medical Records, Company Protected Information and Work Product that are made or received by Manager in the course of its engagement with Manager shall be deemed to be the property of Company or the Operators. Any and all documents, records and copies of records, including, but not limited to, hard copies or copies stored on a computer or disk, e-mail, databases, etc. pertaining to Manager Protected Information that are made or received by the Company or an Operator in the course of its engagement with Manager shall be deemed to be the property of Manager.

(f) Return Upon Termination. Upon termination of this Agreement for any reason, (i) Manager shall deliver to Company all documents, records and copies of records, including, but not limited to, hard copies or copies stored on a computer or disk, e-mail, databases, etc. pertaining to Medical Records, Company Protected Information and Work Product and all other property of Company, to the extent in Manager's possession or under Manager's custody or control, within ten (10) business days, provided however, Company and the Operator(s) agree that Manager may retain a copy of such information for litigation, dispute resolution purposes and similar purposes and (ii) the Company shall, and shall cause the Operators to, deliver to Manager all documents, records and copies of records, including, but not limited to, hard copies or copies stored on a computer or disk, e-mail, databases, etc. pertaining to Manager Protected Information and all other property of Manager, to the extent in the Company's or an Operator's possession or under the Company's or an Operator's custody or

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control, within ten (10) business days. Each Party shall maintain such records for the longer of the applicable period under law or five (5) years and afford access to such information upon the other Party's reasonable request.

(g) Violations. In the event of any violation of these confidentiality obligations, a Party shall be authorized and entitled to obtain immediate and permanent injunctive relief, as well as any other relief permitted by law. Each Party waives any requirement that the other Party post a bond as condition for obtaining any such relief.

(h) The provisions of this Section 8.2 shall survive the expiration or sooner termination of this Agreement.

8.3 Remedies. The Parties agree that an aggrieved party who is the beneficiary of any restriction contained herein may not be adequately compensated for damages for a breach of the covenants contained in this Article VIII, and such aggrieved party shall be entitled to injunctive relief and specific performance in addition to all other remedies. If a court of competent jurisdiction shall finally determine that the restraints provided for in this Article VIII, are too broad as to the activity, geographic area or time covered, said activity, geographic area or time covered will be reduced to whatever extent the court deems necessary, and such covenant shall be enforced as to such reduced activity, geographic area or time period.

ARTICLE IX
REPRESENTATIONS AND WARRANTIES

9.1 Organization and Standing of Company and Operators. The Company and the Operators represent and warrant to Manager, on a joint and several basis, that each of them is duly incorporated or organized, validly existing and in good standing or its equivalent under the laws of the state of its incorporation or organization, and that each of them has the power and authority to own the property and assets now owned by it and to conduct the business presently being conducted by it.

9.2 Authorization and Enforceability. The Company and the Operators represent and warrant to Manager, on a joint and several basis, (a) that this Agreement has been duly executed and delivered by each of them and constitutes a valid and legally binding obligation, enforceable against each of them in accordance with its terms, subject to bankruptcy, insolvency, reorganization, and similar laws affecting the enforcement of creditor's rights or contractual obligations generally and, as to enforcement, to general principles of equity, regardless of whether applied in a proceeding at law or in equity, and (b) that the execution and delivery of this Agreement and the obligations created hereby have been duly authorized by all necessary proceedings on the part of the Company and the Operators.

9.3 Absence of Conflicting Agreements. The Company and the Operators represent and warrant to Manager, on a joint and several basis, that neither the execution or delivery of this Agreement, or any of the other instruments and documents required or contemplated hereby and thereby (collectively, the "Transaction Documents") by it, nor the performance by it of the transactions contemplated hereby and thereby, materially conflicts with, or constitutes a material breach of or a material default or requires the consent of any third party (except consents already

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obtained) under (a) its Articles of Organization or Operating Agreement, as applicable; or (b) any applicable law, rule, judgment, order, writ, injunction, or decree of any court, currently in effect; or (c) to the best of its knowledge, any applicable rule or regulation of any administrative agency or other governmental authority currently in effect; or (d) any agreement, indenture, contract or instrument to which it is now a party or by which its assets are bound.

9.4 Organizing and Standing of Manager. Manager represents and warrants to Company and the Operators that Manager is a limited liability company, duly organized, validly existing and in good standing under the laws of the State of Delaware, and that it has the power and authority to own the property and assets now owned by it and to conduct the business presently being conducted by it.

9.5 Authorization and Enforceability. The Manager represents and warrants to the Company and the Operators (a) that this Agreement has been duly executed and delivered by it and constitutes a valid and legally binding obligation, enforceable against it in accordance with its terms, subject to bankruptcy, insolvency, reorganization, and similar laws affecting the enforcement of creditor's rights or contractual obligations generally and, as to enforcement, to general principles of equity, regardless of whether applied in a proceeding at law or in equity, and (b) that the execution and delivery of this Agreement and the obligations created hereby have been duly authorized by all necessary proceedings on the part of the Manager.

9.6 Absence of Conflicting Agreements. Manager represents and warrants to Company and the Operators that neither the execution or delivery of this Agreement, or any of the Transaction Documents by Manager, nor the performance by Manager of the transactions contemplated hereby and thereby, materially conflicts with, or constitutes a material breach of or a material default or requires the consent of any third party (except consents already obtained) under (a) the organizational documents of Manager; or (b) any applicable law, rule, judgment, order, writ, injunction, or decree of any court, currently in effect; or (c) to the best of its knowledge, any applicable rule or regulation of any administrative agency or other governmental authority currently in effect; or (d) any agreement, indenture, contract or instrument of which Manager is now a party or by which the assets of Manager are bound.

9.7 Manager's Independent Business Operations. Manager represents and warrants that a substantial number of the management personnel of Manager as of the Effective Date who will provide the management services to be performed under this Agreement have previously been engaged in the active conduct of the business of managing and operating healthcare facilities for PHP Holdings, LLC and its affiliated operating subsidiaries (as officers or employees of such entities) prior to forming Manager.

ARTICLE X
SUCCESSORS AND ASSIGNS

10.1 Ability of Manager to Assign This Agreement. Manager shall have no right to assign this Agreement to another person or entity without the prior written consent of the Company, which consent may be withheld in the Company's sole and absolute discretion. Neither the Company nor any of the Operators, shall have a right to assign this Agreement.

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10.2 Binding Effect. This Agreement shall be binding upon the respective successors and permitted assigns of the parties hereto and shall inure to the benefit of and be enforceable by the parties hereto and their respective successors and permitted assigns.

10.3 Subcontracting. The Manager may subcontract any of its management responsibilities and duties under this Agreement, *provided*, *however*, that (a) any such subcontracting party is an EIK (as defined in Section 1.5) and (b) Manager shall remain responsible and liable for the fulfillment of all its obligations and duties set forth in this Agreement.

ARTICLE XI
REGULATORY MATTERS

11.1 Regulatory Compliance. The Parties agree that no part of this Agreement shall be construed to induce or encourage the referral of patients or the purchase of health care services or supplies. The Parties acknowledge that there is no requirement under this Agreement or any other agreement between the Company (or its Affiliates) and the Manager (or its Affiliates) that either party refer any patients to any healthcare provider or purchase any healthcare goods or services from any source. No payment made under this Agreement shall be in return for such referral or purchase. In particular, while Manager may develop and recommend marketing/community outreach strategies and implement marketing/community outreach strategies on behalf of the Company, the Operators or the Facilities, Manager shall not actively and directly market the Facilities to actual or potential patients or referral sources and shall not bring patients or induce referrals to the Facilities. All direct marketing of the Facilities and community liaison activities shall be performed by Operator or Facility employees or contractors.

(a) Representations and Warranties. Each Party represents and warrants that it is and shall remain throughout the Term in compliance, in all material respects, with all applicable federal and state laws and regulations related to this Agreement and the services to be provided hereunder, including without limitation, statutes and regulations related to fraud, abuse, false claims/statements, referrals, prohibition of kickbacks and the Health Insurance Portability and Accountability Act. The Parties further represent, warrant and covenant to each other that as of the date of this Agreement, and for the Term, with respect to any applicable federal health care program as defined in Section 1128B of the Social Security Act (42 U.S.C. 1320a-7b(f)) or any State health care program as defined in Section 1128B of the Social Security Act (42 U.S.C. 1320a-7b(h)) (collectively, the "Programs"): neither (i) the representing party; (ii) any individual with a direct or indirect ownership of five percent (5%) or more of the representing party; nor (iii) any director, officer, or, to the knowledge of such Party, employee of the representing party; has ever been debarred, suspended or excluded from any Program. Each Party covenants to immediately notify the other in writing if this representation is no longer true, or if such Party is sanctioned or has a civil monetary penalty levied under any program.

(b) Severability. In the event that any clause or provision of this Agreement is determined to be illegal, that provision or clause shall be deemed unenforceable and invalidated. Upon invalidation of a provision or clause of the Agreement pursuant to this Section, the Parties shall exercise their best efforts to renegotiate the Agreement to comply with the requirements of

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law, amending the Agreement, if necessary, in accordance with the provisions contained in this Agreement. If the Parties fail to reach such an accommodation after ninety (90) days following a written request by either of the Parties to discuss such an accommodation, then either Party may terminate this Agreement upon thirty (30) days written notice, with no further obligations, financial or otherwise, to the other Party.

11.2 Access to Records. Until the expiration of four (4) years after furnishing of services pursuant to this Agreement or other time period required by applicable law, Manager shall upon written request, make available to the Secretary of the Department of Health and Human Services ("HHS"), the Comptroller General, or any of their duly authorized representatives, this Agreement, and any books, documents and records that are necessary to certify the nature and extent of the costs incurred by Company under this Agreement. This provision will apply if the amount paid under this Agreement is $10,000 or more over a twelve (12) months period. The availability of Manager's books, documents and records will at all times be subject to such criteria and procedures for seeking access as may be promulgated by the Secretary of HHS in regulations, and other applicable laws. Manager's disclosure under this provision will not be construed as a waiver of any legal rights to which Manager or Company may be entitled under statue or regulation.

11.3 HIPAA. As required by law, the Parties shall execute a Business Associate Agreement in order to comply with the requirements of the Health Insurance Portability and Accountability Act ("HIPAA") Privacy and Security Rules.

ARTICLE XII
MISCELLANEOUS PROVISIONS

12.1 Notices. Any notice or communication by any Party to the other shall be in writing and shall be given and be deemed to have been duly given, upon the date delivered or date of first refusal, by commercial express overnight delivery service or by postage pre-paid, registered, express, or certified mail, addressed as follows:

To Manager: Prospect Healthcare Facilities Management, LLC
[redacted]
Los Angeles, California 90034
Attention: Redacted
Email: Redacted
Facsimile: Redacted

with a copy to: c/o Prospect Medical Holdings, Inc.
[redacted]
Los Angeles, California 90034
Attention: Redacted, Co-General Counsel
Email: Redacted
Facsimile: Redacted

and: Sheppard Mullin Richter & Hampton LLP
Redacted

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Los Angeles, CA 90067-6017
Attention: Redacted
Email: Redacted
Redacted
Facsimile: Redacted

To Company or Operators: PHP Holdings, LLC
Redacted
Orange, CA 92868
Attn: Redacted, Co-General Counsel
Email: Redacted
Facsimile: Redacted

with copies to: c/o Medical Properties Trust, Inc.
Redacted
Birmingham, AL 35242
Attn: Legal Department
Facsimile: Redacted
Email: Redacted

and: Baker, Donelson, Bearman, Caldwell & Berkowitz, PC
Redacted
Birmingham, AL 35203
Attn: Redacted
Facsimile Redacted
Email: Redacted

or to such other address, and to the attention of such other person or officer as any party may designate in writing by notice.

12.2 No Partnership or Joint Venture. Nothing contained in this Agreement shall constitute or be construed to be or create a partnership or joint venture between Company and the Operators, or their successors or assigns, on the one part, and Manager, its successors, or assigns on the other part. Notwithstanding the foregoing, the Parties hereby agree that they shall each have a duly to act in good faith and to deal fairly with the other parties hereto.

12.3 Modifications and Changes. This Agreement cannot be changed or modified except by another agreement in writing signed by Company and Manager.

12.4 Understanding and Agreements. This Agreement, the LLC Agreement, and the other documents executed in connection therewith constitutes the entire understanding and agreement of whatsoever nature or kind existing between the Parties with respect to Manager's management of the Facilities and all prior negotiations, understandings, covenants, representations, warranties and agreements (if any) pertaining to the subject matter hereof are merged into this Agreement. It is expressly agreed that there are no verbal understandings, covenants, representations, warranties, or agreements which in any way change the terms,

covenants, and conditions set forth in this Agreement. The Parties have not relied upon, and shall not be entitled to rely upon, any prior or contemporaneous agreements, understandings, representations, covenants, warranties, or statements (oral or written) other than this Agreement in effecting the transactions contemplated herein or otherwise.

12.5 Headings, Etc. The article and paragraph headings contained herein are for convenience of reference only and are not intended to define, limit, or describe the scope or intent of any provision of this Agreement.

12.6 Approval of Consent. Whenever under any provisions of this Agreement, the approval or consent of each party is required, the decision thereon shall be promptly given and such approval or consent shall not be unreasonably withheld, delayed or conditioned, unless this Agreement expressly provides that a decision shall be made in a Party's sole discretion. For all purposes under this Agreement, Manager shall determine solely from the latest such notification received by it the person or persons authorized to give such approval or consent. Manager shall rely exclusively and conclusively on the designation set forth in such notification, notwithstanding any notice of knowledge to the contrary.

12.7 Governing Law. THIS AGREEMENT SHALL BE DEEMED TO HAVE BEEN MADE AND SHALL BE CONSTRUED AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE, WITHOUT REGARD TO ITS LAWS REGARDING CONFLICTS OF LAW. THE PARTIES HERETO AGREE THAT ANY SUIT, ACTION OR OTHER LEGAL PROCEEDING IN CONNECTION WITH THIS AGREEMENT SHALL BE BROUGHT IN THE STATE OR FEDERAL COURTS OF THE STATE OF DELAWARE. THE PARTIES HERETO WAIVE ANY OBJECTION TO SUCH JURISDICTION AND VENUE IN ANY OF SUCH COURTS.

12.8 Waiver of Jury Trial. TO THE MAXIMUM EXTENT PERMITTED BY LAW, THE PARTIES HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE THE RIGHT TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON, ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENT (WHETHER VERBAL OR WRITTEN) OR ACTION OF ANY PARTY OR ANY EXERCISE OF ANY PARTY OF THEIR RESPECTIVE RIGHTS HEREUNDER OR IN ANY WAY RELATING TO THIS AGREEMENT (INCLUDING ANY CLAIM OR DEFENSE ASSERTING THAT THIS AGREEMENT WAS FRAUDULENTLY INDUCED OR IS OTHERWISE VOID OR VOIDABLE). THIS WAIVER IS A MATERIAL INDUCEMENT FOR EACH OF THE PARTIES TO ENTER INTO THIS AGREEMENT.

12.9 Legal Fees and Expenses. In the event any claim is made by one Party to this Agreement against any other Party to this Agreement, the Non-Prevailing Party (as herein defined), and only the Non-Prevailing Party, shall be responsible for paying and/or reimbursing the reasonable costs (including costs of investigation), expenses and legal fees of the other Party to the claim. "Non-Prevailing Party" means, with respect to any claim between any Parties hereto, such party determined as the non-prevailing party by a court with proper jurisdiction.

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12.10 Enforceability. Should any provision of this Agreement be unenforceable as among the Parties, such unenforceability shall not affect the enforceability of the other provisions of this Agreement.

12.11 Counterpart and Facsimile Execution. This Agreement may be executed in any number of counterparts with the same effect as if the Parties hereto had signed the same document. All counterparts will be construed together and shall constitute one agreement. Signatures transmitted by facsimile or email delivery shall have the same effect as original signatures.

12.12 No Waiver. No failure by any Party to insist upon the strict performance of any term of this Agreement or to exercise any right, power or remedy consequent upon a breach thereof, and no acceptance of full or partial performance under the terms of this Agreement during the continuance of any such breach, shall constitute a waiver of any such breach or any such term. To the extent permitted by law, no waiver of any breach shall affect or alter this Agreement, which shall continue in full force and effect with respect to any other then existing or subsequent breach. The Parties agree that no waiver shall be effective hereunder unless it is in writing.

12.13 Further Assurances. Each Party hereto shall perform any further acts and execute and deliver any documents that may be reasonably necessary to carry out the provisions of this Agreement.

12.14 Force Majeure. No Party shall be liable or deemed to be in default for any delay or failure to perform under this Agreement resulting, directly or indirectly, from acts of God, civil or military authority, acts of public enemy, war, accidents, fires, explosions, earthquakes, floods, strikes or other work interruptions by any Party's employees or any other similar cause beyond the reasonable control of a non-performing Party.

12.15 Third Party Beneficiary. MPT Picasso TRS and its Affiliates are intended third party beneficiaries with respect to Section 1.5 of this Agreement.

12.16 No Offset. Whenever any Party is to pay any sum to any other Party or any Affiliate or related person thereof, no amounts that such Party or such [Affiliate]or related person owes to such other Party may be deducted or otherwise set off or recouped from that sum before payment unless there is a final, non-appealable order that such Party or such Affiliate or related person owes such amounts.

12.17 Specific Performance. In addition to any rights and remedies available to the Parties hereunder or at law, each Party shall be entitled to bring an action for specific performance and to seek other equitable relief in connection with any breach or violation, or any attempted breach or violation, of the provisions of this Agreement, without the necessity of showing actual damages or furnishing bond or other security.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK;

SIGNATURES ON FOLLOWING PAGE]

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IN WITNESS WHEREOF, the parties hereto have executed and delivered this Management Services Agreement as of the Effective Date.

MANAGER:

PROSPECT HEALTHCARE FACILITIES MANAGEMENT, LLC

By: _____
Name: _____
Title: _____

COMPANY:

PHP HOLDINGS, LLC

By: Prospect Healthcare Facilities Management, LLC
Its: Manager

By: _____
Name: _____
Title: _____

OPERATOR:

ALTA NEWPORT HOSPITAL, LLC

By: _____
Name: _____
Title: _____

[Signature Page to Management Services Agreement]

Schedule A

Management Fee

The Parties may amend or modify any part of this Schedule A at any time upon mutual agreement of the parties hereto through the execution of an amendment signed by both parties.

FEES

A. Foothill Regional Medical Center Fees:

The Company shall pay fees for the services listed below relating to Hospital Operator, dba Foothill Regional Medical Center ("Foothill") calculated based on a percentage of Gross Patient Revenue, which, for the purpose of this Schedule A, "Gross Patient Revenue" means (i) revenue earned for the provision of professional services, or administrative services related to the provision of professional services, performed by Foothill, from third party reimbursement, Medicare disproportionate share payments, and self-pay/private pay, and (ii) any and all other proceeds paid or payable to Foothill directly related to the provision of professional services, or administrative services related to the provision of professional services, performed by Foothill.

Functions	***Services Provided***	***Fee***
Back-end Revenue Cycle Management Services	Patient financial accounting CBO Quality shared management Utilization review shared management Admitting shared management Medical records shared management Credentialing shared management	2.0% of Gross Patient Revenue
Information Technology	Network management Infrastructure management Clinical applications Licenses Support services	1.5% of Gross Patient Revenue
Finance/Administration	General accounting Accounts payable Financial planning & analysis Financial reporting Legal support Compliance support Treasury support Payroll	0.5% of Gross Patient Revenue

[Signature Page to Management Services Agreement]

B. Company Management Fees:

In addition to the fees referenced in Section A above, the Company will pay Manager the lesser of (i) the reasonable value the services performed by Manager pursuant to Section 3.5 (for the avoidance of doubt, excluding the services referenced in Section A above), as determined by an independent third-party valuator, and (ii) $750,000 per year.

[Signature Page to Management Services Agreement]

EXHIBIT E

RELEASED DEFAULTS

Item	Details	Monetary Default?	Amount	Entities
Property Insurance Premium	2020/2021 & 2021/2022 Property Insurance Premium Outstanding	Yes	$783,708.00	All facilities covered under MPT property insurance
Interest	Mortgage Loan Tranche 2 Interest Balance through 05/23/2023	Yes	$9,137,500.00	Foothill
Rent & Interest	Deferred Rent and Interest due through 11/30/2022	Yes	$32,944,055.61	All facilities + TRS Note
Rent & Interest	Deferred Rent and Interest due 03/01/2023 through 05/31/2023	Yes	$34,261,817.83	All facilities + TRS Note
Interest	1% Interest on Deferred Rent and Interest through 5/23/2023	Yes	$2,376,431.05	All facilities + TRS Note
Rent	Past Due Rent and Interest Amounts due through 2/1/2023	Yes	$37,269,011.65	All facilities + TRS Note
Interest	5% Overdue Rate on Late Payments through 5/23/2023	Yes	$2,000,157.74	All facilities + TRS Note
Penalties	5% Penalty charge on Late Payments through 5/23/2023	Yes	$1,863,450.58	All facilities + TRS Note
Interest	5% Interest charge on Late Repayment of Mortgage Loan Tranche 2 Principal through 5/23/2023	Yes	$7,522,069.33	Foothill
Penalties	5% Penalty charge on Late Repayment of Mortgage Loan Tranche 2 Principal through 5/23/2023	Yes	$5,000,000.00	Foothill
Consolidated Cash Balance	Per Amendment to the ML dated 7/26/2022, Prospect required to maintain a minimum consolidated cash balance of		N/A	All facilities

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	$40M at month end and on a monthly basis.			

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EXHIBIT F

UNCURED DEFAULTS

Item	Details	Monetary Default?	Amount	Entities
Imposition #3384	Insurance Installments – February (Sent on 4/4/2023)	Yes	$214,284.08	All facilities
Imposition #3387	CT Corporate Fee (Sent on 4/4/2023)	Yes	$102.96	Hollywood
Lien	Waterbury Mechanics Lien filed by Redacted	Yes	$778,739.91	Waterbury
Lien	Crozer Chester Medical Center - "Notice of Intent to Lien" delivered by Redacted	Yes	$ 261,678.00	Upland
Lien	Crozer Chester Medical Center - "Notice of Intent to Lien" delivered by Redacted LLC	Yes	$ 62,750.00	Upland
Property Taxes	Upper Darby School District Jurisdiction	Yes	$ 3,482,828.38	Drexel Hill
Property Taxes	Chester SD Jurisdiction – Upland Borough	Yes	$ 2,124,785.91	Upland
Property Taxes	Ridley SD Jurisdiction	Yes	$ 1,687,772.19	Ridley Park
Property Taxes	Upper Darby Township Interim Bills	Yes	$ 1,202,605.49	Drexel Hill
Property Taxes	Chester SD Jurisdiction – Chester City	Yes	$ 153,078.87	Upland
Property Taxes	Delaware County Jurisdiction	Yes	$ 54,620.29	Drexel Hill
Property Taxes	Delaware County Jurisdiction	Yes	$ 29,005.49	Upland
Property Taxes	Upper Darby School District Jurisdiction	Yes	$ 26,195.91	Upland
Property Taxes	Waterbury City – Water/Sewer	Yes	$ 25,289.99	Waterbury
Property Taxes	Chester City Stormwater	Yes	$ 381.30	Upland

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Reserves for Major Repairs	Prospect required to provide documentation detailing the major repairs made during previous calendar year with a minimum spend of $1,103 per bed for 2022		N/A	All facilities
Audit	Audit due 120 days after FY end; extension through 6/6/2023 granted.		N/A	All facilities
Financial Statements	Prospect required to provide Springfield and Taylor financials broken out beginning 10/1/2021		N/A	Springfield and Taylor
Post-Closing Action	Foothill Intercompany Loan "Post-Closing Action" per Article XVI		N/A	Foothill

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DISCLOSURE SCHEDULES

See Attached.

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DISCLOSURE SCHEDULES

to the

AMENDED AND RESTATED

MASTER RESTRUCTURING AGREEMENT

by and among

PROSPECT MEDICAL HOLDINGS, INC. ("Prospect Medical"),

PHP HOLDINGS, LLC ("PHP Holdings"),

PROSPECT HEALTHCARE FACILITIES MANAGEMENT, LLC ("ManageCo"),

and each of the entities signed as Affiliates of PHP Holdings and Prospect Medical therein (collectively, the "Prospect Parties")

and

MPT PICASSO INVESTORS TRS, LLC ("MPT Picasso TRS"),

and each of the entities signed as Affiliates of MPT Picasso TRS therein (collectively, the "MPT Parties"),

Dated as of May 23, 2023

DISCLOSURE SCHEDULES

These Disclosure Schedules are hereby delivered by the Prospect Parties, in accordance with that certain Amended and Restated Master Restructuring Agreement (the "Agreement"), dated as of May 23, 2023, by and among (i) **PROSPECT MEDICAL HOLDINGS, INC.**, a Delaware corporation ("Prospect Medical"), **PHP HOLDINGS, LLC**, a Delaware limited liability company ("PHP Holdings"), Prospect Healthcare Facilities Management, LLC, a Delaware limited liability company ("ManageCo"), and each of the entities signed as their Affiliates therein (such Affiliates, together with Prospect Medical, PHP Holdings, and ManageCo, collectively, the "Prospect Parties"), and (ii) **MPT PICASSO INVESTORS TRS, LLC**, a Delaware limited liability ("MPT Picasso TRS"), and each of the entities signed as their Affiliates therein (such Affiliates, together with MPT Picasso TRS, collectively, the "MPT Parties"). Any capitalized terms used in these Disclosure Schedule but not otherwise defined shall have the respective meanings assigned to such terms in the Agreement.

These Disclosure Schedules have been arranged to correspond to particular Sections of the Agreement and any matter, fact or item disclosed in any section or paragraph of these Disclosure Schedules shall be considered disclosed with respect to such other section or paragraph of these Disclosure Schedules or the Agreement, as the case may be, if the relevance of such disclosure to such other section or paragraph is reasonably apparent on its face. Each reference to an agreement, contract, list, instrument or other matter listed in these Disclosure Schedules shall be deemed to incorporate herein such referenced item in its entirety, including any and all exhibits, Disclosure Schedules, annexes and other attachments to such document, and the terms thereof.

The headings, captions and cross-references in these Disclosure Schedules are included for convenience of reference only and shall in no way (i) modify, limit or affect any information provided in these Disclosure Schedules, (ii) be considered in construing or interpreting any information provided in these Disclosure Schedules or (iii) expand the scope of information required to be disclosed in these Disclosure Schedules.

Neither the specification of any dollar amount in any representation or warranty contained in the Agreement nor the inclusion of any specific item in any section or paragraph of these Disclosure Schedules is intended to imply that such amount, or higher or lower amounts, or the item so included or other items, are or are not material, or are or are not in the ordinary course of business, and no Party shall use the fact of the setting forth of any such amount or the inclusion of any such item in any dispute or controversy between the Parties as to whether any obligation, item or matter not described herein or included in any section or paragraph of these Disclosure Schedules is or is not material for purposes of the Agreement, or is or is not in the ordinary course of business.

In disclosing the information contained in these Disclosure Schedules, the Prospect Parties expressly do not waive any attorney-client or other privileges associated with such information or any protection afforded by the work-product doctrine or any similar doctrine with respect to any of the matters disclosed therein. The Prospect Parties shall not be prejudiced in any manner whatsoever, and no presumptions shall be created, by virtue of the disclosure of any item or matter herein which otherwise is not required to be disclosed by the Agreement.

Schedule 7.3(a)

No Conflict; Consents

I. **Consent required pursuant to the terms of the following Contract in connection with the Amendment to Connecticut Master Agreement**:

1. Asset Purchase Agreement by and among Yale New Haven Health Service Corporation, Prospect Medical Holdings, Inc., and the Selling Entities (as defined therein), dated October 5, 2022.

II. **Consent required pursuant to the terms of the following Contracts in connection with the merger of Alta Newport with and into Foothill Propco:**

1. Leasing Schedules #20006160, #20007123, and uncommenced Leasing Schedule #20005384, dated March 8, 2021, July 8, 2021, and November 2020, respectively, by and between Siemens Financial Services, Inc. and Alta Newport Hospital, LLC d/b/a Foothill Regional Medical Center.

III. **Consent required pursuant to the terms of the following Contracts in connection with the Conversion of Phase I Convertible Note to the extent the same results in a "change of control" of the applicable Prospect Party thereunder:**

1. Medicaid Provider-Group Agreement, by and between [redacted] Inc. and Prospect Health Services TX, Inc., effective September 1, 2018, as amended by that certain Amendment to Provider Agreement, effective September 1, 2019.

2. Physician Hospital Organization Agreement, by and between [redacted] Inc. and Prospect Health Plan Inc., effective August 1, 2019, as amended effective January 1, 2020, and August 1, 2020.

3. Provider Agreement, by and between Amerigroup Texas, Inc. and Prospect Health Services TX, Inc., effective June 1, 2019.

4. Health Care Service Corporation Professional Provider Agreement, by and between [redacted] and Prospect Health Services TX, Inc., effective January 1, 2022.

5. Provider Agreement Global Risk HMO IPA Medical Group, by and between [redacted] and Prospect Health Plan, Inc., effective January 1, 2017, as amended effective January 1, 2021.

6. Agreement for the Provision of Professional and Hospital Global Service, by and between [redacted] Inc. and Prospect Health Plan, Inc., effective January 1, 2021, as amended effective August 1, 2022.

7. Participation Agreement, by and between Devoted Health, Inc. and Prospect Health Services TX, Inc., effective October 17, 2020.

8. Plan-to-Plan Agreement, by and between [redacted] and Prospect Health Plan, Inc., effective September 1, 2014, as amended by that certain First

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Amendment, effective September 1, 2015, Second Amendment, effective January 1, 2017, Third Amendment, effective January 1, 2018, and Fourth Amendment, effective November 1, 2018.

9. Professional and Hospital Services Agreement, by and between Redacted Inc. and Prospect Health Plan, Inc., effective March 1, 2015, as amended by that certain First Amendment, effective January 1, 2016, Second Amendment, Effective January 1, 2019, Third Amendment, effective September 1, 2020, and Fourth Amendment, effective January 1, 2021.

10. Medicare Advantage – HMO Services Contract, by and between Redacted Redacted and Prospect Health Plan, Inc., effective January 1, 2023.

11. Medi-Cal HMO Amended and Restated Contract for Health Care Services, by and between Redacted, a public agency, dba Redacted and Prospect Health Plan, Inc., effective June 30, 2019, as amended effective October 1, 2019, January 1, 2020, January 1, 2020, July 1, 2020, January 1, 2021, January 1, 2021, effective July 1, 2021, September 1, 2021, January 1, 2022, and July 1, 2022.

12. Health Services Agreement, by and between Redacted of California, Inc. and Prospect Health Plan, Inc., effective January 1, 2021, as amended by that certain Amendment Number One, effective June 1, 2021, and June 1, 2022.

13. Provider Services Agreement, by and between Redacted . and Prospect Health Services TX, Inc., effective August 1, 2017.

14. Care Coordination and Managed Care Services Agreement, by and between Redacted Redacted and Prospect Medical Systems, LLC (f/k/a Prospect Medical Systems, Inc.), effective August 4, 2021, as amended effective April 22, 2022, and January 1, 2023.

15. Medicare Advantage Provider Group Agreement, by and between Redacted Plan, Inc. and Prospect Medical Group AZ, LLC (f/k/a Prospect Medical Group AZ, Inc.), effective January 1, 2022.

16. Agreement for the Provision of Provider Group Services, by and between Redacted Redacted and Prospect Health Plan, Inc., effective February 1, 2016, as amended effective February 1, 2016, May 1, 2016, January 1, 2021, and May 1, 2021.

17. Health Services Agreement (Global Capitation), by and between Redacted and Prospect Health Plan, Inc., effective January 1, 2017.

18. Participating Provider Agreement, by and between Redacted and Prospect Health Services TX, Inc., effective August 1, 2021.

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Schedule 7.3(b)

Governmental Approvals

I. **PRE-CLOSING APPROVAL AND CONSENTS REQUIREMENTS.** The following approvals and consents from Governmental Bodies are required in order to consummate the transactions contemplated by the Agreement and other Restructuring Documents:

a) **California**:

1. DMHC: If Prospect elects to secure the Foothill Intercompany Loan with a second-lien deed of trust on real property known as Foothill Regional Medical Center (the "Foothill Second Mortgage") on the Closing Date of the Transactions, then a sixty-day notice and approval from the California Department of Managed Health Care ("DMHC") is required to consummate the Foothill Second Mortgage as a component of the Transaction. In accordance with Section 6.2(h) of the Agreement, Prospect may defer collateralization of the Foothill Intercompany Loan by the Foothill Second Mortgage until after the Closing Date of the Transactions, by notice given to MPT at or before such Closing Date; notwithstanding such deferral, Prospect will remain subject to compliance with the subordination requirement set forth in Section 6.2(h) and receipt of DMHC approval.

2. CDPH Hospital License: An application with respect to Alta Newport Hospital, LLC's Hospital License must be filed with the California Department of Public Health prior to the closing of the Phase II Transactions.

3. Hospital Pharmacy Licenses: New applications for Alta Newport Hospital, LLC's Hospital Pharmacy License HSP 57632 and Sterile Compounding Pharmacy License LSC 101527 must be filed with the California Board of Pharmacy and temporary licenses must be issued by the California Board of Pharmacy prior to the closing of the Phase II Transactions.

4. Knox-Keene License: A notice of material modification must be submitted for Prospect Health Plan, Inc. to the DMHC, which notifies and requests the approval the DMHC of the Phase II Transactions.

II. **SUPPLEMENTAL INFORMATION**. The following notices are required to be submitted post-closing; the information below is provided for completeness only and is not a representation that such post-closing notices are required in order to consummate the transactions contemplated by the Transaction Documents:

a) California:

1. CDPH Hospital License: Real property owner information must be updated within 10 days after the closing of the Phase I Transaction.

2. RightRx Pharmacy license: A Change of Permit for the Community Pharmacy License No. 58561 issued by the California Board of Pharmacy must be filed with the California Board of Pharmacy within 30 days after the closing of the Phase I Transaction.

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3. Texas Third Party Administrator License: For Prospect Medical Systems, LLC, post-closing filing to the Texas Department of Insurance required; must be submitted within 30 days after closing of the Phase I Transaction.

4. City of Orange Business License: For Prospect Medical Systems, LLC post-closing filing must be made to the City of Orange within 30 days after closing of the Phase I Transaction.

5. Medicare: Post-closing filing of CMS 855A (Institutional Provider Enrollment Application) must be submitted within 30 days after closing of the Phase I Transaction.

6. Clinical lab license: Post-closing filing to California Department of Public Health Laboratory Field Services must be submitted within 30 days after closing of the Phase II Transaction.

7. Clinical Laboratory Improvement Amendments ("CLIA") Certificates and Accreditations: For Alta Newport, a CMS 116 Change of Information form must be submitted to the Department of Health and Human Services ("DHHS"), and notice must be sent to the applicable accrediting organization, within 30 days after the closing of the Phase II Transaction.

b) Pennsylvania:

1. Medicare: Post-closing filing of CMS 855A (Institutional Provider Enrollment Application) and 855B (Clinics/Group Practices and Certain Other Suppliers Enrollment Application) required; must be submitted within 30 days after closing.

2. Medicaid: Filing of prescribed updated information is required with the PA Department of Human Services within 30 days post-closing.

3. Radioactive Materials License: Sending a copy of the Memorandum of Understanding between the Lessee and Lessor that the property owner is aware radioactive materials are maintained onsite to the Pennsylvania Department of Environmental Protection, Bureau of Radiation Protection, Radioactive Materials Licensing Section is required. There is no formal timing requirement, but PA DEP has indicated that the MOU should be sent to them as soon as possible.

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Schedule 7.4(a)

Financial Statements

(i) See attached Annex 7.4(a), which is incorporated herein by reference.

(ii) See attached Most Recent Annual Financials, which are incorporated herein by reference.

(iii) See attached Most Recent Balance Sheet, which are incorporated herein by reference.

(iv) See attached PHP Holdings Pro Forma Financials, which are incorporated herein by reference.

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PROSPECT MEDICAL

Consolidated Financial Statements and Supplementary Information

As of and for the Years Ended
September 30, 2021 and 2020

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.

BDO

Prospect Medical Holdings, Inc.

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MPT CONFIDENTIAL MPT_PROSPECT_00011569

Independent Auditor's Report

Board of Directors
Prospect Medical Holdings, Inc.
Los Angeles, California

Opinion

We have audited the consolidated financial statements of Prospect Medical Holdings, Inc. and its subsidiaries (the Company), which comprise the consolidated balance sheets as of September 30, 2021 and 2020, and the related consolidated statements of operations and comprehensive loss, changes in stockholder's deficit, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As described in Note 2 to the consolidated financial statements, effective October 1, 2020, the Company changed its method of accounting for recognition of revenues and related disclosures in 2021 due to the adoption of Accounting Standards Codification 606, *Revenue from Contracts with Customers*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

BDO USA, LLP

January 7, 2022

MPT CONFIDENTIAL MPT_PROSPECT_00011571

Prospect Medical Holdings, Inc.

Consolidated Balance Sheets
(in thousands, except par value and share amounts)

September 30,	2021	2020
Assets		
Current assets		
Cash and cash equivalents	$ 58,993	$ 386,824
Cash held in escrow	45,270	70
Restricted cash	1,793	1,828
Restricted investments	34,283	31,354
Patient accounts receivable, net of allowance for doubtful accounts of $198,052 at September 30, 2020	296,119	288,764
Due from government payers	23,298	20,390
Other receivables, prepaid expenses and other current assets	171,204	108,343
Income taxes receivable	8,535	4,154
Inventories	35,996	36,742
Hospital fee program receivable	178,042	189,941
Current assets held for sale	16,843	18,015
Total current assets	870,376	1,086,425
Property, improvements and equipment, net	579,765	544,256
Goodwill, net	244,067	274,487
Intangible assets, net	14,870	20,054
Other assets	97,539	107,731
Long term assets held for sale	8,550	9,436
Total assets	$ 1,815,167	$ 2,042,389

See accompanying notes to the consolidated financial statements.

MPT CONFIDENTIAL MPT_PROSPECT_00011572

Prospect Medical Holdings, Inc.

Consolidated Balance Sheets
(in thousands, except par value and share amounts)

September 30,	2021	2020
Liabilities and Stockholder's Deficit		
Current liabilities:		
Accrued medical claims and other healthcare costs payable	$ 93,702	$ 76,457
Accounts payable and other accrued liabilities	340,164	383,040
Accrued salaries, wages and benefits	219,142	225,125
Hospital fee program liability	71,197	70,660
Due to government payers, current portion	20,218	32,749
Refund liability, current portion	227,330	62,115
Revolving line of credit, net	45,000	-
Capital leases, current portion	12,947	6,285
Debt, current portion	16,032	19,138
MPT liabilities, current portion	50,978	47,484
Other current liabilities	7,824	15,592
Current liabilities held for sale	15,944	17,748
Total current liabilities	1,120,478	956,393
Debt, net of current portion	167,683	190,201
Malpractice reserves	121,691	103,349
Refund liability, net of current portion	-	213,951
Capital leases, net of current portion	50,094	32,670
Asset retirement obligations	6,975	6,970
Other long-term liabilities	96,716	70,868
Pension obligations	284,674	231,941
MPT liabilities, net of current portion	1,240,348	1,290,556
Long term liabilities held for sale	898	5,105
Total liabilities	3,089,557	3,102,004
Commitments, contingencies and subsequent events		
Stockholder's deficit:		
Common stock, $0.01 par value; 100 shares authorized, issued and outstanding	1	1
Additional paid-in capital	57,765	64,961
Accumulated other comprehensive loss	(63,848)	(15,614)
Accumulated deficit	(1,272,303)	(1,116,992)
Total stockholder's deficit attributable to Prospect Medical Holdings, Inc.	(1,278,385)	(1,067,644)
Non-controlling interests	3,995	8,029
Total stockholder's deficit	(1,274,390)	(1,059,615)
Total liabilities and stockholder's deficit	$ 1,815,167	$ 2,042,389

See accompanying notes to the consolidated financial statements.

MPT CONFIDENTIAL MPT_PROSPECT_00011573

Prospect Medical Holdings, Inc.

Consolidated Statements of Operations
(in thousands)

For the Years Ended September 30,	2021	2020
Revenues:		
Net Hospital Services operating revenues before provision for bad debts		$ 2,339,379
Less: Provision for bad debts		(102,251)
Net Hospital Services operating revenues	$ 2,408,076	2,237,128
Other non-patient Hospital revenues	44,603	38,464
Net Hospital Services revenues	2,452,679	2,275,592
Medical Group revenues	471,333	372,646
Global Risk Management revenues	100,154	84,900
Corporate revenues	3,171	250
Total net revenues	3,027,337	2,733,388
Operating Expenses:		
Hospital operating expenses	1,981,789	1,937,766
Medical Group cost of revenues	344,275	242,314
Global Risk Management cost of revenues	67,297	52,851
General and administrative	568,353	493,486
Depreciation and amortization	81,965	80,040
Goodwill amortization	30,473	30,245
Total operating expenses	3,074,152	2,836,702
Pandemic relief grant (loss) income	(5,930)	117,148
Operating income from unconsolidated joint ventures	4,066	1,724
Operating (loss) income	(48,679)	15,558
Other expense:		
Interest expense and amortization of deferred financing costs, net	81,921	86,157
Net period benefit cost	12,219	9,242
Other expense, net	976	2,091
Total other expense, net	95,116	97,490
Loss before income taxes	(143,795)	(81,932)
Income tax benefit	(2,206)	(7,070)
Net loss from continuing operations	(141,589)	(74,862)
Loss from discontinued operations:		
Loss from discontinued operations	(7,531)	(23,610)
Income tax provision	(2)	(2)
Loss from discontinued operations, net of taxes	(7,533)	(23,612)
Loss before allocation to non-controlling interests	(149,122)	(98,474)
Net (loss) income attributable to non-controlling interests	(5,777)	1,136
Net loss attributable to Prospect Medical Holdings, Inc.	$ (143,345)	$ (99,610)

See accompanying notes to the consolidated financial statements.

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Prospect Medical Holdings, Inc.

Consolidated Statements of Comprehensive Loss
(in thousands)

For the Years Ended September 30,	**2021**	2020
Net loss attributable to Prospect Medical Holdings, Inc.	**$ (143,345)**	$ (99,610)
Other comprehensive (expense) income, net of tax:		
Pension obligation and other post-retirement benefits adjustment (net of $0 and $251 tax)	**(48,498)**	9,267
Debt and equity securities, unrealized gain	**264**	46
Total other comprehensive (loss) income, net of tax	**(48,234)**	9,313
Total comprehensive loss	**$ (191,579)**	$ (90,297)

See accompanying notes to the consolidated financial statements.

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Prospect Medical Holdings, Inc.

Consolidated Statements of Stockholder's Deficit
(in thousands, except share amounts)

	Number of Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Prospect Medical Holdings, Inc. Stockholder's Deficit	Non-controlling Interests	Total Stockholder's Deficit
Balance at October 1, 2019	100	$ 1	$ 64,961	$ (23,236)	$ (1,019,073)	$ (977,347)	$ 7,287	$ (970,060)
Non-controlling interest attributed to minority shareholders	-	-	-	-	-	-	(394)	(394)
Net loss	-	-	-	-	(99,610)	(99,610)	1,136	(98,474)
Other comprehensive loss, net of tax	-	-	-	9,313	-	9,313	-	9,313
ASU 2016-01 adoption (see Note 2)	-	-	-	(1,691)	1,691	-	-	-
Balance at September 30, 2020	100	1	64,961	(15,614)	(1,116,992)	(1,067,644)	8,029	(1,059,615)
Non-controlling interest attributed to minority shareholders	-	-	-	-	-	-	(453)	(453)
Net loss	-	-	-	-	(143,345)	(143,345)	(5,777)	(149,122)
Other comprehensive loss, net of tax	-	-	-	(48,234)	-	(48,234)	-	(48,234)
Distribution to Ivy Holdings, Inc. (see Note 9)	-	-	-	-	(11,966)	(11,966)	-	(11,966)
Purchase of non-controlling interest (see Note 4)	-	-	(7,196)	-	-	(7,196)	2,196	(5,000)
Balance at September 30, 2021	100	$ 1	$ 57,765	$ (63,848)	$ (1,272,303)	$ (1,278,385)	$ 3,995	$ (1,274,390)

See accompanying notes to the consolidated financial statements.

MPT_PROSPECT_00011576

Prospect Medical Holdings, Inc.

Consolidated Statements of Cash Flows
(in thousands)

For the Years Ended September 30,	**2021**	2020
Operating activities		
Net loss	**$ (149,122)**	$ (98,474)
Adjustments to reconcile net loss to net cash and cash equivalents (used in) provided by operating activities:		
Depreciation and amortization	**112,438**	110,285
Amortization of deferred financing costs, net	**1,970**	1,933
Provision for bad debts	**-**	102,251
Pension obligation net periodic benefit cost	**13,027**	9,426
Excess contribution to pension plan	**(8,399)**	(71,097)
Deferred income taxes, net	**-**	822
Undistributed earnings from unconsolidated joint ventures	**(4,066)**	(1,724)
Loss on disposal of assets	**911**	2,886
Changes in operating assets and liabilities:		
Patient accounts receivable	**(7,355)**	(84,429)
Due to/from government payers, net	**(15,439)**	4,022
Refund liability	**(48,736)**	276,066
Other receivables, prepaid expenses and other current assets	**(51,300)**	16,395
Hospital fee program receivable	**11,899**	(22,412)
Hospital fee program liability	**537**	46,298
Inventories	**746**	(2,513)
Income taxes payable/receivable, net	**(4,381)**	(11,549)
Other assets	**1,282**	28,521
Accrued medical claims and other healthcare costs payable	**17,245**	3,949
Accounts payable, other accrued liabilities and other long term liabilities	**(46,805)**	104,881
Net cash and cash equivalents provided by operating activities from discontinued operations	**367**	13,700
Net cash and cash equivalents (used in) provided by operating activities	**(175,181)**	429,237
Investing activities		
Purchases of property, improvements and equipment	**(49,459)**	(26,349)
Cash paid for acquisitions, net of cash received and working capital adjustments	**-**	(3,333)
Cash paid for acquisition of noncontrolling interest and equity method investment	**(10,330)**	-
Contribution to equity method investment	**-**	(17,000)
Distributions received from equity and cost method investments	**22,645**	1,465
Increase in investments	**(2,666)**	(2,018)
Net cash and cash equivalents provided by (used in) investing activities from discontinued operations	**(3,871)**	25,565
Net cash and cash equivalents used in investing activities	**(43,681)**	(21,670)

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Prospect Medical Holdings, Inc.

Consolidated Statements of Cash Flows (Continued)
(in thousands)

For the Years Ended September 30,	2021	2020
Financing activities		
Borrowings on line of credit	**45,000**	420,000
Repayments on line of credit	**-**	(490,000)
Proceeds of other debt	**300**	57,938
Repayments of debt	**(17,357)**	(52,352)
Repayment of financing leases	**(1,934)**	(1,840)
Repayments of capital leases	**(13,299)**	(14,230)
Cash paid for deferred financing costs	**(4,736)**	(2,906)
Dividend paid to stockholder	**(11,650)**	-
Repayments of insurance premium financing	**(10,781)**	(6,738)
Repayment of MPT liability transactions	**(48,899)**	(43,902)
Net cash and cash equivalents used in financing activities from discontinued operations	**(448)**	(8,390)
Net cash and cash equivalents used in financing activities	**(63,804)**	(142,420)
(Decrease) increase in cash, cash equivalents and restricted cash	**(282,666)**	265,147
Cash, cash equivalents and restricted cash, beginning of year	**388,722**	123,575
Cash, cash equivalents and restricted cash, end of year	**$ 106,056**	$ 388,722
Supplemental disclosure of cash flow information		
Interest paid	**$ 72,720**	$ 81,916
Income taxes received	**$ 519**	$ 397
Schedule of non-cash investing and financing activities		
Equipment acquired under capital leases	**$ 37,385**	$ 12,575
Equipment acquired under PACE financing	**$ 14,542**	$ -
Accrual of property, improvements and equipment	**$ 18,990**	$ 41,961
Accrual of dividends	**$ 316**	$ -
Insurance premium financed	**$ 11,560**	$ 6,738

See accompanying notes to the consolidated financial statements.

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1. Organization

Prospect Medical Holdings, Inc. ("Prospect" or the "Company" or the "Parent Entity") is a Delaware corporation and a wholly owned indirect subsidiary of Ivy Holdings Inc. ("Ivy Holdings") and its new parent company, Chamber Inc. ("Chamber"). In June 2021, Green Equity Investments V, LP, Green Equity Investments Side V, LP and other shareholders sold their shares of Ivy Holdings for a purchase price of approximately $11.9 million (see Note 11 for further discussion of the transaction). As a result of the sale, the Company became indirectly wholly-owned by two shareholders that were previously the two largest individual shareholders in Ivy Holdings.

The Company's operations are currently organized into four primary reportable segments: Hospital Services, Medical Group, Global Risk Management and Corporate, as discussed below.

COVID-19 Pandemic

During 2020 and 2021, federal, state and local authorities have taken several administrative actions intended to assist healthcare providers in providing care during the outbreak of the novel coronavirus ("COVID-19") public health emergency. Sources of relief include the Coronavirus Aid, Relief and Economic Security Act, the Paycheck Protection Program and Health Care Enhancement Act (the "PPPHCE Act"), the Continuing Appropriations Act, 2021 and Other Extensions Act, and the Consolidated Appropriations Act, 2021 (collectively, (the "COVID Acts"). With the COVID Acts, the federal government authorized funding to be distributed through the Public Health and Social Services Emergency Fund ("Provider Relief Fund" or "PRF"). U.S. Department of Health and Human Services ("HHS") will recoup PRF grant funds not utilized by the established deadlines. The COVID Acts also revised the Medicare accelerated payment program in an attempt to disburse payments to hospitals and other care providers more quickly and permitted employers to defer payment of the 6.2% employer Social Security tax beginning March 27, 2020 through December 31, 2020. In June 2021, the U.S. Department of Health and Human Services ("HHS") established new deadlines for when recipients of PRF grants must use the funding received, generally 12 to 18 months after receipt of the grant funds.

In certain circumstances, when a hospital is experiencing financial difficulty due to delays in receiving payment for the Medicare services it provided, it may be eligible for an accelerated or advance payment pursuant to the Medicare accelerated payment program. The COVID Acts revised the Medicare accelerated payment program in an attempt to disburse payments to healthcare providers more quickly. Recipients may retain the accelerated payments for one year from the date of receipt before recoupment commences, which is effectuated by a 25% offset of claims payments for 11 months, followed by a 50% offset for the succeeding six months. The initial 11-month recoupment period began in April 2021. At the end of the 29-month period, interest on the unpaid balance will be assessed at 4% per annum. As of September 30, 2021, the Company had received Medicare accelerated and advance payments of approximately $276 million, of which approximately $49 million had been repaid during year ended September 30, 2021 and approximately $227 million and $276 million were reflected in current and noncurrent refund liabilities in the accompanying consolidated balance sheets as of September 30, 2021 and 2020, respectively.

The following table shows the funds that the Company received through the PRF in both general and targeted distributions, net of amounts received for previously divested entities that were required to be repaid to HHS, during the years ended September 30, 2021 and 2020 (in thousands):

	General Funds	Targeted Funds	State funds	Other funds	Total
Funds received during the year ended September 30, 2020	$ 50,482	$ 83,088	$ 15,782	$ 33,702	$ 183,054
Transferred from discontinued operations to continuing operations	1,683	-	-	-	1,683
Applied to lost revenues	(48,004)	(69,144)	-	-	(117,148)
Applied to incremental expenses	(4,161)	(3,570)	(15,782)	(32,842)	(56,355)
Applied to incremental capital	-	-	-	(860)	(860)
Funds unused at September 30, 2020	$ -	$ 10,374	$ -	$ -	$ 10,374
Funds received during the year ended September 30, 2021	$ 6,971	$ -	$ 3,831	$ 1,146	$ 11,948
Transferred from continuing opens to discontinued operations	(1,683)	-	-	-	(1,683)
Reversal against lost revenues	5,930	-	-	-	5,930
Applied to incremental expenses	(11,218)	(10,374)	(3,831)	(948)	(26,371)
Applied to incremental capital	-	-		(198)	(198)
Unused at September 30, 2021	$ -	$ -	$ -	$ -	$ -

The amount of lost revenues (represented as a negative change in year-over-year net revenues from patient care related sources) was recorded in "pandemic relief grant income" and incremental expenses were recognized as a reduction to operating expense within the accompanying consolidated statements of operations for the years ended September 30, 2021 and 2020. The recognition of amounts received is conditioned upon the provision of care for individuals with possible or actual cases of COVID-19 after January 31, 2020, certification that payment will be used to prevent, prepare for and respond to COVID-19 and will reimburse the recipient only for healthcare related expenses or lost revenues that are attributable to COVID-19, and receipt of the funds. Amounts are recognized as a reduction to operating costs and expenses only to the extent the Company is reasonably assured that underlying conditions are met. These monies have been recognized following the grant accounting model, recognizing income or reduction to expenses over the applicable reporting period as management becomes reasonably assured of meeting the required criteria. As of September 30, 2021, the Company has no funds that had not been recognized in the consolidated statements of operations.

Liquidity

The Company had a net working capital deficit of approximately $250 million as of September 30, 2021 compared to net working capital surplus of approximately $130 million as of September 30, 2020, respectively. Additionally, the Company had a net loss before income taxes of approximately $144 million for the year ended September 30, 2021 compared to net loss before income taxes of approximately $82 million for the year ended September 30, 2020. As of September 30, 2021, the Company has a stockholder's deficit of approximately $1,274 million compared to stockholder's deficit of approximately $1,060 million as of September 30, 2020. Cash and cash equivalents generated by operations declined from cash provided by operating activities of approximately $396 million during the year ended September 30, 2020 to cash used in operating activities of approximately $175 million during the year ended September 30, 2021. Total change in cash, cash equivalents and restricted cash decreased year on year from an increase of approximately $265 million for the year ended September 30, 2020 to a decline of approximately $283 million for the year ended September 30, 2021. During the year ended September 30, 2020, the Company received approximately $276 million in funds under the Medicare accelerated payment program, and during the year ended September 30, 2021 the Company repaid approximately $49 million under this program. During the year ended September 30, 2020, the Company received stimulus funds totaling approximately $183 million for continuing operations and approximately $29 million (net of monies returned) for discontinued operations. During the year ended September 30, 2021, the Company received stimulus funds totaling approximately $12 million for continuing operations and $0 for discontinued operations. These two items account for the majority of the swings in cash generated related to operating activities, year over year. In relation to the amounts outstanding under the Medicare accelerated payment program, the Company estimates that approximately $74 million will be outstanding at the end of the 17-month period that Medicare withholds payments and will convert to an on-demand note, with interest accruing every 30 days at a rate of 4% per annum. Total debt (including MPT liabilities) decreased to approximately $1,475 million at September 30, 2021 compared to approximately $1,547 million at September 30, 2020, and the balance outstanding on the Company's revolving line of credit increased from $0 at September 30, 2020 to $45 million at September 30, 2021. At September 30, 2021, the available balance on the line was approximately $191 million. Cash and cash equivalents declined from approximately $387 million at September 30, 2020 to approximately $59 million at September 30, 2021.

The Company has various initiatives in place to generate positive cash flows from operations. From a revenue generating perspective, these include a focus on improving charge capture, improving the success rate on denials, and increasing reimbursements through rate negotiations with managed care payors, as well as improving volumes. From a cost cutting perspective, the initiatives include improvements to labor productivity and the reduction in overtime and use of registry, driven by the use of an internal registry, as well as better controls on supply and pharmacy contracts. Further, there are initiatives to focus on improving both productivity and volumes from the Company's physician groups. In addition, the shareholders have confirmed continued financial support and commitment to the Company. The Company believes that it will have sufficient cash flows from operations and available revolving facilities to provide sufficient capital resources to sustain operations, investing activities and financing for at least the next twelve months from the date these financial statements were available to be issued.

Hospital Services Segment

As of September 30, 2021, through its subsidiaries, the Company owned 16 acute care and behavioral hospitals in Southern California, Rhode Island, Pennsylvania and Connecticut with approximately 3,000 licensed beds, and a network of specialty and primary care clinics. During the year ended September 30, 2021, the Company acquired the remaining 15% interest in CharterCARE (see Note 4), and accordingly the Hospital Services segment subsidiaries are wholly owned by Prospect.

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Additionally at September 30, 2021, through its subsidiaries, the Company owned one acute care hospital in New Jersey, as well as two behavioral health hospitals in Texas that were closed during the year ended September 30, 2020. In October 2020, the Company entered into an Asset Purchase Agreement to sell substantially all of the assets of the facility in New Jersey, and the sale is expected to close at the end of December 2021. For all periods presented the assets and liabilities of these businesses have been classified as "held for sale," and the operations (as related to revenues and expenses that no longer continue post sale) have been shown within discontinued operations. All of the footnotes in these consolidated financial statements refer to continuing operations unless otherwise stated.

Admitting physicians are primarily practitioners in the local area. The hospitals have payment arrangements with Medicare, Medicaid and other third-party payers, including commercial insurance carriers, health maintenance organizations ("HMOs") and preferred provider organizations ("PPOs").

Medical Group Segment

The Medical Group segment is a healthcare management services organization that provides management services to affiliated physician organizations that operate as independent physician associations ("Medical Groups" or "IPAs"). The IPAs, either directly or through Prospect's risk management entities ("RMEs"), enter into agreements with HMOs to provide HMO enrollees with a full range of medical services in exchange for fixed monthly fees ("Capitation"). The Medical Groups contract with physicians (primary care and specialist) and other healthcare providers to provide enrollees with medical services. Prospect currently manages the provision of healthcare services for contracted enrollees through Prospect's IPAs and RMEs in California, Texas, Rhode Island, Connecticut, Pennsylvania and New Jersey. The California network consists of various IPAs that are generally wholly owned by Prospect Medical Group, Inc. ("PMG") and managed by the two medical management company subsidiaries that are wholly owned by Prospect. Prospect's networks in its other states consist of IPA subsidiaries of Prospect Provider Groups, Inc. The Medical Group segment also owns clinic facilities in California that operate by employing physicians to serve their patients. In California, the clinic facilities are owned through New Genesis Medical Associates, Inc. ("NGMA"). PMG and NGMA are owned by a nominee physician shareholder pursuant to an assignable option agreement, under which Prospect has an assignable option, obtained for a nominal amount that would be due to the nominee shareholder upon an option's exercise. The option entitles Prospect to designate the purchaser (successor physician) for all or part of PMG's or NGMA's, as applicable, issued and outstanding stock in Prospect's sole discretion.

The IPAs and RMEs in California and Texas have entered into Management Service Agreements ("MSA") with Prospect Medical Systems Inc. ("PMS"), and have agreed to pay a management fee to PMS, which is based in part on the costs to the management company and on a percentage of revenues. The IPAs and RMEs in Rhode Island, Pennsylvania, Connecticut and New Jersey are operated and managed through the Global Risk Management segment discussed below. In return for payment of a management fee under each MSA in California and Texas, PMS has agreed to provide financial management, information systems, marketing, advertising, public relations, risk management, and administrative support, including for utilization review and quality of care. At its cost, PMS has assumed the obligations for all facilities and employs physician and non-physician personnel for administrative services. The management fee is earned based on a combination of percentage of revenue and share of pre-tax income. The management fees fluctuate based on the revenue and profitability of each IPA and RME. The MSAs are not terminable by the IPAs or RMEs except in the case of gross negligence, fraud or other illegal acts, or bankruptcy, of PMS.

Prospect consolidates the revenues and expenses of its IPAs (except for one entity that is a 50/50 partnership, which is accounted for under the equity method) from the respective dates of execution of the Management Agreements. All significant inter-entity balances have been eliminated in consolidation. In the case of the partnership, only that portion of the results which are contractually identified as

Prospect's are recognized in the consolidated financial statements, together with the management fee that Prospect charges the partnership for managing the other owners' share of the partnership operations.

PMS has also entered into management services agreements with unaffiliated third parties to manage services to their HMO enrollees. These management agreements do not have characteristics that give rise to the consolidation of the entities under current accounting literature. These management services agreements are terminable in accordance with the agreements' terms.

The affiliated IPAs and RMEs coordinate medical services to a combined total of approximately 634,000 and 609,000 enrollees as of September 30, 2021 and 2020, respectively. As of September 30, 2021 and 2020, the enrollees are approximately 413,000 and 394,000, respectively, including enrollees that Prospect manages for the economic benefit of certain independent third parties. The total paid member months, including managed enrollees, for the years ended September 30, 2021 and 2020 was approximately 7,404,000 and 5,635,000, respectively.

Global Risk Management Segment

The Global Risk Management ("GRM") segment exists in pursuit of Prospect's coordinated regional care ("CRC") operating model and risk management platform. The GRM segment has operations in California, Texas, Rhode Island, Pennsylvania, Connecticut and New Jersey, including Medicare accountable care organizations ("ACOs") operating in Rhode Island, Connecticut and Pennsylvania. These RMEs contract with third-party health plans, and the ACOs contract with CMS, on progressive risk reimbursement models leading to global risk contracts for physicians, other medical services and institutional services including hospital inpatient and outpatient services, home health, skilled nursing facility and other institutional services. In turn, the RMEs and ACOs contract with owned and third-party IPAs, owned and third-party hospitals and other health care providers to assume and manage this global risk. Through these contracts, Prospect manages health plan member populations with a focus on delivering coordinated care to members across our network of physicians and other providers under risk and value-based contracts.

The GRM segment also includes Coordinated Regional Care Group, Inc. ("CRCG"). CRCG incurs development and operating costs related to the GRM segment for new markets and strategic initiatives. As noted above, in California and Texas, Prospect's IPAs and RMEs have entered into MSAs with PMS to arrange for their management. CRCG provides management services to the IPAs, RMEs and ACOs in Rhode Island, Pennsylvania, Connecticut and New Jersey. Additionally, the RMEs in those states have entered into Administrative Services Agreements ("ASA") with PMS pursuant to which they have agreed to reimburse PMS for the costs of certain administrative services provided by PMS on their behalf. In return for payment of an administrative services fee, PMS has agreed to provide financial management, certain information systems, and limited administrative support. The negotiated fees fluctuate based on the services provided. The services provided under an ASA are more limited than those provided under an MSA and each ASA is terminable by either party upon the delivery of 90 days prior written notice thereof.

The GRM segment, through its contracted owned and unaffiliated providers, provides medical services for a combined total of approximately 348,000 and 298,000 enrollees as of September 30, 2021 and 2020, respectively.

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Corporate Segment

The Company has two captive insurance companies, Prospect Medical Holding Risk Retention Group, Inc. ("RRG"), based in Vermont, and Connecticut Healthcare Insurance Company ("CHIC"), based in the Cayman Islands. The RRG was formed to provide primary insurance coverage for hospital and physician professional and general liability risks for the Company's subsidiary health care organizations located in Pennsylvania. CHIC provides hospital and physician professional and general liability coverage to all of the Company's hospitals and affiliated subsidiaries outside of Pennsylvania. CHIC is an exempted Company with limited liability under the Companies Law of the Cayman Islands and it holds a Class "B(i)" Insurer's License under Section 4(3)(b) of the Cayman Islands Insurance Law 2010. CHIC's principal activity is to issue primary policies for hospital liabilities covering Prospect, its subsidiaries and employees, on a claims-made basis. CHIC also provides excess healthcare professional liability and umbrella liability insurance coverage on a claims-made basis covering healthcare professional liability, general liability, automobile liability, employer's liability, helipad liability and non-owned aircraft liability of the Company and its affiliates. This excess coverage under this policy is 100% reinsured by commercial reinsurance carriers rated at minimum A- by AM Best. CHIC also provides a deductible reimbursement policy for workers compensation to the Company's facilities all of which have high deductible program structures or are qualified self-insureds (see Note 2). In fiscal 2021, through commutation agreements certain policies and reinsurance amendments were revised, which transferred risk for self-insured layers of coverage for workers compensation deductible reimbursement program, hospital and physician professional and general liability and certain buffer layer excess programs from both of the Company's captive insurance companies to the Company's hospitals and affiliated subsidiaries. This had no impact on the Company's consolidated financial statements.

The Company does not allocate interest expense related to acquisition debt or income taxes to the other reporting segments.

2. Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of all controlled subsidiaries. Such control is effectuated through ownership of voting common stock or by other means, but do not include the accounts of the parent companies, Chamber, Ivy Holdings and Ivy Intermediate Holding Inc. The Company has a variable interest in various entities under the Medical Group segment due to the existence of two call options (see "Medical Group Segment" above), under which the Company has the ability to require the holders of all of the voting common stock of the underlying subsidiaries to sell their shares at a fixed nominal price ($1,000) to another designated physician chosen by the Company. This call option agreement represents rights provided through a variable interest other than the equity interest itself that limits the returns that could be earned by the equity holders. In addition, the Company has management agreements with the physician organizations under the Medical Group segment (see "Medical Group Segment" above) which allows the Company to direct the activities of such physician organizations that most significantly impact their economic performance, retain the right to receive expected residual returns and assume the obligation to absorb losses. Accordingly, the Company is considered to be the primary beneficiary and these entities are consolidated within the accompanying consolidated financial statements.

Operating results for acquisitions are consolidated with the Company's consolidated financial statements from their acquisition dates. All significant intercompany balances and transactions have been eliminated in consolidation. Non-controlling interests in less-than-wholly owned consolidated subsidiaries of the Company are presented as a component of total equity to distinguish between the interests of the Company and the interests of the non-controlling owners.

The consolidation of these entities does not change any legal ownership, and does not change the assets or the liabilities and equity of the Parent Entity as a stand-alone entity. These entities had total revenues of approximately $391,700,000 and $346,182,000 and total net income of approximately $39,793,000 and $36,243,000 for the years ended September 30, 2021 and 2020, respectively. The assets and liabilities of the variable interest entities are as follows (in thousands):

September 30,	**2021**	2020
Assets		
Total current assets	$ **155,767**	$ 120,920
Total non-current assets	**110,050**	110,180
Total assets	$ **265,817**	$ 231,100
Liabilities		
Total current liabilities	$ **69,258**	$ 70,963
Total long-term liabilities	**730**	730
Total liabilities	$ **69,988**	$ 71,693

Revenues

Revenues by reportable segment are comprised of the following amounts (in thousands):

For the Years Ended September 30,	2021	2020
Net Hospital Services		
Inpatient	$ 1,437,905	$ 1,377,468
Outpatient	804,084	802,318
Capitation	161,518	147,588
Other	4,569	12,005
Total Hospital Services operating revenues (before provision for bad debts-2020 only)	2,408,076	2,339,379
Less: Provision for bad debts	-	(102,251)
Total Net Hospital Services operating revenues	2,408,076	2,237,128
Other non-patient revenues	44,603	38,464
Total Hospital Services revenues	2,452,679	2,275,592
Medical Group		
Capitation	397,670	310,521
Management fees	16,393	11,563
Other	57,270	50,562
Total Medical Group revenues	471,333	372,646
Global Risk Management		
Capitation	73,151	55,290
Other	27,003	29,610
Total Global Risk Management revenue	100,154	84,900
Corporate revenues	3,171	250
Total net revenues	$ 3,027,337	$ 2,733,388

On October 1, 2020, the Company adopted the new revenue recognition standard, Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)", using a modified retrospective method of application to all contracts existing on October 1, 2020. The core principle of the guidance in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. For the Hospital Segment, the adoption of ASU 2014-09 resulted in changes to the presentation and disclosure of revenue primarily related to uninsured or underinsured patients. Prior to the adoption of ASU 2014-09, a significant portion of the provision for doubtful accounts related to self-pay patients, as well as co-pays, co-insurance amounts and deductibles owed by patients with insurance. Under ASU 2014-09, the estimated uncollectable amounts due from these patients are generally considered implicit price concessions that are a direct reduction to net operating revenues, with a corresponding reduction in the amounts presented as provision for doubtful accounts.

The Company has revised its accounting policies related to revenues effective October 1, 2020 and these are discussed below.

The Company recognizes net operating revenues in the period in which performance obligations under contracts by transferring our services to customers are satisfied. Net operating revenues are recognized in the amounts to which the Company expects to be entitled, which are the transaction prices allocated to the distinct services.

Net operating revenues for the Hospital Segment primarily consist of net patient service revenues, principally for patients covered by Medicare, Medicaid, managed care and other health plans, as well as certain uninsured patients and other uninsured discount and charity programs. Additionally, the Hospital Segment also earns revenues from capitation arrangements that are made directly made with various managed care providers.

The following is a summary of sources of patient service revenues in the Hospital Segment (in thousands):

Years Ended September 30,	**2021**	2020
Medicare	**$ 678,577**	$ 745,780
Medicaid	**780,305**	757,626
Managed Care/Commercial	**700,915**	571,749
Self-Pay/Other	**82,193**	104,631
Capitation	**161,518**	147,588
Other	**4,568**	12,005
Total patient service revenue	**$ 2,408,076**	$ 2,339,379

Operating revenues of the Medical Group segment consist primarily of payments for medical services procured by certain entities included within the Medical Group segment ("Affiliates") under capitated contracts with various managed care providers including HMOs. Capitation revenue under HMO contracts is prepaid monthly to the Affiliates based on the number of enrollees electing any one of the Affiliates as their health care provider. Operating revenues of the Global Risk Management segment consist primarily of payments for medical services procured under global capitation arrangements from third-party health plans. Capitation revenue under these global capitation contracts is prepaid monthly to the Global Risk Management segment based on the number of enrollees. Entities within the Global Risk Management segment entered into Management Services Agreements with the Hospital Services and Medical Group segments, under which up to 98% of capitation revenue received is transferred to these segments. During the years ended September 30, 2021 and 2020, capitation revenue received from health plans was approximately $288,908,000 and $265,513,000, respectively, of which $129,738,000 and $101,556,000, and $104,274,000 and $119,328,000 were transferred to the Hospital Services segment and Medical Group segment, respectively.

Fee-for-Service ("FFS") Revenues

FFS revenues are due from patients, third-party payers (including managed care payers and government programs) and others, and they include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, the Company bills patients and third-party payers several days after the services are performed or shortly after discharge. Revenues are recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided and revenues are recognized when performance obligations satisfied over time based on actual charges incurred in relation to total expected charges. This method provides a faithful depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations. Generally, performance obligations satisfied over time relate to patients in the Company's hospitals receiving inpatient acute care services. The Company measures the performance obligation from admission into the hospital, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Patient encounters and related episodes of care and procedures qualify as distinct goods and services, provided simultaneously together with other readily available resources, in a single instance of service, and thereby constitute a single performance obligation for each patient encounter and, in most instances, occur at readily determinable transaction prices. All services provided are expected to result in cash flows and are therefore reflected as net revenue in the consolidated financial statements.

The transaction price is determined based on gross charges for services provided, reduced by contractual adjustments provided to third-party payers, discounts provided to uninsured patients, and implicit price concessions provided primarily to uninsured patients. The estimates of contractual adjustments and discounts are based on contractual agreements, discount policies and historical cash collection experience. As a practical expedient, the Company adopted a portfolio approach for the FFS revenue stream to group together contracts with similar characteristics and analyze historical cash collections trends. The contracts within the portfolio share the characteristics conducive to ensuring that the results do not materially differ under the new standard if it were to be applied to individual patient contracts related to each patient encounter.

The Company is responsible for confirming member eligibility, performing program utilization review, potentially directing payment to the provider and accepting the financial risk of loss associated with services rendered, as specified within the Company's patient contracts. The Company has the ability to adjust contractual fees with patients and possess the financial risk of loss in certain contractual obligations. These factors indicate the Company is the principal and, as such, the Company records gross fees contracted with patient in revenues.

Revenues under the traditional FFS service Medicare and Medicaid programs are based primarily on prospective payment systems. Retrospectively determined cost-based revenues under these programs, which were more prevalent in earlier periods, and certain other payments, such as disproportionate share hospital and bad debt expense reimbursement, which are based on our hospitals' cost reports, are estimated using historical trends and current factors. Cost report settlements under these programs are subject to audit by Medicare and Medicaid auditors and administrative and judicial review, and it can take several years until final settlement of such matters is determined and completely resolved. The Company records accruals to reflect the expected final settlements on cost reports. For filed cost reports, the accrual is recorded based on those cost reports and subsequent activity. The accrual for periods for which a cost report is yet to be filed is recorded based on estimates of what the Company expects to report on the filed cost reports. After the cost report is filed, the accrual may need to be adjusted and these accruals are adjusted in future periods as they become known.

Settlements with third-party payers for retroactive revenue adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care using the most likely outcome method. These settlements are estimated based on the terms of the payment agreement with the payer, correspondence from the payer and historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements

are adjusted in future periods as adjustments become known, or as years are settled or are no longer subject to such audits, reviews and investigations.

The following is a summary of due from and due to governmental payers at September 30, 2021 and 2020 (in thousands):

September 30,	2021	2020
Due from government payers:		
Medicaid disproportionate share	$ 19,356	$ 14,828
Medicare cost report settlements	3,942	5,417
Medicaid Section 1115 receivable	-	145
	$ 23,298	$ 20,390
Due to government payers:		
Medicaid disproportionate share	$ 8,091	$ 4,461
Medicare cost report settlements	1,703	4,160
Medicaid cost report settlements	10,424	24,128
	$ 20,218	$ 32,749

The Company is not aware of any material claims, disputes, or unsettled matters with any payers that would affect revenues that have not been adequately provided for and disclosed in the accompanying consolidated financial statements. Because the laws, regulations, instructions and rule interpretations governing Medicare and Medicaid reimbursement are complex, subject to interpretation and can change frequently, the estimates recorded could change by material amounts.

The Company provides charity care to patients who lack financial resources and are deemed to be medically indigent based on criteria established under the Company's charity care policy. This care is provided without charge or at amounts less than the Company's established rates. Because the Company does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as net operating revenues. The direct and indirect costs related to this care totaled approximately $3,488,000 and $6,545,000 for the years ended September 30, 2021 and 2020, respectively. Direct and indirect costs for providing charity care are estimated by calculating a ratio of cost to gross charges and then multiplying that ratio by the gross uncompensated charges associated with providing care to charity patients.

Patients who are covered by third-party payers are responsible for related co-pays, co-insurance and deductibles, which vary in amount. The Company estimates the transaction price for patients with co-pays, co-insurance and deductibles and for those who are uninsured based on historical collection experience and current market conditions. The discount offered to certain uninsured patients is recognized as a contractual allowance, which reduces net operating revenues at the time the self-pay accounts are recorded. The uninsured patient accounts, net of contractual allowances recorded, are further reduced to their net realizable value at the time they are recorded through implicit price concessions based on historical collection trends for self-pay accounts and other factors that affect the estimation process. Although outcomes vary, the Company's policy is to attempt to collect amounts due from patients, including co-pays, co-insurance and deductibles due from patients with insurance, at the time of service while complying with all federal and state statutes and regulations. All of the Company's hospital facilities are subject to Emergency Medical Treatment and Active Labor Act ("EMTALA"). This federal law and accompanying regulations require any hospital that participates in the Medicare program to conduct an appropriate medical screening examination of every person who comes to the hospital's

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emergency department for treatment and, if the patient is suffering from an emergency medical condition, to either stabilize that condition or make an appropriate transfer of the patient to a facility that can treat the condition. The obligation to screen and stabilize emergency medical conditions exists regardless of a patient's ability to pay for treatment. There are severe penalties under EMTALA for violations of the law and regulations, including if a hospital fails to screen or appropriately stabilize or transfer a patient or if the hospital delays appropriate treatment in order to first inquire about the patient's ability to pay. Penalties for violations of EMTALA include civil monetary penalties and exclusion from participation in the Medicare program. In addition, an injured patient, the patient's family or a medical facility that suffers a financial loss as a direct result of another hospital's violation of the law can bring a civil suit against that other hospital. The Company believes that it is in compliance with EMTALA and is not aware of any pending or threatened EMTALA investigations involving allegations of potential wrongdoing that would have a material effect on the Company's consolidated financial statements.

State Supplemental Medicaid Programs

The various states in which the Company operates have additional programs in which certain of the Company's facilities participate in, related to medical facilities serving a disproportionate number of low-income patients. The Company recognizes revenues related to supplemental Medicaid payments under using the most likely outcome method, and the estimates also consider whether it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. The following table shows the revenues generated by these programs during the years ended September 30, 2021 and 2020 (in thousands), which are reflected in Net Hospital Segment patient service revenues in the accompanying consolidated statements of operations:

Years Ended September 30,	**2021**	2020
California Medi-Cal Disproportional Share ("CA DSH")	**$ 38,183**	$ 32,216
Rhode Island DSH and Upper Payment Limit ("UPL")	**22,273**	20,239
Pennsylvania State Programs	**32,042**	48,988
Connecticut Medicaid DSH revenue	**25,270**	27,659
	$ 117,768	$ 129,102

California Hospital Fee Program

The Company recognizes revenues related to supplemental Medi-Cal payments under California provider fee programs using the most likely outcome method, which is based on formulas contained in the legislation as well as modeling performed by the California Hospital Association ("CHA"). The estimates also consider whether it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. These programs are funded by quality assurance fees paid by participating hospitals and matching federal funds.

The Company recognized supplemental payments, included in net patient service revenue, and quality assurance fee expense, included in general and administrative in the accompanying consolidated statements of operations as follows (in thousands):

Years Ended September 30,	**2021**	2020
Hospital services revenues	**$ 137,926**	$ 140,691
General and administrative	**73,720**	97,270
Net pre-tax impact	**$ 64,206**	$ 43,421

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Capitation Revenues

Capitation revenue (net of capitation withheld to fund risk share deficits discussed below) is recognized in the month in which the providers are obligated to provide services (stand ready obligation). Minor ongoing adjustments to prior months' capitation, primarily arising from contracted HMOs' finalizing of monthly patient eligibility data for additions or subtractions of enrollees, are recognized in the month they are communicated to the Company. Additionally, Medicare pays capitation using a "Risk Adjustment model," which compensates managed care organizations and providers based on the health status (acuity) of each enrollee. Under Risk Adjustment, capitation is determined based on health severity, measured using patient encounter data. Capitation is paid on an interim basis based on data submitted for the enrollee for the preceding year and is adjusted in subsequent periods the final data is compiled. Positive or negative capitation adjustments are made for Medicare enrollees with conditions requiring more or less healthcare services than assumed in the interim payments. Since the Company cannot reliably predict these adjustments, periodic changes in capitation amounts earned as a result of Risk Adjustment are recognized generally in the fourth quarter when those changes are communicated by the health plans to the Company.

As related to the Medical Group Segment, during the years ended September 30, 2021 and 2020, the Company returned and recognized as a reduction in revenue, approximately $2,800,000 and $1,395,000, respectively, as a result of the final Hierarchical Condition Category ("HCC") reconciliation. As related to the Global Risk Management Segment, the Company recognized capitation risk adjustments of approximately $6,123,000 and $9,646,000, respectively, during the years ended September 30, 2021 and 2020.

Per Member Per Month ("PMPM") managed care contracts generally have a term of one year or longer. All managed care contracts have a single performance obligation that constitutes a series for the provision of managed healthcare services for a population of enrolled members for the duration of the contract. The transaction price for PMPM contracts is variable as it primarily includes PMPM fees associated with unspecified membership that fluctuates throughout the contract. In certain contracts, PMPM fees also include adjustments for items such as performance incentives, performance guarantees and risk sharing. The Company generally estimates the transaction price using the most likely amount methodology and amounts are only included in the net transaction price to the extent that it is probable that a significant reversal of cumulative revenue will not occur once any uncertainty is resolved. The majority of the Company's net PMPM transaction price relates specifically to the Company's efforts to transfer the service for a distinct increment of the series (e.g. month) and is recognized as revenue in the month in which members are entitled to service.

Risk Pool Settlements and Incentives

HMO contracts also include provisions to share in the risk for hospitalization, whereby the physician organization can earn additional incentive revenue or incur penalties based upon the utilization of hospital services. Typically, any shared risk deficits are not payable until and unless the Company generates future risk sharing surpluses, or if the HMO withholds a portion of the capitation revenue to fund any risk share deficits. At the termination of the HMO contract, any accumulated risk share deficit is typically extinguished. Due to the lack of access to information necessary to estimate the related costs, shared-risk amounts receivable from the HMOs are only recognized, using the most likely methodology, and only included in revenue to the extent that it is probable that a significant reversal of cumulative revenue will not occur. Risk pools for the prior contract years are generally final settled in the third or fourth quarter of the following fiscal year. For the years ended September 30, 2021 and 2020, Medical Group revenues included approximately $12,282,000 and $24,166,000, respectively, relating to risk-sharing profit. At September 30, 2021 and 2020, contingent liabilities for carry-forward risk-pool deficits expected to be forgiven, or offset against future surpluses were approximately $13,740,000 and $68,702,000, respectively, based on the available information from the health plans.

The Company also receives incentives under "pay-for-performance" programs for quality medical care, based on various criteria. The incentive programs track specific performance measures and calculate payments to the Company based on the performance measures. The Company's incentives under "pay-for-performance" programs are recognized using the most likely methodology. However, as the Company does not have sufficient insight from the health plans on the amount and timing of the shared risk pool and incentive payments these amounts are considered to be fully constrained and only recorded when such payments are known and/or received. Performance and incentive revenues recorded during the years ended September 30, 2021 and 2020 were $15,405,000 and $21,272,000, respectively.

Management fee revenue is earned in the month the services are rendered. Management fee arrangements with unaffiliated entities provide for compensation ranging from 6.5% to 10% of revenues. Consideration from management contracts is variable in nature because the majority of the fees are generally based on revenue or collections, which can vary from period to period. The Company has control over pricing. Contractual fees are invoiced to the Company's clients generally monthly and payment terms are typically due within 30 days. The variable consideration in the Company's management contracts meets the criteria to be allocated to the distinct period of time to which it relates because (i) it is due to the activities performed to satisfy the performance obligation during that period and (ii) it represents the consideration to which the Company expects to be entitled. Management fee revenues recorded during the years ended September 30, 2021 and 2020 were $15,562,000 and $11,895,000, respectively. Management fees for revenue for entities that are consolidated are eliminated on consolidation.

Contract Assets and Contract Liabilities

The receivables and payables related to the California Hospital Fee Program are the most significant contract assets and liabilities in the Company's consolidated financial statements. As of September 30, 2021 and 2020, the Company had receivables related to the California Hospital Fee Program of approximately $178,042,000 and $189,941,000, respectively, and had liabilities related to the California Hospital Fee Program of approximately $71,197,000 and $70,660,000, respectively, in the accompanying consolidated balance sheets.

Cost of revenues

The Company, for certain matters, maintains stop loss coverage for health care costs that are in excess of set thresholds.

Medical Group Cost of Revenues

The cost of health care services consists primarily of capitation and claims payments, pharmacy costs and incentive payments to contracted providers. These costs are recognized in the period incurred, or when the services are provided. Claims costs also include an estimate of the cost of services which have been incurred but not yet reported to the Company. The estimate for accrued medical costs is based on projections of costs using historical studies of claims paid and adjusted for seasonality, utilization and cost trends. These estimates are subject to trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management records its best estimate of the amount of medical claims incurred at each reporting period. Estimates are continually monitored and reviewed and, as settlements are made or estimates adjusted, differences are reflected in current period. See Note 14 for changes in claims estimates during the years ended September 30, 2021 and 2020.

The Company has contractual reimbursement obligations to providers and discretionary incentive payment obligations to physicians. These payments are in large part predicated on the pay-for-performance, shared risk revenues, and favorable senior capitation risk adjustment payments received by the Company from the health plans. The Company records these revenues generally in the third or fourth quarter of each fiscal year when the incentives and capitation adjustments due from the health plans are known. During this period, the Company also finalizes the physician discretionary incentive.

The Company recorded physician incentives expense of approximately $33,932,000 and $24,230,000 for the years ended September 30, 2021 and 2020, respectively. As of September 30, 2021 and 2020, physician incentive accruals of approximately $24,776,000 and $22,484,000, respectively, were included in accounts payable and other accrued liabilities in the accompanying consolidated financial statements.

The Company also periodically evaluates the need to establish premium deficiency reserves for the probability that anticipated future health care costs could exceed future capitation payments from HMOs under capitated contracts and, where appropriate, records a premium deficiency reserve. There were no such premium deficiencies recorded at September 30, 2021 and 2020, respectively.

Global Risk Management

The cost of health care services consists primarily of the transfer of capitation revenue to the Hospital Services and Medical Group segments under the Management Services Agreements, and capitation and claims payments. These costs are recognized in the period incurred, or when the services are provided. Claims costs also include an estimate of the cost of services which have been incurred but not yet reported to the Company. The estimate for accrued medical costs is based on projections of costs using historical studies of claims paid and adjusted for seasonality, utilization and cost trends. These estimates are subject to trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management records its best estimate of the amount of medical claims incurred at each reporting period. Estimates are continually monitored and reviewed and, as settlements are made or estimates adjusted, differences are reflected in current operations.

The Company also periodically evaluates the need to establish premium deficiency reserves for the probability that anticipated future health care costs could exceed future capitation payments from HMOs under capitated contracts and, where appropriate, record a premium deficiency reserve. There were no such premium deficiencies recorded at September 30, 2021 or 2020.

Patient Accounts Receivable, Net

Collection of receivables from third-party payers and patients are the Company's primary source of cash and is critical to its operating performance. For patient accounts receivable resulting from revenue recognized prior to October 1, 2020, a provision for doubtful accounts was established to reduce the carrying value of such receivables to their estimated net realizable value. Generally, the Company estimated this allowance based on the aging of our accounts receivable by hospital, its historical collection rates as well as changes in applicable laws, rules and regulations and contract terms, to assure that provisions for contractual allowances are made using the most accurate information available. The allowance for doubtful accounts was approximately $198,052,000 as of September 30, 2020, representing 41% of gross accounts receivable. Under the provisions of ASU 2014-09, which the Company adopted effective October 1, 2020, when the Company has an unconditional right to payment, subject only to the passage of time, the right is treated as a receivable. Patient accounts receivable, including billed accounts and unbilled accounts for which there is the unconditional right to payment, and estimated amounts due from third-party payers for retroactive adjustments, are receivables if the right to consideration is unconditional and only the passage of time is required before payment of that consideration is due. For patient accounts receivable subsequent to the Company's adoption of ASU 2014-

09 on October 1, 2020, the estimated uncollectable amounts are generally considered implicit price concessions that are a direct reduction to patient accounts receivable rather than allowance for doubtful accounts. Such implicit price concessions may be caused by denials for payments for services due to issues over patient eligibility for medical coverage, the Company's ability to demonstrate medical necessity for services rendered and payer authorization of hospitalization.

Property, Improvements and Equipment

Property, improvements and equipment are stated on the basis of cost or, in the case of acquisitions, at their acquisition date fair values. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, and amortization of leasehold improvements is provided using the straight-line basis over the shorter of the remaining lease period or the estimated useful lives of the leasehold improvements. Leasehold improvements are generally depreciated over 5 to 40 years, buildings and improvements are depreciated over 5 to 40 years, equipment is depreciated over 2 to 15 years and furniture and fixtures are depreciated over 2 to 20 years. Equipment capitalized under capital lease obligations are amortized over the lesser of the life of the lease or the useful life of the asset.

As more fully described in Note 13, the Company is required to comply with certain seismic standards as required by the state of California by dates through July 2022. The useful life of buildings subject to seismic retrofit requirements may be limited if the Company does not make the necessary upgrades by the required compliance date.

Goodwill

Goodwill represents the excess of the consideration paid and liabilities assumed over the fair value of the net assets acquired, including identifiable intangible assets.

The Company follows the private company alternative, under which private companies can elect to amortize goodwill on a straight-line basis over 10 years, or less than 10 years if the entity demonstrates that another useful life is more appropriate. It also permits a private company to apply a simplified impairment model to goodwill, allowing impairment analysis to be evaluated at the entity level. Accordingly, the Company amortizes goodwill on a straight-line basis over 10 years. The Company evaluates goodwill for impairment at the entity level when a triggering event occurs that indicates that the fair value of the entity may be below its carrying amount. When a triggering event occurs, the Company first assesses qualitative factors to determine whether the quantitative impairment test is necessary. If that qualitative assessment indicates that it is more likely than not that goodwill is impaired, the Company performs the quantitative test to compare the entity's fair value with its carrying amount, including goodwill. If the qualitative assessment indicates that it is not more likely than not that goodwill is impaired, further testing is unnecessary. The goodwill impairment loss, if any, represents the excess of the carrying amount of the entity over its fair value. There was no goodwill impairment recorded during the years ended September 30, 2021 and 2020.

Intangible Assets

Intangible assets include customer relationships, trade names, and favorable leaseholds. The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The Company considers assets to be impaired and writes them down to fair value if estimated undiscounted cash flows associated with those assets are less than their carrying amounts. Fair value is based upon the present value of the associated cash flows. Changes in circumstances (for example, changes in laws or regulations, technological advances or changes in strategies) may also reduce the useful lives from initial estimates. Changes in planned use of intangibles may result from changes in customer base, contractual agreements, or regulatory requirements. In such

circumstances, management will revise the useful life of the long-lived asset and amortize the remaining net book value over the adjusted remaining useful life. There were no impairments recorded during the years ended September 30, 2021 and 2020.

Insurance Reserves

Medical Malpractice Liability Insurance

The individual physicians who contract with the physician organizations carry their own medical malpractice insurance, some of which may be purchased from RRG or CHIC. In the Hospital Services segment, the Company's hospitals carry professional and general liability insurance to cover medical malpractice claims under claims-made policies. Under the policies, insurance premiums cover only those claims actually reported during the policy term. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims related to occurrences during the policy term but reported subsequent to the policy's termination may be uninsured. The Company's hospitals have a consolidated policy for professional and general liability insurance with a retention that applies per claim.

Prospect RRG & Prospect Crozer, LLC ("Crozer")

During the years ended September 30, 2021 and 2020 at Crozer, RRG provided primary malpractice insurance ($500,000 per occurrence and $1,500,000 in the aggregate for physicians, and $500,000 per occurrence and $2,500,000 in the aggregate for the hospitals) and general liability ($1,000,000 per occurrence and $2,000,000 in the aggregate). The Pennsylvania MCARE fund provides the $500,000 in excess of $500,000 RRG malpractice coverage for physicians, hospitals, and certain professional corporations. For the year ended September 30, 2021, excess coverage was provided by CHIC for limits up to $80,000,000 over entity retentions, which was 100% reinsured by third party carriers. Additionally, RRG provides $1,000,000 per occurrence and $3,000,000 in the aggregate) coverage for non-healthcare provider professional liability. For the year ended September 30, 2020, RRG provided coverage for losses of $4,000,000 in excess of $1,000,000 for each hospital professional liability claim with no aggregate limit. RRG also provided additional layers of excess coverage over $5,000,000 up to $20,000,000, which was 100% reinsured to third party carriers. The excess coverage provided for general liability is over $1,000,000 up to $50,000,000, which was also 100% reinsured by third party carriers. Additionally, there is $1,000,000 per occurrence and $3,000,000 in the aggregate) coverage for non-healthcare provider professional liability.

CHIC

For the year ended September 30, 2021, the malpractice and general liability risk was retained by the Company's hospitals and affiliated subsidiaries subject to a $7,500,000 retention, except for Crozer subject to $12,500,000 retention. For the year ended September 30, 2020, CHIC provided malpractice and general liability ($5,000,000 per occurrence and $37,000,000 in the aggregate) coverage for all facilities, except Crozer. For the years ended September 30, 2021 and 2020, CHIC also provided an excess healthcare professional liability and umbrella liability insurance policy on a claims-made basis covering healthcare professional liability, general liability, automobile liability, employers' liability, helipad liability and non-owned aircraft liability. The limit provided was $80,000,000 during the years ended September 30, 2021 and 2020, for each loss event and in the annual aggregate excess of the primary coverage layers described above. This coverage was fully reinsured by third party carriers.

GAAP requires that a health care organization record and disclose the estimated costs of medical malpractice claims in the period of the incident of malpractice, if it is reasonably possible that liabilities may be incurred and losses can be reasonably estimated. The Company has recognized an estimated liability for incurred but not reported claims and the self-insured risks (including deductibles and potential claims in excess of policy limits) based upon an actuarial valuation of the Company's historical claims experience of its hospitals. At September 30, 2021 and 2020, the total gross claims liability, was approximately $121,691,000 and $103,349,000 and reinsurance recoverable on unpaid losses were approximately $16,053,000 and $17,506,000, respectively, included in other assets on the accompanying consolidated balance sheets, and were estimated using a discount factor ranging from 3.50% to 4.00%.

Workers' Compensation Insurance

The workers' compensation coverage provides the statutory benefits required by law with a $500,000 deductible reimbursement policy provided by CHIC for the Company's entities located in California and Connecticut, and Pennsylvania for the year ended September 30, 2020. The facilities in Rhode Island were fully insured for workers' compensation claims with no deductible in a guaranteed cost program.

At September 30, 2021 and 2020, included in accrued salaries, wages and benefits are accruals for uninsured claims and claims incurred but not reported of approximately $29,109,000 and $32,532,000 and reinsurance recoverable on unpaid losses of $4,952,000 and $5,218,000, respectively, included in other assets on the accompanying consolidated balance sheets. The amounts are estimated based upon an actuarial valuation of claims experience, using a discount factor of 4%.

Reserve Methodology

The claims reserve is based on the best data available to the Company. The estimate, however, is subject to a significant degree of inherent variability. The estimate is continually monitored and reviewed, and as the reserve is adjusted, the difference is reflected in current operations. While the ultimate amount of the medical malpractice and workers' compensation claims liability is dependent on future developments, management is of the opinion that the associated liabilities recognized in the accompanying consolidated financial statements are adequate to cover such claims. Management is not aware of any potential claims whose settlement, if any, would have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments with initial maturities of 90 days or less to be cash equivalents. Cash and cash equivalents are primarily comprised of deposits with banks. The Company maintains its cash at banks with high credit-quality ratings.

Cash Held in Escrow

As of September 30, 2021, the Company held $45,270,000 of cash held in escrow in connection with the purchase of the non-controlling interest of Prospect CharterCARE, LLC ("CharterCare") (see Note 4). As of September 30, 2020, the Company held $70,000 of cash in escrow.

Restricted Cash

Some of the Company's cash is restricted for various purposes including research, regulatory requirements and letters of credit. The Company is also required to keep restricted deposits by certain HMOs for the payment of claims. Such restricted deposits are classified as a current asset in the accompanying consolidated balance sheets, as they are restricted for payment of current liabilities. Restricted cash also include certificates of deposit with maturity dates of more than 90 days when purchased.

Restricted Investments

Investments in marketable securities, primarily mutual funds, and are classified as available for sale and are stated at fair value. Unrealized gains and losses are recorded in the statements of other comprehensive income. Investment securities are exposed to various risk, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in values of investment securities could occur in the near term and such changes could materially affect investment. These investments are held in the Company's captive insurance companies and are shown as restricted because the state/local regulators require their approval before dividends or return of capital to the Parent Entity.

Inventories

Inventories of supplies are valued at the lower of amounts that approximate the weighted average cost or net realizable value, which approximates market value, and are expensed as incurred. Inventories consist primarily of medical and surgical supplies and pharmaceuticals.

Internal Use Software

Included within other receivables, prepaid expenses and other current assets are hosting arrangements related to the Oracle suite of products, which are accounted for as service contracts. The gross carrying amount of capitalized service costs was approximately $30,641,000 and $14,298,000 at September 30, 2021 and 2020, respectively. There is no expected residual value for capitalized costs. As of September 30, 2021 there we no capitalized costs for hosting arrangements accounted for as service contracts that was in the development stage. As of September 30, 2020, there was approximately $12,100,000 of capitalized costs for hosting arrangements accounted for as service contracts that was in the development stage and amortization is scheduled to commence once the project is complete and ready for its intended use. The estimated amortization period is 5 years. Amortization expense was approximately $3,651,000 and $1,648,000 during the years ended September 30, 2021 and 2020, respectively.

Deferred Financing Costs

Deferred financing costs are amortized over the period in which the related debt is outstanding using the effective interest method and are classified as a deduction from the carrying amount of the related debt. As it relates to MPT liabilities, deferred financing costs are classified in other assets in the accompanying consolidated balance sheets.

Income Taxes

Deferred income tax assets and liabilities are recognized for differences between financial and income tax reporting bases of assets and liabilities based on enacted tax rates and laws. To the extent a deferred tax asset cannot be recognized under the preceding criteria, allowances must be established. The impact on deferred taxes of changes in tax rates and laws, if any, are applied to the years during which temporary differences are expected to be settled and reflected in the financial statements in the period of enactment. The Company recognizes interest and penalties associated with income tax matters and unrecognized tax benefits in the income tax expense line item of the statements of operations.

An entity is required to evaluate its tax positions using a two-step process. First, the entity should evaluate the position for recognition. An entity should recognize the financial statement benefit of a tax position if it determines that it is more likely than not that the position will be sustained on examination. Next, the entity should measure the amount of benefit that should be recognized for those tax positions that meet the more-likely-than-not test.

Sale-Leaseback Transactions

The Company evaluates sale-leaseback transactions by determining whether the transaction meets the qualifying criteria to be recognized as a sale-leaseback, including the transfer of risk and rewards of ownership as well as the absence of continuing involvement of the Company. When the qualifying criteria for a sale-leaseback transaction are not met, the Company accounts for the transaction as a financing (see Notes 9 and 10).

Comprehensive Income

Comprehensive income consists of net income and other gains and losses affecting stockholder's equity that, under generally accepted accounting principles, are excluded from net income (loss) attributable to the Company. For the Company, such items consist primarily of unrealized gains or losses on debt as well as changes related to pension and other postretirement liabilities that are not recognized immediately in net periodic benefit costs (see Note 12).

Fair Value Measurement

Relevant accounting guidance establishes a framework for measuring fair value and clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

The guidance requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of inputs as follows: Level 1 quoted prices in active markets for identical assets or liabilities; Level 2 quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; or Level 3 unobservable inputs for the asset or liability, such as discounted cash flow models or valuations. The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The Company's Level 1 assets include cash and cash equivalents and investments (certificates of deposit and money market mutual funds). The inputs for fair value of goodwill and intangible assets (including long-lived assets and intangible assets subject to amortization) would be based on Level 3 inputs as data used for such fair value calculations would be based on discounted cash flows that are not observable from the market, directly or indirectly.

Financial Items Measured at Fair Value on a Recurring Basis

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis and where they are classified within the hierarchy (in thousands):

September 30, 2021	Total	Level 1	Level 2	Level 3
Mutual funds	**$ 34,283**	**$ 34,283**	**$ -**	**$ -**
September 30, 2020				
Mutual funds	$ 31,354	$ 31,354	$ -	$ -

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The Company's investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices. The Company's defined benefit pension plan assets are also measured at fair value (see Note 12).

The Company's carrying amount of debt approximated fair value as of September 30, 2021 and 2020, respectively.

Concentrations of Credit Risk

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits of $250,000 per depositor of each financial institution. The Company has not experienced any losses to date related to these balances.

Financial instruments that potentially subject the Company to concentrations of credit risk consist of receivables due from Medicare, Medicaid, patients, and health plans including shared-risk arrangements.

The Company invests excess cash in liquid securities at institutions with strong credit ratings, following established guidelines relative to diversification and maturities to maintain safety and liquidity. These guidelines are periodically reviewed and modified to take into consideration trends in yields and interest rates and principal risk. Management attempts to schedule the maturities of the Company's investments to coincide with the Company's expected cash requirements. Credit risk with respect to receivables is limited since amounts are generally due from large HMOs within the Medical Group segment and from the Medicare and Medicaid programs within the Hospital Services segment. Management reviews the financial condition of these institutions on a periodic basis and does not believe the concentration of cash or receivables results in a high level of risk.

For the years ended September 30, 2021 and 2020, the Hospital Services segment received a total of 61% and 64% of its net patient revenues from Medicare and Medicaid programs, respectively, and the Medical Group segment received a total of 59% and 58% for the years ended September 30, 2021 and 2020, respectively, of their capitation revenues from its five largest HMOs, as follows (in thousands):

Years Ended September 30,		**2021**	**% of Total Revenue**			2020	% of Total Revenue
Hospital Services:							
Government Payers:							
Medicare	$	**678,577**	**28%**		$	745,780	32%
Medicaid		**780,305**	**32%**			757,626	32%
Total	$	**1,458,882**	**61%**		$	1,503,406	64%
Medical Group:							
HMO A	$	**53,780**	**14%**	HMO A		41,136	13%
HMO C		**51,208**	**13%**	HMO E		36,299	12%
HMO E		**48,304**	**12%**	HMO B		35,819	12%
HMO D		**41,996**	**11%**	HMO F		35,166	11%
HMO H		**35,090**	**9%**	HMO D		30,477	10%
Total	$	**230,378**	**59%**		$	178,897	58%

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The Global Risk Management segment received all of their revenues from seven health plans during the years ended September 30, 2021 and 2020.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities at the dates, and for the periods, that the consolidated financial statements are prepared. Actual results could materially differ from those estimates. Principal areas requiring the use of estimates include due to/from government payors, settlements under risk sharing programs, allowances for contractual discounts and implicit price concessions (doubtful accounts or bad debts in 2020), accruals for medical claims, impairment of goodwill, long-lived assets and intangible assets, share-based payments, professional and general liability claims and workers' compensation claims, reserves for pension obligations and other postretirement benefit reserves, reserves for outcome of changes in legislation and valuation allowances against deferred tax assets.

New Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" with effective dates deferred for all entities by ASU 2019-10, and further deferred for nonpublic entities by ASU 2020-05. The core principle of ASU 2016-02 is that a lessee should recognize the assets and liabilities that arise from leases, including operating leases. Under the new requirements, a lessee will recognize in the statement of financial position a liability to make lease payments (the lease liability) and the right-of-use asset representing the right to the underlying asset for the lease term. For leases with a term of 12 months or less, the lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous GAAP. Nonpublic entities will apply the new standard for annual periods beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The Company is currently evaluating the standard and the impact on its consolidated financial statements and footnote disclosures.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments". The amendments in this standard require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. In addition, this standard amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendment is effective for nonpublic entities for annual reporting periods beginning after December 15, 2022. Early adoption is permitted. The Company is currently evaluating the standard and the impact on its consolidated financial statements and footnote disclosures.

In August 2018, the FASB issued ASU 2018-14, "Compensation - Retirement Benefits - Defined Benefit plans - General (Topic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans", which amends ASC 715 to add, remove and clarify disclosure requirements related to defined benefit pension and other postretirement plans. This ASU is effective for fiscal years ending after December 15, 2021. Early adoption is permitted. The Company is currently evaluating the provision of ASU 2018-14 and its impact on its consolidated financial statements and related disclosures.

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Recently Adopted Accounting Pronouncements

On October 1, 2020, the Company adopted ASU 2014-09, *Revenue from Contracts with Customers*, and all subsequent amendments thereto (collectively, "Topic 606"). Topic 606 supersedes virtually all existing revenue recognition guidance, including industry-specific guidance, and replaces it with a single, comprehensive framework for recognizing revenue from contracts with customers. Topic 606 also requires enhanced disclosure about the Company's revenue from contracts with customers. The Company elected to adopt Topic 606 using the modified retrospective method. There is minimal impact from the implementation of ASC 606 except for the classification of bad debt and it is likely that the consolidated financial statement users will not have a lack of comparability in the financial statements.

Reclassifications

Certain reclassifications were made to the prior year consolidated financial statements in order to conform to the current year presentation. These reclassifications did not have a material impact on previously reported consolidated financial statements.

3. Property, Improvements and Equipment

Property, improvements and equipment, consisted of the following (in thousands):

September 30,	**2021**	2020
Land and land improvements	**$ 67,847**	$ 68,374
Buildings and improvements	**419,652**	378,882
Leasehold improvements	**28,614**	27,971
Equipment	**416,159**	409,784
Furniture and fixtures	**7,128**	6,032
	939,400	891,043
Less: accumulated depreciation	**(484,822)**	(412,812)
	454,578	478,231
Construction in Progress	**125,187**	66,025
Property, improvements and equipment, net	**$ 579,765**	$ 544,256

At September 30, 2021 and 2020, the Company had assets under capitalized leases of approximately $89,823,000 and $56,244,000, respectively, and related accumulated depreciation of $56,037,000 and $11,392,000, respectively.

Depreciation expense was approximately $71,193,000 and $70,706,000 for the years ended September 30, 2021 and 2020, respectively.

Included within equipment is capitalized software costs, which relate to significant system conversions. The estimated amortization period is 5 years. The gross carrying amount of capitalized software for internal use (related to the Cerner suite of products) was approximately $66,966,000 and $36,157,000 at September 30, 2021 and 2020, respectively, and the net carrying amount considering accumulated amortization was approximately $60,443,000 and $31,870,000 at September 30, 2021 and 2020, respectively. There is no expected residual value for capitalized internal-use software. At September 30, 2021 and 2020, there was approximately $55,783,000 and $24,973,000, respectively, of capitalized costs for internal-use software that is in the development stage and amortization is scheduled to commence once the software project is complete and ready for its intended use. Amortization expense was $2,237,000 and $2,237,000 for the years ended September 30, 2021 and 2020, respectively.

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4. Acquisition of Noncontrolling Interest in CharterCARE

In June 2014, the Company, through a newly formed subsidiary, Prospect CharterCARE, LLC ("CCHP"), acquired substantially all of the assets of CharterCARE Health Partners and its subsidiaries, in exchange for an 85% interest in CCHP, $43.3 million in cash and a commitment to invest at least $50 million in CCHP and its subsidiaries for strategic business development and capital improvements over the next four years (the "CharterCARE acquisition"). As a result of the acquisition, the Company had an 85% ownership interest in CCHP, with the remaining 15% being owned by the prior owner of the selling entities, CharterCARE Health Partners, which was subsequently renamed CharterCARE Community Board ("CCCB").

CCHP, through wholly owned subsidiaries, operates both Roger Williams Medical Center and St. Joseph Health Services of Rhode Island, dba Our Lady of Fatima Hospital. One of the seller entities, St. Joseph Health Services of Rhode Island, had a Retirement Plan (the "Retirement Plan") which is a defined benefit pension plan and was set up for the benefit of employees of Our Lady of Fatima Hospital when the hospital was a standalone hospital owned by a religious institution. The Company and CCHP did not acquire the Retirement Plan as part of the CharterCARE acquisition, and $14 million of the proceeds from the sale were contributed to the Retirement Plan in exchange for the Company and its subsidiaries, including CCHP, not having any liabilities related to the Retirement Plan. In August 2017, a petition was filed to place the Retirement Plan into receivership by its administrators because it was underfunded. In June 2018, the receiver for the Retirement Plan (along with various named participants) filed a lawsuit on behalf of all participants against various defendants which included CCCB, the Company, CCHP, the subsidiary which holds the Company's ownership interest in CCHP, and the two subsidiaries which own Roger Williams Medical Center and Our Lady of Fatima Hospital, along with the administrators of the Retirement Plan, The Angell Pension Group, Inc., among others. Also, in March 2019, CCCB sued the Company and various directors of the Company, and certain subsidiaries. The suits involved allegations related to the valuation of CCCB's 15% ownership interest in CCHP. In December 2019, CCCB and its subsidiaries settled with the receiver of the Retirement Plan. As a result, in January 2020 the receiver took control of CCCB's noncash assets, including its ownership interest in CCHP. In December 2019, the Company sued CCCB on the basis that CCCB had breached the original terms of the acquisition by entering into the settlement agreement with the receiver and seeking indemnity against the receiver's June 2018 lawsuit.

The Company entered into a Settlement Agreement in December 2020 to release the Company and its directors and subsidiaries from all of the various claims under the aforementioned litigation. The Settlement Agreement also provided for the Company to purchase the noncontrolling interest. Under the terms of the settlement, the Company paid $27.25 million, of which $22.25 million was to settle all of the outstanding cases between the parties, including the Company, which was subsequently released of their related claims, and $5 million was for the acquisition of the noncontrolling interest. The buyout of the noncontrolling interest was treated as an equity transaction. The payment of the settlement was conditioned upon State and Federal Court approvals, which was obtained in March 2021 and August 2021, respectively. Accordingly, the Company paid $27.25 million in August 2021, and the buyout of CCCB's noncontrolling interest in CCHP was effective on August 18, 2021.

The Company received recoveries from its insurance policies of approximately $12 million. A receivable was recorded for this amount at September 30, 2021. Such monies were received after year-end.

5. Discontinued Operations

As of and for the years ended September 30, 2021 and 2020, the operations of Nix Hospital System ("Nix Health") in Texas and East Orange General Hospital ("EOGH") in New Jersey met the criteria under applicable accounting standards to be presented as discontinued operations and as assets held for sale. In October 2020, the Company entered into an Asset Purchase Agreement to sell substantially all of the assets of EOGH for a sale price of $6.2 million. That sale closed effective January 1, 2022 (see Note 16). The Company's decision to discontinue the operations of each of these entities was based on the strategy of the Company's management in their respective markets and financial results.

In connection with the presentation of discontinued operations, the Company was required to test the long-lived assets for impairment as of September 30, 2021 and 2020. As of September 30, 2021, as a result of the impairment test, at EOGH: (i) property, improvements and equipment were impaired by approximately $4.5 million; and (ii) other receivables, prepaid expenses and other current assets at EOGH were impaired by approximately $6.4 million. As of September 30, 2020, as a result of the impairment test, at EOGH: (i) property, improvements and equipment were impaired by approximately $5.3 million; and (ii) other receivables, prepaid expenses and other current assets at EOGH were impaired by approximately $3.6 million.

Summarized financial information for discontinued operations is included below (in thousands):

September 30,	**2021**	2020
Patient accounts receivable, (net of allowance for doubtful accounts-2020) and other receivables	$ **16,417**	$ 11,771
Other receivables, prepaid expenses and other current assets	**(1,110)**	4,865
Inventories	**1,536**	1,379
Total current assets	**16,843**	18,015
Property, improvements and equipment, net	**6,831**	7,430
Intangible assets, net	**1,555**	1,555
Other assets	**164**	451
Total assets of the disposal groups classified as held for sale in the consolidated balance sheets	**25,393**	27,451
Accounts payable and other accrued liabilities	**12,605**	12,516
Accrued salaries, wages and benefits	**3,089**	4,784
Current portion of capital leases	**250**	448
Total current liabilities	**15,944**	17,748
Debt, net of current portion	**898**	922
Malpractice reserves	**-**	3,933
Capital leases, net of current portion	**-**	250
Total liabilities of the disposal groups classified as held for sale in the consolidated balance sheets	$ **16,842**	$ 22,853

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For the Years Ended September 30,	**2021**	2020
Net patient service revenues		$ 77,962
Provision for bad debts		2,140
Net patient service revenues	**$ 84,797**	80,102
Other non-patient revenues	**3,417**	7,394
Total revenues	**88,214**	87,496
Hospital operating expenses	**73,943**	90,254
General and administrative	**19,943**	29,312
Property, improvement and equipment impairment	**10,865**	8,857
Total operating expenses	**104,751**	128,423
Pandemic relief grant income	**6,841**	15,658
Net operating loss	**(9,696)**	(25,269)
Interest expense, net	**190**	923
Other income	**(2,355)**	(2,582)
Total other income, net	**(2,165)**	(1,659)
Loss on discontinued operations before income taxes	**(7,531)**	(23,610)
Income tax provision	**(2)**	(2)
Loss on discontinued operations, net of taxes	**$ (7,533)**	$ (23,612)

The following table shows the funds that the Company received through the PRF in both general and targeted distributions, including amounts received for Nix Health that were required to be repaid to HHS, during the year ended September 30, 2021 and 2020 (in thousands), as it relates to discontinued operations:

	PRF Funds	Hotspot Funds	Other Funds	Total
Funds received during the year ended September 30, 2020	$ 4,068	$ 12,350	$ 14,835	$ 31,253
Funds transferred from discontinued operations to continuing operations	(1,683)	-	-	(1,683)
Funds applied to lost revenues	-	(6,460)	(9,198)	(15,658)
Funds applied to incremental expenses	-	-	(5,637)	(5,637)
Funds that were refunded	(2,385)	-	-	(2,385)
Funds unused at September 30, 2020	$ -	$ 5,890	$ -	$ 5,890
Funds received during the year ended September 30, 2021	$ -	$ -	$ -	$ -
Funds transferred from continuing operations to discontinued operations	1,683	-	-	1,683
Funds applied to lost revenues	(1,683)	(5,158)	-	(6,841)
Funds applied to incremental expenses	-	(730)	-	(730)
Funds applied to incremental capital assets	-	(2)	-	(2)
Funds unused at September 30, 2021	$ -	$ -	$ -	$ -

As of September 30, 2020, the Company had $5,890,000 in funds related to EOGH that had not been recognized in the accompanying consolidated statements of operations. As these liabilities were not set to transfer upon the completion of the sale of EOGH, they were reflected in accounts payable and other accrued liabilities in the accompanying consolidated balance sheets. During the year ended September 30, 2021, such funds were used in full against incremental expenses and lost revenues and accordingly there was no liability as of September 30, 2021.

As of September 30, 2021 and 2020, the Company had recorded liabilities related to Medicare advance payments received of approximately $7,435,000 and $10,152,000, respectively, related to EOGH. These liabilities will not transfer in the sale of EOGH and accordingly are reflected in refund liabilities, current and non-current, in the accompanying consolidated balance sheets.

6. Goodwill and Intangible Assets

The net carrying value of goodwill by reporting unit is as follows (in thousands):

September 30, 2021	Gross	Accum. Impairment	Accum. Amortization	Total
Southern California Hospitals	$ 130,912	$ -	$ (26,182)	$ 104,730
California Medical Groups	30,722	-	(5,936)	24,786
CharterCare	14,718	(14,228)	(70)	420
Crozer	140,216	(978)	(27,868)	111,370
Prospect ECHN, Inc. ("ECHN")	535	-	(107)	428
Prospect Waterbury, Inc. ("Waterbury")	2,888	-	(555)	2,333
Total	$ 319,991	$ (15,206)	$ (60,718)	$ 244,067

September 30, 2020	Gross	Accum. Impairment	Accum. Amortization	Total
Southern California Hospitals	$ 130,912	$ -	$ (13,091)	$ 117,821
California Medical Groups	30,722	-	(2,864)	27,858
CharterCare	14,665	(14,228)	(22)	415
Crozer	140,216	(978)	(13,946)	125,292
ECHN	535	-	(54)	481
Waterbury	2,888	-	(268)	2,620
Total	$ 319,938	$ (15,206)	$ (30,245)	$ 274,487

The changes in the net carrying amount of goodwill for the years ended September 30 are as follows (amounts in thousands):

September 30,	2021	2020
Balance, beginning of year	$ 274,487	$ 302,377
Acquisitions	53	3,333
Disposition	-	(978)
Amortization	(30,473)	(30,245)
Balance, end of year	$ 244,067	$ 274,487

Amortization expense was $30,473,000 and $30,245,000 for the year ended September 30, 2021 and 2020, respectively, and is included in goodwill amortization expense in the accompanying consolidated statements of operations.

Estimated amortization expense for each fiscal year of goodwill is as follows (in thousands):

Years ending September 30,	
2022	$ 30,476
2023	30,476
2024	30,476
2025	30,476
2026	30,476
Thereafter	91,687
Total future amortization expense	$ 244,067

The weighted-average remaining useful life for the goodwill was approximately eight years as of September 30, 2021.

Identifiable intangible assets are comprised of the following (in thousands):

September 30,	Useful lives	**2021**	2020
HMO membership	14 years	**$ 25,200**	$ 25,200
Trade names, net of impairment	3 - 20 years	**42,030**	42,030
Other	5 - 6 years	**-**	97
Gross carrying value		**67,230**	67,327
Accumulated amortization		**(52,360)**	(47,273)
Intangible assets, net		**$ 14,870**	$ 20,054

Amortization is recognized on a straight-line basis (management's best estimate of the period of economic benefit) over the respective useful lives and expense for the years ended September 30, 2021 and 2020 was $5,184,000 and $5,491,000, respectively, and is included in depreciation and amortization expense in the accompanying consolidated statements of operations. There are no expected residual values related to these intangible assets.

Estimated amortization expense for each future fiscal year of intangible assets is as follows (in thousands):

Years ending September 30,	
2022	$ 3,395
2023	2,875
2024	2,875
2025	2,875
2026	2,435
Thereafter	415
	$ 14,870

The weighted-average remaining useful life for the intangible assets was approximately five years as of September 30, 2021.

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7. Related Party Transactions

Jeereddi Prasad, M.D., was a shareholder of Ivy Holdings, a director of Ivy Holdings and the Company, through June 1, 2021, and is an officer of the Upland Medical Group, a Professional Medical Group and Pomona Valley Medical Group, Inc. (collectively "ProMed Entities"), which has ownership interests in physician medical groups that provide medical services to ProMed members, including Chaparral Medical Group, Inc., (in which the Company beneficially owns a 13.2% interest). For the period from October 1, 2020 to June 1, 2021 (date of Chamber Transaction - see Note 11) and for the year ended September 30, 2020, the ProMed Entities paid these groups approximately $16,439,000 and $19,998,000. As of September 30, 2020, the Company had accounts payable and other accrued liabilities due to these related parties of $731,000, respectively. Such transactions continue after the Chamber Transaction.

Pursuant to a Management Services Agreement, dated December 15, 2010 and amended on May 3, 2012 (the "LGP Management Agreement"), between the Company and Leonard Green & Partners, L.P. ("LGP"), a private equity fund with affiliated funds that collectively constituted the majority shareholder of Ivy Holdings, LGP provided to the Company, (a) certain investment banking services, (b) management, consulting and financial planning services and (c) financial advisory and investment banking services in connection with major financial transactions from time to time. In connection with the Chamber Transaction (see Note 11), the LGP Management Agreement was terminated on June 1, 2021. In consideration for the services provided by LGP under the LGP Management Agreement, the Company paid LGP an annual fee of $1,000,000, payable in monthly installments, and reimbursed LGP for its related expenses up to $50,000 annually. The Company ceased accruing LGP monthly fees in March 2020.

During the year ended September 30, 2021, the Company paid a dividend of approximately $11.9 million (see Note 11). There were no dividends paid during the year ended September 30, 2020.

The Company is a wholly owned indirect subsidiary of Chamber. Therefore, Chamber is the parent of an affiliated group of corporations within the meaning of Section 1504(a) of the Internal Revenue Code of 1986. On December 15, 2010, Ivy Holdings, Ivy Intermediate and the Company entered into a Tax Sharing Agreement. The Tax Sharing Agreement allows the Company to make payments to Chamber as necessary to fund their payment of any required taxes incurred due to such parent status. Under this agreement, the Company received refunds (net of payments) of $(519,000) and $(397,000) for the years ended September 30, 2021 and September 30, 2020, respectively.

8. Income Taxes

The components of the income tax (benefit) provision are as follows (in thousands):

Year Ended September 30,	**2021**	2020
Current:		
Federal	$ -	$ (8,944)
State	**(2,206)**	1,874
	(2,206)	(7,070)
Deferred:		
Federal	-	-
State	-	-
	-	-
Total:		
Federal	**(2,206)**	(8,944)
State	-	1,874
	$ (2,206)	$ (7,070)

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Temporary differences and carry forward items that result in deferred income tax balances as of September 30, are as follows (in thousands):

September 30,	**2021**	2020
Deferred tax assets:		
Accrued medical claims	**$ 6,233**	$ 8,038
Malpractice reserves	**7,009**	4,013
Accounts receivable	**21**	723
Accrued salaries & wages	**16,201**	13,936
Pension obligation	**70,856**	58,511
Net operating losses and 163j	**142,315**	100,061
Tax Credits	**1,045**	2,350
Other comprehensive income	**14,753**	(297)
Lease liability	**125,159**	128,496
Deferred revenue	**1,039**	5,720
Deferred FICA tax	**7,215**	7,016
Deferred tax assets	**391,846**	328,567
Valuation allowance	**(307,973)**	(246,584)
Net deferred tax assets	**83,873**	81,983
Deferred tax liabilities:		
Property, plant & equipment	**(75,261)**	(71,010)
Intangible assets	**(3,939)**	(5,834)
Prepaid expenses	**(2,840)**	(2,830)
Outside basis differences	**(905)**	(1,920)
UTP & other	**(928)**	(389)
Deferred tax liabilities	**(83,873)**	(81,983)
Net deferred tax assets	**$ -**	$ -

Deferred tax assets and liabilities reflect the effect of temporary differences between the assets and liabilities recognized for financial reporting purposes and the amounts recognized for income tax purposes.

Management assesses the available positive and negative evidence to estimate whether sufficient future pretax income will be generated to permit use of the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative pretax losses incurred over the three-year period ended September 30, 2021. Such objective evidence limits the ability to consider other subjective evidence, such as the Company's projections for future growth. Based on this evaluation, at September 30, 2021 and 2020, a valuation allowance of approximately $308.0 million and $246.5 million, respectively, was recorded. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased or if negative objective evidence in the form of cumulative losses is no longer present and additional weight is given to subjective evidence such as the Company's projections for growth.

A consolidated federal tax return is filed for Chamber, Inc., with the exception of Nuestra Familia Medical Group Inc., ("Nuestra"), which files its own federal tax returns. The Company files combined state tax returns for California, Texas, Rhode Island, Connecticut, New Jersey and file separate state returns for Pennsylvania and Florida. The Company's filed tax returns are generally subject to examination by the IRS and state tax boards for 3 to 4 years.

As of September 30, 2021, the Company has net operating loss ("NOL") carryforwards for federal purposes of $197 million and various states of $922 million. The federal NOL carryforwards begin to expire in fiscal year 2039 and the state NOL carryforwards begin to expire in fiscal year 2022. We believe that it is more likely than not that the benefit from federal and state carryforwards will not be realized. In recognition of this risk, we have provided a valuation allowance on the deferred tax assets related to these NOL carryforwards. Utilization of the net operating loss carryforwards may be subject to an annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986, as amended (the "Code"), and similar state provisions. Any annual limitation may result in the expiration of net operating losses before utilization.

The Company's tax years 2017 through 2019 are open for federal income tax examination, and generally the states are open for tax years 2016 through 2019. The Company is under examination by the California Franchise Tax Board (FTB) for tax year ended September 30, 2017. During fiscal year ended September 30, 2021, the Company received a closing letter for the tax years ended September 2014 through 2016 from the California FTB auditor. In addition to finalizing the audit, the FTB allowed the inclusion of Prospect Medical Group, Inc & Subsidiaries and New Genesis Medical Associates, Inc. & Subsidiaries in the California unitary group filed by Ivy Holdings, Inc & Subsidiaries. An incremental benefit of $4.1 million was recorded to income tax receivable in the current period for the refund expected as a result of the audit close. For the period ended September 30, 2021 and 2020, the Company recorded a liability in the amount of $5.7 million and $4.1 million respectively, related to uncertain tax positions ("UTP") with respect to California Unitary Combined Filing for Fiscal year 2017 through 2021, which was recorded in other long-term liabilities in the accompanying consolidated balance sheets.

The Company has evaluated the CARES Act and does not expect the legislation to have a significant impact on the effective tax rate or the income tax payable of the Company.

The differences between the income tax provision at the federal statutory rate and that reflected in the accompanying consolidated statements of operations are summarized as follows:

Years Ended September 30,	**2021**	2020
Tax provision at statutory rate	**21%**	21%
State taxes, net of federal benefit	**14%**	20%
Return to provision adjustments	**-%**	11%
Goodwill amortization	**(4)%**	(8)%
Deferred tax adjustments	**1%**	8%
Valuation allowance	**(32)%**	(39)%
UTP	**(1)%**	(5)%
Change in State Tax Rate	**5%**	1%
Other	**(2)%**	-%
	2%	9%

9. Debt

Debt consists of the following (in thousands):

September 30,	2021	2020
MPT TRS loan *(1)*	$ 98,606	$ 105,508
MPT Foothill loan *(1)*	51,267	51,267
Sale-leaseback financing obligations	21,935	31,401
Other debt *(2)*	11,907	21,163
Total debt	183,715	209,339
Less: current maturities	(16,032)	(19,138)
Debt, net of current maturities	$ 167,683	$ 190,201

(1) See Note 10 for more information related to MPT sale-leaseback transactions.
(2) Other debt is comprised of building, equipment and software loans.

Senior Secured and Revolving Credit Facilities

On February 22, 2018, the Company entered into an ABL Credit Agreement (the "ABL Agreement"), by and among the Company (as the borrower), the lenders party thereto and JPMorgan Chase Bank, N.A. ("JPMorgan"), as administrative agent and collateral agent. Under the ABL Agreement, the initial maximum revolving commitment was $250.0 million with ability to expand the facility to $325.0 million (the "ABL Facility"), and the ABL facility bears interest at a variable base rate plus an applicable spread that is based on excess availability under the ABL Facility, as further described in the ABL Agreement, which was 3.75% and 4.0% as of September 30, 2021 and 2020, respectively. Through various amendments and the sale of Nix Health, the maximum commitment under the ABL Agreement was $275.0 million at September 30, 2021. This commitment will decrease by $15.0 million in the month after the sale of EOGH and by a further $10.0 million when the remaining building at Nix Health is sold. In January 2020, the maximum revolving commitment under the ABL Agreement decreased by $10.0 million to $275.0 million in connection with the sale of the acute care hospital building at Nix Health in December 2019.

The ABL Facility matures on February 22, 2023. As of September 30, 2021 and 2020, the outstanding balance on the ABL facility was $45.0 million and $0, respectively, and the available balance was $190.7 million and $210.8 million, respectively.

The ABL Facility is secured by a first priority security interest on the working capital assets of the Company and its wholly owned subsidiaries except Prospect Health Plan, Inc., CHIC, RRG, Prospect Health Access Network, Inc. and certain immaterial subsidiaries and a second priority security interest on their fixed assets. The ABL Agreement does not have any financial maintenance covenants. The ABL Agreement has a "springing" fixed charge ratio covenant that applies if excess availability is less than the greater of 10% of the maximum borrowing amount and $22,000,000. The fixed charge ratio covenant was not required to be tested for the fiscal quarter ended September 30, 2021.

Effective August 16, 2021, the Company entered into an amendment on its ABL Agreement to increase the aggregate letter of credit availability from $60 million to $80 million.

Scheduled payments under the Company's debt, current portion and debt, net of current portion as of September 30, 2021 are as follows (in thousands):

Years ending September 30,	
2022	$ 16,032
2023	15,104
2024	9,135
2025	9,404
2026	13,947
Thereafter	120,093
Total scheduled payments	183,715
Less: Current maturities	(16,032)
Total debt	$ 167,683

10. Transactions with MPT

On August 23, 2019, the Company closed a series of transactions with affiliates of Medical Properties Trust, Inc. ("MPT"), a publicly traded Real Estate Investment Trust ("REIT"). Under these transactions, the Company sold to MPT the Company's hospital buildings in California (excluding Foothill Regional Medical Center ("Foothill")), Connecticut and Pennsylvania for an aggregate purchase price of $1,386,000,000. Concurrent with the sale transactions, the Company entered into two master lease agreements whereby the hospital properties and related medical office buildings were leased back for an initial 15 year term, with options to extend twice for an additional 5 years each and for a further 4.75 year extension. Monthly rent is defined as 7.5% of the lease base, subject to annual escalation of consumer price index, limited to a minimum of 2% and a maximum of 4%. For the first master lease, the Company has the option to buy the properties at their fair value at the end of the lease term. For the second master lease, the Company has the option to purchase at a price that is fixed at the time of entering into the lease (the "Option Price"). If the Company chooses not to exercise this option, and the fair value at the end of the lease is below the Option Price, then the Company must pay MPT a sum equal to the difference between the fair value and the Option Price. These transactions do not qualify for sale leaseback accounting because of the Company's deemed continuing involvement with the buyer-lessor, including the requirements to pay reserves for major repairs, and the option to purchase included in the lease, which are considered a form of contingent collateral and results in the transaction being recorded under the financing method. All of the legal entities that are parties to the master lease agreement (which are the hospital entities in California, Connecticut and Pennsylvania) provide cross guarantees on all of the obligations to MPT, which guarantees include both lease payments under the master lease as well as indebtedness due to MPT. As of September 30, 2021 and 2020, the balances due under the leases are approximately $1,291,326,000 and $1,338,040,000, respectively, and are reflected in MPT liabilities in the accompanying consolidated financial statements.

Further, MPT provided the Company with a $51,266,700 mortgage on the Foothill property. This mortgage is secured by the buildings at Foothill. The interest on this mortgage is 7.5% per annum and is subject to annual escalation of consumer price index, limited to a minimum of 2% and a maximum of 4%. The maturity date of this loan is in August 2034. MPT can purchase the property on event of default or at end of term. The Company is required to provide MPT with the option to purchase the Foothill property and lease it back to the Company under the second master lease agreement, for an amount equal to the outstanding principal balance. As of September 30, 2021, and subject to any subsequent extension from MPT, the Company has until December 31, 2021 to offer this right to MPT. As of September 30, 2021 and 2020, the balances due under the promissory note payable to MPT are $51,267,000 and $51,267,000,

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respectively, and are reflected in long term debt in the accompanying consolidated financial statements (see Note 9).

Additionally, the Company entered into a promissory note (the "TRS Note"), under which MPT has advanced to the Company $112,937,000. The interest on this note is 7.5% per annum and is subject to annual escalation of the consumer price index, limited to a minimum of 2% and a maximum of 4%. The maturity date of this note was originally scheduled to be the earlier of July 2022 or, if it occurs, a sale-leaseback of the properties in Rhode Island. In connection with the Chamber Transaction, and the approval of such transaction by the Rhode Island Attorney General, the maturity date of the TRS Note was extended to April 30, 2026. A sale-leaseback of the properties in Rhode Island is prohibited to occur before the extended maturity date. As of September 30, 2021 and 2020, the balances due under this note are $98,606,000 and $105,508,000, respectively, and are reflected in long term debt in the accompanying consolidated financial statements (see Note 9).

All of the agreements referenced in this footnote are cross-collateralized and cross defaulted among the parties and the assets included therein (which do not include any of the hospital operating entities or real properties in Rhode Island, Texas or New Jersey). Based on annualized Adjusted EBITDAR (as defined) achieved over the three years from the transaction date, additional amounts between $50 million to $250 million will be payable to the Company. As of September 30, 2021, there has been no accounting for these amounts in the consolidated financial statements.

The MPT transaction documents contain certain customary covenants and restrictions and a financial covenant based on EBITDAR performance. The Company was in compliance with all such covenants at September 30, 2021.

In connection with the transactions with MPT, the Company incurred deferred financing costs of $28,058,000. Amortization expense was approximately $1,970,000 and $1,933,000 during the year ended September 30, 2021 and 2020, respectively.

Interest expense under these agreements was $58,800,000 and $60,789,000 for the years ended September 30, 2021 and 2020, respectively.

See Note 13 for future minimum lease payments related to sale leaseback commitments as of September 30, 2021.

11. Stockholder's Equity

Chamber Transaction

In June 2021, Green Equity Investments V, LP, Green Equity Investments Side V, LP and other minority shareholders sold their shares of Ivy Holdings for a purchase price of approximately $11,900,000. As a result of the sale, the Company became indirectly wholly-owned by two shareholders that were previously the two largest individual shareholders in Ivy Holdings. The transaction, among other things, (i) merged Ivy Holdings with Chamber Merger Sub Inc., a wholly-owned subsidiary of Chamber Inc. ("Chamber") which is owned by the referenced two ultimate shareholders, and Ivy Holdings, as the surviving entity in such merger, became a wholly-owned direct subsidiary of Chamber, (ii) bought out all of the other stockholders of Ivy Holdings, (iii) terminated all stock options that have not previously been exercised.

Equity Based Compensation Plans

In December 2010, the Board of Directors of Ivy Holdings adopted the Ivy Plan that initially authorized the issuance of options exercisable for up to 155,110 shares of the common stock of Ivy Holdings ("Initial Options") to employees, certain consultants and independent members of the boards of directors, of Ivy Holdings and its subsidiaries (including the Company and its subsidiaries). These options were exercisable into Ivy Holdings stock and vested based on a number of criteria, including time, Company and Business Unit performance based on EBITDA targets and CEO and Compensation Committee discretion. Since the Ivy Holdings stock options were granted to Company employees for their services related to the Company, the related compensation cost has been recorded in the Company's consolidated financial statements. In June 2015, the Board of Directors of Ivy Holdings adopted the First Amendment to the Ivy Plan. Under the First Amendment, and subsequent amendments, a further 63,704 shares of common stock of Ivy Holdings ("New Options") could be issued.

The New Options were exercisable into Ivy Holdings stock and vested based on a number of criteria, including the same criteria as the Initial Options. However, they only became exercisable on the occurrence of certain corporate transactions, including a change in control of Ivy Holdings, as defined in the Incentive Stock Option Agreements. At the time that the Merger Agreement was executed, all options were "underwater." Accordingly, the Company determined to terminate these options and not allow them to be exercised, prior to the Chamber Transaction occurring. In May 2021, the Board of Directors agreed to terminate the options on the Effective Date, as defined in the Merger Agreement. As no options had been granted or vested during the years ended September 30, 2021 and 2020, no compensation cost has been recorded in the Company's consolidated financial statements for the years then ended.

In connection with a dividend paid to shareholders on February 22, 2018, the Board of Directors of Ivy Holdings approved special cash payouts in the amount of approximately $33 million in bonus payments to stock option holders. The approval provided that any bonus with respect to an unvested portion of an option would be payable upon the date such unvested portion becomes vested and exercisable, subject to the optionee's continued employment with Prospect through such date. At September 30, 2020, approximately $2.2 million had been accrued for bonuses in connection with such options that had previously vested, and this was paid in June 2021, in connection with the Chamber Transaction. Additionally, certain option holders that held unvested options at February 22, 2018 were entitled to a cash payment on the occurrence of certain corporate transactions, provided they remained employed by the Company at that time. Cash payments of approximately $4.1 million were made to those employees were made in June 2021. This amount was recorded as an expense during the year ended September 30, 2021.

Dividends

The Company distributed approximately $11.9 million in connection with the Chamber Transaction during the year ended September 30, 2021, which was recorded against retained earnings, and was ultimately paid to the common stockholders of Ivy Holdings, Inc. There were no distributions during the year ended September 30, 2020.

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12. Retirement Benefits

The Company sponsors various employee non-contributory, defined benefit pension plans (the "DB Plan") covering certain full-time employees of Crozer, ECHN and Waterbury.

In connection with the acquisition of Crozer, its plan was frozen with all benefits accruals ceased as of July 1, 2016. With respect to each Represented Employee who is a member of the Laborers' International Union of North America, the Monthly Compensation (as defined), the Credited Service (as defined), the Eligibility Service (as defined) and the accrued benefit was frozen and determined as of July 1, 2016. No benefits accrue since that date. The plan was amended to provide for determination of Vesting Service (as defined) for employees who were employed with the Company before July 1, 2016, such that years of service shall include all periods of employment completed on and after July 1, 2016, subject to the Break in Service rules (as defined). The plan was further amended on September 3, 2016 to provide certain Qualifying Participants (as defined) the right to make a Special Benefit Election (as defined) during "2016 Lump Sum Option Window" period from October 15, 2016 through November 30, 2016 to receive or commence receiving his or her vested Accrued Benefit as of December 1, 2016 in accordance with procedures adopted by the Committee. Further, the Company will adopt a plan amendment to terminate the plan effective within such five year period and will liquidate, fully fund and satisfy, and pay all benefits owed to participants and beneficiaries of the plan by providing lump sum distributions to participants, purchasing annuities for participants who do not elect a lump sum distribution, subject to applicable filing and authorization by the applicable government agency or entity. The five-year period can be extended in the event certain discount rates fall below certain defined thresholds. Presently the discount rates are below those thresholds and the Company intends to delay the termination of the Crozer DB plan.

Crozer also sponsors a postretirement benefit program (the "OPEB Plan") which is an unfunded medical care and life insurance benefit program, and a supplemental executive retirement plan (the "SERP Plan") which is an unfunded retirement plan that covers a group of current and former executives. These plans were frozen and all benefit accruals ceased as of July 1, 2016. No benefits will accrue since that date. The SERP plan was terminated and all funds paid out. With respect to each Represented Employee who is a member of the Laborers' International Union of North America, benefits will continue to accrue until a settlement of an ongoing union contract negotiation is reached for the OPEB Plan.

ECHN sponsors a DB Plan that covered substantially all of its employees. The benefits were based upon years of service and compensation for the five highest years during the employee's last 10 years of service. On December 31, 2008, ECHN implemented a soft freeze on the plan. All qualified employees were eligible to enter into the defined contribution plan, ECHN contributed 3% of eligible employees' salaries. This contribution was non-guaranteed for all employees, except certain union workers covered under a collective bargaining agreement. Effective December 31, 2013, ECHN froze the plan for all remaining participants. During September 2013, the Board passed a resolution to freeze all benefits related to the plan.

ECHN also sponsors an OPEB Plan that provides health care benefits to vested, retired employees, who are age 55 or older and start collecting under the defined benefit plan described above once retired. The retiree must be enrolled into the medical plan on the date of retirement to be eligible for the continuation. Full-time registered nurse retirees from ECHN's Manchester facility (retired prior to October 1, 2005 and were eligible per the collective bargaining agreement) were grandfathered and required to pay at least 50% of the total cost of the medical and dental coverage they elect for themselves under the OPEB Plan.

Waterbury has a noncontributory defined benefit cash balance plan. The plan was frozen to non-union participants effective June 30, 2015. Participants who are part of the Connecticut Healthcare Associates Technical Unit remain active in the plan. Non-union employees no longer accrue additional employer contribution credits in the plan. These participants will continue to receive interest credits based on their account balances in accordance with the terms of the plan. They will be entitled to their account balance (the retirement benefit they have earned up to June 30, 2015) plus applicable interest credits after the Plan were frozen.

For all plans, the Company has made contributions sufficient to meet the minimum funding requirements of applicable laws and regulations.

The activity of the pension plans for the years ended September 30, 2021 and 2020 is as follows (in thousands):

September 30,	**2021**	2020
Changes in benefit obligations		
Projected benefit obligations, beginning of period	**$ 797,145**	$ 768,614
Service cost	**126**	184
Interest cost	**22,527**	24,457
Plan participant contributions	**-**	187
Actuarial loss	**(1,879)**	32,994
Benefits paid	**(24,780)**	(28,822)
Lump sum benefits paid and annuity purchase	**(19,266)**	(469)
Projected benefit obligation, end of year	**$ 773,873**	$ 797,145
Changes in plan assets		
Fair value of plan assets, beginning of year	**$ 559,213**	$ 460,688
Actual return on plan assets	**(40,002)**	56,532
Contributions by plan sponsor	**8,297**	71,097
Plan participant contributions	**-**	187
Benefits paid	**(24,780)**	(28,822)
Lump sum benefits paid and annuity purchase	**(19,266)**	(469)
Fair value of plan assets, end of year	**$ 483,462**	$ 559,213
Funded status of the plan, end of year	**$ (290,411)**	$ (237,932)
Accumulated benefit obligation, end of year	**$ (290,411)**	$ (237,932)

The funded status of the pension plans as of September 30, 2021 and 2020 is as follows (in thousands), split between the pension plans and the post retirement plans:

	2021 Pensions	**2021 OPEBs**	**2021 Total**	2020 Pensions	2020 OPEBs	2020 Total
Current liability	**$ -**	**$ 430**	**$ 430**	$ -	$ 440	$ 440
Non-current liability	**284,674**	**5,307**	**289,981**	231,941	5,551	237,492
	$ 284,674	**$ 5,737**	**$ 290,411**	$ 231,941	$ 5,991	$ 237,932

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The components of net periodic benefit cost for the years ended September 30, 2021 and 2020 are as follows (in thousands):

September 30,	2021	2020
Components of net periodic benefit cost:		
Service cost	$ 126	$ 184
Interest cost	22,527	24,457
Expected return on plan assets	(10,292)	(15,202)
Amortization of net loss	8	38
Effect of settlement	723	-
Amortization of prior service credit	(51)	(51)
Total net periodic benefit cost	$ 13,041	$ 9,426

Service cost is recorded in Hospital operating expenses on the consolidated statements of operations. All other components of net periodic benefit costs are recorded in other expense on the consolidated statements of operations.

	2021	2020
Other change in benefit obligations recognized in accumulated other comprehensive income:		
Loss due to participant experience	$ 143	$ 1,167
Amortization of net gain	(8)	(19)
Asset return loss (gain)	48,272	(9,523)
Prior service cost	51	51
Amount recognized due to settlement	(723)	-
Total recognized in other comprehensive loss (income) and accumulated other comprehensive loss (income)	$ 47,735	$ (8,324)

The assumptions used in determining the actuarial present value of the projected benefit obligations for pension plans as of September 30, 2021 and 2020 and for the years then ended are as follows:

	2021	2020
Weighted average assumptions used to determine benefit obligations at end of period		
Discount rate	2.65-3.01%	2.34-2.97%
Rate of compensation increase	0.00-2.00%	0.00-2.00%
Weighted average assumptions used to determine net periodic benefit cost for the period ended		
Discount rate	2.55-2.97%	2.92-3.31%
Rate of compensation increase	0.00-2.00%	0.00-2.00%
Expected return on the plan assets	0.00-3.25%	0.00-4.75%

Assumed health care cost trend rates for the next period used to measure the expected cost of benefits covered by the plan are as follows:

	2021	2020
Health care trend rate assumed for next year	**7.00%**	6.75%
Rate to which the cost trend is assumed to decline (the ultimate rate)	**3.25%**	4.75%
Year that the rate reaches the ultimate trend rate	**2029**	2028

Assumed health care cost trend rates have a significant effect on amounts reported for other postretirement benefit programs. A one-percentage-point change in assumed health care cost trends would have the following effects (in thousands):

	1% Increase	1% Decrease
Effect on other postretirement benefit obligations	$ 116	$ 106
Effect on total of service and interest cost components	$ 3	$ 3

The asset allocation percentage by major asset class for the plans and the target allocation for 2021 follows:

	Target	2021
Asset class:		
Cash and cash equivalents	0% -20%	1%
Fixed income	10% - 100%	97%
Alternative investments and hedge funds	0% - 30%	2%
		100 %

The investment objectives of the plans are to invest consistently with the fiduciary standards of ERISA, to provide for the funding and anticipated withdrawals on an ongoing basis, conserve and enhance the capital value of the plans in real terms while maintaining a moderate risk profile, to minimize principal fluctuations over the investment cycle, and achieve a long-term level of return commensurate with contemporary economic conditions. The expected long-term rate of return with respect to the plans is based on an aggregate of expected capital market returns within each asset category.

The following tables set forth the assets in the plans measured at fair value, by input level (in thousands):

September 30, 2021	Level 1	Level 2	Level 3	Net asset value	Total
Fixed income securities:					
Short-Term Duration	$ -	$ 40,502	$ -	$ -	$ 40,502
Extended Duration	-	201,527	-	-	201,527
Interim Duration	-	60,320	-	-	60,320
Long-Term Duration	-	166,901	-	-	166,901
Real estate	-	-	928	-	928
Alternative investments	-	-	10,423	-	10,423
Cash and cash equivalents	-	-	-	2,861	2,861
Total	$ -	$ 469,250	$ 11,351	$ 2,861	$ 483,462

September 30, 2020	Level 1	Level 2	Level 3	Net asset value	Total
Fixed income securities:					
Short-Term Duration	$ -	$ 41,769	$ -	$ -	$ 41,769
Extended Duration	-	231,197	-	-	231,197
Interim Duration	-	59,346	-	-	59,346
Long-Term Duration	-	210,351	-	-	210,351
Real estate	-	-	555	-	555
Alternative investments	-	-	13,142	-	13,142
Cash and cash equivalents	-	-	-	2,853	2,853
Total	$ -	$ 542,663	$ 13,697	$ 2,853	$ 559,213

Pension plan assets classified as Level 3 in the fair value hierarchy represent investments in which the trustee has used significant unobservable inputs in the valuation model. The hedge funds consist of equity/long/short funds and multi-strategy funds in which fair values have been estimated using the net asset value per share of the investment. The alternative investments primarily consist of investments in limited partnerships that invest in the Public-Private Investment Program which fair values have been estimated using the net asset value per share of the investment.

On an annual basis, the Company assesses the valuation hierarchy for pension assets recorded at fair value. From time to time, assets will be transferred within the fair value hierarchy as a result of changes in, among other things, inputs used, liquidity, or valuation methodologies. During the years ended September 30, 2021 and 2020, there were no transfers in classification within the fair value hierarchy. The following table is a rollforward of the plans' assets classified within Level 3 of the fair value hierarchy (in thousands):

September 30,	2021	2020
Balance, beginning of year	$ 13,697	$ 18,865
Actual return on plan assets:		
Unrealized loss	(2,346)	(5,168)
Balance, end of year	$ 11,351	$ 13,697

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The expected long-term future benefit payments to retirees with respect to the plans and are as follows (in thousands):

2022	$ 51,580
2023	44,940
2024	45,140
2025	45,270
2026	45,887
2027 - 2031	220,580
	$ 453,397

Waterbury participates in multi-employer pension plans that cover substantially all union employees. Contributions to the plans are based upon a percentage of each participant's total salary. The risks of participating in these multi-employer plans are different from single employer plans in the following aspects:

- Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of another participating employer.
- If a participating employer stops contributing to the plan, the unfunded obligation of the plan may be borne by the remaining participating employers.
- If Waterbury chose to stop participating in the multi-employer plans, Waterbury may be required to pay those plans an amount based on the underfunded status of the plans, referred to as a withdrawal liability.

The following table presents Waterbury's participation in these plans as of and for the years ended September 30, 2021 and 2020.

Pension Trust Fund	EIN / Pension Plan	Pension Protection Act ("PPA") Certified Zone Status *(1)*		FIP / RP Status Pending / Implemented *(2)*	Contributions		Surcharge Imposed	Exp. Date of CBA
		2021	2020		**2021**	2020		
Connecticut Health Care Associates Pension Fund	06-1313462	Red	Red	Implemented	**$ 2,168,769**	$ 2,024,000	No	7/1/22
New England Health Care Employees Pension Fund	22-3071963	Green	Green	NA	**783,560**	818,000	No	3/15/25
Total contributions					**$ 2,952,329**	$ 2,842,000		

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(1) The most recent PPA zone status available in 2021 is for the plan's year-ending during 2020. The zone status is based on information received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the orange zone are less than 80 percent funded and have an accumulated funding deficiency in the current year or projected in the next six years, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded.

(2) The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented. As it relates to the Connecticut Health Care Associates ("CHCA") Pension Plan, the trustees adopted a Rehabilitation Plan on May 7, 2018. The Rehabilitation Period, as defined, commenced on January 1, 2019 and ends on December 31, 2028. The trustees updated the Rehabilitation Plan on December 12, 2019 which reflects various reductions to plan benefits effective January 1, 2020.

During the years ended September 30, 2021 and 2020, Waterbury's contributions to the CHCA Pension Plan and the New England Health Care Employees Pension Plan represented 81.9% and 2.5% and 80.1% and 2.5% of the total contributions made to the plans by all participating employers, respectively.

Governmental regulations impose certain requirements relative to union-sponsored pension plans. In the event of plan termination or employer withdrawal, an employer may be liable for a portion of the plan's unfunded vested benefits. As of September 30, 2021, Waterbury has not recorded any liabilities for future withdrawal obligations related to the multi-employer plans.

Defined contribution plans

The Company sponsors two defined contribution plans covering substantially all employees who meet certain eligibility requirements, which are segregated between union and non-union employees. Under these plans, employees can contribute up to 50% of their compensation up to the IRS deferred annual maximum. There is currently no company match offered under the plans, except at certain facilities in Rhode Island and Pennsylvania, for which the expense for the employer match was $16,070,000 and $17,778,000 for the years ended September 30, 2021 and 2020, respectively.

13. Commitments and Contingencies

Leases

The Company leases various office facilities and equipment from third parties under non-cancelable operating and capital lease arrangements expiring at various dates through 2034. Certain operating leases contain rent escalation clauses and renewal options, which have been factored into determining rent expense on a straight-line basis over the lease terms. Capital leases bear interest at rates ranging from 1.3% to 41.0% per annum.

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The future minimum annual lease payments required under leases in effect at September 30, 2021, are as follows (in thousands):

For the Years ending September 30,	Capital Leases	Operating Leases	MPT Liability*
2022	$ 16,874	$ 25,525	$ 107,803
2023	14,849	24,101	109,959
2024	13,090	21,751	112,158
2025	9,777	19,702	114,401
2026	6,216	18,611	116,689
Thereafter	19,619	26,733	1,165,800
Total minimum lease payments	80,425	$ 136,423	1,726,810
Less: amounts representing interest	(17,384)		(482,660)
Add: amounts representing land	-		47,176
	63,041		1,291,326
Less: current portion	(12,947)		(50,978)
	$ 50,094		$ 1,240,348

* *Excludes debt related to the Foothill and TRS Notes with MPT (see Note 10).*

Rent expense related to operating leases for the years ended September 30, 2021 and 2020 was approximately $39,350,000 and $51,246,000, respectively. Sublease rental income was not material to the consolidated financial statements for the years ended September 30, 2021 and 2020.

Litigation

The Company is subject to a variety of claims and suits that arise from time to time in the ordinary course of its business, acquisitions, or other transactions. While the Company's management currently believes that resolving all of these matters, individually or in the aggregate, will not have a material adverse impact on the Company's consolidated financial position or results of operations, the litigation and other claims that the Company faces are subject to inherent uncertainties and management's view of these matters may change in the future. Should an unfavorable final outcome occur, there exists the possibility of a material adverse impact on the Company's consolidated financial position, results of operations and cash flows for the period in which the effect becomes probable and reasonably estimable.

Seismic Standards

The Company's California Hospitals (with the exception of Bellflower and Van Nuys, which currently only provide psychiatric services) are required to comply with laws that regulate the seismic performance of all aspects of hospital facilities in California and imposes near-term and long-term compliance deadlines for seismic safety assessment, submission of corrective plans, and retrofitting or replacement of medical facilities to comply with current seismic standards. These laws and regulations require hospitals to meet seismic performance standards to ensure that they are capable of providing medical services to the public after an earthquake.

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The Company was required to conduct engineering studies at its hospitals to determine whether and to what extent modifications to the hospital facilities will be required. Two buildings at Southern California Hospital at Culver City ("SCH Culver City") do not currently meet the applicable seismic requirements. These buildings are currently classified at Structural Performance Category 1 ("SPC-1") and, subject to possible deadline extensions discussed below, they must be upgraded to at least SPC-2 by July 1, 2022. That deadline date was set pursuant to an extension granted upon the Company's application submitted in accordance with California Senate Bill 90 and approved by the Office of Statewide Health Planning and Development ("OSHPD").

OSHPD has a voluntary program to re-evaluate the seismic risk of hospital buildings classified as SPC-1. These buildings are considered hazardous and at high risk of collapse in the event of an earthquake and they were required to be retrofitted, replaced or removed from providing acute care services by the applicable deadline. OSHPD is using Hazards U.S. ("HAZUS"), a state-of-the-art methodology, to reassess the seismic risk of SPC-1 buildings. Once the SPC-1 buildings have been seismically upgraded to SPC-2, they are no longer considered a significant risk to occupants, but they may not be repairable or functional after an earthquake. Participation in the HAZUS program is optional for hospital owners wishing to have their SPC-1 buildings evaluated.

Applications for HAZUS evaluation of seismic risk were submitted for all five of the Company's California acute care facilities: Southern California Hospital at Hollywood ("SCH Hollywood"); SCH Culver City; Los Angeles Community Hospital; Los Angeles Community Hospital at Norwalk ("LACH Norwalk"); and Foothill. All buildings at these five facilities obtained SPC-2 reclassification using HAZUS, except for the aforementioned two buildings at SCH Culver City that are still classified as SPC-1. Currently, failure to obtain SPC-2 reclassification for the two remaining SPC-1 buildings by July 1, 2022 would mean that the buildings deemed non-compliant would be subject to daily fines up to $5,000 per day until retrofitted to SPC-2 standards or removed from acute care services.

Recently enacted Assembly Bill 2190 was utilized to request additional extension. OSHPD granted extensions to June 1, 2022 and February 25, 2022 for the Tower Building and Pavilion Building at SCH Culver City. The construction was started in February 2020 for both buildings. SCH Culver City is evaluating pursuing an alternate "replacement" scheme that would relocate the Emergency department into the adjoining One-Story Building which currently classified as an SPC-2 structure. The Tower Building would be retained as a "non-hospital" OSHPD building useable for non-acute care services such as behavioral health and subacute/skilled nursing services.

The Company will also be required to make significant capital expenditures in the future to comply with 2030 seismic standards (i.e., upgrade to SPC-4D and NPC-4D/5) for any buildings that will be utilized for hospital facilities beyond January 1, 2030. Such modifications to the hospital facilities could potentially result in environmental remediation liabilities which may be material to the Company.

These requirements can result in significant operational changes and capital outlays. Management is continuing to assess its options and the methods of financing the required retrofits. Based on management's evaluation, the costs of renovation needed to comply with the California seismic safety standards for its acute-care facilities, including asbestos abatement, are not estimable at this time.

Legislation and HIPAA

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and

regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

The Company believes that it is in compliance with fraud and abuse regulations as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

The Health Insurance Portability and Accountability Act ("HIPAA") assures health insurance portability, reduces healthcare fraud and abuse, guarantees security and privacy of health information, and enforces standards for health information. The Health Information Technology for Economic and Clinical Health Act ("HITECH Act") expanded upon HIPAA in a number of ways, including establishing notification requirements for certain breaches of protected health information. In addition to these federal rules, California has also developed strict standards for the privacy and security of health information as well as for reporting certain violations and breaches. The Company may be subject to significant fines and penalties if found not to be compliant with these state or federal provisions.

Collective Bargaining Agreements

As of September 30, 2021, the Company had approximately 17,000 employees, of whom approximately 3,700 employees or 22% are represented by various labor organizations. Of those, approximately 3,300 employees or 19% of the Company's employees are employed under union contracts that have expired or will expire before September 30, 2022.

As of September 30, 2020, the Company had approximately 17,000 employees, of whom approximately 5,200 employees or 31% are represented by various labor organizations. Of those, approximately 700 employees or 4% of the Company's employees are employed under union contracts that have expired or will expire before September 30, 2021.

Tangible Net Equity ("TNE") Requirement

The Company's affiliated California physician organizations and licensed healthcare service plans may be subject to one or more of the following requirements: minimum working capital, Tangible Net Equity, cash-to-claims ratio and claims payment requirements as prescribed by the California Department of Managed Health Care ("DMHC"). TNE is defined as net assets, less intangibles and amounts due from affiliates, plus subordinated obligations. As of September 30, 2021, the Company's affiliated California physician organizations were in compliance with these regulatory requirements.

Employee Health Plans

The Company offers self-insured EPO/HMO and PPO plans to all eligible employees.

Employee health benefits are administered by a third party claims administrator, based on plan coverage and eligibility guidelines determined by the Company, as well as by collective bargaining agreements (as reflected above). All locations were covered by insurance policies with CHIC for per occurrence losses in excess of $350,000, except for Crozer for which the limit is $750,000. CHIC maintains reinsurance coverage above $500,000 for all locations except for Crozer, for which the limit is $750,000. Effective September 30, 2020, the CHIC policies were revised to only include the reinsurance coverage noted above. An actuarially and internally estimated liability of approximately $14,861,000 and $18,114,000 for incurred but not reported claims has been included in accrued salaries, wages, and benefits as of September 30, 2021 and 2020, respectively.

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Provider Contracts

Many of the Company's payer and provider contracts are complex in nature and may be subject to differing interpretations regarding amounts due for the provision of medical services. Such differing interpretations may not come to light until a substantial period of time has passed following contract implementation. Liabilities for claims disputes are recorded when the loss is probable and can be estimated. Any adjustments to reserves are reflected in current operations.

PACE financing

In August 2019 the Company entered into an agreement with a third party that specializes in property assessed clean energy ("PACE") financing to finance approximately $49.0 million for qualifying renovations for the properties in California. The full amount of the funds was deposited into an escrow account managed by a third party administrator, less deductions for the first year of prepaid interest of approximately $3.2 million and deferred financing fees totaling approximately $2.6 million. The Company received cash from the escrow account of approximately $13.5 million which was used to refinance related completed qualifying expenditures under the PACE program and invoices for construction in progress that had been paid. The amount financed is subject to an annual interest rate of 6.0% and the financing has a maturity date of September 2, 2045. Payments are collected through property tax bills as a non-ad valorem assessment. Payments commenced in July 2020. At September 30, 2021, the Company had a related financing liability of approximately $34.5 million, of which $1.2 million and $33.3 million is classified within other current liabilities and other long-term liabilities, respectively, in the accompanying consolidated balance sheets. At September 30, 2020, the Company had a related financing liability of approximately $20.0 million, which is classified within other long-term liabilities in the accompanying consolidated balance sheets. At September 30, 2021, there was approximately $18.7 million left in escrow, required to be spent on qualifying renovations.

In May 2020, the Company entered into an agreement with a third party that specializes in PACE financing to finance approximately $42.0 million for qualifying renovations for the property in Rhode Island located at Roger Williams Medical Center. The full amount of the funds were deposited into an escrow account managed by a third party administrator, less deductions for deferred financing fees totaling approximately $2.7 million and lease payoffs of approximately $6.0 million. The Company received cash from the escrow account of approximately $14.9 million which was used to refinance related completed qualifying expenditures under the PACE program and invoices for construction in progress that had been paid. The amount financed is subject to an annual interest rate of 5.75% and the financing has a maturity date of April 30, 2045. Payments are collected through property tax bills as a non-ad valorem assessment. Payments commenced in July 2020. At September 30, 2021, the Company had a financing liability of approximately $32.0 million, of which $0.8 million and $31.2 million is classified within other current liabilities and other long-term liabilities, respectively, in the accompanying consolidated balance sheets. At September 20, 2020, the Company had a financing liability of approximately $26.5 million which is classified within other long-term liabilities in the accompanying consolidated balance sheets. At September 30, 2021, there was approximately $10.7 million left in escrow, required to be spent on qualifying renovations.

In January 2021, the Company entered into an agreement with a third party that specializes in PACE financing to finance approximately $18.0 million for qualifying renovations for the property in Rhode Island located at Our Lady of Fatima Hospital. The full amount of the funds were deposited into an escrow account managed by a third party administrator, less deductions for deferred financing fees totaling approximately $1.4 million. The Company received cash from the escrow account of approximately $2.9 million which was used to refinance related completed qualifying expenditures under the PACE program and invoices for construction in progress that had been paid. The amount financed is subject to an annual interest rate of 5.75% and the financing has a maturity date of July 31, 2046. Payments are collected

through property tax bills as a non-ad valorem assessment. Payments commenced in July 2021. At September 30, 2021, the Company had a financing liability of approximately $4.9 million, of which $0.3 million and $4.6 million is classified within other current liabilities and other long-term liabilities, respectively, in the accompanying consolidated balance sheets. At September 30, 2021, there was approximately $13.4 million left in escrow, required to be spent on qualifying renovations.

14. Accrued Medical Claims and Other Healthcare Costs Payable

The following table presents the roll-forward of incurred but not reported ("IBNR") claims reserves (Medical Group segment, Global Risk Management segment, and full risk contracts) as of and for each of the years ended September 30, 2021 and 2020 (in thousands):

September 30,	**2021**	2020
IBNR as of beginning of year	$ **76,457**	$ 72,508
Claim expenses incurred during the year:		
Related to current year	**352,288**	258,958
Related to prior year	**(6,715)**	(5,212)
Total incurred	**345,573**	253,746
Claims paid during the year:		
Related to current year	**(274,447)**	(192,609)
Related to prior year	**(53,881)**	(57,188)
Total paid	**(328,328)**	(249,797)
IBNR as of end of year	$ **93,702**	$ 76,457

Following is a table showing the details of the Medical Group and Global Risk Management segments cost of revenues per the consolidated statements of operations (in thousands):

Years Ended September 30,	**2021**	2020
Capitation expense	$ **133,786**	$ 97,903
Fee-for-service claims expense	**232,103**	142,971
Other physician compensation	**28,428**	29,628
Other cost of revenues	**17,255**	24,663
Total cost of revenues	$ **411,572**	$ 295,165

15. Joint Ventures and Unconsolidated Equity Investments

The Company has invested in several joint ventures with unrelated third parties, which are accounted for under the equity method of accounting. Ownership percentages as of September 30, 2021 and 2020 are as follows:

September 30,	**2021**	2020
CharterCare:		
Roger Williams Radiation Therapy	**20.00%**	20.00%
Southern New England Regional Cancer Center, LLC	**20.00%**	20.00%
Crozer:		
University Technology Park, Inc.	**50.00%**	50.00%
Delaware Valley Sleep Management Company, LLC	**21.25%**	21.25%
DCMH MOB Associates	**35.00%**	35.00%
ECHN:		
NRRON, LLC	**50.00%**	50.00%
Aetna Ambulance Service, Inc.	**50.00%**	50.00%
Ambulance Service of Manchester, LLC	**50.00%**	50.00%
Evergreen Endoscopy Center, LLC	**50.00%**	50.00%
Connecticut Occupational Medicine Partners, LLC	**25.00%**	25.00%
Waterbury:		
Harold Leever Regional Cancer Center Inc.	**50.00%**	50.00%
Prospect Ambulatory Holding, Inc.:		
Naugatuck Valley Endoscopy Center	**20.92%**	0.00%
PMG:		
AMVI/Prospect Medical Group	**50.00%**	50.00%

These joint ventures under the equity method are included in the other assets in the accompanying consolidated balance sheets as of September 30, 2021 and 2020 are $28,722,000 and $45,881,000, respectively. For the years ended September 30, 2021 and 2020, the Company received $22,645,000 and $1,465,000, respectively, in distributions for equity method investments, and $0 and $58,000, respectively, for cost method investments.

In December 2020, the Company purchased, through a wholly owned subsidiary, shares representing an approximate 21% ownership interest in Naugatuck Valley Endoscopy Center, a limited liability company operating an ambulatory surgery center in the State of Connecticut, for approximately $5.1 million.

Summarized combined unaudited financial information for the Company's joint ventures as of September 30, 2021 and 2020 and for the years then ended is as follows (in thousands):

September 30,	**2021**	2020
Cash	$ **18,646**	$ 35,793
Receivables	**10,795**	10,359
Other current assets	**2,894**	4,221
Total current assets	**32,335**	50,373
Property, improvements and equipment, net	**33,523**	32,273
Goodwill	**7,142**	7,142
Intangible assets	**814**	814
Other long-term assets	**2,893**	2,673
Total assets	**76,707**	93,275
Accounts payable and accrued liabilities	**8,509**	4,910
Other long-term liabilities	**8,032**	7,777
Equity	**60,166**	80,588
Total liabilities and partner's capital	$ **76,707**	$ 93,275

Years ended September 30,	**2021**	2020
Revenues	$ **59,474**	$ 65,162
Net income	$ **7,451**	$ 5,346
PMH's income from equity method investments	$ **3,095**	$ 2,030

16. Subsequent Events

The Company has evaluated subsequent events through January 7, 2022, the date the Company's consolidated financial statements were available for issuance.

In October 2020, the Company entered into an Asset Purchase Agreement to sell substantially all of the assets of EOGH for a sale price of $6.2 million. The sale closed effective January 1, 2022.

Supplementary Information

Independent Auditor's Report on Supplementary Information

Our audits of the consolidated financial statements included in the preceding section of this report were conducted for the purpose of forming an opinion on those statements as a whole. The supplementary information presented in the following section of this report is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

BDO USA, LLP

January 7, 2022

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Prospect Medical Holdings, Inc.

Consolidating Balance Sheets
As of September 30, 2021

	Hospital Segment																							
	Alta-California								CCHP			Waterbury		ECHN			Crozer							
Assets	Los Angeles	Norwalk	Van Nuys	Hollywood	Foothill	Bellflower	Culver	Corporate	Roger Williams	Fatima	Non-Hospital Entities	Waterbury	Non-Hospital Entities Combined	Rockville	Manchester	Non-Hospital Entities Combined	Hospital Entities	Non-Hospital Entities Combined	PHRH	Medical Group Segment	CRC Segment	Corporate Segment	Discontinued Operations	Eliminations	Total
Current assets																									
Cash and cash equivalents	404	(743)	4	198	(1,981)	(1)	(591)	(2,584)	17	(110)	(2,224)	(2,810)	7,233	(62)	(2,718)	1,512	(1,586)	(9,024)	2,221	31,245	30,720	9,893	-	-	58,993
Cash held in escrow	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	45,270	-	-	45,270
Restricted cash	-	-	-	-	-	-	-	-	448	33	3	-	-	-	-	-	-	-	-	-	1,309	-	-	-	1,793
Restricted investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	34,283	-	-	34,283
Patient accounts receivable, net	16,224	6,309	3,038	7,720	9,949	1,514	33,580	-	20,228	17,870	3,112	61,606	6,139	6,881	49,589	1,030	187,215	5,879	12,575	(144,501)	(2,163)	(5,464)	-	-	296,119
Due from government payers	3,384	603	1,630	1,017	271	723	5,759	-	4,727	2,059	-	-	-	-	-	-	590	-	31	-	-	2,504	-	-	23,298
Other receivables, prepaid expenses and other current assets	432,410	114,047	90,063	255,157	34,466	46,886	7,745	(158,780)	20,614	5,427	(24,742)	101,893	(91,709)	(30,787)	58,180	(27,918)	125,343	(210,907)	4,865	517,953	(40,387)	(1,049,682)	-	(3,942)	171,204
Income tax receivable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,535	-	-	8,535
Inventories	617	504	66	557	1,499	1,009	2,581	-	4,344	2,432	361	3,324	630	831	4,590	33	11,406	798	14	-	-	-	-	-	35,996
Hospital fee program receivable	73,451	-	-	39,556	14,145	2,956	48,534	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	178,042
Current Assets Held for Sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	16,843	-	16,843
Total current assets	**526,490**	**120,720**	**94,801**	**304,205**	**58,349**	**52,487**	**96,017**	**(161,364)**	**50,378**	**27,711**	**(23,490)**	**164,013**	**(77,718)**	**(23,957)**	**104,641**	**(25,343)**	**322,968**	**(213,254)**	**19,706**	**404,697**	**(10,521)**	**(954,661)**	**16,843**	**(3,942)**	**870,376**
Property, improvements and equipment, net	15,957	9,320	6,642	17,149	56,098	18,735	35,363	12,054	62,311	28,902	2,812	53,353	3,776	22,794	47,337	1,480	128,432	83,845	1,936	2,450	37	(32,018)	-	-	579,765
Deferred income taxes, net	-	-	-	-	-	-	-	-	-	-	-	(11,085)	-	-	-	(5,853)	86,946	(380)	-	14,533	124	(84,284)	-	-	-
Goodwill	-	-	-	-	-	-	19,499	85,231	19	9	392	-	2,333	-	-	428	-	111,371	-	24,785	-	-	-	-	244,067
Intangible assets, net	-	-	-	-	-	-	-	2,836	-	-	-	1,435	-	-	-	1,720	-	8,360	-	519	-	-	-	-	14,870
Other assets	-	-	-	-	-	-	-	-	3,442	50	689	9,337	150	685	4,116	11,408	223	904	6,192	74,482	-	547,433	-	(561,572)	97,539
Long-Term Assets Held for Sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,550	-	8,550
Total assets	**542,447**	**130,040**	**101,443**	**321,354**	**114,447**	**71,222**	**150,879**	**(61,243)**	**116,150**	**56,672**	**(19,597)**	**217,052**	**(71,459)**	**122**	**156,094**	**(16,168)**	**539,569**	**(9,154)**	**27,834**	**521,466**	**(10,360)**	**(523,580)**	**25,393**	**(565,514)**	**1,815,367**

MPT_PROSPECT_00011632

MPT CONFIDENTIAL

Prospect Medical Holdings, Inc.

Consolidating Balance Sheets
As of September 30, 2021

	Hospital Segment																							
	Alta-California								CCHP			Waterbury		ECHN			Crozer							
	Los Angeles	Norwalk	Van Nuys	Hollywood	Foothill	Bellflower	Culver	Corporate	Roger Williams	Fatima	Non-Hospital Entities	Waterbury	Non-Hospital Entities Combined	Rockville	Manchester	Non-Hospital Entities Combined	Hospital Entities	Non-Hospital Entities Combined	PHHH	Medical Group Segment	CHC Segment	Corporate Segment	Discontinued Operations	Eliminations	Total
Liabilities and Stockholder's (Deficit) Equity																									
Current liabilities:																									
Accrued medical claims and other healthcare costs payable	-	-	-	-	20,150	-	15,261	10,459	-	-	-	-	-	-	-	-	-	(7)	37	36,802	10,946	54	-	-	93,702
Accounts payable and other accrued liabilities	10,283	5,844	1,165	6,395	10,306	1,530	25,409	6,165	9,822	10,497	7,644	25,175	3,126	4,292	19,709	3,572	56,172	10,017	1,644	33,953	8,175	80,965	-	(1,898)	340,164
Accrued salaries, wages and benefits	7,428	3,233	3,361	(1,149)	5,623	1,438	24,165	4,481	7,374	5,555	6,865	10,393	4,799	1,570	8,684	2,799	29,760	41,063	4,790	8,724	1,605	36,571	-	-	219,142
Hospital fee program liability	19,457	-	-	18,996	2,251	5,146	25,347	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	71,197
Due to government payers	620	-	-	609	633	-	174	-	2,693	1,639	(96)	4,236	1	674	3,188	444	2,878	-	2,342	-	-	89	-	-	20,218
Refund liability, current portion	17,592	-	-	67,352	9,007	-	-	-	11,994	8,197	744	23,012	572	4,215	13,365	841	61,092	2,009	(97)	-	-	7,433	-	-	227,330
Revolving line of credit, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	45,000	-	-	45,000
Current portion of capital leases	12	6	-	37	241	-	324	6	338	505	96	1,332	115	203	1,101	117	6,262	1,630	-	103	-	519	-	-	12,947
Current portion of long-term debt	-	-	-	-	-	-	-	-	-	-	13	-	-	529	723	6	-	-	95	-	-	84,633	-	(66,367)	15,032
Current portion of MPT liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	50,978	-	-	50,978
Other current liabilities	-	-	-	-	1,143	-	-	-	832	332	-	-	-	-	-	-	-	-	-	3,256	2,173	8,015	-	(2,927)	7,824
Current Liabilities Held for Sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	15,944	-	15,944
Total current liabilities	**55,392**	**9,083**	**4,526**	**92,784**	**49,356**	**8,114**	**90,680**	**21,121**	**33,053**	**26,725**	**15,266**	**64,148**	**8,613**	**11,483**	**46,870**	**7,779**	**156,164**	**54,712**	**8,811**	**82,838**	**22,899**	**309,259**	**15,944**	**(74,592)**	**1,120,478**
Long-term debt, net of current portion	-	-	-	-	-	-	7,762	(7,762)	-	-	-	-	-	5,179	1,589	-	-	-	1,973	-	-	158,942	-	-	167,683
Malpractice reserves	772	1,023	94	296	1,837	6	6,607	-	6,910	8,331	6,465	9,594	1,776	3,955	9,182	6,406	13,655	10,562	-	-	-	36,412	-	-	121,691
Refund liability, net of current portion	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital leases, net of current portion	-	-	-	105	174	-	933	10	605	1,560	96	3,802	473	681	1,591	149	22,459	17,386	-	10	-	-	-	-	50,094
Asset retirement obligations	-	-	-	-	-	-	-	-	672	2,359	-	3,420	-	132	280	-	112	-	-	-	-	-	-	-	6,975
Other long-term liabilities	-	-	-	-	33,308	4	92	-	31,415	4,565	-	-	114	-	955	-	2,026	15,783	(311)	730	-	8,035	-	-	96,716
Pension obligations	-	-	-	-	-	-	-	-	-	-	-	9,753	-	17,773	63,868	-	193,280	-	-	-	-	-	-	-	284,674
MPT Liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,340,348	-	-	1,340,348
Long-Term Liabilities Held for Sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	858	-	858
Total liabilities	**56,164**	**10,106**	**4,620**	**92,633**	**84,675**	**8,124**	**106,074**	**13,369**	**72,715**	**43,540**	**21,827**	**90,717**	**10,976**	**39,188**	**124,335**	**12,334**	**387,696**	**98,473**	**10,473**	**83,578**	**22,899**	**1,753,996**	**16,842**	**(74,592)**	**3,088,557**
Commitments and contingencies																									
Stockholder's (deficit) equity:																									
Common stock, $0.01 par value; 100 shares authorized, issued and outstanding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	-	1
Additional paid-in capital	-	-	-	-	15,000	20,546	15,567	138,968	33,760	28,535	40,231	-	-	1,281	19,276	6,117	100,000	79,635	-	256	2,300	104,685	32,719	(581,511)	57,765
Accumulated other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	(892)	-	(6,983)	(24,201)	-	(19,201)	-	-	-	-	(12,571)	-	-	(63,848)
(Accumulated deficit) retained earnings	486,283	119,934	96,823	228,721	14,972	42,552	28,838	(213,580)	9,675	(15,403)	(81,655)	125,358	(83,852)	(33,359)	36,684	(35,145)	71,074	(187,282)	17,381	437,457	(35,599)	(2,388,641)	(34,168)	90,589	(1,272,303)
Total stockholder's (deficit) equity attributable to Prospect Medical Holdings, Inc.	**486,283**	**119,934**	**96,823**	**228,721**	**29,972**	**63,098**	**44,405**	**(74,612)**	**43,435**	**13,132**	**(41,424)**	**124,466**	**(83,852)**	**(39,061)**	**31,759**	**(29,028)**	**151,873**	**(107,647)**	**17,381**	**437,713**	**(33,299)**	**(2,276,526)**	**8,551**	**(490,922)**	**(1,278,385)**
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	1,869	1,417	-	-	534	-	-	-	175	-	-	-	-	3,995
Total stockholder's (deficit) equity	486,283	119,934	96,823	228,721	29,972	63,098	44,805	(74,612)	43,435	13,132	(41,424)	126,335	(82,435)	(39,061)	31,759	(28,494)	151,873	(107,627)	17,361	437,888	(33,299)	(2,276,526)	8,551	(490,922)	(1,274,390)
Total liabilities and stockholder's (deficit) equity	**542,447**	**130,040**	**101,443**	**321,354**	**114,647**	**71,222**	**150,879**	**(61,243)**	**116,150**	**56,672**	**(19,597)**	**217,052**	**(71,458)**	**122**	**156,094**	**(16,160)**	**539,569**	**(9,154)**	**27,834**	**521,466**	**(10,400)**	**(523,530)**	**25,393**	**(565,514)**	**1,815,167**

The headers above are defined as follows: Alta Hospitals System, LLC ("Alta-California"), Southern California Healthcare System, Inc. (dba "Hollywood," "Van Nuys," and "Culver"), Alta Los Angeles Hospitals, Inc. (dba "Los Angeles," "Norwalk," and "Bellflower"), Alta Newport Hospital, Inc. ("Foothill"), Prospect CharterCARE, LLC ("CCHP" dba "Roger Williams" and "Fatima"), Prospect Waterbury, Inc. ("Waterbury"), Prospect ECHN, Inc. ("ECHN" dba "Rockville" and "Manchester"), Prospect Crozer, LLC ("Crozer"), and Prospect Home Health and Hospice, LLC ("PHHH").

MPT_PROSPECT_00011633

MPT CONFIDENTIAL

Prospect Medical Holdings, Inc.

Consolidating Balance Sheets
As of September 30, 2020

	Hospital Segment																						
	Alta-California								CCHP			Waterbury		ECHN			Crozer							
	Los Angeles	Norwalk	Van Nuys	Hollywood	Foothill	Bellflower	Culver	Corporate	Roger Williams	Fatima	Non-Hospital Entities Combined	Waterbury	Non-Hospital Entities Combined	Rockville	Manchester	Non-Hospital Entities Combined	Hospital Entities	Non-Hospital Entities Combined	PHHI	Medical Group Segment	CHC Segment	Corporate Segment	Discontinued Operations	Eliminations	Total
Assets																									
Current assets:																									
Cash and cash equivalents	(1,221)	(1,020)	(301)	(952)	(3,123)	(176)	(3,372)	(1,062)	553	177	1,090	(1,711)	8,568	(509)	(2,100)	1,126	(1,547)	(3,094)	7,185	347,232	34,145	11,336	-	-	386,824
Cash held in escrow	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	70	-	-	70
Restricted cash	-	-	-	-	-	-	-	-	475	42	3	-	-	-	-	-	-	-	-	-	1,308	-	-	-	1,828
Restricted investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	31,354	-	-	31,354
Patient accounts receivable, net of allowance for doubtful accounts	12,969	5,579	2,751	7,869	9,346	1,754	29,489	-	18,779	13,994	2,984	25,308	5,879	2,018	17,789	4,773	73,451	5,637	11,696	36,445	-	254	-	-	288,764
Due from government payers	3,156	543	1,134	909	170	625	4,632	-	3,286	2,994	-	-	-	-	-	-	522	-	31	-	-	2,388	-	-	20,390
Other receivables, prepaid expenses and other current assets	375,829	109,445	84,937	249,744	17,765	48,753	(33,466)	(107,439)	32,007	25,486	(13,004)	126,416	(76,232)	(20,511)	82,708	(20,840)	264,814	(166,974)	4,333	(54,137)	(46,852)	(766,568)	-	(7,851)	108,343
Income tax receivable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,154	-	-	4,154
Inventories	641	427	43	513	1,360	771	3,271	-	4,054	2,196	318	3,161	496	1,014	4,376	38	13,612	436	15	-	-	-	-	-	36,742
Hospital fee program receivable	74,828	-	-	45,802	14,504	2,250	52,557	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	189,941
Current Assets Held for Sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	18,015	-	18,015
Total current assets	**466,202**	**114,974**	**88,564**	**303,885**	**40,022**	**53,977**	**53,051**	**(108,501)**	**59,154**	**44,889**	**(8,609)**	**153,674**	**(61,289)**	**(17,988)**	**102,773**	**(14,903)**	**350,852**	**(163,995)**	**18,260**	**329,540**	**(11,399)**	**(717,012)**	**18,015**	**(7,851)**	**1,086,425**
Property, improvements and equipment, net	16,258	8,065	7,024	17,647	23,728	19,572	38,013	9,943	59,903	24,125	2,087	48,975	4,115	24,012	51,402	9,934	115,783	61,419	1,339	2,676	2	(2,566)	-	-	544,256
Deferred income taxes, net	-	-	-	-	-	-	-	-	-	-	-	(11,086)	-	-	-	(5,853)	86,046	(380)	-	14,533	124	(84,284)	-	-	-
Goodwill	-	-	-	-	-	-	21,936	95,885	-	-	415	-	2,619	-	-	482	-	125,292	-	27,858	-	-	-	-	274,487
Intangible assets, net	-	-	-	-	-	-	-	3,320	-	-	-	1,722	-	-	-	2,064	-	10,120	-	2,828	-	-	-	-	20,054
Other assets	2,044	294	108	101	217	17	1,162	30	4,062	877	622	12,023	443	1,604	6,018	10,949	-	770	709	91,386	-	572,539	-	(598,184)	107,731
Long-Term Assets Held for Sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9,436	-	9,436
Total assets	**484,504**	**123,273**	**95,796**	**321,633**	**63,967**	**73,566**	**114,202**	**677**	**123,119**	**69,891**	**(5,485)**	**205,308**	**(54,112)**	**7,628**	**160,193**	**2,673**	**553,681**	**33,226**	**20,308**	**468,821**	**(11,273)**	**(731,123)**	**27,451**	**(606,035)**	**2,042,389**

MPT_PROSPECT_00011634

MPT CONFIDENTIAL

Prospect Medical Holdings, Inc.

Consolidating Balance Sheets
For the Year Ended September 30, 2020

	Hospital Segment																							
	Alta-California								CCHP			Waterbury		ECHN			Crozer							
	Los Angeles	Norwalk	Van Nuys	Hollywood	Foothill	Bellflower	Culver	Corporate	Roger Williams	Fatima	Non-Hospital Entities Combined	Waterbury	Non-Hospital Entities Combined	Rockville	Manchester	Non-Hospital Entities Combined	Hospital Entities	Non-Hospital Entities Combined	PHHH	Medical Group Segment	CRC Segment	Corporate Segment	Discontinued Operations	Eliminations	Total
Liabilities and Stockholder's (Deficit) Equity																								
Current liabilities:																								
Accrued medical claims and other healthcare costs payable	-	-	-	-	22,319	-	6,333	9,263	-	-	-	-	-	-	-	-	-	(7)	-	16,748	9,033	2,758	-	-	76,457
Accounts payable and other accrued liabilities	9,502	3,064	1,139	4,696	7,230	1,275	16,804	15,102	12,941	10,342	6,442	27,410	1,917	2,862	23,828	4,263	81,830	19,090	1,951	32,373	4,184	96,455	-	(3,662)	363,040
Accrued salaries, wages and benefits	8,430	3,859	2,883	4,263	6,333	981	16,673	5,671	9,852	6,436	7,683	6,195	4,828	2,007	7,899	1,893	33,244	44,162	1,997	7,617	1,221	40,998	-	-	225,125
Hospital fee program liability	19,055	-	-	18,533	2,183	5,684	25,205	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	70,660
Due to government payers	700	-	-	875	242	-	676	-	3,280	2,573	(111)	8,859	-	2,362	8,110	1,590	3,262	-	(270)	(38)	-	669	-	-	32,749
Refund liability, current portion	4,052	-	-	17,197	2,339	-	-	-	3,663	2,291	243	6,670	306	1,001	3,847	278	16,773	713	449	9	-	2,284	-	-	62,115
Income taxes payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Revolving line of credit, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Current portion of capital leases	27	15	-	16	66	-	151	2	52	164	38	163	107	186	981	122	2,146	981	-	198	-	870	-	-	6,285
Current portion of long-term debt	-	-	-	-	-	-	-	-	-	-	50	-	-	548	894	735	12	-	112	-	-	86,754	-	(69,967)	19,138
Current portion of MPT liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	47,484	-	-	47,484
Other current liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,964	2,596	9,959	-	(2,927)	15,592
Current Liabilities Held for Sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	17,748	-	17,748
Total current liabilities	**41,766**	**6,938**	**4,022**	**45,582**	**40,712**	**7,940**	**65,842**	**30,038**	**29,788**	**21,806**	**14,345**	**49,297**	**7,158**	**6,966**	**45,559**	**8,881**	**137,267**	**64,939**	**4,239**	**72,871**	**17,034**	**290,241**	**17,748**	**(76,556)**	**956,393**
Long-term debt, net of current portion	-	-	-	-	-	-	7,762	(7,762)	-	-	13	-	-	5,637	2,174	7,104	-	-	2,076	-	-	173,137	-	-	190,201
Malpractice reserves	3,273	961	185	352	981	11	5,298	-	5,705	5,306	3,465	5,229	2,282	3,768	8,792	-	11,762	9,236	-	-	-	36,743	-	-	103,349
Refund liability, net of current portion	13,955	-	-	59,234	8,056	-	-	-	12,619	7,892	837	22,976	1,052	3,446	13,252	557	57,774	2,455	1,548	30	-	7,858	-	-	213,951
Capital leases, net of current portion	12	6	-	15	166	-	173	-	216	665	51	1,886	575	812	1,511	262	7,991	17,745	-	100	-	484	-	-	32,670
Asset retirement obligations	-	-	-	-	-	-	-	-	671	2,312	-	3,463	-	132	280	-	112	-	-	-	-	-	-	-	6,970
Other long-term liabilities	-	-	-	-	4	27	-	258	27,486	-	-	2,303	2,052	-	962	-	1,756	9,763	-	749	-	25,488	-	-	70,868
Pension obligations	-	-	-	-	-	-	-	-	-	-	-	9,213	-	14,986	53,853	-	153,889	-	-	-	-	-	-	-	231,941
MPT Liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,290,556	-	-	1,290,556
Long-Term Liabilities Held for Sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,105	-	5,105
Total liabilities	**59,006**	**7,905**	**4,207**	**105,183**	**49,919**	**7,978**	**79,075**	**22,544**	**76,485**	**37,981**	**18,711**	**94,367**	**13,119**	**37,747**	**126,388**	**17,174**	**370,551**	**104,138**	**7,863**	**73,750**	**17,034**	**1,824,577**	**22,853**	**(76,556)**	**3,102,804**
Commitments and contingencies																									
Stockholder's (deficit) equity:																									
Common stock, $0.01 par value; 100 shares authorized, issued and outstanding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	-	1
Additional paid-in capital	-	-	-	-	15,000	20,546	15,967	138,968	33,760	28,535	42,428	-	-	1,281	19,276	6,117	100,000	79,035	-	256	2,300	109,684	32,719	(581,511)	64,961
Accumulated other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	(1,049)	-	(4,401)	(15,069)	-	17,470	-	-	-	-	(12,571)	-	-	(15,614)
(Accumulated deficit) retained earnings	425,498	115,368	91,589	216,450	(952)	45,042	19,160	(160,835)	12,864	3,375	(71,243)	111,021	(69,050)	(26,959)	29,603	(21,078)	65,560	(150,547)	13,045	394,647	(30,607)	(2,152,814)	(28,121)	52,032	(1,116,992)
Total stockholder's (deficit) equity attributable to Prospect Medical Holdings, Inc.	**425,498**	**115,368**	**91,589**	**216,450**	**14,048**	**65,588**	**35,127**	**(21,867)**	**46,624**	**31,910**	**(28,815)**	**109,972**	**(69,050)**	**(30,115)**	**33,810**	**(14,961)**	**183,030**	**(70,912)**	**13,045**	**394,903**	**(28,307)**	**(2,055,700)**	**4,598**	**(529,479)**	**(1,067,644)**
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	4,619	968	1,819	-	-	490	-	-	-	168	-	-	-	-	8,029
Total stockholder's (deficit) equity	425,498	115,368	91,589	216,450	14,048	65,588	35,127	(21,867)	46,624	31,910	(24,196)	110,941	(67,231)	(30,115)	33,810	(14,501)	183,030	(70,912)	13,045	395,071	(28,307)	(2,055,700)	4,598	(529,479)	(1,059,615)
Total liabilities and stockholder's (deficit) equity	**484,504**	**123,273**	**95,796**	**321,633**	**63,967**	**73,566**	**114,202**	**677**	**123,119**	**69,891**	**(5,485)**	**205,308**	**(54,112)**	**7,632**	**160,198**	**2,673**	**553,581**	**33,226**	**20,908**	**468,821**	**(11,273)**	**(231,123)**	**27,451**	**(606,035)**	**2,042,389**

The headers above are defined as follows: Alta Hospitals System, LLC ("Alta-California"), Southern California Healthcare System, Inc. (dba "Hollywood," "Van Nuys," and "Culver"), Alta Los Angeles Hospitals, Inc. (dba "Los Angeles," "Norwalk," and "Bellflower"), Alta Newport Hospital, Inc. ("Foothill"), Prospect CharterCARE, LLC ("CCHP" dba "Roger Williams" and "Fatima"), Prospect Waterbury, Inc. ("Waterbury"), Prospect ECHN, Inc. ("ECHN" dba "Rockville" and "Manchester"), Prospect Crozer, LLC ("Crozer"), and Prospect Home Health and Hospice, LLC ("PHHH").

MPT_PROSPECT_00011635

MPT CONFIDENTIAL

Prospect Medical Holdings, Inc.

Consolidated Statement of Operations
For the Year Ended September 30, 2021

	Hospital Segment																							
	Alta-California								CCHP			Waterbury		ECHN			Crozer							
	Los Angeles	Norwalk	Van Nuys	Hollywood	Foothill	Bellflower	Culver	Corporate	Roger Williams	Fatima	Non-hospital entities combined	Waterbury	Non-hospital entities combined	Rockville	Manchester	Non-hospital entities combined	Hospital Entities	Non-hospital entities combined	PHHH	Medical Group Segment	CRC Segment	Corporate Segment	Discontinued Operations	Eliminations	Total
Revenues:																								
Net Hospital Services revenues	140,366	40,072	20,794	78,692	170,204	17,374	241,187	34,078	179,762	132,640	52,605	252,804	57,298	24,368	207,729	27,796	652,298	59,674	38,368	-	-	-	74,902	1	2,408,076
Other non-patient revenue	-	-	-	-	-	-	-	-	1,002	308	1,105	624	9,156	829	1,359	612	18,758	15,935	2,304	-	-	-	13,311	(8,400)	44,893
Total net hospital services revenue	140,366	40,072	20,794	78,692	170,204	17,374	241,187	34,078	180,764	132,948	53,710	253,428	66,454	25,197	209,092	28,410	671,027	75,609	40,672	-	-	-	88,213	(8,399)	2,452,969
Medical Group revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	480,012	-	-	-	(8,679)	471,333
Net Global Risk Management revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	331,614	-	-	(231,460)	100,154
Other revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,171	-	-	3,171
Total net revenues	140,366	40,072	20,794	78,692	170,204	17,374	241,187	34,078	180,764	132,948	53,710	253,428	66,454	25,197	209,092	28,410	671,027	75,609	40,672	480,012	331,614	3,171	88,213	(248,538)	3,027,397
Operating Expenses:																									
Hospital operating expenses	70,928	27,064	12,047	57,773	141,697	13,848	192,680	61,771	142,189	101,526	43,146	184,087	72,532	24,300	147,938	41,381	551,193	53,653	32,792	-	-	-	79,943	(1,156)	1,981,789
Medical Group cost of revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	344,275	-	-	-	-	344,275
Global Risk Management cost of revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	307,157	-	-	(239,860)	67,297
General and administrative	7,137	5,085	3,523	6,938	8,896	3,360	53,412	11,616	35,681	43,168	6,664	29,143	7,460	11,664	38,237	(5,296)	85,465	39,644	3,935	89,276	29,052	78,926	19,943	(7,523)	568,353
Depreciation and amortization	1,283	704	426	1,067	3,151	1,190	3,333	2,890	7,073	8,175	572	9,527	1,083	2,848	10,537	824	4,711	19,199	360	3,672	84	4,786	-	-	81,965
Goodwill amortization	-	-	-	-	-	-	2,437	10,654	-	-	44	-	286	-	-	54	13,921	-	-	3,077	-	-	-	-	30,473
Total operating expenses	79,348	32,853	16,096	65,778	153,744	18,398	251,862	86,931	184,943	147,869	50,426	232,757	81,371	38,812	196,712	36,963	655,690	112,496	37,087	440,300	336,393	84,712	99,886	(248,539)	3,074,152
Pandemic relief grant income	(220)	(2,698)	539	(539)	(898)	(1,466)	(1,378)	-	2,791	(1,186)	(153)	(5,942)	1,118	7,615	(5,996)	316	(1,466)	1,064	493	(37)	-	-	6,842	-	(5,980)
Operating income from unconsolidated joint ventures	-	-	-	-	-	-	-	-	304	-	-	511	-	316	1,549	13	-	603	306	20	-	-	-	-	4,066
Operating (loss) income	**60,758**	**4,573**	**5,237**	**12,275**	**10,967**	**(2,490)**	**7,952**	**(52,313)**	**(3,084)**	**(16,107)**	**(16,869)**	**15,680**	**(13,759)**	**(6,684)**	**9,933**	**(10,228)**	**14,871**	**(35,214)**	**4,384**	**39,695**	**(4,719)**	**(81,541)**	**1,189**	**1**	**(48,979)**
Other (income) expense:																									
Interest expense and amortization of deferred financing costs, net	13	5	3	4	41	-	155	4	29	1,057	10	81	96	317	324	205	1,542	1,716	13	(2,594)	(1)	78,895	190	-	81,921
Net period benefit cost	-	-	-	-	-	-	-	-	-	-	-	1,246	-	610	1,218	-	8,145	-	-	-	-	-	-	-	13,219
Goodwill impairment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10,865	-	-
Other expense (income), net	-	-	-	-	2	-	(1,881)	-	2,076	1,614	349	(1)	17	(129)	432	3,265	226	(770)	43	(293)	-	34,573	(2,355)	(38,557)	976
Total other expense, net	13	5	3	4	43	-	(1,726)	4	2,105	2,671	359	1,326	113	798	1,974	3,474	9,913	946	56	(2,887)	(1)	113,468	8,700	(38,557)	96,116
(Loss) income before income taxes	**60,745**	**4,568**	**5,234**	**12,271**	**10,924**	**(2,490)**	**9,678**	**(52,317)**	**(5,189)**	**(18,778)**	**(17,228)**	**14,354**	**(13,872)**	**(6,482)**	**6,959**	**(13,697)**	**4,958**	**(36,160)**	**4,316**	**42,582**	**(4,718)**	**(195,009)**	**(7,511)**	**38,558**	**(145,795)**
Income tax provision	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,206)	-	-	(2,206)
Net (loss) income from continuing operations	**60,745**	**4,568**	**5,234**	**12,271**	**10,924**	**(2,490)**	**9,678**	**(52,317)**	**(5,189)**	**(18,778)**	**(17,228)**	**14,354**	**(13,872)**	**(6,482)**	**6,959**	**(13,697)**	**4,958**	**(36,160)**	**4,316**	**42,582**	**(4,718)**	**(192,803)**	**(7,511)**	**38,558**	**(143,589)**
Income from discontinued operations:																									
Income from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(7,531)	-	(7,531)
Income tax provision	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2)	-	(2)
Income on discontinued operations, net of taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**(7,533)**	-	**(7,533)**
Net (loss) income before allocation to non-controlling interests	**60,745**	**4,568**	**5,234**	**12,271**	**10,924**	**(2,490)**	**9,678**	**(52,317)**	**(5,189)**	**(18,778)**	**(17,228)**	**14,354**	**(13,872)**	**(6,482)**	**6,959**	**(13,697)**	**4,958**	**(36,160)**	**4,316**	**42,582**	**(4,718)**	**(192,803)**	**(7,533)**	**38,558**	**(143,122)**
Net (loss) income attributable to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(6,816)	937	-	-	-	126	-	-	-	6	-	-	-	-	(5,747)
Net (loss) income attributable to Prospect Medical Holdings, Inc.	**60,745**	**4,568**	**5,234**	**12,271**	**10,924**	**(2,490)**	**9,678**	**(52,317)**	**(5,189)**	**(18,778)**	**(10,412)**	**13,417**	**(13,872)**	**(6,482)**	**6,959**	**(13,823)**	**4,958**	**(36,160)**	**4,316**	**42,576**	**(4,718)**	**(192,803)**	**(7,533)**	**38,558**	**(143,369)**
Other comprehensive income, net of tax:																									
Pension obligation and other post-retirement benefits adjustment (net of tax)	-	-	-	-	-	-	-	-	-	-	-	151	-	(2,582)	(9,396)	-	(36,671)	-	-	-	-	-	-	-	(48,498)
Debt and equity securities, unrealized gain	-	-	-	-	-	-	-	-	-	-	-	-	-	-	264	-	-	-	-	-	-	-	-	-	264
Total other comprehensive income (loss), net of tax	-	-	-	-	-	-	-	-	-	-	-	151	-	(2,582)	(9,132)	-	(36,671)	-	-	-	-	-	-	-	(48,234)
Total comprehensive (loss) income	**60,745**	**4,568**	**5,234**	**12,271**	**10,924**	**(2,490)**	**9,678**	**(52,317)**	**(5,189)**	**(18,778)**	**(10,412)**	**13,568**	**(13,872)**	**(9,064)**	**(2,173)**	**(13,823)**	**(31,713)**	**(36,160)**	**4,316**	**42,576**	**(4,718)**	**(192,803)**	**(7,533)**	**38,558**	**(191,603)**

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MPT_PROSPECT_00011636

MPT CONFIDENTIAL

Prospect Medical Holdings, Inc.

Consolidated Statement of Operations
For the Year Ended September 30, 2020

	Hospital Segment																							
	Alta-California								CCHP			Waterbury		ECHN			Crozer							
	Los Angeles	Norwalk	Van Nuys	Hollywood	Foothill	Bellflower	Culver	Corporate	Roger Williams	Fatima	Non-hospital entities combined	Waterbury	Non-hospital entities combined	Rockville	Manchester	Non-hospital entities combined	Hospital Entities	Non-hospital entities combined	PHHH	Medical Group Segment	CRC Segment	Corporate Segment	Discontinued Operations	Eliminations	Total
Revenues:																								
Net Hospital Segment patient services revenues	123,778	36,491	22,174	79,892	168,643	17,310	228,757	28,988	177,367	127,996	29,462	230,883	49,505	39,189	185,834	29,588	664,741	58,450	38,910	-	-	-	77,962	-	2,339,379
Provision for bad debts	(3,300)	(2,191)	(173)	(2,455)	(2,296)	(196)	(10,285)	-	(6,680)	(7,000)	(411)	(11,614)	(1,141)	(1,527)	(7,859)	(750)	(36,785)	(4,007)	(628)	-	-	-	2,140	-	(102,251)
Net Hospital segment patient services revenues less provision for bad debts	120,478	34,300	22,001	77,437	166,347	17,152	218,472	28,988	167,707	120,996	29,051	219,269	48,364	37,662	177,974	28,838	627,956	54,443	38,282	-	-	-	80,102	-	2,237,128
Other non-patient Hospital revenues	-	-	-	-	123	15	(267)	-	2,291	39	509	(683)	9,618	79	899	30	14,301	19,745	986	-	-	-	7,394	(9,221)	38,464
Net Hospital Segment revenues	120,479	34,300	22,001	77,437	166,470	17,167	219,205	28,988	169,998	121,035	29,560	218,586	57,982	37,741	178,873	29,268	642,257	74,188	39,268	-	-	-	87,496	(9,221)	2,275,592
Medical Group revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	380,894	-	-	-	(8,248)	372,646
Global Risk Management revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	315,719	-	-	(230,819)	84,900
Corporate revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	250	-	-	250
Total net revenues	120,479	34,300	22,001	77,437	166,470	17,167	219,205	28,988	169,998	121,035	29,560	218,586	57,982	37,741	178,873	29,268	642,257	74,188	39,268	380,894	315,719	250	87,496	(248,288)	2,753,388
Operating Expenses:																									
Hospital operating expenses	72,474	24,503	13,286	60,951	138,063	16,684	170,312	67,611	139,136	96,317	38,760	181,152	66,002	37,289	136,653	68,673	524,617	75,705	33,661	-	-	-	90,254	(1,193)	1,937,766
Medical Group cost of revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	242,314	-	-	-	-	242,314
Global Risk Management cost of revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	292,889	-	-	(240,038)	52,851
General and administrative	9,282	5,512	3,825	6,975	7,002	3,029	25,705	1,469	30,398	26,067	2,846	26,170	6,309	10,674	24,181	(9,917)	101,591	37,216	2,077	76,051	23,121	80,368	29,312	(7,054)	493,486
Depreciation and amortization	1,358	984	457	1,057	2,779	1,241	3,018	3,063	5,455	2,834	614	9,022	963	2,813	10,163	968	5,062	18,073	333	4,110	1	5,254	-	-	80,040
Goodwill amortization	-	-	-	-	-	-	2,437	10,654	-	-	22	-	268	-	-	34	13,946	-	-	2,864	-	-	-	-	30,225
Total operating expenses	83,114	30,569	16,668	68,933	147,844	20,954	201,472	82,797	175,587	125,218	42,242	216,344	73,533	50,776	171,007	59,778	645,216	131,992	36,071	325,339	316,011	85,622	119,566	(248,285)	2,836,702
Pandemic relief grant income	220	2,698	(67)	1,206	1,644	1,466	6,449	-	15,537	17,337	1,988	17,198	2,426	475	10,296	1,018	28,355	7,234	1,460	208	-	-	15,658	-	117,148
Operating income from unconsolidated joint ventures	-	-	-	-	-	-	-	-	881	-	-	482	-	39	358	8	-	106	-	(152)	-	-	-	-	1,724
Operating (loss) income	**37,585**	**6,429**	**5,266**	**9,710**	**20,270**	**(2,321)**	**34,182**	**(53,809)**	**10,829**	**13,154**	**(10,694)**	**19,522**	**(13,125)**	**(12,521)**	**18,530**	**(9,484)**	**25,396**	**(50,462)**	**6,757**	**55,611**	**(292)**	**(85,372)**	**(16,412)**	**(3)**	**15,558**
Other (income) expense:																									
Interest expense and amortization of deferred financing costs, net	20	17	12	20	67	13	(277)	1,385	42	1,002	52	1,293	49	112	303	286	1,655	4,492	89	(4,116)	(117)	79,870	923	-	86,157
Net period benefit cost	-	-	-	-	-	-	-	-	-	-	-	1,388	-	634	1,727	-	5,493	-	-	-	-	-	-	-	9,242
Loss on early extinguishment of debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Goodwill impairment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,857	-	-
Other expense (income), net	7	-	-	-	-	-	-	-	3,503	2,489	961	474	9	(209)	356	188	(239)	933	(2)	154	1	(11,596)	(2,582)	5,062	2,091
Total other expense, net	27	17	12	20	67	13	(277)	1,385	3,545	3,491	1,013	3,155	58	537	2,386	474	6,909	5,425	87	(3,964)	(116)	68,274	7,198	5,062	97,490
(Loss) income before income taxes	**37,558**	**6,412**	**5,254**	**9,690**	**20,203**	**(2,334)**	**34,459**	**(55,194)**	**7,284**	**9,663**	**(11,707)**	**16,367**	**(13,183)**	**(13,058)**	**16,144**	**(9,958)**	**18,487**	**(55,887)**	**6,670**	**59,575**	**(166)**	**(153,646)**	**(23,610)**	**(5,065)**	**(81,932)**
Income tax provision	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(7,070)	-	-	(7,070)
Net (loss) income from continuing operations	**37,558**	**6,412**	**5,254**	**9,690**	**20,203**	**(2,334)**	**34,459**	**(55,194)**	**7,284**	**9,663**	**(11,707)**	**16,367**	**(13,183)**	**(13,058)**	**16,144**	**(9,958)**	**18,587**	**(55,887)**	**6,670**	**59,575**	**(166)**	**(146,576)**	**(23,610)**	**(5,065)**	**(74,862)**
Income from discontinued operations:																									
Income from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(23,610)	-	23,610
Income tax provision	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2)	-	2
Income on discontinued operations, net of taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**(23,612)**	-	**23,612**
Net (loss) income before allocation to non-controlling interests	**37,558**	**6,412**	**5,254**	**9,690**	**20,203**	**(2,334)**	**34,459**	**(55,194)**	**7,284**	**9,663**	**(11,707)**	**16,367**	**(13,183)**	**(13,058)**	**16,144**	**(9,958)**	**18,587**	**(55,887)**	**6,670**	**59,575**	**(166)**	**(146,576)**	**(23,612)**	**(5,065)**	**(98,474)**
Net (loss) income attributable to non-controlling interests	-	-	-	-	-	-	-	-	-	-	895	230	-	-	-	7	-	-	-	6	-	-	-	-	1,136
Net (loss) income attributable to Prospect Medical Holdings, Inc.	**37,558**	**6,412**	**5,254**	**9,690**	**20,203**	**(2,334)**	**34,459**	**(55,194)**	**7,284**	**9,663**	**(12,600)**	**16,137**	**(13,183)**	**(13,058)**	**16,144**	**(9,965)**	**18,587**	**(55,887)**	**6,670**	**59,569**	**(166)**	**(146,576)**	**(23,612)**	**(5,065)**	**(99,610)**
Other comprehensive income, net of tax:																									
Pension obligation and other post-retirement benefits adjustment (net of tax)	-	-	-	-	-	-	-	-	-	-	-	300	-	439	1,691	-	7,088	-	-	-	-	(251)	-	-	9,267
Debt and equity securities, unrealized gain	-	-	-	-	-	-	-	-	-	-	-	-	-	-	155	-	-	-	-	-	-	(109)	-	-	46
Total other comprehensive income (loss), net of tax	-	-	-	-	-	-	-	-	-	-	-	300	-	439	1,846	-	7,088	-	-	-	-	(360)	-	-	9,313
Total comprehensive (loss) income	**37,558**	**6,412**	**5,254**	**9,690**	**20,203**	**(2,334)**	**34,459**	**(55,194)**	**7,284**	**9,663**	**(12,600)**	**16,437**	**(13,183)**	**(12,619)**	**17,990**	**(9,965)**	**25,675**	**(55,887)**	**6,670**	**59,569**	**(166)**	**(146,936)**	**(23,612)**	**(5,065)**	**(90,297)**

The headers above are defined as follows: Alta Hospitals System, LLC ("Alta-California"), Southern California Healthcare System, Inc. (dba "Hollywood," "Van Nuys," and "Culver"), Alta Los Angeles Hospitals, Inc. (dba "Los Angeles," "Norwalk," and "Bellflower"), Alta Newport Hospital, Inc. ("Foothill"), Prospect CharterCARE, LLC ("CCHP" dba "Roger Williams" and "Fatima"), Prospect Waterbury, Inc. ("Waterbury"), Prospect ECHN, Inc. ("ECHN" dba "Rockville" and "Manchester"), Prospect Crozer, LLC ("Crozer"), and Prospect Home Health and Hospice, LLC ("PHHH").

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Prospect Medical Holdings, Inc.

Consolidated Balance Sheets
(in thousands, except par value and share amounts)

September 30,	2022	2021
Assets		
Current assets		
Cash and cash equivalents	$ 56,084	$ 58,993
Restricted cash	35,743	47,063
Restricted investments	33,298	34,283
Patient accounts receivable, net	264,274	254,908
Due from government payers	21,797	17,297
Other receivables, prepaid expenses and other current assets	167,088	144,947
Inventories	9,822	7,233
Hospital fee program receivable	180,228	178,042
Current assets held for sale	115,614	127,609
Total current assets	883,948	870,375
Property, improvements and equipment, net	163,831	175,666
Goodwill, net	113,352	129,515
Intangible assets, net	2,351	3,355
Other assets	53,973	60,659
Long term assets held for sale	607,159	575,597
Total assets	$ 1,824,614	$ 1,815,167

See accompanying notes to the consolidated financial statements.

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Prospect Medical Holdings, Inc.

Consolidated Balance Sheets
(in thousands, except par value and share amounts)

September 30,	2022	2021
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accrued medical claims and other healthcare costs payable	$ 120,218	$ 93,619
Accounts payable and other accrued liabilities	386,508	311,038
Accrued salaries, wages and benefits	136,831	149,966
Hospital fee program liability	96,813	71,197
Due to government payers	45,385	16,359
Refund liability, current portion	23,638	206,397
Revolving line of credit, net	196,300	45,000
Debt, current portion	111,609	14,667
MPT liabilities, current portion	81,976	50,978
Other current liabilities	12,819	9,074
Current liabilities held for sale	125,742	152,182
Total current liabilities	1,337,839	1,120,477
Debt, net of current portion	189,287	158,942
Malpractice reserves	132,257	121,691
Refund liability, net of current portion	45,231	-
Pension obligations	235,184	284,674
MPT liabilities, net of current portion	1,184,347	1,240,348
Other long-term liabilities	60,215	62,231
Long term liabilities held for sale	98,395	101,194
Total liabilities	3,282,755	3,089,557
Commitments, contingencies (Note 11) and subsequent events (Note 13)		
Stockholders' deficit:		
Common stock, $0.01 par value; 100 shares authorized, issued and outstanding	1	1
Additional paid-in capital	57,675	57,765
Accumulated other comprehensive loss	(14,087)	(63,848)
Accumulated deficit	(1,505,641)	(1,272,303)
Total stockholders' deficit attributable to Prospect Medical Holdings, Inc.	(1,462,052)	(1,278,385)
Non-controlling interests	3,911	3,995
Total stockholders' deficit	(1,458,141)	(1,274,390)
Total liabilities and stockholders' deficit	$ 1,824,614	$ 1,815,167

See accompanying notes to the consolidated financial statements.

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Prospect Medical Holdings, Inc.

Consolidated Statements of Operations
(in thousands)

For the Years Ended September 30,	2022	2021
Revenues:		
Net Hospital Services revenues	$ 819,954	$ 736,217
Medical Group revenues	528,387	471,296
Global Risk Management revenues	191,925	100,154
Corporate revenues	4,655	3,171
Total net revenues	1,544,921	1,310,838
Operating Expenses:		
Hospital operating expenses	674,535	577,159
Medical Group cost of revenues	380,751	344,275
Global Risk Management cost of revenues	155,457	67,297
General and administrative	292,037	270,081
Depreciation and amortization	18,505	22,050
Goodwill amortization	16,163	16,163
Total operating expenses	1,537,448	1,297,025
Operating (loss) income from unconsolidated joint ventures	(71)	20
Operating income	7,402	13,833
Other expense:		
Interest expense and amortization of deferred financing costs, net	35,723	38,472
Net period benefit cost	12,973	12,217
Other expense (income), net	2,771	(2,172)
Total other expense, net	51,467	48,517
loss before income taxes	(44,065)	(34,684)
Income tax benefit	(2,671)	(2,265)
Loss from continuing operations	(41,394)	(32,419)
Loss from discontinued operations, net of income taxes	(190,907)	(116,703)
Net loss	(232,301)	(149,122)
Net income (loss) attributable to non-controlling interests	928	(5,777)
Net loss attributable to Prospect Medical Holdings, Inc.	$ (233,229)	$ (143,345)

See accompanying notes to the consolidated financial statements.

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Prospect Medical Holdings, Inc.

Consolidated Statements of Comprehensive Loss
(in thousands)

For the Years Ended September 30,	**2022**	2021
Net loss attributable to Prospect Medical Holdings, Inc.	**$ (233,229)**	$ (143,345)
Other comprehensive income (expense), net of tax:		
Pension obligation and other post-retirement benefits adjustment, net - discontinued operations	**59,324**	(48,498)
Debt and equity securities, unrealized (loss) gain	**(9,672)**	264
Total other comprehensive income (loss), net of tax	**49,652**	(48,234)
Total comprehensive loss	**$ (183,577)**	$ (191,579)

See accompanying notes to the consolidated financial statements.

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Prospect Medical Holdings, Inc.

Consolidated Statements of Stockholders' Deficit
(in thousands, except share amounts)

	Number of Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Prospect Medical Holdings, Inc. Stockholders' Deficit	Non-controlling Interests	Total Stockholders' Deficit
Balance at September 30, 2020	100	$ 1	$ 64,961	$ (15,614)	$ (1,116,992)	$ (1,067,644)	$ 8,029	$ (1,059,615)
Non-controlling interest attributed to minority shareholders	-	-	-	-	-	-	(453)	(453)
Net loss	-	-	-	-	(143,345)	(143,345)	(5,777)	(149,122)
Other comprehensive loss, net of tax	-	-	-	(48,234)	-	(48,234)	-	(48,234)
Distribution to Ivy Holdings, Inc. (see Note 10)	-	-	-	-	(11,966)	(11,966)	-	(11,966)
Purchase of non-controlling interest (see Note 3)	-	-	(7,196)	-	-	(7,196)	2,196	(5,000)
Balance at September 30, 2021	100	$ 1	57,765	(63,848)	(1,272,303)	(1,278,385)	3,995	(1,274,390)
Non-controlling interest attributed to minority shareholders	-	-	-	-	-	-	(1,012)	(1,012)
Net loss	-	-	-	-	(233,229)	(233,229)	928	(232,301)
Other comprehensive income, net of tax	-	-	-	49,652	-	49,652	-	49,652
PMG Share repurchase	-	-	(90)	-	-	(90)	-	(90)
CHIC reclassification	-	-	-	109	(109)	-	-	-
Balance at September 30, 2022	100	$ 1	$ 57,675	$ (14,087)	$ (1,505,641)	$ (1,462,052)	$ 3,911	$ (1,458,141)

See accompanying notes to the consolidated financial statements.

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Prospect Medical Holdings, Inc.

Consolidated Statements of Cash Flows
(in thousands)

For the Years Ended September 30,	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (232,301)	$ (149,122)
Less: Loss from discontinued operations	(190,907)	(116,703)
Net loss from continuing operations	(41,394)	(32,419)
Adjustments to reconcile net loss to net cash and cash equivalents used in operating activities:		
Depreciation and amortization	34,668	38,213
Amortization of deferred financing costs, net	2,086	1,970
Pension obligation net periodic benefit cost	11,994	13,028
Excess contribution to pension plan	(3,433)	(8,399)
Undistributed earnings from unconsolidated joint ventures	71	(20)
Loss on disposal of assets	-	605
Changes in operating assets and liabilities:		
Patient accounts receivable	(9,366)	(972)
Due to/from government payers, net	(113,002)	(56,732)
Other receivables, prepaid expenses and other current assets	(17,814)	(55,286)
Hospital fee program receivable	(2,186)	11,899
Hospital fee program liability	25,616	537
Inventories	(2,589)	(208)
Income taxes payable/receivable, net	7,643	(4,381)
Other assets	4,900	(5,395)
Accrued medical claims and other healthcare costs payable	26,599	17,162
Accounts payable, other accrued liabilities and other long term liabilities	119,005	(33,521)
Net cash and cash equivalents provided by operating activities - continuing operations	42,798	(113,919)
Net cash and cash equivalents used in by operating activities - discontinued operations	(188,683)	(58,293)
Net cash and cash equivalents used in operating activities	(145,885)	(172,212)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, improvements and equipment	(3,357)	(9,925)
Distributions received from equity and cost method investments	-	17,000
Cash paid for acquisition of noncontrolling interest and equity method investment	(90)	(5,053)
Increase in investments	(8,687)	(2,666)
Net cash and cash equivalents used in by investing activities - continuing operations	(12,134)	(644)
Net cash and cash equivalents used in by investing activities - discontinued operations	(33,829)	(44,853)
Net cash and cash equivalents used in investing activities	(45,963)	(45,497)

(Continued on next page)

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Prospect Medical Holdings, Inc.

Consolidated Statements of Cash Flows (Continued)
(in thousands)

For the Years Ended September 30,	2022	2021
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on line of credit	**207,000**	45,000
Repayments on line of credit	**(55,700)**	-
Proceeds of debt	**101,295**	-
Repayments of debt	**(17,945)**	(17,357)
Repayment of financing leases	**-**	(1,934)
Repayments of capital leases	**(1,556)**	(1,554)
Cash paid for deferred financing costs	**(371)**	(4,736)
Repayments of insurance premium financing	**(12,750)**	(10,781)
Dividend paid to stockholder	**-**	(11,650)
Borrowings of MPT liability transactions	**3,750**	-
Repayment of MPT liability transactions	**(29,801)**	(47,785)
Net cash and cash equivalents provided by (used in) financing activities - continuing operations	**193,922**	(50,797)
Net cash and cash equivalents used in by financing activities - discontinued operations	**(16,303)**	(14,162)
Net cash and cash equivalents provided by (used in) financing activities	**177,619**	(64,959)
Net decrease in cash, cash equivalents and restricted cash	**(14,229)**	(282,666)
Cash, cash equivalents and restricted cash, beginning of year	**106,056**	388,722
Cash, cash equivalents and restricted cash, end of year	**$ 91,827**	$ 106,056
Supplemental disclosure of cash flow information		
Interest paid	**$ 76,683**	$ 66,130
Income taxes received	**$ 1,267**	519
Schedule of non-cash investing and financing activities		
Equipment acquired under capital leases	**$ 3,782**	$ 1,734
Insurance premium financed	**$ 11,970**	$ 11,560
Accrual of dividends	**$ -**	$ 316
Equipment acquired under PACE financing	**$ 8,751**	$ 9,005
Accrual of property, improvements and equipment	**$ 1,622**	$ 6,227
Accounts payable converted to Cerner promissory note	**$ $44,410**	$ -

See accompanying notes to the consolidated financial statements.

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Prospect Medical Holdings, Inc.

NewCo Consolidated Income Statement

Fiscal 2022 - Q4

Draft - Unaudited

	Three Months Ended September 30 2022	Twelve Months Ended September 30 2022
REVENUE:		
Capitation revenue	158,963,173	639,532,464
Patient services revenue	28,153,278	78,737,841
Hospital risk pool revenue (IPA's)	650,111	1,248,367
Other non-hospital services revenue	9,000	22,250
MSO revenue	5,939,179	22,613,550
P4P Reward & Other Bonuses	975,153	6,469,317
Other Operating Revenue	657,507	3,454,377
Shared Risk Pool Revenue	841,704	8,091,701
Total Gross Revenue	196,189,105	760,169,868
Less: Provision for Bad Debts	(73,534)	(73,534)
Total Net Revenue	196,115,571	760,096,334
COST OF REVENUES:		
PCP capitation expense	24,883,289	96,626,025
Specialists capitation expense	17,436,406	67,550,139
Claims paid	64,093,515	251,724,910
Change in IBNR	(172,000)	13,436,929
Physician's Salaries & Benefits	1,102,176	4,842,860
Physician bonus	169,671	14,047,037
Stop loss insurance	57,875	257,840
Cost of revenues - other	607,427	898,103
Shared risk pool	-	(95,305)
Total Cost of Revenue	108,178,359	449,288,538
Gross Margin	87,937,212	310,807,795
OPERATING EXPENSES:		
Salaries	22,625,336	85,630,498
Payroll Taxes & Fringe Benefits	3,651,503	14,246,097
Insurance	(489,467)	254,904
Rent	707,046	2,999,382
Utilities	505,518	1,715,316
Repair & Maintenance	536,732	2,152,604
Operating supplies	3,212,588	13,873,599
Outside services	5,754,425	17,877,845
Marketing	749,717	2,557,357
Travel & Business Development	117,066	373,457
Professional Development	131,259	550,011
Bad Debt Expense	37,641	75,948
Professional fees	791,507	2,874,635
Registry	2,482,174	8,243,020
Miscellaneous expense	2,304,403	9,281,566
Management fees	429,910	1,965,416
Capitation Expense Hospitals	16,141,414	62,860,531
Other Income/Expense	3,180,124	3,901,958
Total Operating Expenses	62,868,896	231,434,144
Income from Operations	25,068,316	79,373,652
Income (Loss) Unconsolidated JV	(1,914)	(70,925)
EBITDAR	**25,066,402**	**79,302,727**
Depreciation expense	844,423	3,603,111
Amortization expense	768,042	3,591,609
Total Depreciation and Amortization	1,612,465	7,194,720
Net Operating Income (Loss)	**23,453,937**	**72,108,007**
Interest income	(947,387)	(2,785,010)
Interest expense	222,749	571,974
Other (Income) / Expense	2,562,547	7,055,434
Total Other (Income) / Expense	1,837,909	4,842,398
Net income (loss) before income taxes	**21,616,028**	**67,265,609**
Income tax provision (benefit)	-	-
Net income (loss) from continuing operations	**21,616,028**	**67,265,609**
Loss on Discontinued Operations	-	-
Net Income (Loss) before Allocation to Non-Controlling Interests	**21,616,028**	**67,265,609**
Non-Controlling Interest in Subsidiaries	-	(6,593)
Net Income after Non-Controlling Interests	**21,616,028**	**67,272,202**
Total other comprehensive (loss) income, net of tax	-	-
Total Comprehensive Income (loss)	**21,616,028**	**67,272,202**

Prospect Medical Holdings, Inc.

NewCo Consolidated Balance Sheet

Fiscal 2022 - September
Draft - Unaudited

	September 30, 2022
CURRENT ASSETS:	
Cash and cash equivalents	60,725,824
Restricted cash	1,309,343
Accounts Receivable, Patients - Net	50,117,890
Accounts Receivable - Risk Pool	6,252,846
Accounts Receivable - MSO Fees	1,298,532
Accounts Receivable - Other	5,087,910
Government program receivables	1,632,944
Notes Receivable	(1,219,643)
Intercompany Accounts	573,624,506
Inventory	1,797,003
Prepaid Expenses	4,564,062
Hospital fee program receivable	15,512,901
Total Current Assets	**$720,704,118**
FIXED ASSETS:	
Property, Improvements & Equipment	61,158,336
Accumulated Depreciation	(35,059,066)
Property, improvements and equipment, net	**$26,099,270**
OTHER ASSETS:	
Notes Receivable - Long Term	69,966,600
Investment in unconsolidated subsidiary	3,990,558
Deposits and Other Assets	481,882
Deferred income taxes, net	14,657,117
Goodwill	21,713,588
Total Other Assets	**$110,809,745**
TOTAL ASSETS	**$857,613,133**
CURRENT LIABILITIES:	
Accrued Medical Claims/IBNR	82,212,146
Accounts Payable	24,917,025
Accrued Payroll & Benefits	13,438,582
Other Payable	22,982,904
Due to Government Payer	4,181,921
Capitalized Leases - current portion	487,036
Debt - Current Portion	100,101,199
Hospital fee program liability	4,230,325
Other Current Liabilities	3,008,055
Total Current Liabilities	**255,559,193**
LONG TERM LIABILITIES:	
Capitalized Leases - long-term portion	1,846,652
Debt - L/T Portion	52,501,242
Other Long Term Liabilities	5,832,627
Malpractice reserves	1,216,000
Total Long Term Liabilities	**61,396,521**
TOTAL LIABILITIES	**316,955,714**
SHAREHOLDER'S EQUITY	
Additional Paid in Capital	17,466,502
Retained Earnings (Accumulated Deficit) - Prior Year	455,771,812
Retained Earnings (Accumulated Deficit) - Current Year	67,272,211
Total Holdings equity	540,510,525
Noncontrolling interest	146,885
Total Shareholder's Equity	**540,657,410**
TOTAL LIABILITIES & SHAREHOLDER'S EQUITY	**857,613,124**

Prospect Medical Holdings, Inc.

RemainCo Consolidated Income Statement

Fiscal 2022 - Q4

Draft - Unaudited

	Three Months Ended September 30 2022	Twelve Months Ended September 30 2022
REVENUE:		
Capitation revenue	69,244,352	217,367,374
Patient services revenue	560,439,471	2,056,153,733
Other non-hospital services revenue	15,715,637	45,802,274
MSO revenue	(1,178,365)	(4,889,844)
P4P Reward & Other Bonuses	2,799,085	7,332,197
Other Operating Revenue	15,909,026	59,623,296
Shared Risk Pool Revenue	293,730	10,555,151
Total Gross Revenue	663,222,936	2,391,944,181
Less: Provision for Bad Debts	4,878,733	5,424,055
Total Net Revenue	668,101,669	2,397,368,236
COST OF REVENUES:		
PCP capitation expense	(508,618)	1,692,720
Claims paid	73,136,252	73,136,252
Change in IBNR	(38,733,596)	(1)
Physician bonus	(927,845)	4,725,537
Stop loss insurance	-	264
Cost of revenues - other	(3,827,229)	(1,285,425)
Shared risk pool	(2,655,213)	5,136,692
Total Cost of Revenue	26,483,752	83,406,039
Gross Margin	641,617,918	2,313,962,197
OPERATING EXPENSES:		
Salaries	261,580,351	1,064,377,928
Payroll Taxes & Fringe Benefits	47,606,201	198,787,673
Insurance	10,107,321	38,768,851
Rent	8,724,364	35,563,044
Utilities	9,377,109	33,986,955
Repair & Maintenance	10,614,844	42,970,278
Operating supplies	54,822,598	273,733,336
Outside services	66,980,525	245,882,253
Marketing	829,035	3,422,762
Travel & Business Development	735,392	3,384,753
Professional Development	1,048,998	3,760,412
Bad Debt Expense	(485,681)	467,491
Professional fees	37,094,936	141,488,974
Registry	27,370,663	97,960,889
Miscellaneous expense	19,467,370	74,043,520
Management fees	5,135,648	7,343,607
Capitation Expense Hospitals	35,203,146	107,569,253
Other Income/Expense	64,159,326	113,295,247
Total Operating Expenses	660,372,146	2,486,807,226
Income from Operations	(18,754,228)	(172,845,029)
Income (Loss) Unconsolidated JV	(430,827)	1,878,240
EBITDAR	**(19,185,055)**	**(170,966,789)**
Depreciation expense	3,885,125	36,328,013
Amortization expense	3,393,924	19,156,981
Total Depreciation and Amortization	7,279,049	55,484,994
Net Operating Income (Loss)	**(26,464,104)**	**(226,451,783)**
Interest income	(2,350,549)	(14,947,201)
Interest expense	30,489,784	110,285,275
Other (Income) / Expense	(9,875,628)	(14,689,336)
Total Other (Income) / Expense	18,263,607	80,648,737
Net income (loss) before income taxes	**(44,727,711)**	**(307,100,520)**
Income tax provision (benefit)	(2,298,307)	(2,604,967)
Net income (loss) from continuing operations	**(42,429,403)**	**(304,495,553)**
Loss on Discontinued Operations	8,736,714	-
Net Income (Loss) before Allocation to Non-Controlling Interests	**(51,166,117)**	**(304,495,553)**
Non-Controlling Interest in Subsidiaries	271,953	934,817
Net Income after Non-Controlling Interests	**(51,438,070)**	**(305,430,370)**
Other Comprehensive Income (Loss)		
Unrealized Gain (Loss) on Available for Sale Investments	(1,303,253)	(9,672,120)
Pension Prior Service Credits (Costs)	59,303,548	59,323,717
Total other comprehensive (loss) income, net of tax	58,000,295	49,651,597
Total Comprehensive Income (loss)	**(109,438,365)**	**(355,081,967)**

Prospect Medical Holdings, Inc.

RemainCo Consolidated Balance Sheet

Fiscal 2022 - September

Draft - Unaudited

	September 30, 2022
CURRENT ASSETS:	
Cash and cash equivalents	(4,641,977)
Restricted cash	34,433,456
Investments	33,298,280
Accounts Receivable, Patients - Net	245,151,996
Accounts Receivable - Risk Pool	10,618,498
Accounts Receivable - Other	39,826,418
Third Party Settlements Receivable	3,463,232
Government program receivables	22,816,928
Intercompany Accounts	(572,999,606)
Inventory	39,617,794
Prepaid Expenses	138,790,643
Hospital fee program receivable	164,715,389
Total Current Assets	**$155,091,052**
FIXED ASSETS:	
Property, Improvements & Equipment	1,073,220,308
Accumulated Depreciation	(485,515,550)
Property, improvements and equipment, net	**$587,704,758**
OTHER ASSETS:	
Investment in unconsolidated subsidiary	55,594,961
Deposits and Other Assets	43,762,835
Deferred income taxes, net	(14,657,117)
Goodwill	202,038,545
Identifiable Intangibles	13,068,953
Other Assets	7,333,366
Total Other Assets	**$308,045,944**
TOTAL ASSETS	**$1,050,841,754**
CURRENT LIABILITIES:	
Accrued Medical Claims/IBNR	37,136,924
Accounts Payable	331,275,407
Accrued Payroll & Benefits	187,803,385
Other Payable	48,420,339
Due to Government Payer	86,193,086
Income taxes payable, net	(891,781)
Capitalized Leases - current portion	16,125,855
Debt - Current Portion	164,256,747
Revolver line of credit	196,300,000
Hospital fee program liability	92,583,232
Third Party Settlements payable	27,846,012
Other Current Liabilities	5,505,220
Unearned Premiums	11,682
Premiums Payable	3,069,284
Total Current Liabilities	**1,195,635,391**
LONG TERM LIABILITIES:	
Capitalized Leases - long-term portion	45,858,513
Debt - L/T Portion	144,559,503
Asset retirement obligations	6,843,768
Other Long Term Liabilities	90,456,046
Malpractice reserves	131,041,021
MPT Liability	1,184,347,298
Pension Obligation	235,184,043
Total Long Term Liabilities	**1,838,290,192**
TOTAL LIABILITIES	**3,033,925,583**
SHAREHOLDER'S EQUITY	
Common Stock	331
Additional Paid in Capital	57,598,071
Retained Earnings (Accumulated Deficit) - Prior Year	(1,279,750,206)
Dividends Paid	(513,302,745)
Retained Earnings (Accumulated Deficit) - Current Year	(237,305,035)
Accumulated Other Comprehensive Income	(14,088,265)
Total Holdings equity	(1,986,847,850)
Noncontrolling interest	3,764,017
Total Shareholder's Equity	**(1,983,083,833)**
TOTAL LIABILITIES & SHAREHOLDER'S EQUITY	**1,050,841,750**

Prospect Medical Holdings, Inc.

NewCo Consolidated Income Statement

Fiscal 2022 - Q1

Draft - Unaudited

	Three Months Ended December 31	
	2022	2021
REVENUE:		
Capitation revenue	165,953,012	149,104,368
Patient services revenue	20,262,910	18,448,984
Hospital risk pool revenue (IPA's)	(720,793)	1,808,559
Other non-hospital services revenue	-	13,250
MSO revenue	6,337,486	5,286,772
P4P Reward & Other Bonuses	474,107	1,121,823
Other Operating Revenue	2,479,635	1,489,883
Shared Risk Pool Revenue	2,041,108	1,250,250
Total Gross Revenue	196,827,465	178,523,889
Less: Provision for Bad Debts	-	-
Total Net Revenue	196,827,465	178,523,889
COST OF REVENUES:		
PCP capitation expense	25,202,706	22,733,054
Specialists capitation expense	16,926,307	15,834,483
Claims paid	70,143,128	61,687,203
Change in IBNR	(1,624,000)	(588,000)
Physician's Salaries & Benefits	997,903	1,165,712
Physician bonus	4,243,128	4,732,393
Stop loss insurance	58,384	77,996
Cost of revenues - other	433,745	30,849
Shared risk pool	(1)	51,747
Total Cost of Revenue	116,381,300	105,725,437
Gross Margin	80,446,165	72,798,452
OPERATING EXPENSES:		
Salaries	23,208,624	20,521,884
Payroll Taxes & Fringe Benefits	3,632,706	3,576,472
Insurance	186,435	237,642
Rent	494,628	770,966
Utilities	429,344	406,800
Repair & Maintenance	431,934	621,465
Operating supplies	4,259,724	3,262,194
Outside services	5,058,216	3,749,967
Marketing	494,373	587,506
Travel & Business Development	120,557	70,585
Professional Development	174,235	200,293
Bad Debt Expense	(10,084)	47,953
Professional fees	736,001	679,190
Registry	2,550,334	1,608,721
Miscellaneous expense	2,091,847	2,441,675
Management fees	487,993	387,624
Capitation Expense Hospitals	14,602,706	14,686,911
Other Income/Expense	1,188,992	640,894
Total Operating Expenses	60,138,565	54,498,742
Income from Operations	20,307,600	18,299,710
Income (Loss) Unconsolidated JV	(58,820)	(45,075)
EBITDAR	**20,248,780**	**18,254,635**
Depreciation expense	833,028	790,141
Amortization expense	768,042	1,053,873
Total Depreciation and Amortization	1,601,070	1,844,014
Net Operating Income (Loss)	**18,647,710**	**16,410,621**
Interest income	(1,205,207)	(569,077)
Interest expense	3,164,750	10,948
Other (Income) / Expense	2,776,229	1,299,862
Total Other (Income) / Expense	4,735,772	741,733
Net income (loss) before income taxes	**13,911,938**	**15,668,888**
Income tax provision (benefit)	-	-
Net income (loss) from continuing operations	**13,911,938**	**15,668,888**
Loss on Discontinued Operations	-	-
Net Income (Loss) before Allocation to Non-Controlling Interests	**13,911,938**	**15,668,888**
Non-Controlling Interest in Subsidiaries	-	(6,593)
Net Income after Non-Controlling Interests	**13,911,938**	**15,675,481**
Total other comprehensive (loss) income, net of tax	-	-
Total Comprehensive Income (loss)	**13,911,938**	**15,675,481**

Prospect Medical Holdings, Inc.

NewCo Consolidated Balance Sheet

Fiscal 2022 - December

Draft - Unaudited

	December 31, 2022	September 30, 2021
CURRENT ASSETS:		
Cash and cash equivalents	52,679,791	60,725,824
Restricted cash	1,309,467	1,309,343
Accounts Receivable, Patients - Net	54,182,614	50,117,890
Accounts Receivable - Risk Pool	5,678,721	6,252,846
Accounts Receivable - MSO Fees	2,090,457	1,298,532
Accounts Receivable - Other	4,043,534	5,087,910
Government program receivables	1,159,190	1,632,944
Notes Receivable	(1,218,303)	(1,219,643)
Intercompany Accounts	593,406,468	573,624,506
Inventory	1,804,243	1,797,003
Prepaid Expenses	5,307,194	4,564,062
Hospital fee program receivable	15,732,631	15,512,901
Total Current Assets	**$736,176,007**	**$720,704,118**
FIXED ASSETS:		
Property, Improvements & Equipment	61,261,917	61,158,336
Accumulated Depreciation	(35,892,091)	(35,059,066)
Property, improvements and equipment, net	**$25,369,826**	**$26,099,270**
OTHER ASSETS:		
Notes Receivable - Long Term	69,966,600	69,966,600
Investment in unconsolidated subsidiary	3,940,104	3,990,558
Deposits and Other Assets	466,871	481,882
Deferred income taxes, net	14,657,117	14,657,117
Goodwill	20,945,544	21,713,588
Total Other Assets	**$109,976,236**	**$110,809,745**
TOTAL ASSETS	**$871,522,069**	**$857,613,133**
CURRENT LIABILITIES:		
Accrued Medical Claims/IBNR	81,392,397	82,212,146
Accounts Payable	30,668,992	24,917,025
Accrued Payroll & Benefits	14,393,392	13,438,582
Other Payable	18,267,186	22,982,904
Due to Government Payer	3,623,911	4,181,921
Capitalized Leases - current portion	484,403	487,036
Debt - Current Portion	100,118,953	100,101,199
Hospital fee program liability	4,855,044	4,230,325
Other Current Liabilities	2,291,852	3,008,055
Total Current Liabilities	**256,096,130**	**255,559,193**
LONG TERM LIABILITIES:		
Capitalized Leases - long-term portion	1,719,993	1,846,652
Debt - L/T Portion	52,393,630	52,501,242
Other Long Term Liabilities	5,378,810	5,832,627
Malpractice reserves	1,377,499	1,216,000
Total Long Term Liabilities	**60,869,932**	**61,396,521**
TOTAL LIABILITIES	**316,966,062**	**316,955,714**
SHAREHOLDER'S EQUITY		
Additional Paid in Capital	17,455,314	17,466,502
Retained Earnings (Accumulated Deficit) - Prior Year	523,044,027	455,771,812
Retained Earnings (Accumulated Deficit) - Current Year	13,911,944	67,272,211
Total Holdings equity	554,411,285	540,510,525
Noncontrolling interest	144,724	146,885
Total Shareholder's Equity	**554,556,009**	**540,657,410**
TOTAL LIABILITIES & SHAREHOLDER'S EQUITY	**871,522,071**	**857,613,124**

Prospect Medical Holdings, Inc.
NewCo Consolidated Statements of Cash Flows
Fiscal 2023 - Q1
(Draft - Unaudited)

	Three Months Ended December 31, 2023
Operating activities	
Net income (loss)	13,911,937
Adjustments to reconcile net income (loss) to net cash, cash equivalents and restricted cash provided by (used in) operating activities:	
Depreciation and amortization	1,601,070
Undistributed earnings from equity method investments	50,454
Change in assets and liabilities, net of business combinations:	
Patient accounts receivable	(3,238,148)
Due to/from government payors, net	(84,256)
Other receivables, prepaid expenses and other current assets	(20,526,434)
Hospital fee program receivable	(219,730)
Hospital fee program liability	624,719
Inventories	(7,240)
Other assets	15,011
Accrued medical claims and other healthcare costs payable	(819,749)
Accounts payable, other accrued liabilities and other long term liabilities	1,445,742
Net cash, cash equivalents and restricted cash provided by (used in) operating activities	(7,246,624)
Investing activities	
Purchases of property, improvements and equipment	(119,733)
Net cash, cash equivalents and restricted cash provided by (used in) investing activities	(119,733)
Financing activities	
Repayments on long-term debt	(543,676)
Repayments of capital leases	(123,527)
Repurchase of NCI shares	(12,349)
Net cash, cash equivalents and restricted cash provided by (used in) financing activities	(679,552)
Net increase (decrease) in cash, cash equivalents and restricted cash	(8,045,909)
Cash, cash equivalents and restricted cash at beginning of period	62,035,167
Cash, cash equivalents and restricted cash at end of period	**53,989,258**

Prospect Medical Holdings, Inc.

NewCo Consolidated Income Statement

Fiscal 2023 - Q2

Draft - Unaudited

	Three Months Ended March 31		Six Months Ended March 31	
	2023	2022	2023	2022
REVENUE:				
Capitation revenue	185,395,630	166,007,344	351,348,642	315,111,712
Patient services revenue	18,325,891	13,927,198	38,588,801	32,376,182
Hospital risk pool revenue (IPA's)	(1,251,112)	(630,254)	(1,971,905)	1,178,305
Other non-hospital services revenue	-	-	-	13,250
MSO revenue	6,383,510	5,574,150	12,720,997	10,860,922
P4P Reward & Other Bonuses	1,675,831	1,641,558	2,149,938	2,763,381
Other Operating Revenue	1,096,740	844,386	3,576,375	2,334,269
Shared Risk Pool Revenue	1,541,634	2,750,250	3,582,742	4,000,500
Total Gross Revenue	213,168,124	190,114,632	409,995,589	368,638,521
Less: Provision for Bad Debts	0	1,741,914	0	1,741,914
Total Net Revenue	213,168,125	191,856,546	409,995,590	370,380,435
COST OF REVENUES:				
PCP capitation expense	26,564,567	24,543,727	51,767,273	47,276,781
Specialists capitation expense	17,645,861	17,296,665	34,572,168	33,131,148
Claims paid	65,333,603	61,360,316	135,476,731	123,047,519
Change in IBNR	11,712,000	10,935,929	10,088,000	10,347,929
Physician's Salaries & Benefits	920,405	1,249,040	1,918,308	2,414,752
Physician bonus	5,536,357	4,640,089	9,779,485	9,372,482
Stop loss insurance	62,288	61,997	120,672	139,993
Cost of revenues - other	766,688	93,741	1,200,433	124,590
Shared risk pool	(0)	(122,967)	(1)	(71,220)
Total Cost of Revenue	128,541,770	120,058,537	244,923,070	225,783,974
Gross Margin	84,626,355	71,798,009	165,072,520	144,596,461
OPERATING EXPENSES:				
Salaries	24,117,329	21,069,784	47,325,953	41,591,668
Payroll Taxes & Fringe Benefits	5,088,644	3,698,080	8,721,350	7,274,552
Insurance	404,865	254,403	591,300	492,045
Rent	983,608	760,305	1,478,236	1,531,271
Utilities	470,468	372,338	899,812	779,138
Repair & Maintenance	517,795	551,393	949,729	1,172,858
Operating supplies	3,504,645	3,672,833	7,764,369	6,935,027
Outside services	5,432,292	4,053,247	10,490,508	7,803,214
Marketing	956,361	618,366	1,450,734	1,205,872
Travel & Business Development	190,231	82,665	310,788	153,250
Professional Development	158,355	121,455	332,590	321,748
Bad Debt Expense	(23,913)	(32,200)	(33,997)	15,753
Professional fees	786,051	703,158	1,522,052	1,382,348
Registry	2,346,793	2,001,895	4,897,127	3,610,616
Miscellaneous expense	2,467,927	1,962,569	4,559,774	4,404,244
Management fees	599,005	632,211	1,086,998	1,019,835
Capitation Expense Hospitals	17,943,765	15,635,195	32,546,471	30,322,105
Other Income/Expense	37,891	37,213	1,226,883	678,107
Total Operating Expenses	65,982,114	56,194,910	126,120,679	110,693,652
Income from Operations	18,644,241	15,603,099	38,951,841	33,902,809
Income (Loss) Unconsolidated JV	(87,351)	(27,339)	(146,171)	(72,414)
EBITDAR	**18,556,890**	**15,575,760**	**38,805,670**	**33,830,395**
Depreciation expense	833,788	983,434	1,666,816	1,773,575
Amortization expense	768,043	908,208	1,536,085	1,962,081
Total Depreciation and Amortization	1,601,831	1,891,642	3,202,901	3,735,656
Net Operating Income (Loss)	**16,955,059**	**13,684,118**	**35,602,769**	**30,094,739**
Interest income	(1,326,678)	(580,367)	(2,531,885)	(1,149,444)
Interest expense	3,324,481	148,273	6,489,231	159,221
Other (Income) / Expense	4,316,384	1,300,894	7,092,613	2,600,756
Total Other (Income) / Expense	6,314,187	868,800	11,049,959	1,610,533
Net income (loss) before income taxes	**10,640,872**	**12,815,318**	**24,552,810**	**28,484,206**
Income tax provision (benefit)	-	-	-	-
Net income (loss) from continuing operations	**10,640,872**	**12,815,318**	**24,552,810**	**28,484,206**
Loss on Discontinued Operations	-	-	-	-
Net Income (Loss) before Allocation to Non-Controlling Interests	**10,640,872**	**12,815,318**	**24,552,810**	**28,484,206**
Non-Controlling Interest in Subsidiaries	-	-	-	(6,593)
Net Income after Non-Controlling Interests	**10,640,872**	**12,815,318**	**24,552,810**	**28,490,799**
Total other comprehensive (loss) income, net of tax	-	-	-	-
Total Comprehensive Income (loss)	**10,640,872**	**12,815,318**	**24,552,810**	**28,490,799**

Prospect Medical Holdings, Inc.

NewCo Consolidated Balance Sheet

Fiscal 2023 - March

Draft - Unaudited

	March 31, 2023	September 30, 2022
CURRENT ASSETS:		
Cash and cash equivalents	99,462,337	60,725,824
Restricted cash	1,309,592	1,309,343
Accounts Receivable, Patients - Net	50,485,160	50,117,890
Accounts Receivable - Risk Pool	6,588,667	6,252,846
Accounts Receivable - MSO Fees	1,750,203	1,298,532
Accounts Receivable - Other	10,205,810	5,087,910
Government program receivables	1,812,824	1,632,944
Notes Receivable	(1,057,052)	(1,219,643)
Intercompany Accounts	636,418,398	573,624,506
Inventory	2,427,765	1,797,003
Prepaid Expenses	5,974,787	4,564,062
Hospital fee program receivable	14,706,868	15,512,901
Total Current Assets	**$830,085,360**	**$720,704,118**
FIXED ASSETS:		
Property, Improvements & Equipment	61,648,553	61,158,336
Accumulated Depreciation	(36,725,879)	(35,059,066)
Property, improvements and equipment, net	**$24,922,674**	**$26,099,270**
OTHER ASSETS:		
Notes Receivable - Long Term	69,966,600	69,966,600
Investment in unconsolidated subsidiary	3,852,752	3,990,558
Deposits and Other Assets	419,264	481,882
Deferred income taxes, net	14,657,117	14,657,117
Goodwill	20,177,500	21,713,588
Total Other Assets	**$109,073,234**	**$110,809,745**
TOTAL ASSETS	**$964,081,268**	**$857,613,133**
CURRENT LIABILITIES:		
Accrued Medical Claims/IBNR	94,502,216	82,212,146
Accounts Payable	33,614,665	24,917,025
Accrued Payroll & Benefits	17,361,961	13,438,582
Other Payable	31,742,825	22,982,904
Due to Government Payer	3,609,815	4,181,921
Capitalized Leases - current portion	511,522	487,036
Debt - Current Portion	100,118,953	100,101,199
Hospital fee program liability	3,602,434	4,230,325
Other Current Liabilities	2,794,923	3,008,055
Total Current Liabilities	**287,859,312**	**255,559,193**
LONG TERM LIABILITIES:		
Capitalized Leases - long-term portion	1,592,091	1,846,652
Debt - L/T Portion	102,404,556	52,501,242
Other Long Term Liabilities	5,489,409	5,832,627
Malpractice reserves	1,538,998	1,216,000
Total Long Term Liabilities	**111,025,054**	**61,396,521**
TOTAL LIABILITIES	**398,884,367**	**316,955,714**
SHAREHOLDER'S EQUITY		
Additional Paid in Capital	17,455,314	17,466,502
Retained Earnings (Accumulated Deficit) - Prior Year	523,044,027	455,771,812
Retained Earnings (Accumulated Deficit) - Current Year	24,552,836	67,272,211
Total Holdings equity	565,052,177	540,510,525
Noncontrolling interest	144,724	146,885
Total Shareholder's Equity	**565,196,901**	**540,657,410**
TOTAL LIABILITIES & SHAREHOLDER'S EQUITY	**964,081,268**	**857,613,124**

Prospect Medical Holdings, Inc.
NewCo Consolidated Statements of Cash Flows
Fiscal 2023
(Draft - Unaudited)

	Six Months Ended March 31, 2023
Operating activities	
Net income (loss)	24,552,810
Adjustments to reconcile net income (loss) to net cash, cash equivalents and restricted cash provided by (used in) operating activities:	
Depreciation and amortization	3,202,901
Undistributed earnings from equity method investments	137,806
Change in assets and liabilities, net of business combinations:	
Patient accounts receivable	(6,272,662)
Due to/from government payors, net	(751,986)
Other receivables, prepaid expenses and other current assets	(64,367,208)
Hospital fee program receivable	806,033
Hospital fee program liability	(627,892)
Inventories	(630,762)
Other assets	62,618
Accrued medical claims and other healthcare costs payable	12,290,070
Accounts payable, other accrued liabilities and otherlong term liabilities	21,524,166
Net cash, cash equivalents and restricted cash provided by (used in) operating activities	(10,074,106)
Investing activities	
Purchases of property, improvements and equipment	(509,580)
Net cash, cash equivalents and restricted cash provided by (used in) investing activities	(509,580)
Financing activities	
Repayments on long-term debt	(543,676)
Repayments of capital leases	(123,527)
Proceeds from Long-Term Debt	50,000,000
Repurchases of NCI shares	(12,349)
Net cash, cash equivalents and restricted cash provided by (used in) financing activities	49,320,448
Net increase (decrease) in cash, cash equivalents and restricted cash	38,736,762
Cash, cash equivalents and restricted cash at beginning of period	62,035,167
Cash, cash equivalents and restricted cash at end of period	**100,771,929**

Prospect Medical Holdings, Inc.

RemainCo Consolidated Income Statement

Fiscal 2022 - Q1

Draft - Unaudited

	Three Months Ended December 31	
	2022	2021
REVENUE:		
Capitation revenue	71,376,041	28,271,185
Patient services revenue	507,568,130	547,908,246
Other non-hospital services revenue	17,327,525	9,567,335
MSO revenue	-	(800,558)
P4P Reward & Other Bonuses	4,021,370	720,135
Other Operating Revenue	10,384,323	18,911,989
Shared Risk Pool Revenue	4,505,530	2,244,380
Total Gross Revenue	615,182,918	606,822,713
Less: Provision for Bad Debts	-	-
Total Net Revenue	615,182,918	606,822,713
COST OF REVENUES:		
PCP capitation expense	287,703	-
Claims paid	24,127,455	-
Physician bonus	3,433,407	733,099
Cost of revenues - other	(191,218)	(465,444)
Shared risk pool	2,411,171	904,114
Total Cost of Revenue	30,068,518	1,172,033
Gross Margin	585,114,400	605,650,680
OPERATING EXPENSES:		
Salaries	263,923,549	279,153,758
Payroll Taxes & Fringe Benefits	46,058,517	50,451,868
Insurance	12,157,574	11,728,878
Rent	8,860,634	9,067,890
Utilities	8,350,532	8,101,019
Repair & Maintenance	9,981,143	12,013,723
Operating supplies	66,385,418	77,815,084
Outside services	62,930,918	59,605,280
Marketing	652,556	923,836
Travel & Business Development	768,384	754,257
Professional Development	916,940	876,783
Bad Debt Expense	1,742,663	873,457
Professional fees	35,551,684	34,914,352
Registry	25,340,208	18,751,948
Miscellaneous expense	20,507,531	18,483,933
Management fees	1,803,548	838,333
Capitation Expense Hospitals	35,096,653	29,237,347
Other Income/Expense	28,930,930	28,590,377
Total Operating Expenses	629,959,381	642,182,123
Income from Operations	(44,844,981)	(36,531,443)
Income (Loss) Unconsolidated JV	906,668	723,894
EBITDAR	**(43,938,313)**	**(35,807,549)**
Depreciation expense	3,973,333	20,377,524
Amortization expense	3,400,542	7,582,845
Total Depreciation and Amortization	7,373,875	27,960,369
Net Operating Income (Loss)	**(51,312,188)**	**(63,767,918)**
Interest income	(3,004,469)	(3,780,805)
Interest expense	33,563,869	26,657,315
Other (Income) / Expense	(2,393,158)	(9,008,997)
Total Other (Income) / Expense	28,169,956	13,867,512
Net income (loss) before income taxes	**(79,482,144)**	**(77,635,430)**
Income tax provision (benefit)	325,742	260,540
Net income (loss) from continuing operations	**(79,807,886)**	**(77,895,970)**
Loss on Discontinued Operations	-	-
Net Income (Loss) before Allocation to Non-Controlling Interests	**(79,807,886)**	**(77,895,970)**
Non-Controlling Interest in Subsidiaries	188,785	194,618
Net Income after Non-Controlling Interests	**(79,996,671)**	**(78,090,588)**
Total other comprehensive (loss) income, net of tax	848,231	6,723
Total Comprehensive Income (loss)	**(80,844,902)**	**(78,097,311)**

Prospect Medical Holdings, Inc.

RemainCo Consolidated Balance Sheet

Fiscal 2022 - December
Draft - Unaudited

	December 31, 2022	September 30, 2021
CURRENT ASSETS:		
Cash and cash equivalents	890,560	(4,641,977)
Restricted cash	27,684,266	34,433,456
Investments	34,943,853	33,298,280
Accounts Receivable, Patients - Net	243,999,576	245,151,996
Accounts Receivable - Risk Pool	11,047,277	10,618,498
Accounts Receivable - Other	40,161,348	39,826,418
Third Party Settlements Receivable	3,982,449	3,463,232
Government program receivables	17,902,067	22,816,928
Intercompany Accounts	(592,072,608)	(572,999,606)
Inventory	40,559,014	39,617,794
Prepaid Expenses	145,111,594	138,790,643
Hospital fee program receivable	175,049,236	164,715,389
Total Current Assets	**$149,258,632**	**$155,091,052**
FIXED ASSETS:		
Property, Improvements & Equipment	1,087,560,620	1,073,220,308
Accumulated Depreciation	(490,670,780)	(485,515,550)
Property, improvements and equipment, net	**$596,889,840**	**$587,704,758**
OTHER ASSETS:		
Investment in unconsolidated subsidiary	56,617,527	55,594,961
Deposits and Other Assets	37,396,903	43,762,835
Deferred income taxes, net	(14,724,997)	(14,657,117)
Goodwill	198,765,749	202,038,545
Identifiable Intangibles	12,947,828	13,068,953
Other Assets	7,054,131	7,333,366
Total Other Assets	**$298,961,543**	**$308,045,944**
TOTAL ASSETS	**$1,045,110,016**	**$1,050,841,754**
CURRENT LIABILITIES:		
Accrued Medical Claims/IBNR	49,931,849	37,136,924
Accounts Payable	436,436,278	331,275,407
Accrued Payroll & Benefits	188,773,241	187,803,385
Other Payable	48,812,750	48,420,339
Due to Government Payer	75,079,843	86,193,086
Income taxes payable, net	2,112,223	(891,781)
Capitalized Leases - current portion	16,132,623	16,125,855
Debt - Current Portion	148,378,785	164,256,747
Revolver line of credit	170,800,000	196,300,000
Hospital fee program liability	104,354,578	92,583,232
Third Party Settlements payable	37,214,268	27,846,012
Other Current Liabilities	3,707,888	5,505,220
Unearned Premiums	3,216,020	11,682
Premiums Payable	3,181,883	3,069,284
Total Current Liabilities	**1,288,132,231**	**1,195,635,391**
LONG TERM LIABILITIES:		
Capitalized Leases - long-term portion	42,422,140	45,858,513
Debt - L/T Portion	142,370,219	144,559,503
Asset retirement obligations	6,915,012	6,843,768
Other Long Term Liabilities	89,792,439	90,456,046
Malpractice reserves	134,293,314	131,041,021
MPT Liability	1,163,537,585	1,184,347,298
Pension Obligation	239,943,903	235,184,043
Total Long Term Liabilities	**1,819,274,612**	**1,838,290,192**
TOTAL LIABILITIES	**3,107,406,842**	**3,033,925,583**
SHAREHOLDER'S EQUITY		
Common Stock	351	331
Additional Paid in Capital	59,416,692	57,598,071
Retained Earnings (Accumulated Deficit) - Prior Year	(1,488,329,740)	(1,279,750,206)
Dividends Paid	(514,955,019)	(513,302,745)
Retained Earnings (Accumulated Deficit) - Current Year	(108,600,307)	(237,305,035)
Accumulated Other Comprehensive Income	(13,348,876)	(14,088,265)
Total Holdings equity	(2,065,816,898)	(1,986,847,850)
Noncontrolling interest	3,520,072	3,764,017
Total Shareholder's Equity	**(2,062,296,826)**	**(1,983,083,833)**
TOTAL LIABILITIES & SHAREHOLDER'S EQUITY	**1,045,110,016**	**1,050,841,750**

Prospect Medical Holdings, Inc.
RemainCo Consolidated Statements of Cash Flows
Fiscal 2023 - Q1
(Draft - Unaudited)

	Three Months Ended December 31, 2022
Operating activities	
Net income (loss)	(79,807,886)
Adjustments to reconcile net income (loss) to net cash, cash equivalents and restricted cash provided by (used in) operating activities:	
Depreciation and amortization	7,445,122
Amortization of deferred financing costs, net	682,279
Pension obligation net periodic benefit cost (credit)	5,079,892
Excess contribution to pension plan	(320,033)
Deferred income taxes, net	67,879
Undistributed earnings from equity method investments	(1,022,566)
Change in assets and liabilities, net of business combinations:	
Patient accounts receivable	388,712
Due to/from government payors, net	2,650,657
Other receivables, prepaid expenses and other current assets	31,067,156
Hospital fee program receivable	(10,333,847)
Hospital fee program liability	11,771,346
Inventories	(941,220)
Income tax payable/receivable, net	3,004,005
Other assets	(403,044)
Accrued medical claims and other healthcare costs payable	12,794,925
Accounts payable, other accrued liabilities and other long term liabilities	75,765,698
Net cash, cash equivalents and restricted cash provided by (used in) operating activities	57,889,074
Investing activities	
Purchases of property, improvements and equipment	(11,588,074)
Decrease (increase) in restricted investments	(1,645,573)
Net cash, cash equivalents and restricted cash provided by (used in) investing activities	(13,233,647)
Financing activities	
Borrowings on line of credit	12,000,000
Repayments on line of credit	(37,500,000)
Repayments on long-term debt	(15,705,374)
Repayments of capital leases	(3,581,244)
Repayments of Insurance premium financing, net	(1,085,461)
Net cash, cash equivalents and restricted cash provided by (used in) financing activities	(45,872,080)
Net increase (decrease) in cash, cash equivalents and restricted cash	(1,216,652)
Cash, cash equivalents and restricted cash at beginning of period	29,791,479
Cash, cash equivalents and restricted cash at end of period	**28,574,827**

Prospect Medical Holdings, Inc.

RemainCo Consolidated Income Statement

Fiscal 2023 - Q2

Draft - Unaudited

	Three Months Ended March 31	
	2023	2022
REVENUE:		
Capitation revenue	87,062,858	56,210,835
Patient services revenue	464,252,317	448,475,620
Other non-hospital services revenue	17,120,277	13,151,261
MSO revenue	-	(1,711,029)
P4P Reward & Other Bonuses	4,417,952	2,203,155
Other Operating Revenue	9,550,828	13,596,229
Shared Risk Pool Revenue	5,753,163	3,929,358
Total Gross Revenue	588,157,394	535,855,429
Less: Provision for Bad Debts	374,217	27,014,142
Total Net Revenue	588,531,611	562,869,571
COST OF REVENUES:		
PCP capitation expense	1,113,796	1,099,766
Claims paid	31,971,791	-
Physician bonus	2,284,740	3,048,637
Cost of revenues - other	960,927	1,481,032
Shared risk pool	3,983,391	3,614,308
Total Cost of Revenue	40,314,645	28,286,384
Gross Margin	548,216,966	534,583,186
OPERATING EXPENSES:		
Salaries	259,081,004	265,724,414
Payroll Taxes & Fringe Benefits	48,917,473	50,434,311
Insurance	7,918,862	6,839,542
Rent	9,115,199	9,468,461
Utilities	9,812,358	8,710,555
Repair & Maintenance	9,034,507	10,794,746
Operating supplies	66,077,367	74,259,499
Outside services	65,271,838	62,001,432
Marketing	693,608	904,959
Travel & Business Development	784,839	919,566
Professional Development	826,725	861,178
Bad Debt Expense	1,444,331	(276,309)
Professional fees	36,586,049	34,534,630
Registry	28,171,191	26,457,742
Miscellaneous expense	18,988,359	18,579,105
Management fees	(1,347,254)	661,705
Capitation Expense Hospitals	39,202,645	14,445,942
Other Income/Expense	8,397,307	10,795,709
Total Operating Expenses	608,976,408	596,117,187
Income from Operations	(60,759,441)	(61,534,001)
Income (Loss) Unconsolidated JV	961,810	607,683
EBITDAR	**(59,797,632)**	**(60,926,318)**
Depreciation expense	3,559,229	8,762,496
Amortization expense	3,398,337	4,786,288
Total Depreciation and Amortization	6,957,565	13,548,784
Net Operating Income (Loss)	**(66,755,197)**	**(74,475,101)**
Interest income	(2,563,896)	(6,637,564)
Interest expense	32,448,223	26,675,526
Other (Income) / Expense	2,166,100	5,799,319
Total Other (Income) / Expense	32,052,834	25,837,281
Net income (loss) before income taxes	**(98,808,030)**	**(100,312,383)**
Income tax provision (benefit)	83,411	(70,959)
Net income (loss) from continuing operations	**(98,891,441)**	**(100,241,424)**
Loss on Discontinued Operations	-	(8,736,714)
Net Income (Loss) before Allocation to Non-Controlling Interests	**(98,891,441)**	**(91,504,710)**
Non-Controlling Interest in Subsidiaries	191,961	172,803
Net Income after Non-Controlling Interests	**(99,083,402)**	**(91,677,513)**
Total other comprehensive (loss) income, net of tax	998,877	(6,115,856)
Total Comprehensive Income (loss)	**(100,082,279)**	**(85,561,657)**

Prospect Medical Holdings, Inc.

RemainCo Consolidated Balance Sheet

Fiscal 2022 - March
Draft - Unaudited

	March 31, 2022	September 30, 2021
CURRENT ASSETS:		
Cash and cash equivalents	5,418,187	(4,641,977)
Restricted cash	21,271,511	34,433,456
Investments	36,916,483	33,298,280
Accounts Receivable, Patients - Net	220,551,895	245,151,996
Accounts Receivable - Risk Pool	17,660,572	10,618,498
Accounts Receivable - Other	51,748,644	39,826,418
Third Party Settlements Receivable	3,339,120	3,463,232
Government program receivables	11,229,252	22,816,928
Intercompany Accounts	(629,815,552)	(572,999,606)
Inventory	41,756,128	39,617,794
Prepaid Expenses	130,026,401	138,790,643
Hospital fee program receivable	168,344,274	164,715,389
Total Current Assets	**$78,446,912**	**$155,091,052**
FIXED ASSETS:		
Property, Improvements & Equipment	1,077,641,404	1,073,220,308
Accumulated Depreciation	(494,182,002)	(485,515,550)
Property, improvements and equipment, net	**$583,459,402**	**$587,704,758**
OTHER ASSETS:		
Investment in unconsolidated subsidiary	57,206,602	55,594,961
Deposits and Other Assets	47,821,422	43,762,835
Deferred income taxes, net	(14,980,347)	(14,657,117)
Goodwill	195,495,158	202,038,545
Identifiable Intangibles	12,826,703	13,068,953
Other Assets	6,992,270	7,333,366
Total Other Assets	**$306,247,936**	**$308,045,944**
TOTAL ASSETS	**$968,154,250**	**$1,050,841,754**
CURRENT LIABILITIES:		
Accrued Medical Claims/IBNR	60,951,810	37,136,924
Accounts Payable	442,659,820	331,275,407
Accrued Payroll & Benefits	177,131,999	187,803,385
Other Payable	61,531,545	48,420,339
Due to Government Payer	74,922,640	86,193,086
Income taxes payable, net	1,940,282	(891,781)
Capitalized Leases - current portion	15,675,530	16,125,855
Debt - Current Portion	144,291,283	164,256,747
Revolver line of credit	170,800,000	196,300,000
Hospital fee program liability	87,978,679	92,583,232
Third Party Settlements payable	51,282,753	27,846,012
Other Current Liabilities	2,087,007	5,505,220
Unearned Premiums	2,085,618	11,682
Premiums Payable	4,334,165	3,069,284
Total Current Liabilities	**1,297,673,131**	**1,195,635,391**
LONG TERM LIABILITIES:		
Capitalized Leases - long-term portion	39,113,871	45,858,513
Debt - L/T Portion	138,489,757	144,559,503
Asset retirement obligations	6,930,856	6,843,768
Other Long Term Liabilities	75,267,938	90,456,046
Malpractice reserves	138,053,574	131,041,021
MPT Liability	1,188,493,854	1,184,347,298
Pension Obligation	244,640,335	235,184,043
Total Long Term Liabilities	**1,830,990,184**	**1,838,290,192**
TOTAL LIABILITIES	**3,128,663,316**	**3,033,925,583**
SHAREHOLDER'S EQUITY		
Common Stock	351	331
Additional Paid in Capital	57,509,415	57,598,071
Retained Earnings (Accumulated Deficit) - Prior Year	(1,488,516,193)	(1,279,750,206)
Dividends Paid	(513,302,746)	(513,302,745)
Retained Earnings (Accumulated Deficit) - Current Year	(207,652,439)	(237,305,035)
Accumulated Other Comprehensive Income	(12,247,488)	(14,088,265)
Total Holdings equity	(2,164,209,099)	(1,986,847,850)
Noncontrolling interest	3,700,032	3,764,017
Total Shareholder's Equity	**(2,160,509,067)**	**(1,983,083,833)**
TOTAL LIABILITIES & SHAREHOLDER'S EQUITY	**968,154,249**	**1,050,841,750**

Prospect Medical Holdings, Inc.
RemainCo Consolidated Statements of Cash Flows
Fiscal 2023 - Q2
(Draft - Unaudited)

	Six Months Ended March 31, 2023
Operating activities	
Net income (loss)	(178,699,327)
Adjustments to reconcile net income (loss) to net cash, cash equivalents and restricted cash provided by (used in) operating activities:	
Depreciation and amortization	14,418,530
Amortization of deferred financing costs, net	1,188,895
Pension obligation net periodic benefit cost (credit)	10,116,307
Excess contribution to pension plan	(660,015)
Deferred income taxes, net	323,230
Undistributed earnings from equity method investments	(1,593,368)
Change in assets and liabilities, net of business combinations:	
Patient accounts receivable	5,635,802
Due to/from government payors, net	23,878,083
Other receivables, prepaid expenses and other current assets	73,470,775
Hospital fee program receivable	(3,628,885)
Hospital fee program liability	(4,604,553)
Inventories	(2,138,333)
Income tax payable/receivable, net	2,832,064
Other assets	(847,799)
Accrued medical claims and other healthcare costs payable	23,815,586
Accounts payable, other accrued liabilities and other long term liabilities	45,714,127
Net cash, cash equivalents and restricted cash provided by (used in) operating activities	9,221,117
Investing activities	
Purchases of property, improvements and equipment	(15,970,067)
Decrease (increase) in restricted investments	(3,618,203)
Net cash, cash equivalents and restricted cash provided by (used in) investing activities	(19,588,269)
Financing activities	
Borrowings on line of credit	12,000,000
Repayments on line of credit	(37,500,000)
Repayments on long-term debt	(5,134,121)
Repayments of capital leases	(7,625,792)
Repayments of Insurance premium financing, net	(4,474,716)
Net cash, cash equivalents and restricted cash provided by (used in) financing activities	7,265,371
Net increase (decrease) in cash, cash equivalents and restricted cash	(3,101,782)
Cash, cash equivalents and restricted cash at beginning of period	29,791,479
Cash, cash equivalents and restricted cash at end of period	**26,689,697**

Prospect Medical Holdings, Inc.
NewCo. and RemainCo. Consolidated Balance Sheet
Fiscal 2023 - March 31,
Draft - Unaudited

Income Statement & Balance Sheet	1. Pre-Transaction Adjustment					2. Post-Transaction Adjustment							
NewCo.	[A] To Split Cash	[B] Move Receivables	[C] Split Intang.	[D] To Equity	Pre-Transaction Consolidation	[E] Transaction Costs	[F] Debt Issuance Costs	[G] PCK Dividend	[H] MPT Dividend	[I] MSH Dividend	[J] MPT Prepay	Post-Transaction Consolidation
March 31, 2023												
CURRENT ASSETS:												
Cash and cash equivalents	99,462,337	(99,462,337)			$ -	$ 375,000,000	$ (36,300,000)	$ (263,700,000)				$ 75,000,000
Restricted cash	1,309,592				1,309,592							1,309,592
Accounts Receivable, Patients - Net	59,485,160		(38,000,000)		21,485,160							21,485,160
Accounts Receivable - Risk Pool	6,588,667				6,588,667							6,588,667
Accounts Receivable - MSO Fees	1,750,203				1,750,203							1,750,203
Accounts Receivable - Other	10,265,810				10,265,810							10,265,810
Government program receivables	1,812,824				1,812,824							1,812,824
Notes Receivable	(1,057,052)				(1,057,052)							(1,057,052)
Intercompany Accounts	636,418,268	99,462,337	38,000,000	(773,880,736)	-							-
Inventory	2,427,765				2,427,765							2,427,765
Prepaid Expenses	5,974,787				5,974,787							5,974,787
Hospital fee program receivable	14,706,666				14,706,666							14,706,666
Total Current Assets	$830,885,369	$0	$0	$0	($773,880,736)	$56,294,624	$375,000,000	($36,300,000)	($263,700,000)	$0	$0	$0	$0	$131,294,624
FIXED ASSETS:												
Property, Improvements & Equipment	61,648,553				61,648,553							61,648,553
Accumulated Depreciation	(36,725,679)				(36,725,679)							(36,725,679)
Property, improvements and equipment, net	$24,922,874	$0	$0	$0	$0	$24,922,874	$0	$0	$0	$0	$0	$0	$0	$24,922,874
OTHER ASSETS:												
Notes Receivable - Long Term	69,966,600		(69,966,600)	-	-							-
Investment in unconsolidated subsidiary	3,852,752				3,852,752							3,852,752
Deposits and Other Assets	419,264				419,264							419,264
Deferred income taxes, net	14,637,117				14,637,117							14,637,117
Goodwill	20,177,500				20,177,500							20,177,500
Total Other Assets	$109,053,234	$0	($69,966,600)	$0	$0	$39,106,634	$0	$0	$0	$0	$0	$0	$0	$39,106,634
TOTAL ASSETS	$964,861,298	$0	($69,966,600)	$0	($773,880,736)	$120,323,932	$375,000,000	($36,300,000)	($263,700,000)	$0	$0	$0	$0	$195,323,932
CURRENT LIABILITIES:												
Accrued Medical Claims/IBNR	94,502,216				94,502,216							94,502,216
Accounts Payable	33,614,665				33,614,665							33,614,665
Accrued Payroll & Benefits	17,361,961				17,361,961							17,361,961
Other Payable	31,742,625				31,742,625							31,742,625
Due to Government Payer	3,609,615				3,609,615							3,609,615
Capitalized Leases - current portion	511,522				511,522							511,522
Debt - Current Portion	100,118,953				100,118,953							100,118,953
Hospital fee program liability	3,602,434				3,602,434							3,602,434
Other Current Liabilities	2,794,823				2,794,823							2,794,823
Total Current Liabilities	287,959,312	-	-	-	-	287,959,312	-	-	-	-	-	-	-	287,959,312
LONG TERM LIABILITIES:												
Capitalized Leases - long-term portion	1,592,091				1,592,091							1,592,091
Debt - LT Portion	102,464,556				102,464,556	375,000,000	-	-				477,464,556
Other Long Term Liabilities	5,469,409				5,469,409							5,469,409
Malpractice reserves	1,538,998				1,538,998							1,538,998
Total Long Term Liabilities	111,025,054	-	-	-	-	111,025,054	375,000,000	-	-	-	-	-	-	486,025,054
TOTAL LIABILITIES	398,984,367	-	-	-	-	398,984,367	375,000,000	-	-	-	-	-	-	773,984,367
SHAREHOLDER'S EQUITY												
Additional Paid In Capital	17,455,214				17,455,214							17,455,214
Retained Earnings (Accumulated Deficit) - Prior Year	523,044,027				523,044,027							523,044,027
Retained Earnings (Accumulated Deficit) - Current Year	34,552,936				34,552,936		(36,300,000)					(1,747,064)
Total Holdings equity	565,052,177	-	(69,966,600)	-	(773,880,736)	(278,795,158)	-	(36,300,000)	263,700,000	-	-	-	-	(578,795,158)
Noncontrolling interest	144,724					144,724								144,724
Total Shareholder's Equity	565,196,901	-	(69,966,600)	-	(773,880,736)	(278,650,434)	-	(36,300,000)	263,700,000	-	-	-	-	(578,650,434)
TOTAL LIABILITIES & SHAREHOLDER'S EQUITY	964,881,268	-	(69,966,600)	-	(773,880,736)	120,333,932	375,000,000	(36,300,000)	263,700,000	-	-	-	-	195,333,932
	0	-	-	-	-	0	-	-	-	-	-	-	-	0

RemainCo.	Balance Sheet	[A] Split Cash	[B] Move Receivables	[C] Split Intang.	[D] To Equity	Pre-Transaction Consolidation	[E] Transaction Costs	[F] Debt Issuance Costs	[G] PCK Dividend	[H] MPT Dividend	[I] MSH Dividend	[J] MPT Prepay	Post-Transaction Consolidation
	March 31, 2023												
CURRENT ASSETS:													
Cash and cash equivalents	5,418,187	99,462,337				$ 104,880,524		$ 263,700,000	$ (213,000,000)	$ (30,000,000)	$ (14,300,000)	$ 75,000,000	$ 185,380,524
Restricted cash	21,271,511					21,271,511							21,271,511
Investments	36,916,463					36,916,463							36,916,463
Accounts Receivable, Patients - Net	229,551,895		38,000,000			267,551,895							267,551,895
Accounts Receivable - Risk Pool	17,660,572					17,660,572							17,660,572
Accounts Receivable - Other	51,748,644					51,748,644							51,748,644
ThirdParty Settlements Receivable	3,339,120					3,339,120							3,339,120
Government program receivables	11,228,252					11,228,252							11,228,252
Intercompany Accounts	(629,815,992)	(99,462,337)	(38,000,000)	773,880,736		6,602,046							6,602,046
Inventory	41,756,126					41,756,126							41,756,126
Prepaid Expenses	130,036,401					130,036,401							130,036,401
Hospital fee program receivable	168,344,274					168,344,274							168,344,274
Premiums Receivable	3,213,086					3,213,086							3,213,086
Total Current Assets	$91,859,908	$0	$0	$0	$773,880,736	$865,740,644	$0	$0	$263,700,000	($213,000,000)	($30,000,000)	($14,300,000)	$75,000,000	$934,940,644
FIXED ASSETS:													
Property, Improvements & Equipment	1,077,641,404					1,077,641,404							1,077,641,404
Accumulated Depreciation	(594,157,275)					(594,157,275)							(594,157,275)
Property, improvements and equipment, net	$483,484,129	$0	$0	$0	$0	$483,484,129	$0	$0	$0	$0	$0	$0	$0	$483,484,129
OTHER ASSETS:													
Investment in Partnership	886,126					886,126							886,126
Investment in unconsolidated subsidiary	41,239,633					41,239,633							41,239,633
Deposits and Other Assets	47,821,422					47,821,422			43,100,000				90,921,422
Deferred income taxes, net	(14,980,347)					(14,980,347)							(14,980,347)
Goodwill	178,765,245					178,765,245							178,765,245
Identifiable Intangibles	10,037,222					10,037,222							10,037,222
Other Assets	6,992,270					6,992,270							6,992,270
Total Other Assets	$270,761,572	$0	$0	$0	$0	$270,761,572	$0	$0	$0	$43,100,000	$0	$0	$0	$313,861,572
TOTAL ASSETS	$835,845,709	$0	$0	$0	$773,880,736	$1,619,726,439	$0	$0	$263,700,000	($169,900,000)	($30,000,000)	($14,300,000)	$75,000,000	$1,732,326,439
CURRENT LIABILITIES:													
Accrued Medical Claims/IBNR	60,951,810					60,951,810							60,951,810
Accounts Payable	445,872,566					445,872,566				(30,000,000)			415,872,566
Accrued Payroll & Benefits	177,131,999					177,131,999					(14,300,000)		162,831,999
Other Payable	61,531,545					61,531,545							61,531,545
Due to Government Payer	74,622,649					74,622,649							74,622,649
Income taxes payable, net	1,940,282					1,940,282							1,940,282
Capitalized Leases - current portion	15,675,530					15,675,530							15,675,530
Debt - Current Portion	144,291,293					144,291,293							144,291,293
Revolver line of credit	170,800,000					170,800,000			(170,800,000)				-
Hospital fee program liability	87,978,679					87,978,679							87,978,679
ThirdParty Settlements payable	51,282,753					51,282,753							51,282,753
Other Current Liabilities	2,087,007					2,087,007							2,087,007
Unearned Premiums	2,085,618					2,085,618							2,085,618
Premiums Payable	4,334,165					4,334,165							4,334,165
Total Current Liabilities	1,300,585,979	-	-	-	-	1,301,585,979	-	-	(170,800,000)	(30,000,000)	(14,300,000)	-	-	1,085,785,979
LONG TERM LIABILITIES:													
Capitalized Leases - long-term portion	39,113,871					39,113,871							39,113,871
Debt - LT Portion	138,489,757					138,489,757		-	-			75,000,000	213,489,757
Asset retirement obligations	6,930,856					6,930,856							6,930,856
Other Long Term Liabilities	75,267,936					75,267,936							75,267,936
Malpractice reserves	136,053,574					136,053,574							136,053,574
Due to affiliate													
MPT Liability	1,188,493,954					1,188,493,954							1,188,493,954
Pension Obligation	244,640,235					244,640,235							244,640,235
Total Long Term Liabilities	1,830,990,184	-	-	-	-	1,830,990,184	-	-	-	-	-	75,000,000	-	1,905,990,184
TOTAL LIABILITIES	3,131,576,062	-	-	-	-	3,131,576,062	-	-	-	(170,800,000)	(30,000,000)	(14,300,000)	75,000,000	2,991,776,062
SHAREHOLDER'S EQUITY													
Common Stock	691					691							691
Additional Paid In Capital	41,542,446					41,542,446							41,542,446
Retained Earnings (Accumulated Deficit) - Prior Year	(1,557,933,962)					(1,557,933,962)							(1,557,933,962)
Dividends Paid	(541,910,066)					(541,910,066)							(541,910,066)
Retained Earnings (Accumulated Deficit) - Current Year	(229,178,863)					(229,178,863)							(229,178,863)
Accumulated Other Comprehensive Income	(12,247,488)					(12,247,488)							(12,247,488)
Total Holdings equity	(2,299,727,344)	-	-	-	773,880,736	(1,525,846,608)	-	-	263,700,000	-	-	-	-	(1,262,146,608)
Noncontrolling interest	3,700,032					3,700,032								3,700,032
Total Shareholder's Equity	(2,296,027,311)	-	-	-	773,880,736	(1,522,149,575)	-	-	263,700,000	-	-	-	-	(1,258,449,575)
TOTAL LIABILITIES & SHAREHOLDER'S EQUITY	835,845,751	-	-	-	773,880,736	1,609,726,487	-	-	263,700,000	(170,800,000)	(30,000,000)	(14,300,000)	75,000,000	1,733,326,487
	1	-	-	-	-	1	-	-	-	-	-	-	-	1

Prospect Medical Holdings, Inc.
NewCo. & RemainCo. Consolidated Income Statement
TTM as of Mar-23
Draft - Unaudited

NewCo.	TTM as of Mar-23	Eliminations	Corp. Allocations	Adjustments	Pro Forma Adjustments	MPT Transactions	NewCo.
	3Q22						3Q22
REVENUE:							
Capitation revenue	675,769,394						675,769,394
Patient services revenue	84,990,461						84,990,461
Hospital risk pool revenue (PAPs)	(1,901,843)						(1,901,843)
Other non-hospital services revenue	9,000						9,000
Dues / application fees	-						-
MSO revenue	24,473,625						24,473,625
Expense Reimbursements	-						-
P4P Reward & Other Bonuses	5,855,574						5,855,574
Other Operating Revenue	4,696,483						4,696,483
Shared Risk Pool Revenue	7,673,945						7,673,945
Total Gross Revenue	801,526,906	-	-	-	-	-	801,526,906
Less: Provision for Bad Debts	(1,815,445)						(1,815,445)
Total Net Revenue	799,711,459	-	-	-	-	-	799,711,459
COST OF REVENUES:							
PCP capitation expense	101,116,517						101,116,517
Specialist capitation expense	60,991,159						60,991,159
Claims paid	264,194,122						264,194,122
Change in IBNR	13,177,999						13,177,999
Physician's Salaries & Benefits	4,349,416						4,349,416
Physician bonus	14,454,040						14,454,040
Professional liability insurance	-						-
Stop loss insurance	238,519						238,519
Cost of revenues - other	1,973,946						1,973,946
Infrastructure fees	-						-
Shared risk pool	(24,084)						(24,084)
Total Cost of Revenues	460,427,614	-	-	-	-	-	460,427,614
Gross Margin	339,283,845	-	-	-	-	-	339,283,845
OPERATING EXPENSES:							
Salaries	91,994,783						91,994,783
Payroll Taxes & Fringe Benefits	15,692,895						15,692,895
Insurance	334,159						334,159
Rent	2,946,347						2,946,347
Utilities	1,835,990						1,835,990
Repair & Maintenance	1,929,475						1,929,475
Operating supplies	14,702,941						14,702,941
Outside services	20,965,139						20,965,139
Marketing	2,802,219						2,802,219
Travel & Business Development	530,995						530,995
Professional Development	560,553						560,553
Bad Debt Expense	26,197						26,197
Professional fees	3,014,339						3,014,339
Registry	9,529,501						9,529,501
Miscellaneous expense	9,457,096						9,457,096
Management fees	2,032,579		3,596,315				5,628,894
Reimbursed Expenses	-						-
Capitation Expense Hospitals	65,084,896						65,084,896
Other Income/Expense	4,450,734			36,300,000			40,750,734
Total Operating Expenses	246,991,170	-	3,596,315	36,300,000	-	-	286,887,485
Income from Operations	94,422,684	-	(3,596,315)	(36,300,000)	-	-	54,526,369
Income (Loss) Unconsolidated JV	(144,682)						(144,682)
EBITDAR	94,278,002	-	(3,596,315)	(36,300,000)	-	-	54,381,687
Depreciation expense	3,496,350						3,496,350
Amortization expense	3,185,615						3,185,615
Total Depreciation and Amortization	6,681,965	-	-	-	-	-	6,681,965
Net Operating Income (Loss)	87,740,037	-	(3,596,315)	(36,300,000)	-	-	47,710,722
Interest income	(4,167,451)						(4,167,451)
Interest expense	6,901,964	52,900,000					59,801,964
Loss on debt extinguishment	-						-
Write-off of prior debt discount	-						-
Prepayment penalties on debt refinance	-						-
Texas margin tax	-						-
Gain on termination of options	-						-
Debt repurchase expense	-						-
Other (Income) / Expense	11,947,291						11,947,291
Impairment of tradename intangibles	-						-
Gain on bargain purchase adjustment	-						-
Total Other (Income) / Expense	14,681,804	52,900,000	-	-	-	-	67,581,804
Net Income (loss) before income taxes	83,334,213	(52,900,000)	(3,596,315)	(36,300,000)	-	-	(29,462,102)
Income tax provision (benefit)	-						-
Net Income (loss) from continuing operations	83,334,213	(52,900,000)	(3,596,315)	(36,300,000)	-	-	(29,462,102)
Loss from Discontinued Operations	-						-
Income tax (benefit) provision	-						-
Loss on Discontinued Operations	-	-	-	-	-	-	-
Net Income (Loss) before Allocation to Non-Controlling Interests	83,334,213	(52,900,000)	(3,596,315)	(36,300,000)	-	-	(29,462,102)
Non-Controlling Interest in Subsidiaries	-	-	-	-	-	-	-
Net Income after Non-Controlling Interests	83,334,213	(52,900,000)	(3,596,315)	(36,300,000)	-	-	(29,462,102)
Other Comprehensive Income (Loss)	-						-
Unrealized Gain (Loss) on available for Sale Investments	-						-
Pension Plan Gain (Loss)	-						-
Pension Prior Service Credits (Costs)	-						-
OCI - Income Tax Provision	-						-
Total other comprehensive (loss) income, net of tax	-	-	-	-	-	-	-
Total comprehensive income (loss)	83,334,213	(52,900,000)	(3,596,315)	(36,300,000)	-	-	(29,462,102)
Check	0.00						
RemainCo.	TTM as of Mar-23						
REVENUE:							
Capitation revenue	291,324,253						291,324,253
Patient services revenue	2,051,590,313						2,051,590,313
Hospital risk pool revenue (PAPs)	57,931,480						57,931,480
Other non-hospital services revenue	-						-
Dues / application fees	(2,378,257)						(2,378,257)
MSO revenue	-						-
Expense Reimbursements	12,948,229						12,948,229
P4P Reward & Other Bonuses	47,990,228		3,596,315				51,586,543
Other Operating Revenue	14,990,107						14,990,107
Shared Risk Pool Revenue	2,452,638,152	-	3,596,315	-	-	-	2,456,202,667
Total Gross Revenue	(31,219,570)						(31,219,570)
Less: Provision for Bad Debts	2,421,390,422	-	3,596,315	-	-	-	2,424,999,797
Total Net Revenue							
COST OF REVENUES:							
PCP capitation expense	1,994,493						1,994,493
Specialist capitation expense	-						-
Claims paid	129,235,496						129,235,496
Change in IBNR	(19,042,643)						(19,042,643)
Physician's Salaries & Benefits	-						-
Physician bonus	6,691,947						6,691,947
Professional liability insurance	-						-
Stop loss insurance	-						-
Cost of revenues - other	(1,531,303)						(1,531,303)
Infrastructure fees	-						-
Shared risk pool	7,012,833						7,012,833
Total Cost of Revenues	124,330,705	-	-	-	-	-	124,330,705
Gross Margin	2,297,059,687	-	3,596,315	-	-	-	2,300,669,912
OPERATING EXPENSES:							
Salaries	1,042,904,908						1,042,904,908
Payroll Taxes & Fringe Benefits	192,877,485						192,877,485
Insurance	40,276,847						40,276,847
Rent	35,002,526						35,002,526
Utilities	35,336,270						35,336,270
Repair & Maintenance	39,177,459						39,177,459
Operating supplies	254,121,558						254,121,558
Outside services	252,478,297						252,478,297
Marketing	2,940,132						2,940,132
Travel & Business Development	3,264,153						3,264,153
Professional Development	3,786,116						3,786,116
Bad Debt Expense	3,405,913						3,405,913
Professional fees	144,177,725						144,177,725
Registry	106,262,596						106,262,596
Miscellaneous expense	76,476,371						76,476,371
Management fees	6,299,662						6,299,662
Reimbursed Expenses	-						-
Capitation Expense Hospitals	138,139,263						138,139,263
Other Income/Expense	111,237,196						111,237,196
Total Operating Expenses	2,487,522,252	-	-	-	-	-	2,487,522,252
Income from Operations	(190,762,565)	-	3,596,315	-	-	-	(177,166,278)
Income (Loss) Unconsolidated JV	2,415,141						2,415,141
EBITDAR	(118,347,444)	-	3,596,315	-	-	-	(114,751,129)
Depreciation expense	14,720,584						14,720,584
Amortization expense	13,586,729						13,586,729
Total Depreciation and Amortization	28,307,283	-	-	-	-	-	28,307,283
Net Operating Income (Loss)	(206,654,728)	-	3,596,315	-	-	-	(200,058,412)
Interest income	(10,097,197)						(10,097,197)
Interest expense	58,662,308				(12,020,030)	7,500,000	52,142,478
Loss on debt extinguishment	-						-
Write-off of prior debt discount	-						-
Prepayment penalties on debt refinance	6,120						6,120
Texas margin tax	-						-
Gain on termination of options	-						-
Debt repurchase expense	-						-
Other (Income) / Expense	(11,706,716)						(11,706,716)
Impairment of tradename intangibles	-						-
Gain on bargain purchase adjustment	-						-
Total Other (Income) / Expense	64,864,715	-	-	-	(12,020,030)	7,500,000	60,344,685
Net Income (loss) before income taxes	(271,519,443)	-	3,596,315	-	12,020,030	(7,500,000)	(263,403,097)
Income tax provision (benefit)	(2,385,396)						(2,385,396)
Net Income (loss) from continuing operations	(269,134,047)	-	3,596,315	-	12,020,030	(7,500,000)	(261,017,701)
Loss from Discontinued Operations	8,736,714						8,736,714
Income tax (benefit) provision	-						-
Loss on Discontinued Operations	8,736,714	-	-	-	-	-	8,736,714
Net Income (Loss) before Allocation to Non-Controlling Interests	(277,870,761)	-	3,596,315	-	12,020,030	(7,500,000)	(269,754,415)
Non-Controlling Interest in Subsidiaries	948,142	-	-	-	-	-	948,142
Net Income after Non-Controlling Interests	(278,818,903)	-	3,596,315	-	12,020,030	(7,500,000)	(270,702,557)
Other Comprehensive Income (Loss)							
Unrealized Gain (Loss) on Available for Sale Investments	(1,740,407)						(1,740,407)
Pension Plan Gain (Loss)	-						-
Pension Prior Service Credits (Costs)	59,348,245						59,348,245
OCI - Income Tax Provision	-						-
Total other comprehensive (loss) income, net of tax	57,607,838	-	-	-	-	-	57,607,838
Total comprehensive income (loss)	(221,211,065)	-	3,596,315	-	12,020,030	(7,500,000)	(213,094,720)



CONTACT:
Redacted, Corporate Finance and Treasury
Redacted

PROSPECT MEDICAL HOLDINGS REPORTS FISCAL 2023 SECOND QUARTER FINANCIAL RESULTS

Q2 FY 2023 Highlights

- **Revenue was $416.3 million, up 16.5%, compared to $357.2 million in the same quarter last year.**
- **Proforma Adjusted EBITDA, excluding the hospital operations in Rhode Island, Pennsylvania and Connecticut that are being sold pursuant to a plan approved by management, was $30.7 million for Q2 FY23 compared to $26.9 million in the same quarter last year.**

YTD Q2 FY 2023 Highlights

- **Revenue was $828.2 million, up 17.8% compared to $703.2 million in the same quarter last year.**
- **Proforma Adjusted EBITDA, excluding the hospital operations in Rhode Island, Pennsylvania and Connecticut that are being sold pursuant to a plan approved by management, was $53.2 million for YTD Q2 FY23 compared to $43.5 million in the same period last year.**

CONSOLIDATED RESULTS OVERVIEW

Consolidated revenues were $416.3 million for the second quarter ended March 31, 2023, representing an increase of $59.0 million when compared to the second quarter ended March 31, 2022 with consolidated revenues at $357.2 million. Hospital segment revenues were $190.0 million for the second quarter ended March 31, 2023, representing an increase of $27.8 million when compared to the second quarter ended March 31, 2022, with hospital revenues at $162.2 million. Medical Group revenues were $150.1 million for the second quarter ended March 31, 2023, representing an increase of $11.9 million when compared to the second quarter ended March 31, 2022, with Medical Group revenues at $138.2 million. Global Risk Management revenues were $76.2 million for the second quarter ended March 31, 2023, representing an increase of $20.6 million when compared to the second quarter ended March 31, 2022, with Global Risk Management revenues at $55.6 million.

IMPACT OF THE COVID-19 PANDEMIC

During the Coronavirus disease (COVID-19) pandemic, federal, state, and local authorities took several administrative actions intended to assist healthcare providers in providing care during the COVID-19 public health emergency. Sources of relief include the Coronavirus Aid, Relief and Economic Security Act, the Paycheck Protection Program and Health Care Enhancement Act (the "PPPHCE Act"), the Continuing Appropriations Act, 2021 and Other Extensions Act, and the Consolidated Appropriations Act, 2021 (collectively, (the "COVID Acts"). With the COVID Acts, the federal government authorized funding to be distributed through the Public Health and Social Services Emergency Fund ("Provider Relief Fund" or "PRF"). HHS will recoup PRF grant funds not utilized by the established deadlines. The COVID Acts also revised the Medicare accelerated payment program to disburse payments to hospitals and other care providers more quickly and permitted employers to defer payment of the 6.2% employer Social Security tax beginning March 27, 2020, through December 31, 2020. In June 2021, the U.S. Department of Health and Human Services ("HHS") established new deadlines for when recipients of PRF grants must use the funding received, generally 12 to 18 months after receipt of the grant funds.

In 2021, during the height of COVID-19, Medicare arranged for advanced payments to assist hospitals with their cash flow needs during this difficult time. Recoupment of those special advances began one year later than the disbursement. Recoupment began in month 13 utilizing a payment offset methodology whereby 25% of Medicare payments were withheld for the next 11 months and applied against the advanced total. The recoupment rate increased to 50% for the succeeding six months or less if the advances are not fully repaid. The remaining amounts were considered due and payable to Medicare at the end of the six-month period; however, hospitals were able to apply for an extended repayment plan at a rate of 4% per annum for a period not to exceed an additional 60 months if they demonstrate a financial need for the extension. We applied for and were granted repayment extensions ranging from 18 months to 60 months and plan to apply for advances for the remining two hospitals that are currently in the 50% repayment corridor, as their advances were initially delayed. The Company had received Medicare accelerated and advance payments of approximately $276.1 million, of which approximately $206.9 million had been recouped through a reduction of our Medicare claims payments through September 30, 2022. During the quarter ended December 31, 2022 and March 31, 2023, $18.3 million and 5.6 million, respectively, had been recouped and no additional advances were received. Approximately $45.3 million and $69.2 million of the remaining Medicare advance liabilities are reflected in the accompanying unaudited condensed balance sheet as of March 31, 2023 and September 30, 2022, respectively.

CASH FLOW AND LIQUIDITY

Cash, cash equivalents, cash held in escrow and restricted cash was $127.5 million at March 31, 2023 (FY2023) representing an increase of $16.1 million at March 31, 2022. Cash increased during the six-month period ended March 31, 2023 by $35.6 million vs the comparable prior year period increase of $5.4 million.

Net cash provided by operating activities was $73.8 million for the six months ended March 31, 2023 compared to the net cash used in $68.3 million for the six months ended March 31, 2022.

Net cash used in investing activities was $18.4 million the six months ended March 31, 2023 compared to net cash used in $43.5 million for the six months ended March 31, 2022.

Net cash used in financing activities was $19.7 million for the six months ended March 31, 2023 compared to net cash provided of $117.1 million for the six months ended March 31, 2022. The change is mainly due to increased line of credit.

In addition, total cash paid for interest was $37.2 million and $34.8 million for the six months ended March 31, 2023 and 2022, respectively.

At March 31, 2023, the Company had outstanding borrowings of $170.8 million under its revolving line of credit under its ABL Credit Agreements entered into on February 22, 2018 and amended from time to time.

DISCONTINUED OPERATIONS

During the first quarter of FY 2022, following a strategic review of the company's growth strategies and structure, our management also approved a plan to sell the hospital operations of our East Coast facilities.

On January 11, 2022, we signed a non-binding Letter of Intent ("LOI") for Centurion Foundation, Inc. to acquire CharterCare Health Partners ("CharterCare") in Rhode Island. On February 3, 2022, we signed a non-binding LOI for Christiana Care Health System, Inc. to acquire Crozer-Keystone Health System ("Crozer") in Pennsylvania. However, that LOI was later terminated effective August 8, 2022. The Company continues to market Crozer. On February 4, 2022, we signed a non-binding LOI for Yale New Haven Health to acquire Eastern Connecticut Health Network, Inc. ("ECHN") and Greater Waterbury Health Network, Inc. ("Waterbury") in Connecticut.

We have classified the results of operations as discontinued operations in our consolidated statement of income for all periods presented. Additionally, the related assets and liabilities associated with these entities are also reported in the accompanying balance sheets as discontinued operations for all periods presented.

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Asset Purchase Agreements

On October 5, 2022, the Company entered into an asset purchase agreement with Yale New Haven Health Services Corporation, a Connecticut nonstock corporation, pursuant to which the Company agreed to sell, and the purchaser agreed to purchase, substantially all of the assets of the Company related to the Company's ECHN and Waterbury hospital systems in Connecticut. The transaction is pending.

On November 18, 2022, the Company entered into an asset purchase agreement with Centurion Foundation, Inc., pursuant to which the Company agreed to sell, and the purchaser agreed to purchase, substantially all of the assets of the Company related to the Company's CharterCARE hospital system in Rhode Island. The transaction is pending.

SUBSEQUENT EVENTS

Pursuant to a Commitment Letter, dated April 14, 2023, Centerbridge Credit CS, L.P. and Blue Torch Capital LP committed to loan $375 million to the PhysicianCo Business (the "PhysicianCo Loan") pursuant to terms set forth therein and later definitive documentation. The proceeds are required to be used to repay the outstanding indebtedness under the ABL Facility, to provide capital for compliance with certain regulatory financial covenants applicable to the PhysicianCo Business and to provide for general working capital and corporate purposes.

RECENTLY ADOPTED ACCOUNTING PRONOUCEMENTS

Effective October 1, 2021, we adopted ASU 2018-14, "Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20) Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans" ("ASU 2018-14"), which applied to all employers that sponsor defined benefit pension or other postretirement plans. The amendments in ASU 2018-14, removed, modified, or added certain disclosure requirements as part of the FASB's disclosure framework project to improve the effectiveness of the notes to the financial statements. The adoption of this ASU did not impact our financial position, results of operations or cash flows.

RECLASSIFICATIONS

Certain prior period amounts have been reclassified to conform to the current period presentation. These reclassifications did not affect net loss, revenues and stockholders' equity.

USE OF NON-GAAP MEASURES

This document contains "non-GAAP financial measures," that is, financial measures that either exclude or include amounts that are not excluded or included in the most directly comparable measure calculated and presented in accordance with generally accepted accounting principles. Specifically, we make use of the non-GAAP measures "EBITDA," "Adjusted EBITDA," and "Proforma Adjusted EBITDA."

We define EBITDA as net income (loss) plus (i) income (loss) from discontinued operations, (ii) provision for income taxes, (iii) interest expense, net (including amortization of deferred financing costs), (iv) depreciation, and (v) amortization. In addition, we define Adjusted EBITDA as EBITDA as further adjusted to eliminate the impact of certain items that we do not consider indicative of our ongoing operating performance, including transaction costs, certain legal expenses, stock-based compensation, sponsor structuring and management fees, purchase price adjustments and pre-acquisition items, other unusual and non-recurring charges, and other noncash charges. Further, we define Proforma Adjusted EBITDA as Adjusted EBITDA as further adjusted for proforma adjustments related to the California Hospital Fee Program and lost margins because of the COVID-19 pandemic. From the fourth of quarter of FY20, in line with the revised guidance that HHS issued in October 2020, which changed the comparison of change in operating income to lost revenues (see discussion above under "COVID-19 Pandemic"), we have changed the definition of Proforma Adjusted EBITDA to reflect lost revenues compared to the same period in the prior year. Management believes that EBITDA, Adjusted EBITDA and Proforma Adjusted EBITDA are useful tools for investors and other users of our financial statements in assessing our ability to service and/or incur indebtedness, maintain current operating levels of capital assets and acquire additional operations and businesses. A reconciliation of EBITDA, Adjusted EBITDA, and Proforma Adjusted EBITDA to our net income (loss) under generally accepted accounting principles, or GAAP, for certain periods presented in our financial statements is

included in this document. However, EBITDA, Adjusted EBITDA, and Proforma Adjusted EBITDA are not necessarily comparable to other similarly titled financial measures of other companies due to the potential inconsistencies in the method of calculation. EBITDA, Adjusted EBITDA, and Proforma Adjusted EBITDA have limitations as analytical tools and should not be considered in isolation or as substitutes for analyzing the Company's results as reported under GAAP. Some of these limitations are:

- They do not reflect cash outlays for capital expenditures or future contractual commitments.
- They do not reflect changes in, or cash requirements for, working capital.
- They do not reflect interest expense, or the cash requirement necessary to service interest, or principal payments, on its indebtedness.
- They do not reflect income tax expense or the cash necessary to pay income taxes.
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA, Adjusted EBITDA, and Proforma Adjusted EBITDA do not reflect cash requirements for such replacements; and
- Other companies, including other companies in our industry, may not use such measures or may calculate the measures differently than as presented in this earnings release, limiting their usefulness as a comparative measure.

Because of these limitations, EBITDA, Adjusted EBITDA, and Proforma Adjusted EBITDA or any related ratio using such measures should be considered only as a supplemental measure in addition to, and not in lieu of, our GAAP income and cash flow statements, and not as a measure of discretionary cash available to invest in business growth or reduce indebtedness.

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PROSPECT MEDICAL HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
($ In thousands, except par value and share amounts)
(Unaudited)

	March 31, 2023	September 30, 2022
ASSETS		
Current assets		
Cash and cash equivalents	$ 104,881	$ 56,084
Cash held in escrow	16,571	20,206
Restricted cash	6,010	15,537
Restricted investments	36,916	33,298
Patient accounts receivable	247,491	264,274
Due from government payers	14,735	21,797
Other receivables, prepaid expenses and other current assets	191,042	166,196
Income taxes receivable	-	892
Inventories	10,840	9,822
Hospital fee program receivable	183,051	180,228
Current assets held for sale	110,170	115,615
Total current assets	921,708	883,949
Property, improvements and equipment, net	164,805	163,831
Deferred income taxes, net	(323)	-
Goodwill, net	105,270	113,352
Intangible assets, net	2,109	2,351
Other assets	58,211	53,973
Long-term assets held for sale	601,728	607,159
Total assets	$ 1,853,507	$ 1,824,614
LIABILITIES AND STOCKHOLDER'S DEFICIT		
Current liabilities		
Accrued medical claims and other healthcare costs payable	$ 156,532	$ 120,218
Accounts payable and other accrued liabilities	502,035	386,508
Accrued salaries, wages and benefits	128,125	136,831
Hospital fee program liability	91,581	96,813
Due to government payers, current portion	72,577	45,385
Refund liability, current portion	16,304	23,638
Revolving line of credit, net	170,800	196,300
Capital leases, current portion	1,202	1,225
Long-term debt, current portion	113,721	111,609
MPT liabilities, current portion	59,961	81,976
Other current liabilities	22,175	11,594
Current liabilities held for sale	152,597	125,743
Total current liabilities	1,487,609	1,337,841
Long-term debt, net of current portion	233,526	189,287
Malpractice reserves	139,593	132,257
Refund liability, net of current portion	29,034	45,231
Capital leases, net of current portion	2,890	3,483
Other long-term liabilities	39,035	56,732
Pension obligations	244,640	235,184
MPT liabilities, net of current portion	1,188,494	1,184,347
Long-term liabilities held for sale	93,837	98,395
Total liabilities	3,458,659	3,282,759
Stockholder's deficit		
Common stock, $0.01 par value; 100 shares authorized, issued and outstanding	1	0
Additional paid-in capital	57,665	57,675
Accumulated other comprehensive loss	(12,247)	(14,088)
Accumulated deficit	(1,654,415)	(1,505,642)
Total stockholder's deficit attributable to Prospect Medical Holdings, Inc.	(1,608,996)	(1,462,055)
Non-controlling interests	3,845	3,911
Total stockholder's deficit	(1,605,152)	(1,458,144)
Total liabilities and stockholder's deficit	$ 1,853,507	$ 1,824,614

MPT CONFIDENTIAL

PROSPECT MEDICAL HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
($ In thousands)
(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2023	2022	2023	2022
Revenues:				
Net Hospital revenues	$ 189,982	$ 162,195	$ 405,243	$ 351,860
Medical Group revenues	150,099	138,194	287,428	263,883
Global Risk Management revenues	76,178	55,609	134,359	85,699
Corporate revenues	(4)	1,250	1,134	1,716
Total net revenues	416,255	357,248	828,164	703,157
Operating expenses:				
Hospital operating expenses	171,329	145,702	357,215	301,248
Medical Group cost of revenues	108,158	102,615	205,914	194,293
Global Risk Management cost of revenues	61,225	47,682	109,096	66,415
General and administrative	81,622	73,826	157,959	143,015
Depreciation and amortization	4,514	4,584	9,442	9,152
Goodwill amortization	4,041	4,041	8,082	8,082
Total operating expenses	430,888	378,449	847,708	722,204
Operating income from unconsolidated joint ventures	(87)	(27)	(146)	(72)
Operating loss	(14,721)	(21,229)	(19,690)	(19,120)
Other expense:				
Interest expense and amortization of deferred financing costs, net	13,017	5,093	25,852	12,769
Net periodic benefit cost	5,131	3,241	10,223	6,516
Other expense, net	5,158	54	6,371	(120)
Total other expense, net	23,306	8,388	42,446	19,164
Loss before income taxes	(38,026)	(29,617)	(62,137)	(38,284)
Income tax provision	83	(71)	409	190
Net loss from continuing operations	(38,110)	(29,546)	(62,546)	(38,474)
Loss from discontinued operations, net of tax	(45,696)	(64,820)	(85,813)	(118,848)
Net loss before allocation to non-controlling interests	(83,806)	(94,366)	(148,359)	(157,322)
Net loss (income) attributable to non-controlling interests	192	173	381	361
Net loss attributable to Prospect Medical Holdings, Inc.	(83,998)	(94,539)	(148,739)	(157,683)
Other comprehensive income, net of tax:				
Pension obligation and other post-retirement benefits adjustment	31	7	38	13
Debt and equity securities, unrealized gain	968	(6,123)	1,809	(6,123)
Total other comprehensive income, net of tax	999	(6,116)	1,847	(6,109)
Total comprehensive loss	$ (82,999)	$ (100,655)	$ (146,892)	$ (163,792)

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PROSPECT MEDICAL HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Six Months Ended March 31,	
	2023	2022
Operating activities		
Net loss before allocation to non-controlling interests	$ (148,359)	$ (157,322)
Less: Loss from discontinued operations	(85,813)	(118,848)
Net loss from continuing operations	(62,546)	(38,474)
Adjustments to reconcile net loss to net cash used in operating activities:		-
Depreciation and amortization	17,523	17,234
Amortization of deferred financing costs, net	1,189	996
Pension obligation net periodic benefit cost	10,116	6,699
Excess contribution to pension plan	(660)	(2,334)
Deferred income taxes, net	323	4,611
Undistributed earnings from unconsolidated joint ventures	(118)	72
Change in operating assets and liabilities:		
Patient accounts receivable	16,783	(37,655)
Due to/from government payers, net	34,253	9,701
Refund liability	(23,531)	(37,531)
Other receivables, prepaid expenses and other current assets	(12,004)	13,740
Hospital fee program receivable	(2,823)	73,654
Hospital fee program liability	(5,232)	(12,227)
Inventories	(1,018)	(277)
Other assets	(5,326)	(13,778)
Accrued medical claims and other healthcare costs payable	36,314	29,294
Accounts payable, other accrued liabilities and other long-term liabilities	108,843	24,162
Net cash, cash equivalents, cash held in escrow and restricted cash (used in) provided by operating activities from discontinued operations	(38,302)	(106,209)
Net cash, cash equivalents, cash held in escrow and restricted cash (used in) provided by operating activities	73,783	(68,321)
Investing activities		
Purchases of property, improvements and equipment	(9,963)	(6,239)
Change in investments	(1,781)	(4,674)
Net cash, cash equivalents, cash held in escrow and restricted cash used in investing activities from discontinued operations	(6,659)	(32,558)
Net cash, cash equivalents, cash held in escrow and restricted cash used in investing activities	$ (18,403)	$ (43,472)

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PROSPECT MEDICAL HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited, Continued)

	Six Months Ended March 31,	
	2023	**2022**
Financing activities		
Borrowing from line of credit	12,000	157,500
Repayment of line of credit	(37,500)	(2,500)
Borrowings of long-term debt	50,000	1,295
Repayment of long-term debt	(9,773)	2,642
Repayment of financing leases	0	67
Repayments of capital leases	(617)	(1,178)
Insurance premium financing, net	(4,338)	(7,122)
Repayment of MPT liabilities transactions	(21,838)	(25,941)
Net cash, cash equivalents, cash held in escrow and restricted cash used by financing activities from discontinued operations	(7,679)	(7,624)
Net cash, cash equivalents, cash held in escrow and restricted cash (used by) provided by financing activities	(19,745)	117,138
Change in cash, cash equivalents, cash held in escrow and restricted cash	35,635	5,346
Cash, cash equivalents, cash held in escrow and restricted cash at beginning of period	91,827	106,056
Cash, cash equivalents, cash held in escrow and restricted cash at end of period	$ 127,462	$ 111,402
Supplemental disclosure of cash flow information		
Interest paid	37,218	34,768
Income taxes paid, net (refunded), net	(2,746)	1,267
Schedule of non-cash investing and financing activities		
Equipment acquired under capital leases	-	3,654
Accrual of property, improvements and equipment	1,904	1,834
Pace liabilities	-	1,990
Insurance premium financed	11,949	11,970

Hospital Services Segment

The following table sets forth the results of operations for our Hospital Services segment for the three and six months ended March 31, 2023, and 2022, respectively. Hospital services expenses do not include allocation of corporate overhead or interest expense - see "Corporate Segment" on page 21.

	Unaudited			
	Three Months Ended March 31,		Six Months Ended March 31,	
($ in thousands)	2023	2022	2023	2022
Revenues:				
Net Hospital Services revenues:				
Medicare	$ 41,019	$ 35,335	$ 75,378	$ 68,539
Medicaid	58,095	60,787	155,141	154,994
Managed care	10,150	9,788	20,596	19,374
Self pay / other payor	4,904	2,522	9,751	4,670
Capitation revenue	75,260	52,871	143,282	102,316
Other	554	892	1,095	1,968
Total Revenues	189,982	162,195	405,242	351,860
Hospital Services operating expenses:				
Salaries, wages and benefits	70,736	68,116	141,035	134,488
Supplies	11,910	12,227	25,450	24,709
Capitation expense	64,354	43,607	119,989	83,911
Other operating expenses	24,330	21,752	70,741	58,140
Total Hospital Services operating expenses	171,329	145,702	357,215	301,248
General and administrative	23,512	22,050	46,399	43,654
Depreciation and amortization	2,853	2,827	6,114	5,468
Goodwill amortization	3,273	3,273	6,546	6,546
Total non-medical expenses	29,638	28,150	59,059	55,668
Operating loss from continuing operations	(10,986)	(11,657)	(11,032)	(5,057)
Other expense:				
Interest expense and amortization of deferred financing costs, net	4,183	860	8,266	970
Total other expense, net	4,183	862	8,267	970
Net loss from continuing operations	(15,169)	(12,519)	(19,298)	(6,027)
Loss on discontinued operations	(45,696)	(64,820)	(85,813)	(118,848)
Operating Loss	$ (60,864)	$ (77,339)	$ (105,111)	$ (124,875)

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CALIFORNIA HOSPITAL FEE PROGRAM

The Company recognizes revenues related to supplemental Medi-Cal payments under California provider fee programs using the most likely outcome method, which is based on formulas contained in the legislation as well as modeling performed by the California Hospital Association ("CHA"). The estimates also consider whether it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. These programs are funded by quality assurance fees paid by participating hospitals and matching federal funds.

The table below reflects the revenues and expenses recorded related to supplemental reimbursement programs.

	Unaudited			
	Three Months Ended March 31,		Six Months Ended March 31,	
($ in thousands)	2023	2022	2023	2022
California hospital fee program revenues	$ -	$ -	$ 37,167	$ 35,328
California hospital fee program expenses	-	-	(20,318)	(19,427)
Net pre-tax impact	-	-	16,849	15,901
California hospital DSH revenues	11,487	12,323	23,023	22,756
California hospital DSH expenses	-	-	-	-
Net pre-tax impact	11,487	12,323	23,023	22,756
Total hospital services revenues	11,487	12,323	60,189	58,085
Total hospital services operating expenses	-	-	(20,318)	(19,427)
Total net pre-tax impact	$ 11,487	$ 12,323	$ 39,871	$ 38,658

DISCONTINUED OPERATIONS

Summarized financial information for discontinued operations is included below. Note that the segment financial statements exclude the effect of taxes, but these are included in the table below to reconcile to the unaudited interim condensed consolidated financial statements on page 6.

	Unaudited			
	Three Months Ended March 31,		Six Months Ended March 31,	
($ in thousands)	2023	2022	2023	2022
Net Hospital revenues	$ 393,944	$ 413,978	$ 796,546	$ 851,391
Operating expenses	351,996	371,137	703,549	758,133
General and administrative expenses	73,414	74,028	151,715	154,169
Total expense	425,410	445,165	855,264	912,301
Pandemic grant relief income	-	-	-	-
Operating income from unconsolidated joint ventures	962	608	1,868	1,332
Net operating loss	(30,504)	(30,579)	(56,850)	(59,579)
Interest expense, net	13,734	11,272	28,325	22,640
Other (income)/expense, net	1,452	16,130	627	(9,226)
Loss on discontinued operations	$ (45,696)	$ (64,820)	$ (85,813)	$ (118,848)

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Supplemental Reimbursement Programs

($ in thousands)	Unaudited			
	Three Months Ended March 31,		Six Months Ended March 31,	
	2023	2022	2023	2022
Pennsylvania medicaid modernization revenues	$ 6,852	$ 7,198	$ 14,050	$ 14,512
Pennsylvania medicaid modernization expenses	(3,824)	(3,824)	(7,649)	(7,649)
	3,027	3,373	6,401	6,864
Pennsylvania Community access fund and legislative initiative revenues	2,843	2,933	5,687	5,866
Net pre-tax impact	5,871	6,306	12,087	12,729
Rhode Island DSH & UPL revenues	6,324	9,178	13,045	15,327
Rhode Island license fees	(3,967)	(3,856)	(7,934)	(7,712)
Net pre-tax impact	2,357	5,322	5,111	7,615
Connecticut medicaid DSH revenues	5,887	6,381	11,674	12,735
Connecticut provider tax	(9,428)	(9,428)	(18,856)	(18,856)
Net pre-tax impact	(3,541)	(3,047)	(7,182)	(6,121)
Total hospital services revenues	21,906	25,689	44,455	48,440
Total hospital services operating expenses	(17,219)	(17,108)	(34,439)	(34,216)
Total net pre-tax impact	$ 4,686	$ 8,581	$ 10,017	$ 14,223

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The following table shows certain selected historical operating statistics for our hospitals for the three and six months ended March 31, 2023, and 2022, respectively, for continuing operations:

($ in thousands)	Three Months Ended March 31, (Unaudited) 2023	2022	Inc(Dec)	Six Months Ended March 31, (Unaudited) 2023	2022	Inc(Dec)
Licensed beds at end of the period	$ 1,113	$ 1,113	0%	$ 1,113	$ 1,113	0%
Average staffed beds	580	541	7%	580	541	7%
Occupancy rate for staffed beds (1)	100.0%	100.0%	0%	100.0%	100.0%	0%
Admissions	8,456	7,914	6%	16,632	16,210	3%
Adjusted patient admissions (2)	9,483	8,929	6%	18,668	18,343	2%
Patient days	52,176	49,075	6%	103,258	98,029	5%
Adjusted patient days (3)	58,708	55,574	5%	116,202	111,338	4%
Average length of patients' stay (days) (4)	6.2	6.2	0%	6.2	6.1	3%
Outpatient visits	11,179	10,901	2%	22,786	22,181	3%
IP Surgery - Cases	1,416	1,384	2%	2,865	2,816	2%
OP Surgery - Cases	953	874	8%	1,959	1,791	9%
Total Surgery Cases	2,369	2,258	5%	4,824	4,607	4%
Net inpatient revenues excluding CA Program revenues	$ 105,787	$ 98,861	7%	$ 204,603	$ 190,687	7%
CA Hospital Fee Program revenues	-	-	0%	37,167	35,328	0%
Net inpatient revenues including CA program revenues	$ 105,787	$ 98,861	7%	$ 241,770	$ 226,015	7%
Net inpatient revenue per admission	$ 12,510	$ 12,492	0%	$ 14,536	$ 13,943	4%
Net inpatient revenue per adjusted admission	$ 11,155	$ 11,072	1%	$ 12,951	$ 12,322	5%
Net inpatient revenue per patient day	$ 2,028	$ 2,014	1%	$ 2,341	$ 2,306	2%
Net inpatient revenue per adjusted patient day	$ 1,802	$ 1,779	1%	$ 2,081	$ 2,030	2%
Capitation revenues	$ 75,260	$ 52,871	30%	$ 143,282	$ 102,316	29%
Other hospital services revenues (5)	$ 554	$ 892	-61%	$ 1,095	$ 1,967	-80%
Net outpatient revenues	$ 8,381	$ 9,571	-14%	$ 19,096	$ 21,562	-13%
Net outpatient revenue per visit	$ 750	$ 878	-17%	$ 838	$ 972	-16%
Total hospital services revenue	$ 189,982	$ 162,195	15%	$ 405,243	$ 351,860	13%

(1) The occupancy rate for staffed beds represents average daily census in the period divided by staffed beds. Occupancy rates are affected by many factors, including the population size and general economic conditions within the particular market service areas, the degrees of variation in medical and surgical products, outpatient use of hospital services, quality and treatment availability at competing hospitals, and seasonality.

(2) Adjusted patient admissions are total admissions adjusted for outpatient volume. Adjusted patient admissions are computed by multiplying admissions (inpatient volume) by the sum of gross inpatient charges and gross outpatient charges and then dividing the resulting amount by gross inpatient charges.

(3) Adjusted patient days are total patient days adjusted for outpatient volume. Adjusted patient days are computed by multiplying patient days (inpatient volume) by the sum of gross inpatient charges and gross outpatient charges and then dividing the resulting amount by gross inpatient charges.

(4) Average length of patients' stay ("ALOS") is calculated by dividing total discharged patient days by total patient discharges during the period and includes the length of patients' stay related to acute, psychiatric, sub-acute, and rehabilitation services.

(5) Other hospital service revenues consist of revenues earned from ancillary, workers compensation and other hospital operations, while other revenues consist primarily of rental income and other revenues.

Results of Operations - Q2 FY23 vs Q2 FY22

Net Hospital Service revenues

Net Hospital Services segment revenues net of implicit price concessions and provision for doubtful accounts increased by 17.1% from $162.2 million for Q2 FY22 to $190.0 million for Q2 FY23. The increase was driven primarily by a new capitation agreement in California.

Salaries, wages, and benefits ("SWB") expense

SWB expenses increased from $68.1 million, or 42.0% of hospital service revenue in Q2 FY22 to $70.7 million, or 37.2% of hospital service revenue in Q2 FY23. The increase in SWB is due to greater patient activity including increased overtime and bonuses.

Supplies expense

Supplies expense slightly decreased from $12.2 million, or 7.5% of hospital service revenue in Q2 FY22 to $11.9 million, or 6.3% of hospital service revenue, in Q2 FY23. The level of expense was relatively unchanged, however, the percentage of patient revenue declined as a result of the new capitation arrangement.

Capitation expense

Capitation expense increased from $43.6 million, or 26.9% of hospital service revenue, in Q2 FY22 to $64.4 million, or 33.9% of hospital service revenue, in Q2 FY23. This increase was driven by an increase in Capitation revenue. We recognize revenue and expenses in the Hospital Services segment for global capitation arrangements for which hospitals in our Hospital Services segment are responsible for the provision of care to members under such arrangements. The hospitals entered into new capitation contracts in May 2022 and March 2023, which served to increase member lives, revenue, and related expense.

Other operating expenses

Other operating expenses increased from $21.8 million, or 13.4% of hospital service revenue, in Q2 FY22 to $24.3 million, or 12.8% of hospital service revenue, in Q2 FY23. The increase in operating expenses is mainly from the increase in registry expenses due to the continued staffing shortages in the healthcare industry.

Hospital general and administrative ("G&A") expenses

G&A expenses increased from $22.1 million, or 13.6% of hospital service revenue, in Q2 FY22 to $23.5 million, or 12.4% of hospital service revenue in Q2 FY23. Most of the increase came from non-medical professional fees, property taxes and others.

Depreciation and amortization expense

Depreciation and amortization expense of $2.9 million in Q2 FY23 was consistent with Q2 FY22 as there were no material additions to long lived asset balances for the same periods.

Goodwill amortization

Goodwill amortization expense in Q2 FY23 was consistent with Q2 FY22.

Operating loss from discontinued operations

Operating loss from discontinued operations decreased from $64.8 million in Q2 FY22 to $45.7 million in Q2 FY23.

Results of Operations - YTD Q2 FY23 vs YTD Q2 FY22

Net Hospital Service revenues

Net Hospital Services segment revenues net of implicit price concessions and provision for doubtful accounts increased by 15.2% from $351.9 million for YTD Q2 FY22 to $405.2 million for YTD Q2 FY23. The increase in was driven primarily by a new capitation agreement in California.

Salaries, wages, and benefits ("SWB") expense

SWB expenses increased from $134.5 million, or 38.2% of hospital service revenue in YTD Q2 FY22 to $141.0 million, or 34.8% of hospital service revenue in YTD Q2 FY23. The increase in SWB is due to greater patient activity including increased overtime and bonuses.

Supplies expense

Supplies expense increased from $24.7 million, or 7.0% of hospital service revenue in Q2 YTD FY22 to $25.5 million, or 6.3% of hospital service revenue, in Q2 FY23. The level of expense was relatively unchanged, however, the percentage of patient revenue declined as a result of the new capitation arrangement.

Capitation expense

Capitation expense increased from $83.9 million, or 23.8% of hospital service revenue, in YTD Q2 FY22 to $120.0 million, or 29.6% of hospital service revenue, in YTD Q2 FY23. This increase was driven by an increase in Capitation revenue. We recognize revenue and expenses in the Hospital Services segment for global capitation arrangements for which hospitals in our Hospital Services segment are responsible for the provision of care to members under such arrangements. The hospitals entered into new capitation contracts in May 2022 and March 2023, which served to increase member lives, revenue, and related expense.

Other operating expenses

Other operating expenses increased from $58.1 million, or 16.5% of hospital service revenue, in YTD Q2 FY22 to $70.7 million, or 17.5% of hospital service revenue, in YTD Q2 FY23. The increase in operating expenses is mainly from the increase in registry expenses due to the continued staffing shortages in the healthcare industry.

Hospital general and administrative ("G&A") expenses

G&A expenses increased from $43.7 million, or 12.4% of hospital service revenue, in YTD Q2 FY22 to $46.4 million, or 11.4% of hospital service revenue in YTD Q2 FY23. Most of the increase came from non-medical professional fees, property taxes and others.

Depreciation and amortization expense

Depreciation and amortization expense for the six months in YTD Q2 FY23 was consistent with YTD Q2 FY22 as there were no material additions to long lived asset balances for the same periods.

Goodwill amortization

Goodwill amortization expense in YTD Q2 FY23 was consistent with YTD Q2 FY22.

Operating loss from discontinued operations

Operating loss from discontinued operations decreased from $118.8 million in YTD Q2 FY22 to $85.8 million in YTD Q2 FY23.

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Medical Group Segment

The following table sets forth the results of operations for our Medical Group operations for the three and six months and ended March 31, 2023, and 2022. Cost of revenues does not include allocation of corporate overhead or interest expense - see "Corporate Segment" on page 21.

	Three Months Ended March 31, (Unaudited)		Six Months Ended March 31, (Unaudited)	
(in thousands)	2023	2022	2023	2022
Medical Group revenues:				
Capitation	$ 129,572	$ 117,378	$ 248,786	$ 222,543
Management fees	4,284	3,602	8,481	7,362
Other operating revenues (1)	16,243	17,214	30,161	33,978
Total Medical Group revenues	150,099	138,194	287,428	263,883
Medical Group cost of revenues:				
PCP capitation	21,834	20,273	43,213	39,505
Specialist capitation	17,646	17,297	34,572	33,131
Claims expense	61,518	59,151	115,627	109,834
Physician incentives	6,484	5,889	11,754	11,787
Other cost of revenues	676	5	749	36
Total Medical Group cost of revenues	108,158	102,615	205,915	194,293
Gross margin	41,941	35,579	81,513	69,590
General and administrative	29,665	23,135	55,151	46,159
Depreciation and amortization	159	404	323	973
Goodwill amortization	768	768	1,536	1,536
Total operating expenses	30,592	24,307	57,010	48,668
Loss from unconsolidated joint ventures	(87)	(28)	(145)	(74)
Operating income	$ 11,262	$ 11,244	$ 24,358	$ 20,848

The following table sets forth the approximate number of members, by category, as of March 31, 2023 and 2022:

	As of March 31, (unaudited)	
(in thousands)	2023	2022
Commercial - owned	96.2	101.0
Commercial - managed(2)	9.0	9.8
Senior - owned	43.6	37.8
Senior - managed(2)	12.2	9.8
Medi-Cal - owned	241.7	214.6
Medi-Cal - managed(2)	76.1	69.1
Health Insurance Exchange - managed (2) (3)	5.3	8.6
Value base reimbursement (4)	206.3	226.4
	690.3	677.2

(1) Other operating revenues primarily consist of payments from HMOs under pay-for-performance programs and are recognized each year once the amounts of such items are known, as well as patient service revenues related to clinical operations.

(2) Represents third-party Independent Physician Associations' ("Managed IPA") membership that our management

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services organization manages in exchange for a monthly management fee.

(3) Our management services organization is a party to an agreement with one of the major HMOs to manage the provision of medical services to members enrolled under the Patient Protection and Affordable Care Act ("PPACA") Health Insurance Exchange program. We receive a fixed per member per month management fee under the program and do not share in the risk for medical services for such members.

(4) Value Based Membership is also defined as population under management. We have direct contracts with multiple Health Plans in all the states where we operate for the provision of quality care services to the population under management improving care delivery to the members in the most cost-efficient manner for a fixed infrastructure payment. In many of the contracts, we also receive variable revenue for pay-for-performance for improving health scores and closing quality gaps. In addition, in some of the contracts, we are also eligible for upside and downside sharing of risk pools for the population under management.

Results of Operations - Q2 FY23 vs Q2 FY22

Medical Group Revenue

Capitation revenue increased $12.2 million to $129.6 million during Q2 FY23 from $117.4 million Q2 FY22. The increase is driven by organic growth in membership of 7.9% across multiple lines of business.

Management fee revenue for Managed IPAs increased $0.7 million to $4.3 million during Q2 FY23 from $3.6 million during Q2 FY22. The increase is primarily driven by the increase in membership of 9.6% by our Managed IPAs. Management fees range from 6.5% to 14.0% of revenues, depending on the type of revenue.

Other operating revenue, which contains incentive, hospital, and shared risk pool revenues, decreased $1.0 million to $16.2 million during Q2 FY23 from $17.2 million during Q2 FY22. The decrease is due to higher patient admissions.

Medical Group Operating Expenses

Primary care physician ("PCP") capitation expense increased $1.6 million during Q2 FY23 to $21.8 million from $20.3 million during Q2 FY22. PCP capitation expense as a percentage of capitation revenue was 16.9% in Q2 F23 compared to 17.3% for Q2 FY22 due to shifts in membership and variations in rates.

Specialist capitation expenses increased $0.3 million to $17.6 million during Q2 FY23 from $17.3 million during Q2 FY22. Specialist capitation expense as a percentage of capitation revenue decreased to 13.6% for Q2 FY23 from 14.7% for Q2 FY22. The percentage decrease is driven by shifts in membership and variations in rates.

Claims expenses increased $2.4 million to $61.5 million during Q2 FY23 from $59.2 million during Q2 FY22. Claims expense as a percentage of capitation revenue decreased to 47.5% for Q2 FY23 from 50.4% for Q2 FY22, primarily driven by shifts in membership and variations in rates.

Physician incentives expense increased $0.6 million to $6.5 million during Q2 FY23 from $5.9 million during Q2 FY22 primarily due to higher estimated discretionary bonuses to be paid to providers.

Medical Cost Ratio and Gross Margin

Medical costs as a percentage of capitation revenue (the medical cost ratio, a non-GAAP measure) decreased to 83.5% for Q2 FY23 from 87.4% for Q2 FY22, and the gross margin as a percentage of total Medical Group revenues increased to 27.9% during Q2 FY23 compared to 25.7% for Q2 FY22 due to improvements in medical utilization and provider rates.

Medical Group General and Administrative ("G&A")

G&A expenses increased $6.5 million to $29.7 million during Q2 FY23 from $23.1 million during Q2 FY22. G&A expenses as a percentage of total Medical Group revenues increased to 19.8% for Q2 FY23 from 16.7% for Q2 FY22.

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The increase in G&A expenses was due to additional personnel to support the increased revenue and inflation while G&A expenses as a percentage of total revenue will vary.

Depreciation and Amortization

Depreciation and amortization expenses decreased to $0.2 million during Q2 FY23 from $0.3 million during Q2 FY22.

Goodwill amortization

Goodwill amortization expense decreased to $0.8 million during Q2 FY23 from $0.9 million during Q2 FY22.

(Loss) Income from Unconsolidated Joint Ventures

(Loss) income from unconsolidated joint ventures (our 50% partnership interest in AMVI/Prospect Medical Group) increased to loss of $(87) thousand during Q2 FY23 from loss of $(27) thousand during Q2 FY22.

Results of Operations - YTD Q2 FY23 vs YTD Q2 FY22

Medical Group Revenue

Capitation revenue increased $26.2 million to $248.8 million during YTD Q2 FY23 from $222.5 million during YTD Q2 FY22. The increase is driven by organic growth in membership of 10.9% across all lines of business.

Management fee revenue for Managed IPAs increased $1.1 million to $8.5 million during YTD Q2 FY23 from $7.4 million during YTD Q2 FY22. The increase is driven by increase revenue of our Managed IPAs. Management fees range from 6.5% to 14.0% of revenues, depending on the type of revenue.

Other operating revenue, which contains incentive, hospital and shared risk pool revenues, decreased $3.8 million to $30.2 million during YTD Q2 FY23 from $34.0 million during YTD Q2 FY22. The decrease is due to higher patient admissions.

Medical Group Operating Expenses

Primary care physician ("PCP") capitation expense increased $3.7 million to $43.2 million during YTD Q2 FY23 from $39.5 million during YTD Q2 FY22. PCP capitation expense as a percentage of capitation revenue decreased to 17.4% during YTD Q2 FY23 from 17.8% for YTD Q2 FY22 due to changes in our membership mix within the capitation revenue.

Specialist capitation expense increased $1.4 million to $34.6 million during YTD Q2 FY23 from $33.1 million during YTD Q2 FY22. Specialist capitation expense as a percentage of capitation revenue decreased to 13.9% for YTD Q2 FY23 from 14.9% from YTD Q2 FY22. The percentage increase is driven by an effort to convert certain higher specialty costs to capitation.

Claims expense increased $5.8 million to $115.6 million during YTD Q2 FY23 from $109.8 million during YTD Q2 FY22. Claims expense as a percentage of capitation revenue decreased to 46.5% for YTD Q2 FY23 from 49.4% for YTD Q2 FY22, primarily driven by conversion of certain specialty costs to capitation and lower professional utilization.

Physician incentives expense decreased $34 thousand to $11.8 million during YTD Q2 FY23 from $11.8 million during YTD Q2 FY22 primarily due to lower estimated discretionary bonuses to be paid to providers.

Medical Cost Ratio and Gross Margin

Medical costs as a percentage of capitation revenue (the medical cost ratio, a non-GAAP measure) decreased to 82.8% for YTD Q2 FY23 from 87.3% for YTD Q2 FY22, and the gross margin as a percentage of total Medical Group revenues, increased to 28.4% for Q2 FY23 from 26.4% for YTD Q2 FY22 due to lower professional utilization.

Medical Group General and Administrative ("G&A")

G&A expenses increased $9.0 million to $55.2 million during YTD Q2 FY23 from $46.2 million during YTD Q2 FY22. G&A expenses as a percentage of total Medical Group revenues increased to 19.2% for YTD Q2 FY23 from 17.5% for YTD Q2 FY22. The increase in G&A expenses was due to inflation while G&A expenses as a percentage of total revenue will vary.

Depreciation and Amortization

Depreciation and amortization expense decreased 0.7 million to $0.3 million during YTD Q2 FY23 from $1.0 million during YTD Q2 FY22.

Goodwill amortization

Goodwill amortization was $1.5 million for YTD Q2 FY23 with no change compared to YTD Q2 FY22

(Loss) Income from Unconsolidated Joint Ventures

(Loss) income from unconsolidated joint ventures (our 50% partnership interest in AMVI/Prospect Medical Group) increased to a loss of ($145) thousand during YTD Q2 FY23 from loss of ($74) thousand during YTD Q2 FY22.

Global Risk Management Segment

The following table sets forth the results of operations for our Global Risk Management segment for the three months ended March 31, 2023, and 2022. Global Risk Management expenses do not include allocation of corporate overhead or interest expense - see "Corporate Segment" on page 21. Capitation revenue includes surplus from shared risk pool and net capitation revenue retained by the Global Risk Management segment after transfer of capitation to the Hospital Services and Medical Group segments. Global Risk Management segment also retains other operating revenue, which includes infrastructure and incentive payments.

	Three Months Ended March 31, (Unaudited)		Six Months Ended March 31, (Unaudited)	
(in thousands)	2023	2022	2023	2022
Global Risk Management revenues:				
Capitation revenue	$ 69,009	$ 51,436	$ 119,831	$ 72,338
Other operating revenues	7,169	4,173	14,528	13,360
Total Global Risk Management revenues	76,178	55,609	134,359	85,698
Global Risk Management cost of revenues:				
Capitation expense	2,585	2,062	4,054	2,659
Claims expense	47,499	32,189	86,037	42,606
Other cost of revenues	11,141	13,431	19,006	21,150
Total Global Risk Management cost of revenues	61,225	47,682	109,096	66,415
Gross margin	14,953	7,927	25,263	19,283
General and administrative	5,735	5,410	11,114	10,543
Depreciation and amortization	-	-	-	7
Total operating expenses	5,735	5,410	11,114	10,550
Operating income	$ 9,218	$ 2,517	$ 14,149	$ 8,733

Results of Operations - Q2 FY23 vs Q2 FY22

Global Risk Management Revenues

The Global Risk Management segment entered into provider agreements with our Medical Group and Hospital Services segments, under which 98% of capitation revenue for the segment's California operations, through Prospect

Health Plan, Inc. ("PHP"), and approximately 59% and 55% of the entire segment's capitation revenue is transferred to the Medical Group and Hospital Services segments during Q2 FY22 and Q2 FY23, respectively. Capitation and other revenues increased by $27.5 million from $125.0 million during Q2 FY22 to $152.50 million during Q2 FY23. During Q2 FY23, capitation revenue received from health plans was $136.1 million, of which $31.4 million and $43.2 million were transferred to our Hospital Services segment and Medical Group segment, respectively. During Q2 FY22, capitation revenue received from health plans was $112.7 million, of which $26.9 million and $39.5 million were transferred to our Hospital Services segment and Medical Group segment, respectively.

Capitation Revenue

Capitation revenue increased from $46.3 million during Q2 FY22 to $61.5 million during Q2 FY23. The increase in capitation revenue of $17.6 million is mainly driven by an increase in premium of 5.4% to the full risk arrangement with Blue Cross Blue Shield Rhode Island Medicare Advantage effective Jan 1, 2023. In addition, Prospect Health Plan (PHP) and Prospect Health Service Texas grew from 196K member months during Q2 FY22 to 217K member months during Q2 FY23.

Shared risk pool revenue increased from $5.1 million in Q2 FY22 to $7.5 million in Q2 FY23 due to updated in quality score from health plan indicating metrics have been met for Blue Cross Blue Shield Commercial in Rhode Island shared risk program during Q2 FY23.

Other Operating Revenue

Other operating revenue increased from $4.2 million during Q2 FY22 to $7.2 million during Q2 FY23, primarily due to the $4.2 million interim settlement payment of IBC TVOC 2022 performance year during Q2 FY23. Pick up from IBC TVOC was slightly offset by the decrease in infrastructure revenue as a result of Blue Cross Blue Shield Rhode Island Medicare Advantage full risk arrangement and the discontinuation of Pennsylvania's infrastructure payments from the contracted health plans such as Aetna Better Health and Independent Blue Cross during FY23.

Global Risk Management Cost of Revenues

Capitation and claim expenses increased from $34.2 million during Q2 FY22 to $50 million during Q2 FY23. The increase in expense is mostly attributable to the new full risk contract with Blue Cross Blue Shield Rhode Island for the Medicare Advantage membership, along with the growth of PHP & PHSTX membership, which grew from 196K member months during Q2 FY22 to 217K member months during Q2 FY23.

Other cost of revenue decreased from $13.4 million during Q2 FY22 to $11.1million during Q2 FY23. The decrease is due to higher utilization in the PHP business resulting in less surplus shared with third-party Independent Physician Associations Q2 FY23.

Global Risk General and Administrative ("G&A") Expenses

G&A expenses increased from $5.4 million during Q2 FY22 to $5.7 million during Q2 FY23. G&A expenses as a percentage of total revenue decreased from 10% during Q2 FY22 to 8% during Q2 FY23. The increase in expenses is primarily driven by an increase in personnel to help support the new Blue Cross Blue Shield full risk program.

Results of Operations - YTD Q2 FY23 vs YTD Q2 FY22

Global Risk Management Revenues

The Global Risk Management segment entered into provider agreements with our Medical Group and Hospital Services segments, under which 98% of capitation revenue for the segment's California operations, through Prospect Health Plan, Inc. ("PHP"), and approximately 66% and 56% of the entire segment's capitation revenue is transferred to the Medical Group and Hospital Services segments during YTD Q2 FY22 and YTD Q2 FY23, respectively. Capitation and other revenues increased $60.9 million from $217.7 million during YTD Q2 FY22 to $278.60 million during YTD Q2 FY23. During YTD Q2 FY23, capitation revenue received from health plans was $245.20 million, of which $58.9 million and $79.4 million were transferred to our Hospital Services segment and Medical Group segment,

respectively. During YTD Q2 FY22, capitation revenue received from health plans was $192.7 million, of which $52.3 million and $75.5 million were transferred to our Hospital Services segment and Medical Group segment, respectively.

Capitation Revenue

Capitation revenue increased from $64.8 million during YTD Q2 FY22 to $106.8 million during YTD Q2 FY23. The increase in capitation revenue of $42 million is mainly driven by a new full risk contract with Blue Cross Blue Shield Rhode Island for the Medicare Advantage membership effective Jan 1, 2022, and along with an increase in premium of 5.4% effective Jan 1, 2023. In addition, Prospect Health Plan (PHP) and Prospect Health Service Texas grew from 385K member months during YTD Q2 FY22 to 418K member months during YTD Q2 FY23.

Shared risk pool revenue increased from $7.5 million during YTD Q2 FY22 to $13 million during YTD Q2 FY23 due to updated in quality score from health plan indicating metrics have been met for Blue Cross Blue Shield Commercial in Rhode Island shared risk program during Q2 FY23. In addition, improvement in Anthem Commercial Signify in the Connecticut shared risk program also contributed to the higher revenue in Q1 FY23.

Other Operating Revenue

Other operating revenue increased from $13.3 million during YTD Q2 FY22 to $14.5 million during YTD Q2 FY23, primarily due to the $4.2 million interim settlement payment of IBC TVOC 2022 performance year during Q2 FY23. Pick up from IBC TVOC was slightly offset by the decrease in infrastructure revenue as a result of Blue Cross Blue Shield Rhode Island Medicare Advantage full risk arrangement and the discontinuation of Pennsylvania's infrastructure payments from the contracted health plans such as Aetna Better Health and Independent Blue Cross during FY23.

Global Risk Management Cost of Revenues

Capitation and claim expenses increased from $45.3 million during YTD Q2 FY22 to $90.1 million during YTD Q2 FY23. The increase in expense is mostly attributable to the new full risk contract with Blue Cross Blue Shield Rhode Island for the Medicare Advantage membership, along with the growth of PHP & PHSTX membership, which grew from 385K member months during YTD Q2 FY22 to 418K member months during YTD Q2 FY23.

Other cost of revenue decreased from $21.2 million during YTD Q2 FY22 to $19 million during YTD Q2 FY23. The decrease is due to higher utilization in the PHP business resulting in less surplus shared with third-party Independent Physician Associations YTD Q2 FY23.

Global Risk General and Administrative ("G&A") Expenses

G&A expenses increased from $10.5 million during YTD Q2 FY22 to $11.1 million during YTD Q2 FY23. G&A expenses as a percentage of total revenue decreased from 12% during YTD Q2 FY22 to 8% during YTD Q2 FY23. The increase in expenses is primarily driven by an increase in personnel to help support the new Blue Cross Blue Shield full risk program.

Corporate Segment

The Corporate segment primarily reflects certain expenses incurred at Prospect not specifically allocable to the Hospital Services, Medical Group, or Global Risk Management segments. These include, but are not limited to salaries, benefits, and other compensation for corporate employees; financing expenses; insurance expenses; rent; legal fees; and accounting fees. Additionally, this segment includes the operations of two captive insurance companies. In FY21, through commutation agreements, certain policies and reinsurance amendments were revised, which transferred risk for self-insured layers of coverage for workers compensation deductible reimbursement program, hospital and physician professional and general liability and certain buffer layer excess programs from both Company's captive insurance companies to the Company's hospitals and affiliated subsidiaries. The Company does not allocate interest expenses related to debt or income taxes to the other reporting segments. The following table summarizes our corporate expenses for the three and six months ended March 31, 2023, and 2022:

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(in thousands)	Three Months Ended March 31, (Unaudited) 2023	2022	Six Months Ended March 31, (Unaudited) 2023	2022
Corporate revenues:				
Other revenues	$ (4)	$ 1,250	$ 1,134	$ 1,716
Gross margin	(4)	1,250	1,134	1,716
Operating Expenses:				
General and administrative	22,710	23,232	45,296	42,658
Depreciation and amortization	1,502	1,351	3,004	2,702
Total Corporate Expenses	24,212	24,583	48,300	45,360
Operating loss	$ (24,216)	$ (23,333)	$ (47,166)	$ (43,644)

Results of Operations - Q2 FY23 vs Q2 FY22

Other Revenues

Other Revenue decreased from $1.3 million during Q2 FY22 to $0.0 million during Q2 FY23.

Corporate general and administrative ("G&A") expense

G&A expenses decreased from $23.2 million during Q2 FY22 to $22.7 million during Q2 FY23.

Depreciation and amortization expense

Depreciation and amortization increased from $1.3 million during Q2 FY22 to $1.5 million during Q2 FY23.

Results of Operations - YTD Q2 FY23 vs YTD Q2 FY22

Other Revenues

Other Revenue decreased from $1.7 million during YTD Q2 FY22 to $1.1 million during YTD Q2 FY23.

Corporate general and administrative ("G&A") expense

G&A expenses increased from $42.7 million during YTD Q2 FY22 to $45.3 million during YTD Q2 FY23.

Depreciation and amortization expense

Depreciation and amortization increased from $2.7 million during YTD Q2 FY22 to $3.0 million during YTD Q2 FY23.

Consolidated Results of Operations

Results of Operations - Q2 FY23 vs Q2 FY22

Total other expense, net

Total other expenses, net increased from $8.4 million for Q2 FY22 to $23.3 million for Q2 FY23. This was primarily due to greater interest expenses compared to the same period in the prior year due to the greater debt balances of $518.0 million at March 31, 2023 as compared to $382.0 million at March 31, 2022.

Provision for Income Taxes

Income taxes were $(71) thousand during Q2 FY22 and $83 thousand for Q2 FY23, respectively. The income taxes were de minimis due to the company's net loss position.

Loss from discontinued operations, net

Net loss from discontinued operations decreased from a loss of $64.8 million during Q2 FY22 to loss of $45.7 million during Q2 FY23.

Results of Operations - YTD Q2 FY23 vs YTD Q2 FY22

Total other expense, net

Total other expenses, net increased from $19.2 million for YTD Q2 FY22 to $42.4 million for YTD Q2 FY23. This was primarily due to greater interest expenses compared to the same period in the prior year given the greater debt balances of $518.0 million at March 31, 2023 as compared to $382.0 million at March 31, 2022.

Provision for Income Taxes

Income taxes were $190 thousand during YTD Q2 FY22 and $409 thousand for YTD Q2 FY23, respectively. The income taxes were de minimis due to the company's net loss position.

Loss from discontinued operations, net

Net loss from discontinued operations decreased from a loss of $118.8 million during YTD Q2 FY22 to loss of $85.8 million during YTD Q2 FY23.

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A reconciliation of Adjusted EBITDA and Proforma Adjusted EBITDA to the most directly comparable GAAP measure for certain quarterly periods:

Adjusted EBITDA and Proforma Adjusted EBITDA Reconciliation
(Unaudited, $ in millions)

	FY2021		FY2022				FY2023	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
EBITDA Reconciliation (1):								
Net income (loss) from operations	$ (21.9)	$ (36.3)	$ (63.0)	$ (94.4)	$ (92.6)	$ 17.6	$ (64.6)	$ (83.8)
Net income (loss) from discontinued operations	$ (7.0)	$ (37.4)	$ (53.5)	$ (64.3)	$ (68.7)	$ (4.5)	$ (39.6)	$ (45.1)
Net income (loss) from continuing operations (2)	$ (14.9)	$ 1.1	$ (9.5)	$ (30.1)	$ (23.9)	$ 22.1	$ (25.0)	$ (38.7)
Provision (benefit) for income taxes	0.2	(3.1)	0.3	(0.1)	(0.5)	(2.4)	0.3	0.1
Interest expense	11.2	11.9	11.0	8.4	12.3	14.9	17.8	18.2
Depreciation and amortization	9.3	10.1	8.6	8.6	8.5	8.9	9.0	8.6
Amortization of financing costs	0.5	0.5	0.5	0.5	0.5	0.5	0.7	0.5
Other	(0.3)	(0.0)	(0.2)	0.1	(1.9)	4.8	1.2	5.2
EBITDA	6.1	20.6	10.7	(12.6)	(4.9)	48.9	4.0	(6.2)
Adjustments (3)								
Reasonable costs related to strategic business planning	1.6	0.9	1.4	3.0	3.2	4.0	5.2	6.8
Non-recurring, one-time items (4)	5.3	3.9	0.9	0.9	0.3	1.0	1.7	0.7
Business optimization expenses	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.5
COVID-19 Non-reimbursed expenses (5)	4.3	4.9	2.6	15.6	9.1	11.2	10.6	9.0
Adjusted EBITDA (1)	$ 18.3	$ 31.3	$ 16.7	$ 8.1	$ 8.8	$ 66.2	$ 22.5	$ 11.9
Proforma adjustments								
QAF 7/8 (6)	-	-	-	18.8	18.8	(37.6)	-	18.8
COVID-19 Non-reimbursed lost revenue (6)	4.5							
Quarterly Proforma Adjusted EBITDA	$ 22.8	$ 31.3	$ 16.7	$ 26.9	$ 27.6	$ 28.5	$ 22.5	$ 30.7
Trailing Twelve Months Proforma Adjusted EBITDA				$ 97.6	$ 102.4	$ 99.7	$ 105.5	$ 109.3

(1) For the earnings releases originally issued for the periods prior to Q1 FY22, we have changed the presentation of this table. We previously presented "addbacks" for lost revenues and lost margins (calculated using then current HHS guidelines), but in the current earnings release we have removed these.

(2) California Hospital Program ("QAF") net benefit were $15.5 million in Q3 FY21, $17.9 million in Q4 FY21, 15.9 million in Q1 FY22, $53.9 million in Q4 FY22, and $14.9 million in Q1 FY23. No net benefit was recorded in Q2 FY23 and Q2 and Q3 FY22.

(3) Management adjusts for expenses and gains that is not considered in evaluating core operating performance for compensation, internal capital allocations, acquisition analysis or other strategic purposes, and that meet the definitions of addbacks under our lending arrangements.

(4) "Non-recurring, one-time items" in Q3 FY21 primarily includes equity incentive bonus of $4.5 million; in Q4 FY21 primarily includes $12 million insurance recovery for legal settlement; and in Q4 FY22 primarily includes $1.6 million of IT implementation associated with Cerner Corporation.

(5) In Q1 FY21 and going forward, the calculations were updated (a) for additional incremental COVID-19 expenses incurred during the quarter; (b) for lost revenues as the calculation is on a calendar year basis compared to the prior calendar year; and (c) to incorporate the updated guidance from HHS which allows targeted distributions to be accounted for in the same way as general distributions.

(6) QAF 7 runs for the period from January 1, 2022 to December 31, 2022. For the quarters ended Q2 and Q3 FY22, CMS had not yet approved QAF 7, however our MPT covenants specifically allow for adjustments in respect of this matter. The amount reflected in this proforma adjustment for Q2 and Q3 FY22 is derived from the current model from the California Hospital Association. For the quarter ended Q4 FY22, CMS approved QAF 7. Therefore, the amounts previously recorded, $18.8 million in Q2 FY22 and $18.8 million in Q3 FY22, respectively, were reversed in Q4 FY22 because the amounts were then to be included in net income of $17.7 million in Q4 FY22.

QAF 8 runs for the period from January 1, 2023 to December 31, 2024. For the quarters ended Q2 FY23, CMS had not yet approved QAF 8, however our MPT covenants specifically allow for adjustments in respect of this matter. The amount reflected in this proforma adjustment for Q2 is derived from the QAF 7 model from the California Hospital Association.

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Schedule 7.5

No Undisclosed Liabilities

1. Schedule 7.7(a) of these Disclosure Schedules is incorporated herein by reference.

MPT CONFIDENTIAL MPT_PROSPECT_00011687

Schedule 7.6

Title to Personal Property; Related Matters

1. The Prospect Parties have rights to use certain equipment at no cost in exchange for a contractual commitment to purchase consumable supplies.

2. The Prospect Parties have rights to use or keep in inventory certain property on consignment.

3. On April 21, 2023, a Mechanics Lien was filed in Delaware County against Crozer-Chester Medical Center, Prospect CCMC, LLC and MPT of Upland PMH LLC, by Redacted LLC in the amount of $62,750.00. The property subject to the Mechanics Lien is located at 1 Medical Center Boulevard, Chester (Upland), Delaware County, Pennsylvania 19013. The Prospect Parties have delivered payment for the claim underlying this Encumbrance and requested its release.

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Schedule 7.7(a)

Absence of Litigation; Orders

1. See attached Annex 7.7(a), which is incorporated herein by reference.

2. Schedule 7.19 of these Disclosure Schedules is incorporated herein by reference.

CASE INFORMATION	DESCRIPTION AND STATUS
Redacted	
State of Connecticut v. Prospect Medical Holdings, Inc., et al. **Type of Case:** Civil Investigative Demand **PMH's Counsel:** Preliminary Stage **AG's Counsel:** Redacted **Date of Demand:** April 19, 2023	**Facts:** The Connecticut Attorney General's office issued a Civil Investigative Demand to PMH concerning ECHN and Waterbury. **Status**: We are in the process of interviewing and retaining counsel to help PMH respond to the CID.

Prospect Medical Holdings – Waterbury Hospital
"ATTORNEY/CLIENT PRIVILEGED – WORK PRODUCT"
CLAIM SUMMARY

PATIENT NAME	[redacted]	Age	[redacted]	Suit	x	Pre-Suit NOI		Panel	

Insureds	Waterbury Hospital Redacted	**Specialty**		**Defense Attorney**	Redacted
Policy Year:	10/1/18-10/1/19				
Codefendants	[redacted]	**Target Δs**	Redacted	**Indemnity Request**	☐ N/A ☒ Accepted ☐ Declined *

ALLEGATIONS (1 LINE)	Redacted
STATUS	

Prospect Medical Holdings
"ATTORNEY/CLIENT PRIVILEGED – WORK PRODUCT"
CLAIM SUMMARY

PATIENT NAME	[redacted]	Age	[redacted]	Suit	X	Pre-Suit NOI		Panel	

Insureds & **Policy Year:**	Manchester Mem.. Hospital Prospect Med Holdings 10/1/19-10/1/20	**Specialty**	Redacted	**Defense Attorney**	Redacted
Codefendants	[redacted]	**Target Δs**	Redacted	**Indemnity Request**	☒ N/A ☐ Accepted ☐ Declined

ALLEGATIONS (1 LINE)	Redacted
STATUS	

PATIENT NAME	[redacted]	Age	[redacted]	Suit	X	Pre-Suit NOI		Panel	

Insureds &	Manchester Mem. Hosp. Prospect ECHN	**Specialty**	Redacted	**Defense Attorney**	Redacted
Policy Year:	10/1/21-10/1/22				
Codefendants	[redacted]	**Target Δs**	Redacted	**Indemnity Request**	☒ N/A ☐ Accepted ☐ Declined
	[redacted]				

ALLEGATIONS (1 LINE)	Redacted
STATUS	

PATIENT NAME	[redacted]	Age	[redacted]	Suit	X	Pre-Suit NOI		Panel	

Insureds &	Manchester Mem. Hosp. Prospect ECHN	**Specialty**	Redacted	**Defense Attorney**	Redacted
Policy Year:	10/1/20-10/1/21				
Codefendants		**Target Δs**		**Indemnity Request**	☒ N/A ☐ Accepted ☐ Declined

ALLEGATIONS (1 LINE)	Redacted
STATUS	

PATIENT NAME	[redacted]	Age	[redacted]	Suit	X	Pre-Suit NOI		Panel	

Insureds & Policy Year:	Manchester Mem. Hosp. Prospect ECHN 10/1/22-10/1/23	**Specialty**		**Defense Attorney**	[redacted]
Codefendants		**Target Δs**		**Indemnity Request**	☒ N/A ☐ Accepted ☐ Declined

ALLEGATIONS (1 LINE)	[redacted]
STATUS	

Prospect Medical Holdings
"ATTORNEY/CLIENT PRIVILEGED – WORK PRODUCT"
CLAIM SUMMARY

PATIENT NAME	[redacted]	Age	[redacted]	Suit	Y	Pre-Suit NOI		Panel	

Insureds & Policy Year: PRRG-17-20	Crozer Chester Medical Center, Crozer Keystone Health System, Redacted [redacted]	**Specialty**	Redacted	**Defense Attorney**	Ben Post, Post & Post
Codefendants	[redacted]	**Target Δs**		**Indemnity Request**	☒ N/A ☐ Accepted ☐ Declined

ALLEGATIONS (1 LINE)	Redacted
STATUS	

PATIENT NAME	[redacted]	Age	[redacted]	Suit	Y	Pre-Suit NOI		Panel	

Insureds & **Policy Year: PRRG-21-10**	Crozer Keystone Health System	**Specialty**	Hospital System	**Defense Attorney**	Redacted
Codefendants	[redacted]	**Target Δs**	Redacted	**Indemnity Request**	☒ N/A ☐ Accepted ☐ Declined

ALLEGATIONS (1 LINE)	Redacted
STATUS	

PATIENT NAME	[redacted]	Age	[redacted]	Suit	Y	Pre-Suit NOI		Panel	

Insureds & Policy Year: Multiple	Crozer Chester Medical Center [redacted]	**Specialty**	[redacted]	**Δ Attorney**	[redacted]
Codefendants	[redacted]	**Target Δs**		**Indemnity Request**	☐ N/A ☐ Accepted ☐ Declined

ALLEGATIONS (1 LINE)	[redacted]
STATUS	

PATIENT NAME	[redacted]	Age	[redacted]	Suit	Y	Pre-Suit NOI		Panel	

Insureds & **Policy Year: PRRG-19-30**	Delaware County Memorial Hospital, [redacted] [redacted]	**Specialty**	Hospital	**Δ Attorney**	[redacted]
Codefendants	Unknown at this time	**Target Δs**	DCMH	**Indemnity Request**	☒ N/A ☐ Accepted ☐ Declined

ALLEGATIONS (1 LINE)	[redacted]
STATUS	

PATIENT NAME	[redacted]	Age	[redacted]	Suit	Y	Pre-Suit NOI		Panel	

Insureds & **Policy Year: PRRG-20-20**	Crozer Chester Medical Center / PMH, Inc., [redacted] Redacted	**Specialty**	Hospital Redacted	**Δ Attorney**	Redacted
Codefendants	[redacted]	**Target Δs**	CCMC	**Indemnity Request**	☒ N/A ☐ Accepted ☐ Declined

ALLEGATIONS (1 LINE)	Redacted
STATUS	

PATIENT NAME	[redacted]	Age	[redacted]	Suit	Y	Pre-Suit NOI		Panel	

Insureds & **Policy Year:** **PRRG-17-20**	Redacted Crozer-Chester Medical Center, Prospect CCMC, LLC, Prospect HAN, Inc., Crozer-Keystone Health Network, Crozer-Keystone Health System, CKHS, Inc.	**Specialty**	Redacted	**Δ Attorney**	Redacted
Codefendants	[redacted]	**Target Δs**		**Indemnity Request**	☐ N/A ☐ Accepted ☐ Declined

ALLEGATIONS (1 LINE)	Redacted
STATUS	

PATIENT NAME	[redacted]	Age	[redacted]	Suit	Y	Pre-Suit NOI		Panel	

Insureds & Policy Year: PRRG-20-20	Crozer-Keystone Surgery Center at Havertown, Delaware County Memorial Hospital, DCMH, Inc., Prospect Crozer, LLC and Crozer Health	**Specialty**	Redacted	**Δ Attorney**	Redacted
Codefendants	[redacted]	**Target Δs**		**Indemnity Request**	☒ N/A ☐ Accepted ☐ Declined

ALLEGATIONS (1 LINE)	Redacted
STATUS	

PATIENT NAME	[redacted]	Age	[redacted]	Suit	Y	Pre-Suit NOI		Panel	

Insureds & Policy Year: PRRG-20-30	Prospect DCMH, LLC; [redacted] [redacted]; [redacted] [redacted] Prospect Crozer, LLC; Crozer Health, and [redacted] [redacted]	**Specialty**	[redacted]	**Δ Attorney**	[redacted]
Codefendants	None	**Target Δs**		**Indemnity Request**	☒ N/A ☐ Accepted ☐ Declined

ALLEGATIONS (1 LINE)	[redacted]
STATUS	

PATIENT NAME	[redacted]	Age	[redacted]	Suit	Y	Pre-Suit NOI		Panel	

Insureds & Policy Year: PRRG-17-30	Delaware County Memorial Hospital, Crozer-Keystone Health System [redacted]	**Specialty**	Hospital / Healthcare System [redacted]	**Δ Attorney**	Redacted
Codefendants	None	**Target Δs**		**Indemnity Request**	☐ N/A ☐ Accepted ☐ Declined

ALLEGATIONS (1 LINE)	Redacted
STATUS	

PATIENT NAME	[redacted]	Age	[redacted]	Suit	Y	Pre-Suit NOI		Panel	

[redacted]	[redacted] rospect Crozer, LLC d/b/a CKHS; and PMH, Inc. and [redacted]	Specialty	[redacted]	Δ Attorney	[redacted]
Policy Year: PRRG-19-20					

Codefendants	None	Target Δs	[redacted]	Indemnity Request	☐ N/A ☐ Accepted ☐ Declined

ALLEGATIONS (1 LINE)	[redacted]
STATUS	

PATIENT NAME	[redacted]	Age	[redacted]	Suit	Y	Pre-Suit NOI		Panel	

Insureds & Policy Year: PRRG-20-20	[redacted] Crozer Keystone Health System and CCMC	**Specialty**	Hospital System	**Δ Attorney**	[redacted]
Codefendants	[redacted]	**Target Δs**	Unknown at this point	**Indemnity Request**	☒ N/A ☐ Accepted ☐ Declined

ALLEGATIONS (1 LINE)	[redacted]
STATUS	

PATIENT NAME	[redacted]	Age	[redacted]	Suit	Y	Pre-Suit NOI		Panel	

Insureds & Policy Year: PRRG-18-20	Redacted Prospect CCMC, LLC d/b/a Crozer-Chester Medical Center; and Redacted	Specialty	Redacted	Δ Attorney	Redacted
Codefendants	None	Target Δs		Indemnity Request	☒ N/A ☐ Accepted ☐ Declined

ALLEGATIONS (1 LINE)	Redacted
STATUS	

PATIENT NAME	[redacted]	Age	[redacted]	Suit	Y	Pre-Suit NOI		Panel	

Insureds & Policy Year: PRRG-19-20	Crozer Chester Medical Center	Specialty	Hospital	Δ Attorney	Redacted
Codefendants	[redacted]	Target Δs	Crozer Chester Medical Center	Indemnity Request	☒ N/A ☐ Accepted ☐ Declined

ALLEGATIONS (1 LINE)	Redacted
STATUS	

PATIENT NAME	[redacted]	Age	[redacted]	Suit	Y	Pre-Suit NOI		Panel	

Insureds & Policy Year: PRRG-20-20	Redacted	**Specialty**	Redacted	**Defense Attorney**	Redacted
Codefendants	None	**Target Δs**		**Indemnity Request**	☒ N/A ☐ Accepted ☐ Declined

ALLEGATIONS (1 LINE)	Redacted
STATUS	

PATIENT NAME	[redacted]	Age	[redacted]	Suit	Y	Pre-Suit NOI		Panel	

Insureds & **Policy Year:** **PRRG-17-30**	Redacted Delaware County Memorial Hospital	**Specialty**	Redacted	**Δ Attorney**	Redacted
Codefendants	None	**Target Δs**		**Indemnity Request**	☐ N/A ☐ Accepted ☐ Declined

ALLEGATIONS (1 LINE)	Redacted
STATUS	

PATIENT NAME	[redacted]	Age	[redacted]	Suit	Y	Pre-Suit NOI		Panel	

Insureds & Policy Year: PRRG-19-20	Prospect CCMC d/b/a Crozer Chester Medical Center, CCMC Inc, Crozer Keystone Health System; [redacted]	Specialty	[redacted]	Δ Attorney	[redacted]
Codefendants	None	Target Δs		Indemnity Request	☒ N/A ☐ Accepted ☐ Declined

ALLEGATIONS (1 LINE)	[redacted]
STATUS	

PATIENT NAME	[redacted]	Age	[redacted]	Suit	Y	Pre-Suit NOI		Panel	

Insureds &	Redacted	**Specialty**	Redacted	**Δ Attorney**	Redacted
Policy Year: PRRG-18-10	Crozer Keystone Health at Springfield				
Codefendants	None	**Target Δs**		**Indemnity Request**	☒ N/A ☐ Accepted ☐ Declined

ALLEGATIONS (1 LINE)	Redacted
STATUS	

PATIENT NAME	[redacted]	Age	[redacted]	Suit	Y	Pre-Suit NOI		Panel	

Insureds & Policy Year: PRRG-19-20	Crozer Chester Medical Center; Prospect Crozer, LLC dba CKHS and/or Crozer Health	**Specialty**	Hospital	**Δ Attorney**	Redacted
Codefendants	None	**Target Δs**	Chester Crozer Medical Center	**Indemnity Request**	☒ N/A ☐ Accepted ☐ Declined

ALLEGATIONS (1 LINE)	Redacted
STATUS	

PATIENT NAME	[redacted]	Age	[redacted]	Suit	Y	Pre-Suit NOI		Panel	

Insureds & **Policy Year: PRRG-20-10**	Prospect CCMC, LLC d/b/a Taylor Hospital	**Specialty**	Hospital	**Δ Attorney**	Redacted
Codefendants	[redacted]	**Target Δs**	Redacted	**Indemnity Request**	☐ N/A ☐ Accepted ☐ Declined

ALLEGATIONS (1 LINE)	Redacted
STATUS	

PATIENT NAME	[redacted]	Age	[redacted]	Suit	Y	Pre-Suit NOI		Panel	

Insureds & Policy Year: PRRG-20-10	Redacted	Specialty	Redacted	orney	Redacted
Codefendants	[redacted]	Targ		Indemnity Request	☐ N/A ☐ Accepted ☐ Declined

ALLEGATIONS (1 LINE)	Redacted
STATUS	

Prospect Medical Holdings
"ATTORNEY/CLIENT PRIVILEGED – WORK PRODUCT"
CLAIM SUMMARY

PATIENT NAME	[redacted]	Age	[redacted]	Suit	N	Pre-Suit NOI	Y	Panel	

Insureds Policy Year	Roger Williams Hospital 2019	**Specialty**	Redacted	**Δ Attorney**	Redacted
Codefendants	N/A	**Target Δs**	RWMC	**Indemnity Request**	☐ N/A ☐ Accepted ☐ Declined

ALLEGATIONS (1 LINE)	Redacted
STATUS	

PATIENT NAME	[redacted]	Age	[redacted]	Suit	Y	Pre-Suit NOI		Panel	

Insureds & Policy Year:	Redacted 2020	Specialty	Redacted	Defense Attorney	Redacted
Codefendants	N/A	Target Δs		Indemnity Request	☐ N/A ☐ Accepted ☐ Declined

ALLEGATIONS (1 LINE)	Redacted
STATUS	

MPT CONFIDENTIAL

PATIENT NAME	[redacted]	Age	[redacted]	Suit	Y	Pre-Suit NOI		Panel	

Insureds & Policy year:	Redacted Prospect/Chartercare Roger Williams 2017	**Specialty**	Redacted	**Δ Attorney**	Redacted
Codefendants	[redacted]	**Target Δs**		**Indemnity Request**	☐ N/A ☐ Accepted ☐ Declined

ALLEGATIONS (1 LINE)	Redacted
STATUS	

PATIENT NAME	[redacted]	Age	[redacted]	Suit	Y	Pre-Suit NOI		Panel	

Insureds & Policy Year:	Redacted	Specialty	Redacted	Defense Attorney	Redacted
Codefendants		Target Δs		Indemnity Request	☐ N/A ☐ Accepted ☐ Declined

ALLEGATIONS (1 LINE)	Redacted
STATUS	

MPT CONFIDENTIAL

PATIENT NAME	[redacted]	Age		Suit		Pre-Suit NOI		Panel	

Insureds & Policy year:	Roger Williams Hospital [redacted] 2018	Specialty	[redacted]	Δ Attorney	[redacted]
Codefendants	[redacted]	Target Δs		Indemnity Request	☐ N/A ☐ Accepted ☐ Declined

ALLEGATIONS (1 LINE)	[redacted]
STATUS	

PATIENT NAME	[redacted]	Age	[redacted]	Suit		Pre-Suit NOI	Y	Panel	

Insureds & Policy Year:	Prospect Chartercare 2019-2020	Specialty		Defense Attorney	Not yet assigned
Codefendants		Target Δs		Indemnity Request	☐ N/A ☐ Accepted ☐ Declined

ALLEGATIONS (1 LINE)	Redacted
STATUS	

PATIENT NAME	[redacted]	Age	[redacted]	Suit	Y	Pre-Suit NOI		Panel	

Insureds & Policy Year:	Redacted	Specialty	Redacted	Defense Attorney	Redacted
Codefendants		Target Δs		Indemnity Request	☐ N/A ☐ Accepted ☐ Declined

ALLEGATIONS (1 LINE)	Redacted
STATUS	

MPT CONFIDENTIAL

PATIENT NAME	[redacted]	Age	[redacted]	Suit	Y	Pre-Suit NOI		Panel	

Insureds & Policy year:	Redacted	Specialty	Redacted	Δ Attorney	Redacted
Codefendants	[redacted]	Target Δs		Indemnity Request	☐ N/A ☐ Accepted ☐ Declined

ALLEGATIONS (1 LINE)	Redacted
STATUS	

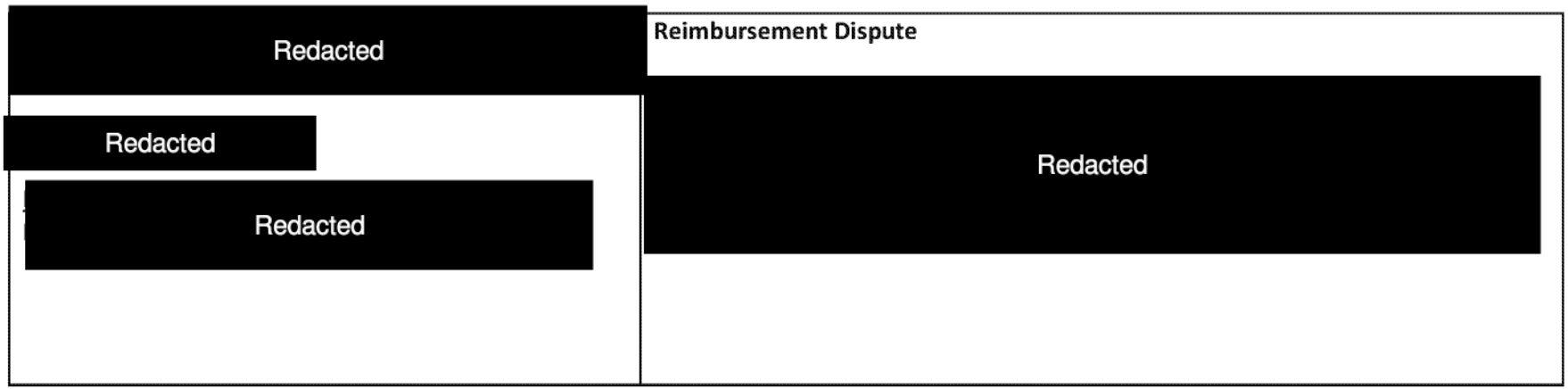
MPT CONFIDENTIAL

Prospect Medical Holdings
"ATTORNEY/CLIENT PRIVILEGED – WORK PRODUCT"
CLAIM SUMMARY

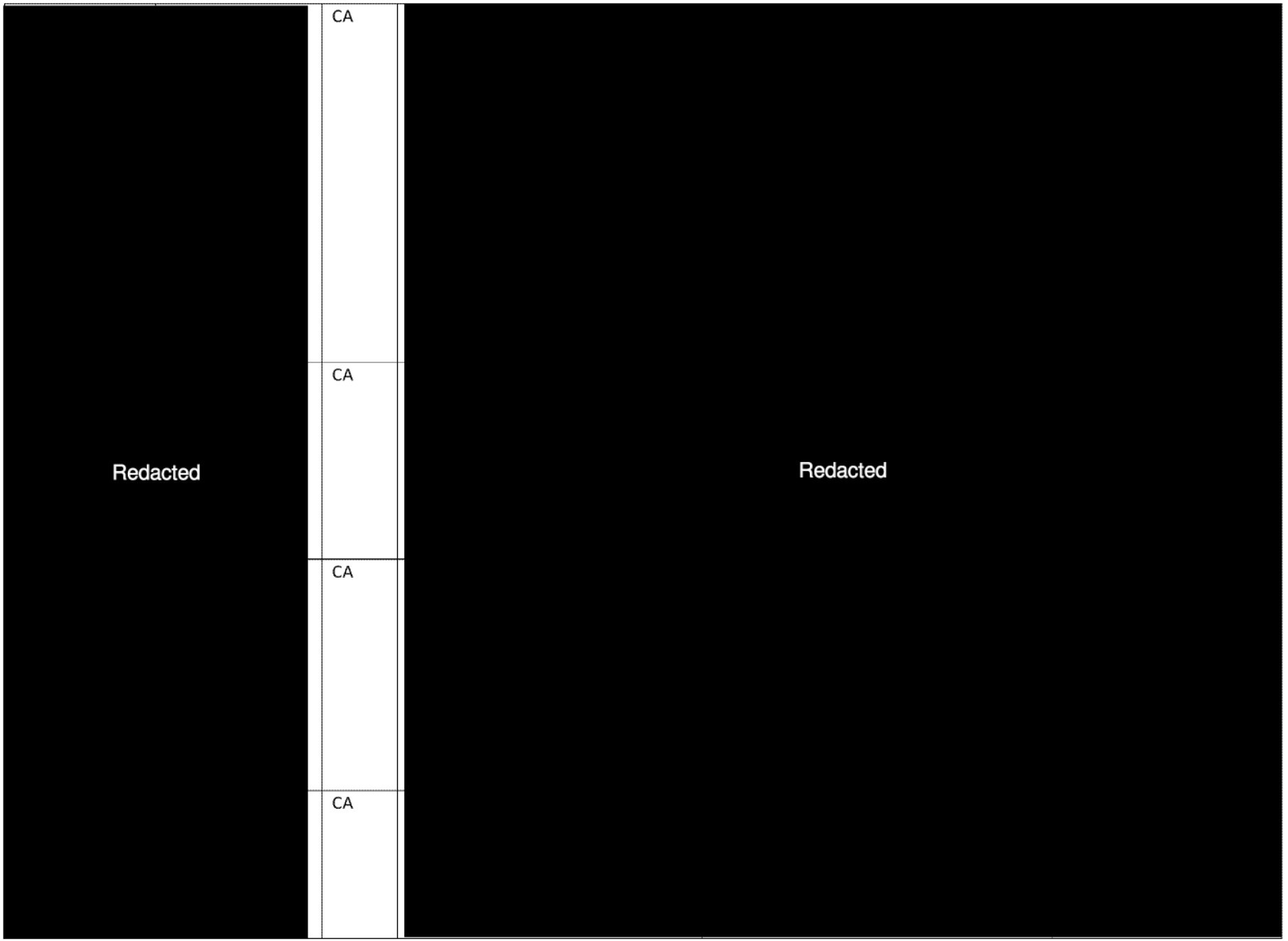
PATIENT NAME	[redacted]	Age	[redacted]	Suit	Yes	Pre-Suit NOI		Panel	

Insureds & **Policy Year:**	Southern California Hospital at Culver City 2017	**Specialty**	Hospital	**Δ Attorney**	Redacted
Codefendants	[redacted]	**Target Δs**	Redacted	**Indemnity Request**	☒ N/A ☐ Accepted ☐ Declined

ALLEGATIONS (1 LINE)	Redacted
STATUS	


Redacted
Reimbursement Dispute
Redacted
Redacted
Redacted

Plaintiff	Entity	Entity State*	Venue and Case No.	Case Description	Status
Redacted		PA	Redacted		
		CA			


Redacted
CA
CA
CA
CA
Redacted


Redacted
CA
Redacted

Date of care	Patient	Facility	Summary of key care events	Injury description
10/8/2022	[redacted]	Hollywood	Redacted	
10/20/2022	[redacted]	Culver City		
2/7/2023	[redacted]	Culver City		
3/30/2023	[redacted]	Culver City		

Date of care	Patient	Facility	Summary of key care events	Injury description
7/19/2021	[redacted]	CharterCARE	Redacted	
3/14/2020	[redacted]	CharterCARE		

Date of care	Patient	Facility	Summary of key care events	Injury description
6/24/2022	[redacted]	CCMC	Redacted	
10/3/2022	[redacted]	Redacted		

Date of care	Patient	Facility	Summary of key care events	Injury description
3/9/2023	[redacted]	CCMC	[redacted]	
2/17/2023	[redacted]	CCMC		

Date of care	Patient	Facility	Summary of key care events	Injury description
10/18/2021	[redacted]	Waterbury	Redacted	
2/7/2021	[redacted]	Waterbury		
1/6/2022	[redacted].	Waterbury		
2/28/2022	[redacted]	Waterbury		

Date of care	Patient	Facility	Summary of key care events	Injury description
4/7/2022 & 4/9/2022	[redacted]	Waterbury	Redacted	
7/11/2022	[redacted]	Waterbury		
9/11/2022	[redacted]	ECHN		
8/2/2022	[redacted]	ECHN		

Date of care	Patient	Facility	Summary of key care events	Injury description
5/24/2022	[redacted]	ECHN	Redacted	
2/21/2023	[redacted]	Redacted		
3/17/2023	[redacted]	Redacted		
1/9/2023	[redacted]	Waterbury		

Schedule 7.7(b)

Absence of Orders

1. In connection with the June 1, 2021 change of control of Prospect Medical (involving the purchase of shares held by affiliated investment funds of Leonard Green & Partners, L.P. and certain management minority shareholders), the State of Rhode Island Office of Attorney General (the "***RIAG***") issued a Decision, dated June 1, 2021, that approved the indirect change of control of Prospect Medical's Rhode Island hospital subsidiaries (the "***RI Hospitals***") but provided certain continuing obligations and conditions (the "***RIAG Conditions***"), including (1) an obligation to provide advance notification of certain changes to Prospect Medical's agreements with Medical Properties Trust, Inc. and its affiliated companies (collectively, "***MPT***") and (2) an obligation to not exceed 90 days outstanding for RI Hospitals' accounts payable. By letter dated October 27, 2022, Prospect Medical provided notice to the RIAG that, effective August 23, 2022, Prospect Medical entered into a Master Restructuring Agreement with MPT Operating Partnership, L.P. and a related amendment to the Promissory Note (TRS Loan), dated August 23, 2022, in the principal amount of $112,937,204 (the "***TRS Note***") that provided that the maturity date of the TRS Note would be accelerated if Prospect Medical closes an investment transaction in its managed care business. Prospect Medical delivered an additional letter to the RIAG, dated April 28, 2023, that provided notice of additional changes to the MPT arrangements, including execution of a term sheet with MPT Picasso Investors TRS, LLC effective March 30, 2023. The term sheet contemplates the future conversion of obligations under the TRS Note and certain other obligations unrelated to Prospect Medical's Rhode Island operations into equity interests in PHP Holdings, LLC (the parent company for Prospect Medical's managed care business). On February 17, 2023, Prospect Medical provided the RIAG notice that certain of the accounts payable of the RI Hospitals exceed 90 days outstanding. Prospect Medical has committed to the RIAG to meet a payment schedule for such outstanding accounts receivable that will bring it back into compliance with the RIAG Conditions no later than June 30, 2023.

Schedule 7.7(c)

Orders

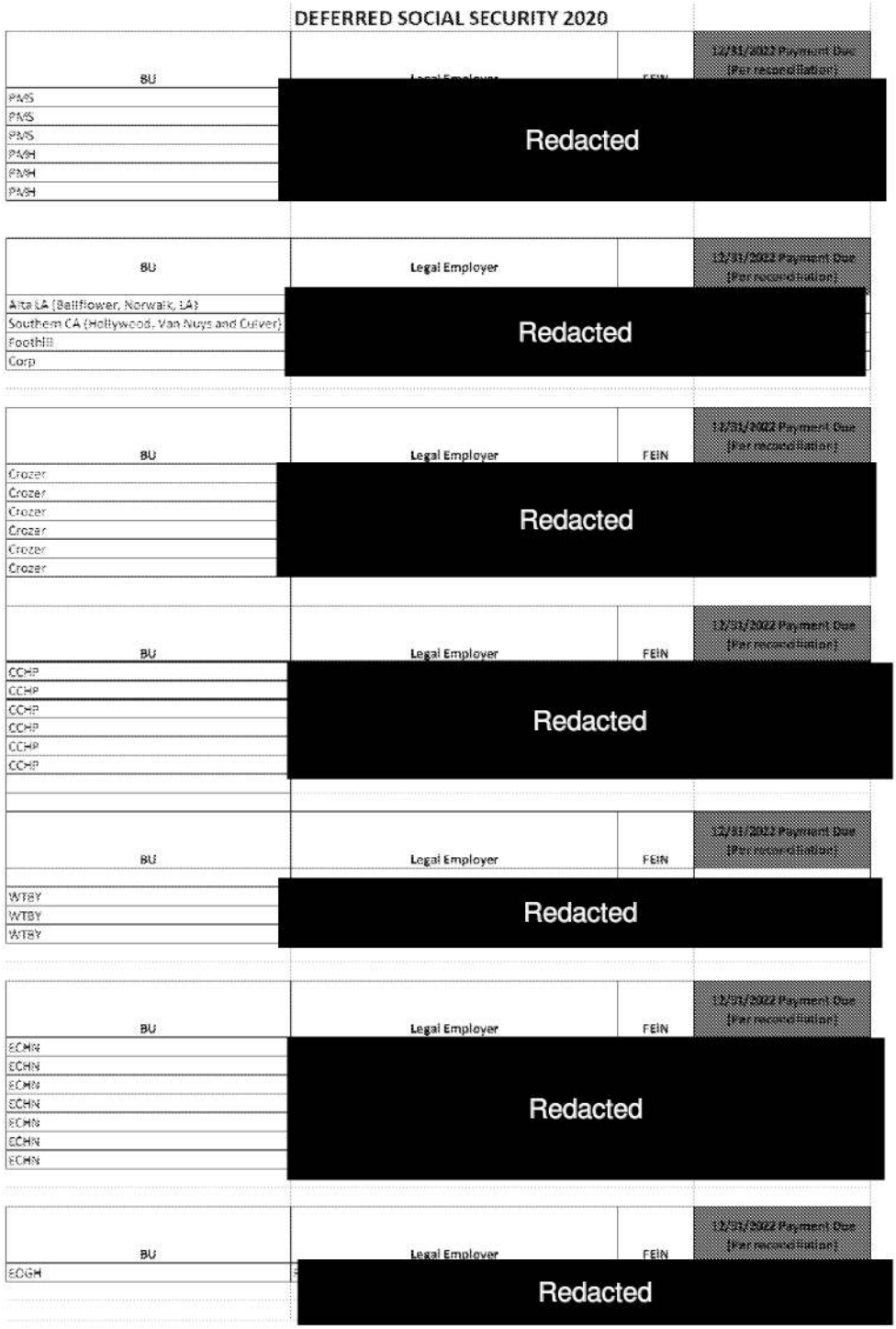
1. Schedule 7.7(b) of these Disclosure Schedules is incorporated herein by reference.

MPT CONFIDENTIAL MPT_PROSPECT_00011737

Schedule 7.8(b)

Taxes

The following employment taxes deferred under Section 2302 of the Coronavirus Aid, Relief, and Economic Security Act until December 31, 2021, which was effectively extended administratively to the next business day, Monday, January 3, 2022:



MPT CONFIDENTIAL MPT_PROSPECT_00011738

Schedule 7.8(g)

Tax Abatement Agreements

None.

MPT CONFIDENTIAL MPT_PROSPECT_00011739

Schedule 7.9(a)

Benefit Plans

(i) **Employee Benefit Plans**

1. Redacted
2.
3.
4.
5.
6.
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22.

MPT CONFIDENTIAL MPT_PROSPECT_00011740

23.

24.

25.

(ii) **Mul**

1.

2.

3.

Redacted

MPT CONFIDENTIAL MPT_PROSPECT_00011741

Schedule 7.9(b)

Employee Benefit Plans; ERISA

Multiemployer Pension Plans:

1.

2.

Redacted

3.
U

MPT CONFIDENTIAL MPT_PROSPECT_00011742

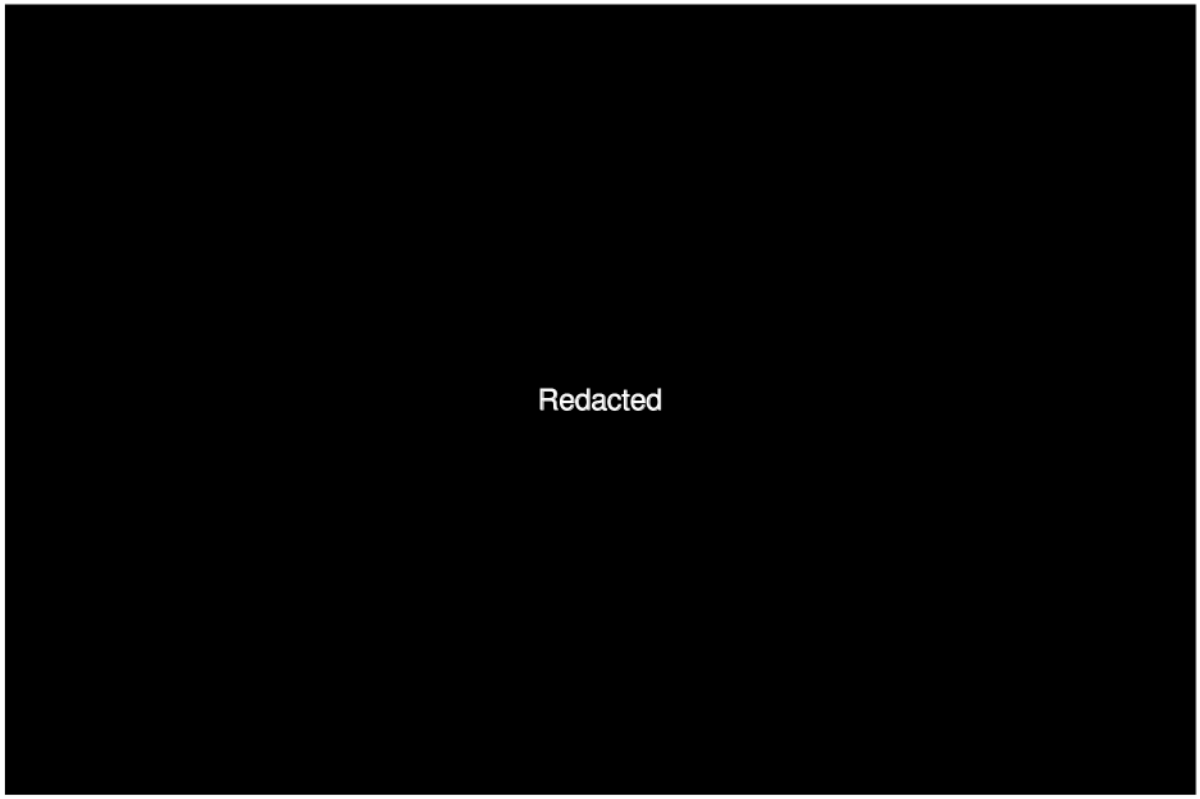
The transactions contemplated in the Agreement should not, on their own, subject any Prospect Parties to any withdrawal liability under Part 1 of Subtitle E of Title IV of ERISA as a "complete withdrawal" (as defined in ERISA Section 4203) or a "partial withdrawal" (as defined in ERISA Section 4205) from the Multiemployer Plan. Prospect Medical makes no representation regarding factors, outside of the transactions contemplated in this Agreement, that could trigger a complete or partial withdrawal assessment from the Multiemployer Plans under ERISA.

Single Employer Plans:

1.

2.

3.



MPT CONFIDENTIAL MPT_PROSPECT_00011743

Schedule 7.9(c)

Compliance with Benefit Plans

The Benefit Plans have been administered in accordance with the applicable provisions of ERISA and the Code, and are in compliance with all other applicable laws and regulations respecting such Benefit Plans. The Prospect Parties are not aware that Prospect Medical, PHP Holdings, or any of their respective Subsidiaries: has any liability for (i) any lien imposed under Section 303(k) of ERISA or Section 430(k) of the Code, or (ii) for any interest payments required under Section 303(j) of ERISA or Section 430(j) of the Code.

MPT CONFIDENTIAL MPT_PROSPECT_00011744

Schedule 7.9(d)

Parachute Payment; Change of Control

None.

MPT CONFIDENTIAL MPT_PROSPECT_00011745

Schedule 7.9(e)

Reportable Event

1. The transaction contemplated under that certain Asset Purchase Agreement by and among Yale New Haven Health Service Corporation, Prospect Medical Holdings, Inc., and the Selling Entities (as defined therein), dated October 5, 2022, was reported to the Pension Benefit Guaranty Corporation with respect to the Eastern Connecticut Health Network, Inc. Pension Plan and the Waterbury Hospital Cash Balance Retirement Plan on PBGC Forms 10-Advance for the reportable event of liquidation/sale of assets.

MPT CONFIDENTIAL MPT_PROSPECT_00011746

Schedule 7.10(a)

Collective Bargaining Agreements

Segment	Facility	Employee Group	Union	CBA Expirations	Status (Active Negotiations now or in next 12 months)	Total EE's
CA	SCH Culver City	Redacted				
CA	SCH Culver City					
CA	SCH Hollywood					
CA	SCH Hollywood					
CA	SCH Van Nuys					
CA	SCH Van Nuys					
CCHP	Home Healthcare					
CCHP	Our Lady of Fatima Hospital					
CCHP	Our Lady of Fatima Hospital					
CCHP	CCHP					
CCHP	Roger Williams					
CCHP	Roger Williams					
Crozer	CCMC					
Crozer	CCMC					
Crozer	CCMC					
Crozer	CCMC					
Crozer	CCMC					
Crozer	CCMC					

MPT CONFIDENTIAL MPT_PROSPECT_00011747

Crozer	DCMH	Redacted
Crozer	DCMH	
Crozer	DCMH	
Crozer	DCMH	
Crozer	Taylor Hospital	
Crozer	Taylor Hospital	
Crozer	Taylor Hospital	
ECHN	Manchester	
ECHN	Rockville	
ECHN	Manchester	
ECHN	Rockville	
ECHN	Rockville	
ECHN	Manchester	
Waterbury	Waterbury	
Waterbury	Waterbury	
Waterbury	Waterbury	

MPT CONFIDENTIAL MPT_PROSPECT_00011748

Schedule 7.12(a)

Material Insurance Policies

COVERAGE	INSURED	LIMITS	DEDUCTIBLE / SIR	CARRIER	POLICY NO.	POLICY TERM
Corporate Directors & Officers Liability	Chamber Inc.	Redacted				
Corporate Directors & Officers Liability	Chamber Inc.					
Excess Directors & Officers Liability	Chamber Inc.					

MPT CONFIDENTIAL MPT_PROSPECT_00011749

COVERAGE	INSURED	LIMITS	DEDUCTIBLE / SIR	CARRIER	POLICY NO.	POLICY TERM
Excess Directors & Officers Liability	Chamber Inc.	Redacted				-
Excess Directors & Officers Liability	Chamber Inc.					-
Excess Directors & Officers Liability	Chamber Inc.					-
Excess Directors & Officers Liability	Chamber Inc.					-
Excess Directors & Officers Liability	Chamber Inc.					-
Excess Directors & Officers Liability	Chamber Inc.					-
Excess Directors & Officers Liability	Chamber Inc.					-

COVERAGE	INSURED	LIMITS	DEDUCTIBLE / SIR	CARRIER	POLICY NO.	POLICY TERM
Excess Directors & Officers Liability	Chamber Inc.					
Excess Directors & Officers Liability	Chamber Inc.					
Side-A DIC	Chamber Inc.					
Excess Side-A DIC	Chamber Inc.					
Excess Side-A DIC	Chamber Inc.					
Excess Side-A DIC	Chamber Inc.					
Excess Side-A DIC	Chamber Inc.					
Excess Side-A DIC	Chamber Inc.					

Redacted

COVERAGE	INSURED	LIMITS	DEDUCTIBLE / SIR	CARRIER	POLICY NO.	POLICY TERM
EPL	Chamber Inc	Redacted				
Employment Practices Liability	Chamber Inc.					
Excess Employment Practices Liability	Chamber Inc.					
Excess Employment Practices Liability	Chamber Inc.					
Excess Employment Practices Liability	Chamber Inc.					

MPT CONFIDENTIAL MPT_PROSPECT_00011752

COVERAGE	INSURED	LIMITS	DEDUCTIBLE / SIR	CARRIER	POLICY NO.	POLICY TERM
Fiduciary	Chamber Inc.	Redacted				
Crime	Chamber Inc.					
Corporate Counsel Professional Liability	Chamber Inc.					
Excess Workers' Compensation	Prospect CA, Waterbury, ECHN					
Worker's Compensation	Prospect (Corporate), Crozer and CO,NJ,NY, PA,RI,TX, WI,					
Worker's Compensation	Prospect (WI only)					

MPT CONFIDENTIAL MPT_PROSPECT_00011753

COVERAGE	INSURED	LIMITS	DEDUCTIBLE / SIR	CARRIER	POLICY NO.	POLICY TERM
Worker's Compensation	Prospect CharterCare, LLC and subsidiaries	Redacted				
Commercial Automobile	Prospect Medical Holdings, Inc.					
Excess Program	Prospect Medical Holdings, Inc.					
PGL	Prospect Crozer, LLC					

COVERAGE	INSURED	LIMITS	DEDUCTIBLE / SIR	CARRIER	POLICY NO.	POLICY TERM
Professional and General Liability	Prospect CCMC, LLC	Redacted				

MPT CONFIDENTIAL MPT_PROSPECT_00011755

COVERAGE	INSURED	LIMITS	DEDUCTIBLE / SIR	CARRIER	POLICY NO.	POLICY TERM
Professional and General Liability	Prospect DCMC, LLC	Redacted				
Property	All locations					

MPT CONFIDENTIAL MPT_PROSPECT_00011756

COVERAGE	INSURED	LIMITS	DEDUCTIBLE / SIR	CARRIER	POLICY NO.	POLICY TERM
DIC - CA Earthquake	Prospect Medical Holdings, Inc.	Redacted				
DIC - CA Earthquake	Prospect Medical Holdings, Inc.					
Storage Tank	Prospect Medical Holdings, Inc.					

MPT CONFIDENTIAL MPT_PROSPECT_00011757

COVERAGE	INSURED	LIMITS	DEDUCTIBLE / SIR	CARRIER	POLICY NO.	POLICY TERM
		Redacted				
Pollution	Prospect Medical Holdings, Inc.					
Managed Care Errors & Omissions	Prospect Medical Holdings, Inc. Prospect Medical Group, Inc. (See Insured Schedule for Additional Named Insureds)					
Security & Privacy (Technology E&O & Cyber Liability)	Chamber Inc. (Broad Form Named Insured)					

COVERAGE	INSURED	LIMITS	DEDUCTIBLE / SIR	CARRIER	POLICY NO.	POLICY TERM
Security & Privacy (Technology E&O & Cyber Liability)	Chamber Inc. (Broad Form Named Insured)	Redacted				
Excess Security & Privacy (Technology E&O & Cyber Liability)	Chamber Inc. (Broad Form Named Insured)					
Excess Security & Privacy (Cyber Liability)	Chamber Inc. (Broad Form Named Insured)					

MPT CONFIDENTIAL MPT_PROSPECT_00011759

COVERAGE	INSURED	LIMITS	DEDUCTIBLE / SIR	CARRIER	POLICY NO.	POLICY TERM
Excess Security & Privacy (Cyber Liability)	Chamber Inc. (Broad Form Named Insured)	Redacted				
Excess Security & Privacy (Cyber Liability)	Chamber Inc. (Broad Form Named Insured)					
Aviation	Prospect Medical Holdings, Inc.					

COVERAGE	INSURED	LIMITS	DEDUCTIBLE / SIR	CARRIER	POLICY NO.	POLICY TERM
Foreign Package	Prospect Medical Holdings, Inc.	Redacted				
Kidnap and Ransom	Prospect Medical Holdings, Inc.					

MPT CONFIDENTIAL MPT_PROSPECT_00011761

COVERAGE	INSURED	LIMITS	DEDUCTIBLE / SIR	CARRIER	POLICY NO.	POLICY TERM
Educator E&O	Prospect Manchester Hospital, Inc.	Redacted				
Student Accident Coverage	Prospect ECHN, Inc.					
Student Accident Coverage	Prospect Crozer, LLC					
Group Travel Accident	Prospect ECHN, Inc					
University Technology Park Vacant Land	University Technology Park Vacant Land					
University Technology Park D&O	University Technology Park D&O					

COVERAGE	INSURED	LIMITS	DEDUCTIBLE / SIR	CARRIER	POLICY NO.	POLICY TERM
		Redacted				

MPT CONFIDENTIAL MPT_PROSPECT_00011763

Schedule 7.12(b)

Material Claims

1. Schedule 7.7(a) of these Disclosure Schedules is incorporated herein by reference.

MPT CONFIDENTIAL MPT_PROSPECT_00011764

Schedule 7.12(c)

Material Claims under Insurance Policies

Plaintiff	Entity	Entity State*	Venue and Case No.	Case Description	Status
Redacted					

MPT CONFIDENTIAL MPT_PROSPECT_00011765

Schedule 7.12(d)

Self-Insurance Programs

COVERAGE	INSURED	LIMITS	DEDUCTIBLE / SIR	POLICY NO.	POLICY TERM
Redacted					

MPT CONFIDENTIAL MPT_PROSPECT_00011766

COVERAGE	INSURED	LIMITS	DEDUCTIBLE / SIR	POLICY NO.	POLICY TERM
Professional and General Liability	Prospect CCMC, LLC	Redacted			

MPT CONFIDENTIAL MPT_PROSPECT_00011767

COVERAGE	INSURED	LIMITS	DEDUCTIBLE / SIR	POLICY NO.	POLICY TERM
Professional and General Liability	Prospect DCMC, LLC	Redacted			

MPT CONFIDENTIAL MPT_PROSPECT_00011768

Schedule 7.13(a)

Healthcare Licenses

East Coast		
License Name	**License Number**	**Entity**
CCMC Underground Storage Tanks	23-09550	Prospect CCMC, LLC
Hospital Accreditation	6050	Prospect CCMC, LLC
Hospital Accreditation	6039	Prospect CCMC, LLC
Crozer Chester Medical Center Mental Health Outpatient Clinics	910180	Prospect CCMC, LLC
CCMC CLIA Accreditation	39D0657679	Prospect CCMC, LLC
Clinical Lab Permit	000201A	Prospect CCMC, LLC
Taylor CLIA Accreditation	39D0012998	Prospect CCMC, LLC
Clinical Lab Permit	00207A	Prospect CCMC, LLC
Crozer Chester Medical Center DEA Institutional License	FC6062842	Prospect CCMC, LLC
Crozer Chester Medical Center, North Campus Pharmacy DEA License	HP418383L	Prospect CCMC, LLC
Taylor Hospital DEA Institutional License	FT6060216	Prospect CCMC, LLC
Certificate of Registration X Ray Equipment	1213783	Prospect CCMC, LLC
CCMC - Commission on Cancer Accreditation (ACS)	6230400	Prospect CCMC, LLC
CCMC- Registration of Radiation Producing Machines DEP	10-44148	Prospect CCMC, LLC
Springfield Hospital - Registration of Radiation Producing Machines ' DEP	10-44151	Prospect CCMC, LLC
Taylor Hospital- Registration of Radiation Producing Machines	10-44150	Prospect CCMC, LLC
Crozer Chester Medical Center Inpatient Psychiatric Unit	910170	Prospect CCMC, LLC
Crozer Chester Medical Center Pharmacy DEA License	HP418048L	Prospect CCMC, LLC
Taylor Hospital Ultrasound services- Obstetrical (1st trimester only), Gynecological, General	UAP#04427	Prospect CCMC, LLC
Crozer Chester Medical Center Social Steps (Pysch Rehab)	142760	Prospect CCMC, LLC
Taylor Hospital Home 39D0887654Health	753705	Prospect CCMC, LLC
Taylor Hospital Hospice	156799	Prospect CCMC, LLC

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Crozer Chester Medical Center North Campus DEA Institutional License	FC6245991	Prospect CCMC, LLC
CCMC Medical Accelerator License	AC10-02548	Prospect CCMC, LLC
CCMC CLIA Cert. of Waiver	39D0887654	Prospect CCMC, LLC
Clinical Lab Permit	000201F	Prospect CCMC, LLC
CCMC Institutional Osteopathic Accreditation (AOA)	119889	Prospect CCMC, LLC
Crozer Chester Medical Center/Taylor/Springfield Hospital License	037201	Prospect CCMC, LLC
CCMC Elevators	N/A	Prospect CCMC, LLC
CCMC Heliport: DOT, Bureau of Aviation	1129	Prospect CCMC, LLC
Crozer Chester Medical Center Radioactive Materials License	PA-1563	Prospect CCMC, LLC
Radioactive Materials License	1563SNM	Prospect CCMC, LLC
AABB Accreditation - Transfusion Activities: Crozer-Chester	N/A	Prospect CCMC, LLC
AABB Accreditation - Transfusion Activities: Taylor	N/A	Prospect CCMC, LLC
Brinton Lake ASC	18841501	Prospect CCMC, LLC
Haverford ASC	10271500	Prospect CCMC, LLC
Hazardous Waste Contractor- Stericycle, Inc.	PA-HC0196	Prospect CCMC, LLC
Hazardous Waste Transporter License	PA-AH0317	Prospect CCMC, LLC
Mammographic Imaging Services - ACR	GE Elec. SENOGRAPHE ESSENTIAL 2007, MAP# 01492-05	Prospect CCMC, LLC
Springfield HealthPlex Annual Fire Prevention License	N/A	Prospect CCMC, LLC
Broomall, CKHS ‘ Registration of Radiation Producing Machines ‘ DEP	20-49658	Prospect CCMC, LLC
Cyberknife Center of Philadelphia Medical Accelerator License	AC10 44149	Prospect CCMC, LLC
Media Medical Imaging-Registration of Radiation Producing Machines	20-49660	Prospect CCMC, LLC
Burn Center’s American Burn Association	N/A	Prospect CCMC, LLC
Brinton Lake Ultrasound Services: Obstetrical (1st and 2nd trimesters only, Gynecological, General,Vascular ACR	UAP# 04466	Prospect CCMC, LLC

CKHS Crozer EMS	03265	Prospect CCMC, LLC
Brinton Lake GI	23631501	Prospect CCMC, LLC
Springfield Hospital Ultrasound services: Obstetrical (1st trimester only), Gynecological, General, Vascular	UAP# 00068	Prospect CCMC, LLC
Springfield CLIA	39D1016695	Prospect CCMC, LLC
Clinical Lab Permit	000209D	Prospect CCMC, LLC
Brinton Lake CLIA	39D2110307	Prospect CCMC, LLC
Clinical Lab Permit	034811	Prospect CCMC, LLC
Taylor CLIA	39D0950244	Prospect CCMC, LLC
Clinical Lab Permit	000207D	Prospect CCMC, LLC
Broomall UC CLIA	39D2108005	Prospect CCMC, LLC
Clinical Lab Permit	34757	Prospect CCMC, LLC
CCMC Adult Level II Trauma Center	Accreditation Act. No. 1985-45	Prospect CCMC, LLC
Brinton Lake Medical Accelerator License	AC20-49659	Prospect CCMC, LLC
Family Medicine Clinical Program	1204121477	Prospect CCMC, LLC
Commonwealth of Pennsylvania Department of Environmental Protection Air Quality Program State Only Operating Permit	23-00052	Prospect CCMC, LLC
Commonwealth of Pennsylvania Department of Environmental Protection Air Quality Program State Only Synthetic Minor Operating Permit	23-00052	Prospect CCMC, LLC
Commonwealth of Pennsylvania Department of Environmental Protection Air Quality Program State Only Operating Permit	23-00052	Prospect CCMC, LLC
US Department of Health and Human Services Opioid Treatment Program Certification	PA-50231-H	Prospect CCMC, LLC
US Department of Health and Human Services Opioid Treatment Program Certification	PA-10050-M	Prospect CCMC, LLC
Pennsylvania Department of Human Services Certificate of Compliance issued to Prospect CCMC / Crozer Chester Medical Center Community Campus to provide Psychiatric Outpatient Services	910300	Prospect CCMC, LLC

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Pennsylvania Department of Human Services Certificate of Compliance issued to Prospect CCMC / Crozer Chester Medical Center Community Campus to provide Psychiatric Rehabilitation	144570	Prospect CCMC, LLC
Pennsylvania Department of Human Services Certificate of Compliance issued to Prospect CCMC / Crozer Chester Medical Center to provide Peer Support Services	910350	Prospect CCMC, LLC
Pennsylvania Department of Human Services Office of Mental Health and Substance Abuse Services Crisis Intervention Program License	910190	Prospect CCMC, LLC
Pennsylvania Trauma Systems Foundation Adult Level 2 Trauma Center Certificate issued to Crozer Chester Medical Center	N/A	Prospect CCMC, LLC
Pennsylvania Trauma Systems Foundation Adult Level 2 Trauma Center Certificate issued to Crozer Chester Medical Center	N/A	Prospect CCMC, LLC
Pennsylvania Department of Drug and Alcohol Programs Certificate of Approval issued to Prospect CCMC, LLC DBA Crozer-Chester Medical Center, First Steps Treatment Center	237097	Prospect CCMC, LLC
United States Department of Justice Drug Enforcement Administration Controlled Substance Registration Certificate	FC6246032	Prospect CCMC, LLC
Delaware County Memorial Hospital License	041801	Prospect DCMH, LLC
DCMH- DEP Air Quality Program State Only Operating Permit	23-00053	Prospect DCMH, LLC
Delaware County Memorial Hospital DEA Institutional License	FD6062880	Prospect DCMH, LLC
Delaware County Memorial Hospital Pharmacy DEA License	HP418051L	Prospect DCMH, LLC
DCMH Registration of Radiation Producing Machine	10-44149	Prospect DCMH, LLC
DCMH Elevators	N/A	Prospect DCMH, LLC
DCMH CLIA	39D0675225	Prospect DCMH, LLC
Clinical Lab Permit	000204A	Prospect DCMH, LLC
DCMH Commission on Cancer Accreditation (ACS)	6230610	Prospect DCMH, LLC

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Delaware County Memorial Hospital Radioactive Materials License	PA-1565	Prospect DCMH, LLC
Manchester Health Department Full Service Food Service	4158	Prospect Manchester Hospital, Inc.
CT DEEP - Bureau of Air Management Radiation Division - Diagnostic & Therapeutic X-Ray Device - NRRON (142 Hazard Ave.)	5118 (Facility ID)	Prospect ECHN, Inc.
State of CT Dept of Construction Services - Boiler Operating Certificate - 081461	081461	Prospect ECHN, Inc.
State of CT Dept of Construction Services - Boiler Operating Certificate 081463	081463	Prospect ECHN, Inc.
State of CT Dept of Construction Services - Boiler Operating Certificate 089683	089683	Prospect ECHN, Inc.
State of CT Dept of Construction Services - Boiler Operating Certificate 089684	089684	Prospect ECHN, Inc.
State of CT Dept of Construction Services - Boiler Operating Certificate - 081462	081462	Prospect ECHN, Inc.
CT DEEP - Bureau of Air Management Radiation Division - Diagnostic & Therapeutic X-Ray Device - Tolland Imaging Center	2329390	Prospect ECHN, Inc.
American College of Radiology (ACR) - Radiation Oncology - NRRON	4824	Prospect ECHN, Inc.
CT Department of Public Health Outpatient Clinic (100 Haynes St)	0317	NRRON, LLC
Institutional Review Board (IRB) Registration	IORG 0003117	Prospect ECHN, Inc.
Federalwide Assurance (FWA) for the Protection of Human Subjects	FWA 00005836	Prospect ECHN, Inc.
CT DPH Approved Blood Collection Facility - 1707 Boston Tpke, Coventry DS-1155	DS-1155	Prospect ECHN, Inc.
CT DPH Approved Public Health Lab - MMH Cancer Center - CL- 0812	CL-0812	Prospect ECHN, Inc.|Prospect Manchester Hospital, Inc.

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CT DPH Approved Blood Collection Facility - 428 Htfd Tpke, Vernon DS-1154	DS-1154	Prospect ECHN, Inc.|Prospect Manchester Hospital, Inc.
CT DPH Approved Public Health Lab - RGH - HP-0362	HP-0362	Prospect ECHN, Inc.|Prospect Rockville Hospital, Inc.
Connecticut Department of Public Health Clinical Laboratory License	CLAB.0000940	Prospect Manchester Hospital, Inc.
CT Dept. of Consumer Protection - Controlled Substance Registration MMH	CSP 0001185-HOSP	Prospect Manchester Hospital, Inc.
CT Dept of Consumer Protection - Controlled Public Charity	CHR.0010468	Prospect Manchester Hospital, Inc.
Clinical Laboratory Improvement Amendments (CLIA) - Evergreen Patient Service Center	07D2134801	Prospect Manchester Hospital, Inc.
State of CT Dept of Administrative Services - Elevator Certificate of Operation 077-0194	077-0194	Prospect Manchester Hospital, Inc.
CT DPH Approved Blood Collection Facility 25 Oakland St South Windsor DS-1292	DS-1292	Prospect Manchester Hospital, Inc.
U.S. Food & Drug Administration (FDA) - Mammo - MMH	Facility ID: 121897	Prospect Manchester Hospital, Inc.
Clinical Laboratory Improvement Amendments (CLIA) - MMH Nursing	CLIA ID # 07D0873944	Prospect Manchester Hospital, Inc.
State of CT Dept of Administrative Services - Elevator Certificate of Operation 077-0189	077-0189	Prospect Manchester Hospital, Inc.
State of CT Dept of Construction Services - Elevator Certificate of Operation - #077-0045	077-0045	Prospect Manchester Hospital, Inc.
State of CT Dept of Construction Services - Elevator Certificate of Operation - #077-0109	077-0109	Prospect Manchester Hospital, Inc.
State of CT Dept of Construction Services - Elevator Certificate of Operation - #077-0118	077-0118	Prospect Manchester Hospital, Inc.
State of CT Dept of Construction Services - Elevator Certificate of Operation 077-0123	077-0123	Prospect Manchester Hospital, Inc.
State of CT Dept of Construction Services - Boiler Operating Certificate - 105776	105776	Prospect Manchester Hospital, Inc.

State of CT Dept of Construction Services - Boiler Operating Certificate - 105775	105775	Prospect Manchester Hospital, Inc.
State of CT Dept of Construction Services - Boiler Operating Certificate - 105777	105777	Prospect Manchester Hospital, Inc.
State of CT Dept of Construction Services - Boiler Operating Certificate - 105778	105778	Prospect Manchester Hospital, Inc.
Town of Manchester Health Dept - Food Service License for MMH	Fm 17-466	Prospect Manchester Hospital, Inc.
State of CT Dept of Administrative Services - Elevator Certificate of Operation 077-0108	077-0108	Prospect Manchester Hospital, Inc.
State of CT Dept of Administrative Services - Elevator Certificate of Operation 077-0129	077-0129	Prospect Manchester Hospital, Inc.
Clinical Laboratory Improvement Amendments (CLIA) - Coventry Patient Service Center Lab	CLIA ID # 07D2037531	Prospect Manchester Hospital, Inc.
Clinical Laboratory Improvement Amendments (CLIA) - MMH Cancer Center Lab	CLIA ID # 07D2010712	Prospect Manchester Hospital, Inc.
CT DPH Approved Public Health Lab - MMH - HP 0361	HP-0361	Prospect Manchester Hospital, Inc.
CT DPH General Blood Banking Operations - MMH - BB-1052	BB-1052	Prospect Manchester Hospital, Inc.
CT DEEP - Bureau of Air Management Radiation Division - Diagnostic & Therapeutic X-Ray Device - MMH 71 Haynes St.	Application 2327568 Facility No. 4015	Prospect Manchester Hospital, Inc.
Clinical Laboratory Improvement Amendments (CLIA) - Vernon Patient Service Lab	CLIA ID # 07D2039385	Prospect Manchester Hospital, Inc.
State of CT Dept of Administrative Services - Elevator Certificate of Operation 077-0201	077-0201	Prospect Manchester Hospital, Inc.
State of CT Dept of Administrative Services - Elevator Certificate of Operation 077-0202	077-0202	Prospect Manchester Hospital, Inc.
State of CT Dept of Construction Services - Elevator Certificate of Operation 077-0200	077-0200	Prospect Manchester Hospital, Inc.
State of CT Dept of Administrative Services - Elevator Certificate of Operation 077-0011	077-0011	Prospect Manchester Hospital, Inc.

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State of CT Dept of Administrative Services - Elevator Certificate of Operation 077-0012	077-0012	Prospect Manchester Hospital, Inc.
State of CT Dept of Administrative Services - Elevator Certificate of Operation 077-0081	077-0081	Prospect Manchester Hospital, Inc.
State of CT Dept of Administrative Services - Elevator Certificate of Operation 077-0086	077-0086	Prospect Manchester Hospital, Inc.
State of CT Dept of Administrative Services - Elevator Certificate of Operation 077-0103	077-0103	Prospect Manchester Hospital, Inc.
State of CT Dept of Administrative Services - Elevator Certificate of Operation 077-0104	077-0104	Prospect Manchester Hospital, Inc.
State of CT Dept of Administrative Services - Elevator Certificate of Operation 077-0105	077-0105	Prospect Manchester Hospital, Inc.
State of CT Dept of Construction Services - Elevator Certificate of Operation 077-0231	077-0231	Prospect Manchester Hospital, Inc.
General Hospital License	73	Prospect Manchester Hospital, Inc.
Clinical Laboratory Improvement Amendments (CLIA) - MMH Main Campus	CLIA ID # 07D0092869	Prospect Manchester Hospital, Inc.
Drug Enforcement Administration - Controlled Substance MMH	FP6363953 & 1185	Prospect Manchester Hospital, Inc.
Drug Enforcement Administration - Controlled Substance RGH	FP6363953 & 1185	Prospect Rockville Hospital, Inc.
Clinical Laboratory Improvement Amendments (CLIA) - Corpcare Occupational Health	CLIA ID # 07D0917545	Prospect Manchester Hospital, Inc.
Clinical Laboratory Improvement Amendments (CLIA) - Hartford Campus Lab	CLIA ID # 07D0644553	Prospect Manchester Hospital, Inc.
Federal Communications Commission - Radio Call Sign KNEK 381 MMH	KNEK 381	Prospect Manchester Hospital, Inc.
Federal Communications Commission- Radio Call Sign WNZF 398 MMH	WNZF 398	Prospect Manchester Hospital, Inc.
State of CT DPH - General Hospital MMH 0073	0073	Prospect Manchester Hospital, Inc.

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U.S. Nuclear Regulatory Commission Materials License MMH	06-03413-01	Prospect Manchester Hospital, Inc.
CT DEEP Underground Storage Tank, Reg. 77-1276	77-1276	Prospect Manchester Hospital, Inc.
CT Department of Energy and Environmental Protection - Air Quality Permit Revocations	097-0004, 0027, 0028R, 0029, 0030R, 0130R	Prospect Manchester Hospital, Inc.
CT DPH Approved Blood Collection Facility - 2400 Tamarack, South Windsor (Evergreen II) DS-1160	DS-1160	Prospect Manchester Hospital, Inc.
CT DPH Approved Blood Collection Facility - 360 Tolland Tpke, Manchester (East Point) DS-1152	DS-1152	Prospect Manchester Hospital, Inc.
CT DPH Approved Blood Collection Facility - 622 Hebron Ave., Glastonbury DS-1153	DS-1153	Prospect Manchester Hospital, Inc.
Controlled Substance Registration	CSP.0001185-HOSP	Prospect Rockville Hospital, Inc.
Controlled Substance Registration	CSP.0001185-HOSP	Prospect Manchester Hospital, Inc.
Connecticut Department of Public Health Clinical Laboratory License	CLAB.00HP362	Prospect Rockville Hospital, Inc.
Clinical Laboratory Improvement Amendments (CLIA) - Radiology Evergreen	07D2134802	Prospect Rockville Hospital, Inc.
Clinical Laboratory Improvement Amendments (CLIA) - RGH BH Unit	07D2147041	Prospect Rockville Hospital, Inc.
CT DPH Approved Blood Collection Facility - 2600 Tamarack Ave, SW DS-1185	DS-1185	Prospect Rockville Hospital, Inc.
CT DPH Approved Blood Collection Facility - 520 Hartford Tpke, Vernon DS-1184	DS-1184	Prospect Rockville Hospital, Inc.
CT DEEP - Air Quality Permit Registration No. 187-0039-GPLPE	187-0039-GPLPE	Prospect Rockville Hospital, Inc.

MPT CONFIDENTIAL MPT_PROSPECT_00011777

CT Dept of Consumer Protection - Controlled Substance Registration	CSP 0001829-HOSP	Prospect Rockville Hospital, Inc.
State of CT Dept of Construction Services - Elevator Certificate of Operation 146-0085 RGH	146-0085	Prospect Rockville Hospital, Inc.
State of CT Dept of Construction Services - Elevator Certificate of Operation - #146-0017	146-0017	Prospect Rockville Hospital, Inc.
State of CT Dept of Construction Services - Elevator Certificate of Operation - #146-0020	146-0020	Prospect Rockville Hospital, Inc.
State of CT Dept of Construction Services - Elevator Certificate of Operation - #146-0023	146-0023	Prospect Rockville Hospital, Inc.
State of CT Dept of Construction Services - Elevator Certificate of Operation - #146-0038	146-0038	Prospect Rockville Hospital, Inc.
North Central District Health Dept - Food Service License for RGH 2570	2570	Prospect Rockville Hospital, Inc.
State of CT Dept of Construction Services - Boiler Operating Certificate - 018505	018505	Prospect Rockville Hospital, Inc.
State of CT Dept of Construction Services - Boiler Operating Certificate - 095961	095961	Prospect Rockville Hospital, Inc.
U.S. Food & Drug Administration (FDA) - Mammo Facility - RGH	Facility ID:162099	Prospect Rockville Hospital, Inc.
CT DPH General Blood Banking Operations - RGH - BB-1053	BB-1053	Prospect Rockville Hospital, Inc.
CT DEEP - Bureau of Air Management Radiation Division - Diagnostic & Therapeutic X-Ray Device - 2600 Tamarack Ave	Application No. 2327567 Facility No. 3474	Prospect Rockville Hospital, Inc.
CT DEEP - Bureau of Air Management Radiation Division - Diagnostic & Therapeutic X-Ray Device - Evergreen Imaging 2800 Tamarack Ave	Application No. 2327566 Facility No. 3123	Prospect Rockville Hospital, Inc.
State of CT Dept of Administrative Services - Elevator Certificate of Operation 146-0079	146-0079	Prospect Rockville Hospital, Inc.
Clinical Laboratory Improvement Amendments (CLIA) - ECHN Urgent Care at South Windsor	CLIA ID # 07D2044241	Prospect Rockville Hospital, Inc.

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CT DEEP - Bureau of Air Management Radiation Division - Diagnostic & Therapeutic X-Ray Device - RGH 31 Union St	2327562	Prospect Rockville Hospital, Inc.
State of CT Dept of Construction Services - Elevator Certificate of Operation 146-0083	146-0083	Prospect Rockville Hospital, Inc.
State of CT Dept of Construction Services - Elevator Certificate of Operation 146-0062	146-0062	Prospect Rockville Hospital, Inc.
Clinical Laboratory Improvement Amendments (CLIA) - RGH Nursing	CLIA ID # 07D0681314	Prospect Rockville Hospital, Inc.
State of CT DPH - General Hospital RGH 0074	0074	Prospect Rockville Hospital, Inc.
Clinical Laboratory Improvement Amendments (CLIA) - RGH Main Campus	CLIA ID # 07D0093263	Prospect Rockville Hospital, Inc.
American College of Radiology (ACR) - Breast MRI - Evergreen Imaging	none	Prospect Rockville Hospital, Inc.
Drug Enforcement Administration - Controlled Substance RGH	FP6363965 & 1829	Prospect Rockville Hospital, Inc.
Food and Drug Accreditation - Certified Mammography Facility ID# 179259	179259	Prospect Rockville Hospital, Inc.
Department of Health and Huma Services - Mammo Facility - Women's Center for Wellness	Facility ID: 179259	Prospect Rockville Hospital, Inc.
U.S. Nuclear Regulatory Commission Materials License RGH	06-13001-02	Prospect Rockville Hospital, Inc.
Federal Communications Commission - Radio Call Sign WPVZ 223 RGH	WPVZ 223	Prospect Rockville Hospital, Inc.
Federal Communications Commission - Radio Call Sign WPYL 558 RGH	WPYL 558	Prospect Rockville Hospital, Inc.
CT DPH Approved Blood Collection Facility - 130 Hartford Road Manchester DS-1159	DS-1159	Prospect Rockville Hospital, Inc.
CT DPH Approved Blood Collection Facility - 175 West Rd., Ellington DS-1157	DS-1157	Prospect Rockville Hospital, Inc.
CT DPH Approved Blood Collection Facility - 6 Fieldstone Commons, Tolland DS-1158	DS-1158	Prospect Rockville Hospital, Inc.

CT DEEP Underground Storage Tank, Reg. 146-3014	146-3014	Prospect Rockville Hospital, Inc.
State of CT Dept of Construction Services - Boiler Operating Certificate - Boiler #116219	116219	ECHN [Prospect ECHN, Inc.]
State of CT Dept of Construction Services - Boiler Operating Certificate - Boiler #116220	116220	ECHN [Prospect ECHN, Inc.]
Diagnostic and Therapeutic X-Ray Device Registration	Facility ID #3161	Prospect Waterbury, Inc.
Biomedical Waste - Hazardous Waste Transporter and Regulated Medical Waste Treatment and Destruction Facility Permit	CT-BMW-005	Prospect Waterbury, Inc.
Hazardous Waste Transporter Permit	CT-HW-616	Prospect Waterbury, Inc.
Diagnostic and Therapeutic X-Ray Device Registration (Greater	Facility #4246	Prospect Waterbury, Inc.
Radioactive Material and Industrial X-Ray Device Registration	Facility ID No. 0391, Application No. 2317025	Prospect Waterbury, Inc.
Controlled Substance Registration – State of CT	CSP-0004347-Hosp	Prospect Waterbury, Inc.
FDA Blood Bank Registration	1271998	Prospect Waterbury, Inc.
Elevator Certificate of Operation	151-0338	Prospect Waterbury, Inc.
Elevator Certificate of Operation	161-0381	Prospect Waterbury, Inc.
Elevator Certificate of Operation	151-0417	Prospect Waterbury, Inc.
Elevator Certificate of Operation	151-0114	Prospect Waterbury, Inc.
Elevator Certificate of Operation	151-0337	Prospect Waterbury, Inc.
Elevator Certificate of Operation	151-0382	Prospect Waterbury, Inc.
Elevator Certificate of Operation	151-0336	Prospect Waterbury, Inc.
Elevator Certificate of Operation	151-0383	Prospect Waterbury, Inc.
Elevator Certificate of Operation	151-0434	Prospect Waterbury, Inc.
Elevator Certificate of Operation	151-0113	Prospect Waterbury, Inc.
Elevator Certificate of Operation	151-0432	Prospect Waterbury, Inc.
Elevator Certificate of Operation	151-0431	Prospect Waterbury, Inc.

MPT CONFIDENTIAL MPT_PROSPECT_00011780

Radio Station Authorization	5597634	Prospect Waterbury, Inc.
General Blood Banking Operations	BB1051	Prospect Waterbury, Inc.
Clinical Laboratory (Main Lab)	HP-0360	Prospect Waterbury, Inc.
Waterbury Hospital Lab License	HP0360	Prospect Waterbury, Inc.
ACR LoRad M-111 1997	01145-01	Prospect Waterbury, Inc.
ACR Evo Excel 2018 for Planar, SPECT	NMAP #03776-04	Prospect Waterbury, Inc.
ADAC Laboratories FORTE 2003 FOR Planar, SPECT and Nuclear Cardiology	NMAP #0137-04	Prospect Waterbury, Inc.
ACR Gynecological, General, Vascular Accreditation	UAP #01107	Prospect Waterbury, Inc.
Blood Draw Station License-Chase Outpatient	DS-1151	Prospect Waterbury, Inc.
Blood Draw Station License- Grandview	DS-1146	Prospect Waterbury, Inc.
Blood Draw Station License- Middlebury	DS-1149	Prospect Waterbury, Inc.
Blood Draw Station License- Southbury	DS-1150	Prospect Waterbury, Inc.
Blood Draw Station License- Thomaston	DS-1147	Prospect Waterbury, Inc.
Blood Draw Station License- Watertown	DS-1148	Prospect Waterbury, Inc.
Controlled Substance Registration- State of CT	CSP.0004347-HOSP	Prospect Waterbury, Inc.
ACR Toshiba Aquilion Prime 2016	00502-03	Prospect Waterbury, Inc.
General Hospital License	75	Prospect Waterbury, Inc.
Non Legend Drug Permit	PME.0009238	Prospect Waterbury, Inc.
Alcohol Dealer Registration	2009-121-A02-031	Prospect Waterbury, Inc.
Industrial Alcohol User Permit	TF-CT-299	Prospect Waterbury, Inc.
State of CT Fire Marshall Certificate of Approval	N/A	Prospect Waterbury, Inc.
Level II Trauma Center	N/A	Prospect Waterbury, Inc.
Radioactive Material and Industrial X-Ray Devices Material and Industrial X-Ray Devices	Facility ID #0806	Prospect Waterbury, Inc.
ACR Toshiba Aquilion Prime 80	CTAP #99593-04	Waterbury Hospital
ACR Toshiba AQ64CFX 6B 2006	CTAP 00503-03	Waterbury Hospital
Mammographic Imaging Services	03776-04	Waterbury Hospital
Ultrasound Services	1107	Waterbury Hospital

MPT CONFIDENTIAL MPT_PROSPECT_00011781

Nuclear Medicine Services	01397-04	Waterbury Hospital
Nuclear Medicine Services	01397-05	Waterbury Hospital
Computed Tomography Services	00503-04	Waterbury Hospital
Computed Tomography Services	00503-03	Waterbury Hospital
Registration and Approval Approved Public Health Laboratory	HP-0360	Prospect Medical Holdings, Inc and The Waterbury Hospital Laboratory
Radioactive Materials License	06-02406-01	Prospect Waterbury Inc d/b/a/ The Waterbury Hospital
Confirmation of Registration - Radioactive Material and Industrial X-Ray Devices Material and Industrial X-Ray Devices	2622357	Prospect Waterbury, Inc
Confirmation of Registration - Radioactive Material and Industrial X-Ray Devices Material and Industrial X-Ray Devices	2616235	Prospect Waterbury, Inc
General Permit to Limit Potential Emit Emissions Calcs for 2018 Calendar year	05.0043682.20	Waterbury Hospital
General Permit to Limit Potential Emit Emissions Calcs for 2018 Calendar year	05.0043682.20	Waterbury Hospital
Boiler Operating Certificate	48883	Waterbury Hospital
Boiler Operating Certificate	48935	Waterbury Hospital
Boiler Operating Certificate	63277	Prospect ECHN Home Health Inc
Boiler Operating Certificate	96961	Prospect Rockville Hospital, Inc
Boiler Operating Certificate	18505	Prospect Rockville Hospital, Inc
Boiler Operating Certificate	95961	Prospect Rockville Hospital, Inc
Boiler Operating Certificate	18505	Prospect Rockville Hospital, Inc
Boiler Operating Certificate	89683	Manchester Hospital
Boiler Operating Certificate	89684	Manchester Hospital

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Boiler Operating Certificate	81461	Manchester Hospital
Boiler Operating Certificate	81462	Manchester Hospital
Boiler Operating Certificate	116219	Manchester Hospital
Boiler Operating Certificate	116220	Manchester Hospital
Radio Station Authorization	WPVZ223	Prospect Rockville Hospital, Inc
Home Health Care License	9915748	Prospect ECHN Home Health, Inc d/b/a Visiting Nurse and Health Services of Connecticut
Primary Stroke Center	5670	Prospect Manchester Memorial Hospital
Transfer Radio Station Authorization	WPVZ223 and WPYL558	Manchester Hospital
Elevator Certificate of Operation	077-0105	Prospect Manchester Hospital Inc
Elevator Certificate of Operation	077/0202	Prospect Manchester Hospital Inc
Elevator Certificate of Operation	077-0231	Prospect Manchester Hospital Inc
Elevator Certificate of Operation	077-0045	Prospect Manchester Hospital Inc
Elevator Certificate of Operation	146-0064	Prospect Manchester Hospital Inc
Elevator Certificate of Operation	148-0085	Prospect Rockville Hospital, Inc
U.S. Food & Drug Administration ("FDA") Mammography Facility – Tolland Imaging	238393	Prospect ECHN, Inc.
State of Connecticut Insurance Department - Preferred Provider Network	149058470	Prospect Health Services CT, Inc.

West Coast			
License Name	**License Number**	**Entity Name(s)**	**Location Name(s)**
Restricted Knox-Keene License	File No. 933 0500	Prospect Health Plan, Inc.	N/A
Air Pressure Tank Permit	A007419-97	Alta Newport Hospital, Inc.	Foothill Regional Medical Center
Air Pressure Tank Permit	A007419-97	Alta Newport Hospital, Inc.	Foothill Regional Medical Center
Diesel Generator Permit	G32154	Alta Newport Hospital, Inc.	Foothill Regional Medical Center
General Acute Care Hospital	060000178	Alta Newport Hospital, Inc.	Foothill Regional Medical Center
Medical Waste Acute Care Facility	PR0096003	Alta Newport Hospital, Inc.	Foothill Regional Medical Center
Public Health Permit	AR1401580	Alta Newport Hospital, Inc.	Foothill Regional Medical Center
Radiation Machine Registration	FAC00074983	Alta Newport Hospital, Inc.	Foothill Regional Medical Center
Clinical Laboratory License	CLF00011417	Alta Newport Hospital, Inc.	Foothill Regional Medical Center
CLIA Certificate of Accreditation	05D0935646	Alta Newport Hospital, Inc.	Foothill Regional Medical Center
Hospital Pharmacy Permit	HSP51844	Alta Newport Hospital, Inc.	Foothill Regional Medical Center
Sterile Compounding	LSC100400	Alta Newport Hospital, Inc.	Foothill Regional Medical Center
Controlled Substance Registration	FN4981393	Alta Newport Hospital, Inc.	Foothill Regional Medical Center
Steam Boiler or Pressure Vessel	AH57579	Alta Los Angeles Hospitals, Inc.	Los Angeles Community Hospital
Elevator Permit	045013	Alta Los Angeles Hospitals, Inc.	Los Angeles Community Hospital
Elevator Permit	058727	Alta Los Angeles Hospitals, Inc.	Los Angeles Community Hospital
Elevator Permit	058735	Alta Los Angeles Hospitals, Inc.	Los Angeles Community Hospital

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West Coast			
License Name	**License Number**	**Entity Name(s)**	**Location Name(s)**
Clinical Laboratory License	Redacted	Alta Los Angeles Hospitals, Inc.	Los Angeles Community Hospital
Large Quantity Medical Waste Generator		Alta Los Angeles Hospitals, Inc.	Los Angeles Community Hospital
Hospital Pharmacy Permit		Alta Los Angeles Hospitals, Inc.	Los Angeles Community Hospital
Sterile Compounding		Alta Los Angeles Hospitals, Inc.	Los Angeles Community Hospital
General Acute Care Hospital		Alta Los Angeles Hospitals, Inc.	Los Angeles Community Hospital
Controlled Substance Registration		Alta Los Angeles Hospitals, Inc.	Los Angeles Community Hospital
CLIA Laboratory Certificate of Accreditation		Alta Los Angeles Hospitals, Inc.	Los Angeles Community Hospital
Radiation Machine Registration		Alta Los Angeles Hospitals, Inc.	Los Angeles Community Hospital
City of Los Angeles - Tax Registration Certificate (Retail Sales)		Alta Los Angeles Hospitals, Inc.	Los Angeles Community Hospital
Annual Unified Program Facility Permit		Alta Los Angeles Hospitals, Inc.	Los Angeles Community Hospital at Bellflower
Elevator Permit	057166	Alta Los Angeles Hospitals, Inc.	Los Angeles Community Hospital at Bellflower
Elevator Permit	057165	Alta Los Angeles Hospitals, Inc.	Los Angeles Community Hospital at Bellflower
Public Health Permit	AR0194389	Alta Los Angeles Hospitals, Inc.	Los Angeles Community Hospital at Bellflower

MPT CONFIDENTIAL MPT_PROSPECT_00011785

West Coast			
License Name	**License Number**	**Entity Name(s)**	**Location Name(s)**
Diesel Generator Permit	Redacted	Alta Los Angeles Hospitals, Inc.	Los Angeles Community Hospital at Bellflower
Large Quantity Medical Waste Generator		Alta Los Angeles Hospitals, Inc.	Los Angeles Community Hospital at Bellflower
Annual Unified Program Facility Permit (Underground Storage Tank Program)		Alta Los Angeles Hospitals, Inc.	Los Angeles Community Hospital at Bellflower
Clinical Laboratory License		Alta Los Angeles Hospitals, Inc.	Los Angeles Community Hospital at Bellflower
General Acute Care Hospital		Alta Los Angeles Hospitals, Inc.	Los Angeles Community Hospital at Bellflower
Hospital Pharmacy Permit		Alta Los Angeles Hospitals, Inc.	Los Angeles Community Hospital at Bellflower
South Coast Air Quality Management District		Alta Los Angeles Hospitals, Inc.	Los Angeles Community Hospital at Bellflower
CLIA Certificate of Waiver		Alta Los Angeles Hospitals, Inc.	Los Angeles Community Hospital at Bellflower
Controlled Substance Registration		Alta Los Angeles Hospitals, Inc.	Los Angeles Community Hospital at Bellflower
Hazardous Waste Permit		Alta Los Angeles Hospitals, Inc.	Los Angeles Community Hospital at Bellflower
Steam Boiler or Pressure Vessel		Alta Los Angeles Hospitals, Inc.	Norwalk Community Hospital

MPT CONFIDENTIAL MPT_PROSPECT_00011786

West Coast			
License Name	**License Number**	**Entity Name(s)**	**Location Name(s)**
Steam Boiler or Pressure Vessel	Redacted	Alta Los Angeles Hospitals, Inc.	Norwalk Community Hospital
Diesel Generator Permit		Alta Los Angeles Hospitals, Inc.	Norwalk Community Hospital
Public Health Permit		Alta Los Angeles Hospitals, Inc.	Norwalk Community Hospital
Radiation Machine Registration		Alta Los Angeles Hospitals, Inc.	Norwalk Community Hospital
Annual Unified Program Facility Permit		Alta Los Angeles Hospitals, Inc.	Norwalk Community Hospital
Controlled Substance Registration		Alta Los Angeles Hospitals, Inc.	Norwalk Community Hospital
Large Quantity Medical Waste Generator		Alta Los Angeles Hospitals, Inc.	Norwalk Community Hospital
City of Norwalk - Business License		Alta Los Angeles Hospitals, Inc.	Norwalk Community Hospital
Clinical Laboratory License		Alta Los Angeles Hospitals, Inc.	Norwalk Community Hospital
Hospital Pharmacy Permit		Alta Los Angeles Hospitals, Inc.	Norwalk Community Hospital
General Acute Care Hospital		Alta Los Angeles Hospitals, Inc.	Norwalk Community Hospital
CLIA Laboratory Certificate of Accreditation		Alta Los Angeles Hospitals, Inc.	Norwalk Community Hospital
Sterile Compounding		Alta Los Angeles Hospitals, Inc.	Norwalk Community Hospital
Elevator Permit		Southern California Healthcare System, Inc.	Southern California Hospital at Culver City
Elevator Permit		Southern California Healthcare System, Inc.	Southern California Hospital at Culver City
Elevator Permit		Southern California Healthcare System, Inc.	Southern California Hospital at Culver City

MPT CONFIDENTIAL MPT_PROSPECT_00011787

West Coast			
License Name	**License Number**	**Entity Name(s)**	**Location Name(s)**
Elevator Permit	065766	Southern California Healthcare System, Inc.	Southern California Hospital at Culver City
Elevator Permit	050929	Southern California Healthcare System, Inc.	Southern California Hospital at Culver City
Elevator Permit	051351	Southern California Healthcare System, Inc.	Southern California Hospital at Culver City
Elevator Permit	036094	Southern California Healthcare System, Inc.	Southern California Hospital at Culver City
Air Pressure Tank Permit	A020041-97	Southern California Healthcare System, Inc.	Southern California Hospital at Culver City
Air Pressure Tank Permit	A020040-97	Southern California Healthcare System, Inc.	Southern California Hospital at Culver City
Air Pressure Tank Permit	A010042-80	Southern California Healthcare System, Inc.	Southern California Hospital at Culver City
Annual Unified Program Facility Permit (Underground Storage Tank Program)	10302304	Southern California Healthcare System, Inc.	Southern California Hospital at Culver City
Annual Unified Program Facility Permit	Redacted	Southern California Healthcare System, Inc.	Southern California Hospital at Culver City
Clinical Laboratory License		Southern California Healthcare System, Inc.	Southern California Hospital at Culver City
Hospital Pharmacy Permit		Southern California Healthcare System, Inc.	Southern California Hospital at Culver City
Sterile Compounding		Southern California Healthcare System, Inc.	Southern California Hospital at Culver City
Clinical Laboratory License		Southern California Healthcare System, Inc.	Southern California Hospital at Culver City
CLIA Certificate of Accreditation	05D0547292	Southern California Healthcare System, Inc.	Southern California Hospital at Culver City
General Acute Care Hospital	930000066	Southern California Healthcare System, Inc.	Southern California Hospital at Culver City
CLIA Certificate of Accreditation	05D0642522	Southern California Healthcare System, Inc.	Southern California Hospital at Culver City

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West Coast			
License Name	**License Number**	**Entity Name(s)**	**Location Name(s)**
Controlled Substance Registration	Redacted	Southern California Healthcare System, Inc.	Southern California Hospital at Culver City
Radioactive Material License		Southern California Healthcare System, Inc.	Southern California Hospital at Culver City
City of Los Angeles - Tax Registration Certificate		Southern California Healthcare System, Inc.	Southern California Hospital at Culver City
Hospital Accreditation Program		Southern California Healthcare System, Inc.	Southern California Hospital at Hollywood
Radiation Machine Registration		Southern California Healthcare System, Inc.	Southern California Hospital at Hollywood
CLIA Certificate of Accreditation		Southern California Healthcare System, Inc.	Southern California Hospital at Hollywood
Public Health Permit		Southern California Healthcare System, Inc.	Southern California Hospital at Hollywood
Diesel Generator Permit		Southern California Healthcare System, Inc.	Southern California Hospital at Hollywood
Clinical Laboratory License		Southern California Healthcare System, Inc.	Southern California Hospital at Hollywood
Fire Permit	0000938830-0001-1	Southern California Healthcare System, Inc.	Southern California Hospital at Hollywood
Elevator Permit	Q382432	Southern California Healthcare System, Inc.	Southern California Hospital at Hollywood
Elevator Permit	Q382433	Southern California Healthcare System, Inc.	Southern California Hospital at Hollywood
General Acute Care Hospital	930000066	Southern California Healthcare System, Inc.	Southern California Hospital at Hollywood
Sterile Compounding Permit	Redacted	Southern California Healthcare System, Inc.	Southern California Hospital at Hollywood
Large Quantity Medical Waste Generator		Southern California Healthcare System, Inc.	Southern California Hospital at Hollywood

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West Coast			
License Name	**License Number**	**Entity Name(s)**	**Location Name(s)**
Steam Boiler or Pressure Vessel	AH42774	Southern California Healthcare System, Inc.	Southern California Hospital at Hollywood
Hospital Pharmacy Permit	Redacted	Southern California Healthcare System, Inc.	Southern California Hospital at Hollywood
Controlled Substance Registration		Southern California Healthcare System, Inc.	Southern California Hospital at Hollywood
City of Los Angeles - Tax Registration Certificate		Southern California Healthcare System, Inc.	Southern California Hospital at Hollywood
Behavioral Health Care Accreditation Program		Southern California Healthcare System, Inc.	Southern California Hospital at Van Nuys
Hospital Pharmacy Permit		Southern California Healthcare System, Inc.	Southern California Hospital at Van Nuys
Diesel Generator Permit		Southern California Healthcare System, Inc.	Southern California Hospital at Van Nuys
CLIA Certificate of Waiver		Southern California Healthcare System, Inc.	Southern California Hospital at Van Nuys
Clinical Laboratory Registration		Southern California Healthcare System, Inc.	Southern California Hospital at Van Nuys
General Acute Care Hospital	930000066	Southern California Healthcare System, Inc.	Southern California Hospital at Van Nuys
Elevator Permit	Q383518	Southern California Healthcare System, Inc.	Southern California Hospital at Van Nuys
Controlled Substance Registration	Redacted	Southern California Healthcare System, Inc.	Southern California Hospital at Van Nuys
City of Tustin, Business Tax Certificate		Alta Newport Hospital, Inc.	Foothill Regional Medical Center
Radio Station Authorization		Alta Los Angeles Hospitals, Inc.	Los Angeles Community Hospital
City of Bellflower Business License		Alta Los Angeles Hospitals, Inc.	Los Angeles Community Hospital at Bellflower
City of Culver City Business Tax Certificate		Southern California Health Care System, Inc.	Southern California Health Care System, Inc.
Business Tax Certificate		New Genesis Medical Associates, Inc.	-

MPT CONFIDENTIAL MPT_PROSPECT_00011790

West Coast			
License Name	**License Number**	**Entity Name(s)**	**Location Name(s)**
Clinical and Public Health Laboratory License	Redacted	Primary and Multi-Specialty Clinics of Anaheim, Inc. (PMCA)	-
CLIA Waiver		Primary and Multi-Specialty Clinics of Anaheim, Inc. (PMCA) - d/b/a Gateway Medical Center	-
Business Tax Certificate		Primary and Multi-Specialty Clinics of Anaheim, Inc. (PMCA) - d/b/a Gateway Medical Center	-
Business Tax Certificate		Primary and Multi-Specialty Clinics of Anaheim, Inc. (PMCA) - d/b/a Gateway Medical Center Anaheim Hills	-
City of Santa Ana Business License Tax Receipt		Primary and Multi-Specialty Clinics of Anaheim, Inc. (PMCA) - d/b/a Gateway Medical Center – Santa Ana	-
Clinical and Public Health Laboratory License		Primary and Multi-Specialty Clinics of Anaheim, Inc. (PMCA) - d/b/a Gateway Medical Center – Santa Ana	-
CLIA Waiver		Primary and Multi-Specialty Clinics of Anaheim, Inc. (PMCA)	-

MPT CONFIDENTIAL MPT_PROSPECT_00011791

West Coast			
License Name	**License Number**	**Entity Name(s)**	**Location Name(s)**
	Redacted	- d/b/a Gateway Regional Medical Center	
Clinical and Public Health Laboratory License		Primary and Multi-Specialty Clinics of Anaheim, Inc. (PMCA) - d/b/a Gateway Regional Medical Center – Canyon Hills	-
CLIA Waiver		Primary and Multi-Specialty Clinics of Anaheim, Inc. (PMCA) - d/b/a Gateway Regional Medical Center – Canyon Hills	-
Business License		Care@Home	-
Retail Pharmacy Permit		RightRX	-
Controlled Substance Registration Certificate		RightRX	-
Fictitious Name Permit	FNP 40083	Genesis HealthCare of Southern California, Inc., A Medical Group dba Daehan Prospect Medical Group, Inc.	-
Fictitious Name Permit	FNP 44199	Genesis HealthCare of Southern California, Inc., A Medical Group dba Prospect Genesis Healthcare	-
Fictitious Name Permit	FNP 543354	New Genesis Medical Associates, Inc.	-
Fictitious Name Permit	FNP 18482	Prospect Medical Group, Inc.	-
Fictitious Name Permit	FNP 547211	Prospect Professional Care Medical Group, Inc.	-
Fictitious Name Permit	FNP 553920	StarCare Medical Group, Inc.	-
Fictitious Name Permit	FNP 44006	Prospect Medical Group, Inc. dba Prospect Latino Medical Group, Inc.	-

MPT CONFIDENTIAL MPT_PROSPECT_00011792

West Coast			
License Name	**License Number**	**Entity Name(s)**	**Location Name(s)**
Fictitious Name Permit	FNP 44200	Prospect Medical Group, Inc. dba Prospect Medical Group - Los Angeles	-
Fictitious Name Permit	FNP 551920	Prospect Medical Group, Inc. dba Prospect Medical Group - San Diego	-
Fictitious Name Permit	FNP 551921	Prospect Medical Group, Inc. dba Prospect Medical Group - Inland Empire	-
Fictitious Name Permit	FNP 552899	Prospect Medical Group, Inc. dba Prospect Medical Group - Orange County	-
Fictitious Name Permit	FNP 553000	Prospect Medical Group, Inc. dba Prospect Medical Group - Jian Kang	-
Fictitious Name Permit	FNP 44533	Prospect Medical Group, Inc. dba Prospect Persian Medical Group, Inc.	-
Fictitious Name Permit	FNP 551847	Prospect Medical Group, Inc. dba Los Angeles Medical Center IPA	-
Fictitious Name Permit	FNP 551848	Prospect Medical Group, Inc. dba Vantage Medical Group, Inc.	-
Fictitious Name Permit	FNP 551846	Prospect Medical Group, Inc. dba Cal Care IPA	-
Fictitious Name Permit	FNP 552469	Prospect Medical Group, Inc. dba Prospect SoCal	-
Fictitious Name Permit	FNP 554170	Prospect Medical Group, Inc. dba Prospect Medical OC	-
Fictitious Name Permit	FNP 554110	Prospect Professional Care Medical Group, Inc. dba Prospect Medical LA	-

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West Coast			
License Name	**License Number**	**Entity Name(s)**	**Location Name(s)**
Fictitious Name Permit	FNP 44198	StarCare Medical Group, Inc. dba Prospect Gateway Medical Group	-
Fictitious Name Permit	FNP 546093	Primary and Multi-Specialty Clinics of Anaheim, Inc. dba Gateway Medical Center	-
Fictitious Name Permit	FNP 546155	Primary and Multi-Specialty Clinics of Anaheim, Inc. dba Gateway Medical Center - Anaheim Hills	-
Nonprofit Health Organization (NPHO) Certification	n/a	Prospect Health Services TX, Inc.	-
Nonprofit Health Organization (NPHO) Certification	n/a	Prospect Provider Group TX, Inc.	-
Texas TPA Certificate	n/a	Prospect Medical Systems, LLC	-

MPT CONFIDENTIAL MPT_PROSPECT_00011794

Schedule 7.13(b)

Compliance with Material Healthcare Licenses

1. Licensure renewal process for the expired State of Connecticut Department of Public Health Clinical Laboratory Permit No. Redacted (Prospect Waterbury, Inc.) is delayed with the State of Connecticut due to administrative backlog resulting from COVID-19. This license remains active during the administrative backlog.

MPT CONFIDENTIAL MPT_PROSPECT_00011795

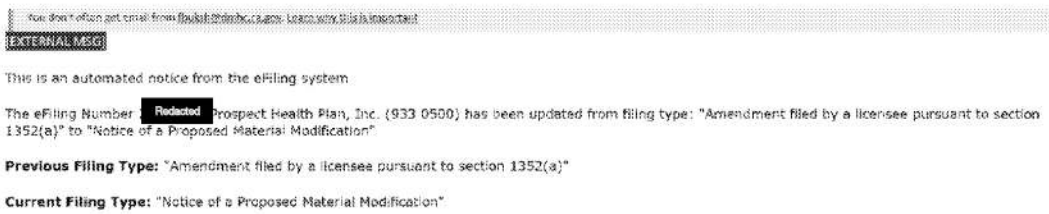
Schedule 7.13(c)

Material Healthcare License; Exceptions

1. Schedule 7.13(b) of these Disclosure Schedules is incorporated herein by reference.

2. On March 16, 2023, Prospect Health Plan, Inc. ("***PHP***") received the California Department of Managed Health Care's (the "***DMHC***") preliminary report on the results of its recent, routine, periodic medical survey. The results contained three deficiencies which have since been addressed. PHP submitted its response to the DMHC report, noting the remediation of the deficiencies, on May 1, 2023.

3. On April 28, 2023, PHP submitted an amendment filing with the DMHC notifying them of the internal restructuring that occurred effective as of March 30, 2023. On May 15, 2023, PHP received an automatic notification from the DMHC indicating that the filing type of the internal restructuring submission was changed from an amendment to a notice of proposed material modification. A screen shot of the automatic notice is set forth below. As of the date hereof, PHP has received no additional commentary from the DMHC concerning this reclassification, and it does not expect to receive any until the DMHC processes the proposed material modification.


You don't often get email from [redacted]. Learn why this is important

EXTERNAL MSG

This is an automated notice from the eFiling system

The eFiling Number [Redacted] Prospect Health Plan, Inc. (933 0500) has been updated from filing type: "Amendment filed by a licensee pursuant to section 1352(a)" to "Notice of a Proposed Material Modification"

Previous Filing Type: "Amendment filed by a licensee pursuant to section 1352(a)"

Current Filing Type: "Notice of a Proposed Material Modification"

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Schedule 7.14(a)

Healthcare Laws

1. Schedule 7.19 of these Disclosure Schedules is incorporated herein by reference.

MPT CONFIDENTIAL MPT_PROSPECT_00011797

Schedule 7.14(b)

Penalties; Fines; Exclusions

1. The California Department of Public Health State Survey Agency ("SSA") completed a Health Recertification Survey for the Skilled Nursing Facility operated by Alta Newport dba Foothill Regional Medical Center (the "Foothill SNF") on January 30, 2023, January 31, 2023, February 8, 2023, February 10, 2023 and March 16, 2023, to determine if the facility was in compliance with federal requirements for nursing homes participating in the Medicare and Medicaid programs. The SSA found that the Foothill SNF was not in substantial compliance with the federal requirements for nursing homes and initially imposed the following remedies: (a) Directed Plan of Correction for F880 and (b) Mandatory Denial of Payment for New Admissions effective April 30, 2023. However, the SSA completed a revisit at the Foothill SNF and determined that it had obtained substantial compliance with all cited deficiencies within this enforcement cycle as of April 7, 2023. As a result, the aforementioned remedies will not go into effect and instead, a Federal Civil Money Penalty in the amount of $15,000 was imposed upon the Foothill SNF.

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Schedule 7.14(c)

Billing; Recoupment; Material Fines

None.

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Schedule 7.14(g)

Healthcare Facilities

1. Foothill Regional Medical Center - [redacted] Tustin, CA 92780

2. Primary and Multi-Specialty Clinics of Anaheim, Inc.:

[redacted]
Anaheim, CA 92801

[redacted]
Santa Ana, CA 92705

[redacted]
Anaheim Hills, CA 92807

MPT CONFIDENTIAL MPT_PROSPECT_00011800

Schedule 7.15

Transactions with Affiliates

1. Hospital Services Agreement, dated August 9, 2017, between Prospect Health Services RI, Inc. and Prospect CharterCARE RWMC, LLC and Prospect CharterCARE SJHSRI, LLC.

2. Hospital Services Agreement, dated September 1, 2017, First Amendment, dated June 7, 2018, between Prospect Health Services PA, Inc. and Prospect CCMC, LLC.

3. Hospital Services Agreement, dated September 1, 2017, First Amendment, dated June 7, 2018, between Prospect Health Services PA, Inc. and Prospect DCMH, LLC.

4. Hospital Services Agreement, dated September 1, 2017, First Amendment, dated June 7, 2018, between Prospect Health Services CT, Inc. and Prospect Manchester Hospital, Inc.,

5. Hospital Services Agreement, dated September 1, 2017, between Prospect Health Services CT, Inc. and Prospect Rockville Hospital, Inc.

6. Hospital Services Agreement, dated September 1, 2017, First Amendment, dated June 7, 2018, between Prospect Health Services CT, Inc. and Prospect Waterbury, Inc.

7. Hospital Services Agreement, dated January 1, 2016, between Prospect Health Plan, Inc. and Alta Newport Hospital, Inc.

8. Hospital Services Agreement, dated September 1, 2013, First Amendment, dated May 1, 2015, and Second Amendment, dated March 1, 2015, between Prospect Health Plan, Inc. and Alta Los Angeles Hospitals, Inc., dba Los Angeles Community Hospital and dba Norwalk Community Hospital.

9. Hospital Services Agreement, dated September 1, 2013, between Prospect Health Plan, Inc. and Southern California Healthcare System, Inc., dba Southern California Hospital at Culver City, dba Southern California Hospital at Hollywood and dba Southern California Hospital at Van Nuys.

10. Hospital Risk Sharing Agreement, dated February 1, 2017, between Prospect Medical Group, Inc., and Subsidiaries, and Alta Newport Hospital, Inc. dba Foothill Regional Medical Center.

11. Hospital Control Program Agreement, dated March 1, 2010, First Amendment, dated January 1, 2012, Second Amendment, dated June 1, 2012, Third Amendment, dated April 1, 2013, Fourth Amendment, dated October 1, 2013, Fifth Amendment, dated May 1, 2015, and Sixth Amendment, dated May 1, 2015, between Prospect Medical Group, Inc. and Alta Los Angeles Hospitals, Inc., dba Norwalk Community Hospital.

12. Hospital Control Program Agreement, dated May 1, 2005, First Amendment, dated October 1, 2007, Second Amendment, dated March 1, 2008, Third Amendment, dated April 1, 2013, Fourth Amendment, dated October 1, 2013, and Fifth Amendment, dated May 1, 2015, between Prospect Medical Group, Inc. and Southern California Healthcare System, Inc., dba Southern California Hospital at Culver City (as successor to Brotman Medical Center).

13. Lease Agreement, dated January 19, 1989 and Amendment of Lease, dated January 1, 2016 and Amendment of Lease, dated January 1, 2018, between Prospect Waterbury, Inc. (as successor to

MPT CONFIDENTIAL MPT_PROSPECT_00011801

The Waterbury Hospital, Inc.) (as Landlord) and Greater Waterbury Imaging Center; 68 Robbins Street, Waterbury, CT.

14. Physical Therapy, Occupational Therapy, Speech Therapy Service Agreement, dated April 1, 2017, between Prospect Waterbury, Inc., dba The Waterbury Hospital and Access Rehab Centers, LLC.

15. Greater Waterbury Imaging Center Service Agreement, dated October 1, 2016, between Prospect Waterbury, Inc., dba The Waterbury Hospital and Greater Waterbury Imaging Center.

16. Inpatient Services Agreement, dated August 1, 2006, between Prospect Waterbury, Inc., dba The Waterbury Hospital (as successor to Waterbury Hospital Health Center) and Greater Waterbury Imaging Center.

17. Service Agreement, dated May 1, 2016, between Prospect Waterbury, Inc., dba The Waterbury Hospital (as successor by Assignment from The Waterbury Hospital) and Prospect CT Medical Foundation, Inc., dba Alliance Medical Group (as successor by assignment from Alliance Medical Group).

18. Patient Care and Administrative Services Agreement, dated January 1, 2016, between Prospect Waterbury, Inc., dba The Waterbury Hospital (as successor by Assignment from The Waterbury Hospital) and Prospect CT Medical Foundation, Inc., dba Alliance Medical Group (as successor by assignment from Alliance Medical Group)..

19. Memorandum of Understanding, dated October 9, 2015, and Amendment, dated September 7, 2017, between Alta Los Angeles Hospitals, Inc., dba Los Angeles Community Hospital and dba Norwalk Community Hospital, and Alta Newport Hospital, Inc., dba Foothill Regional Medical Center.

20. Memorandum of Understanding, dated May 1, 2015, and Amendment, dated March 30, 2017, between Alta Los Angeles Hospitals, Inc., dba Los Angeles Community Hospital and dba Norwalk Community Hospital, and Southern California Healthcare System, Inc., dba Southern California Hospital at Culver City, dba Southern California Hospital at Hollywood and dba Southern California Hospital at Van Nuys.

21. Memorandum of Understanding, dated October 9, 2015, and First Amendment, dated February 1, 2017, between Southern California Healthcare System, Inc., dba Southern California Hospital at Culver City, dba Southern California Hospital at Hollywood and dba Southern California Hospital at Van Nuys, and Alta Newport Hospital, Inc., dba Foothill Regional Medical Center.

22. Lease, dated December 1, 2017, and First Amendment, dated September 8, 2021, between Prospect Manchester Hospital, Inc. d/b/a Manchester Memorial Hospital, a stock corporation having a place of business at 71 Haynes Street, Manchester, Connecticut 06040, and Prospect Rockville Hospital, Inc. d/b/a/ Rockville General Hospital, a stock corporation, having a place of business at 31 Union Street, Vernon, Connecticut 06066.

23. Service Agreement, dated October 24, 2019, between Prospect CharterCARE Physicians, LLC dba CharterCARE Medical Associates, and Prospect CT Management Services, Inc. dba Medical Practice Partners.

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24. Service Agreement, dated October 1, 2016, between Prospect CT Medical Foundation Inc. dba Alliance Medical Group and Prospect CT Management Services, Inc. dba Medical Practice Partners.

25. Administrative Services Agreement, dated March 1, 2010, First Amendment, dated January 1, 2012, and Second Amendment, dated January 1, 2012, between Prospect Medical Systems, LLC and Alta Los Angeles Hospitals, Inc., dba Los Angeles Community Hospital and dba Norwalk Community Hospital.

26. Assignment of Administrative Services Agreement, dated January 1, 2013, between Prospect Medical Systems, LLC and Southern California Healthcare System, Inc. (successor to Alta Hollywood Hospitals, Inc., successor to Brotman Medical Center)

27. Management Services Agreement, dated July 1, 1999, between Prospect Medical Systems, LLC and AMVI/Prospect Medical Group

28. Management Services Agreement, dated December 1, 2015, between Prospect Medical Systems, LLC and Primary and Multi-Specialty Clinics of Anaheim, Inc.

29. Management Services Agreement, dated October 1, 2012, between Prospect Medical Systems, LLC and New Genesis Medical Associates, Inc.

30. Management Services Agreement, dated March 11, 2016, between Prospect Medical Systems, LLC and Prospect Medical Group, Inc. and its subsidiaries.

31. Management Services Agreement, dated February 3, 2014, between Prospect Medical Systems, LLC and Prospect Health Plan, Inc.

32. Administrative Services Agreement, dated May 17, 2019, between Prospect Medical Systems, LLC and Prospect Health Services RI, Inc. and Prospect Provider Group RI, LLC

33. Services Agreement, dated October 1, 2021, between Coordinated Regional Care Group, LLC and Prospect Crozer

34. Services Agreement, dated October 1, 2021, between Coordinated Regional Care Group, LLC and Alta Hospitals LLC and its subsidiaries

35. Services Agreement, dated October 1, 2021, between Coordinated Regional Care Group, LLC and Prospect Waterbury, Inc. dba Waterbury Hospital

36. Services Agreement, dated October 1, 2021, between Coordinated Regional Care Group, LLC and Prospect ECHN, Inc. and its subsidiaries.

MPT CONFIDENTIAL MPT_PROSPECT_00011803

Schedule 7.19

Licenses; Compliance with Laws

1. [redacted]

2. In May 2021, the Southern California Healthcare System ("***SCHS***") received a Civil Investigative Demand ("***CID***") for documents and other information regarding a false claims investigation that appears related to the relationship between SCHS and certain skilled nursing facilities ("***SNFs***"), including inpatient admissions practices. The CID subsequently was narrowed to focus on four (4) SNFs. The CID also requested documents related to schedules of personnel at one of the licensed outpatient departments at SCH Culver City. SCHS has completed document production and responses to the CID's interrogatories and has not received any further communications to date.

3. In April 2023, Prospect Medical Holdings, Inc. ("***PMH***") and Prospect Medical Systems, LLC ("***PMS***") received a CID from the State of Connecticut's Commissioner of Consumer Protection related to an investigation whether hospital funding practices may constitute unfair or deceptive acts or practices in violation of the provisions of the Connecticut Unfair Practices Act. PMH believes that PMS was mistakenly included in the CID because the PMH name was mistakenly listed in the CID as a DBA name for PMS. PMH discussed the purpose and scope of the CID with the Connecticut Attorney General (the "***CT AG***"), and, as requested by PMH during that discussion, the CT AG delivered a letter to counsel for PMH on May 19, 2023, setting forth a revised, limited scope for the CID requests. PMH has begun the process of collecting documentation responsive to the CID requests and has confirmed to the CT AG that the requested information will be delivered to the CT AG on a rolling basis commencing on Monday, May 22, 2023.

4. Schedule 7.13(c) of these Disclosure Schedules is incorporated herein by reference.

ACTION BY WRITTEN CONSENT
OF THE BOARD OF MANAGERS
OF
ALTA NEWPORT HOSPITAL, LLC
(a California limited liability company)

October 31, 2023

The undersigned, being all the members of the board of managers (the "**Board**") of Alta Newport Hospital, LLC, a California limited liability company (the "**Company**"), pursuant to the Operating Agreement of the Company, dated as of October 25, 2022 (the "**Operating Agreement**"), acting by written consent without a meeting pursuant to the California Revised Uniform Limited Liability Company Act, California Corporations Code §17701 *et seq.*, do hereby consent to the adoption of the following resolutions effective as of the date first written above.

Merger Agreement

WHEREAS, the Board has reviewed that certain Agreement and Plan of Merger, by and among FRMC Hospital Property, LLC, a California limited liability company ("**FRMC Propco**"), the Company, Prospect Medical Holdings, Inc., a Delaware corporation, and PHP Holdings, LLC, a Delaware limited liability company, substantially in the form attached hereto as Exhibit A (the "**Merger Agreement**"), pursuant to which, among other things, the Company will be merged with and into FRMC Propco (the "**Merger**"), with the Company surviving the Merger as a wholly-owned subsidiary of Prospect Intermediate Holdings, LLC, a Delaware limited liability company.

WHEREAS, pursuant to and in accordance with the terms and conditions of the Merger Agreement, the Merger shall be consummated upon filing of the Merger Certificate (as defined below).

WHEREAS, the Board has determined that it is advisable and in the best interests of the Company for the Company to (a) execute, deliver and enter into the Merger Agreement and any and all such other agreements, instruments and documents required pursuant thereto, any governmental authority or otherwise reasonably necessary in connection with the transactions contemplated thereby, (collectively, the "**Merger Documents**"), (b) consummate the transactions contemplated by each Merger Document, including, without limitation, the Merger pursuant to filing a Certificate of Merger with the California Secretary of State substantially in the form attached hereto as Exhibit B (the "**Merger Certificate**"), and (c) enter into, deliver and perform its obligations under each Merger Document and under any and all other agreements, documents, instruments, certificates, acknowledgments, and statements as may be entered into in connection with the Merger Documents, and any amendments, restatements, modifications, or supplements to any of the foregoing.

WHEREAS, as a result of the Merger, the Board deems it advisable and in the best interests of the Company for the Company to amend and restate the Operating Agreement in its entirety by entering into the Amended and Restated Operating Agreement, in substantially the form attached hereto as Exhibit C (the "**Amended and Restated Operating Agreement**") to be effective as of immediately following the Merger.

NOW, THEREFORE, BE IT RESOLVED, that the Merger be and hereby is authorized and approved in all respects and the Merger Agreement, the Merger Documents, the Merger Certificate and the Amended and Restated Operating Agreement be, and each hereby is, adopted, approved and authorized in all respects and declared advisable and in the best interest of the Company and its member and the execution and delivery of the Merger Documents and the Amended and Restated Operating Agreement and the performance by the Company of its obligations pursuant to each of the Merger Documents, the Merger Certificate and the Amended and Restated Operating Agreement, and each of the transactions contemplated thereby, including, without limitation, the Merger, be, and the same hereby are, approved in all respects and declared advisable and in the best interest of the Company; and each officer of the Company, (each, an "**Authorized Person**"), with full power of delegation, be, and each of them individually hereby is, authorized, empowered and directed to execute and deliver, in the name and on behalf of the Company, the Merger Agreement, the Merger Documents, the Amended and Restated Operating Agreement, and the Merger Certificate with such changes therein and additions and modifications thereto as such Authorized Person executing and delivering the same shall approve, such approval to be evidenced conclusively by the execution and delivery thereof.

General Authority and Ratification

RESOLVED, that the Authorized Persons be, and each of them hereby is, authorized, empowered and directed, in the name of and on behalf of the Company, to prepare or cause to be prepared and to execute, deliver, verify, acknowledge, file or record any documents, instruments, certificates, statements, papers, or any amendments thereto, as may be deemed necessary or advisable in order to effectuate the transactions contemplated by the agreements and actions approved herein, and to take such further steps and do all such further acts or things as shall be necessary or desirable to carry out the transactions contemplated by the foregoing resolutions.

RESOLVED FURTHER, that any and all actions heretofore taken by any Authorized Persons (and any person acting on behalf of or under the direction of such Authorized Person) in connection with any of the things, matters or objectives approved in any or all of the foregoing resolutions, and all transactions, agreements, documents or writings related thereto, are authorized, approved, ratified and confirmed in all respects, and any and all actions hereafter taken or to be taken by any Authorized Persons in furtherance of the objectives set forth in any of the

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preceding resolutions, and all transactions, agreements, documents or writing relating thereto, are authorized, approved, ratified and confirmed in all respects.

RESOLVED FURTHER, that the authority and power given hereunder be deemed retroactive and any and all acts authorized hereunder performed prior to the passage of these resolutions, are hereby ratified, approved and confirmed.

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IN WITNESS WHEREOF, the undersigned have executed this Action by Written Consent of the Board as of the date first written above.

BOARD OF MANAGERS:

David Topper

David Topper

FS

Von Crockett

Von Crockett

[*Signature Page to Action by Written Consent of the Board of Managers of Alta Newport Hospital, LLC*]

Exhibit A

Form of Merger Agreement

(See attached.)

MPT CONFIDENTIAL

AGREEMENT AND PLAN OF MERGER

This Agreement and Plan of Merger (this "Agreement") is made and entered into this 31st day of October, 2023, by and between FRMC Hospital Property, LLC, a California limited liability company ("PropCo"), and Alta Newport Hospital, LLC, a California limited liability company ("Surviving Entity") (each a "Party", and collectively, the "Parties").

RECITALS

A. PropCo was formed in the State of California on December 15, 2022, and on the date hereof, Prospect Intermediate Holdings, LLC, a Delaware limited liability company ("Prospect Intermediate") owns all of the outstanding equity interests in PropCo.

B. On the date hereof, PHP Holdings, LLC, a Delaware limited liability company ("PHPH"), owns all of the outstanding equity interests in Prospect Intermediate.

C. Surviving Entity was formed as a corporation in the State of California on November 7, 2013, was converted to a limited liability company in the State of California on October 25, 2022, and on the date hereof, Alta Hospitals System, LLC, a California limited liability company ("AHS") owns all of the outstanding equity interests in Surviving Entity.

D. PropCo, as landlord, and Surviving Entity, as tenant, entered into that certain Hospital Lease Agreement, dated as of May 15, 2023 (the "Lease"), for certain real property located at Redacted, as more particularly described in the Lease.

E. The Parties hereto desire to enter into this Agreement to consummate the Merger (as defined below), subject to obtaining required regulatory approval, pursuant to which Surviving Entity will merge with and into PropCo, with Surviving Entity surviving and Surviving Entity continuing as a wholly owned subsidiary of Prospect Intermediate.

F. Prospect Intermediate, as the sole member of PropCo, has approved the Merger.

G. AHS, as the sole member of Surviving Entity, has approved the Merger.

H. The board of managers of Surviving Entity has approved the Merger.

I. On the date hereof, Prospect Medical Holdings, Inc., a Delaware corporation ("PMH"), owns a majority of the outstanding equity interests in PHPH, including all of the outstanding Class A-1 Units in PHPH, a portion of which were issued to PMH on account of the value of the Surviving Entity.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing recitals, which are incorporated herein by reference, and the respective representations, warranties, covenants and agreements set forth in this Agreement, and for other good and valuable consideration, the receipt and sufficiency

of which are hereby acknowledged, intending to be legally bound hereby, the Parties hereby agree as follows:

ARTICLE 1
THE MERGER

1.1 The Merger. At the Effective Time (as defined below) and upon the terms and subject to the conditions of this Agreement and in accordance with applicable law, Surviving Entity shall be merged with and into PropCo (the "Merger"). Following the Merger, Surviving Entity shall continue as the surviving entity and the separate legal existence of PropCo shall cease.

1.2 Closing of the Merger. The closing of the Merger (the "Closing") shall take place concurrently herewith by electronic transmission of the signature pages or at such other place, time or date as the parties may mutually agree to in writing (such date being referred to herein as the "Closing Date").

1.3 Effective Time. Subject to the terms and conditions set forth in this Agreement, and receipt of required regulatory approval, on the Closing Date, PropCo and Surviving Entity shall cause to be duly filed with the Secretary of State of the State of California, a Certificate of Merger in accordance with the California Limited Liability Company Act, in substantially the form attached hereto as Exhibit A (the "Certificate of Merger"). The Merger shall be deemed effective upon the filing of the Certificate of Merger (the "Effective Time").

1.4 Effects of the Merger. At the Effective Time, all the properties, rights, privileges, powers and franchises of PropCo shall vest in Surviving Entity and all debts, liabilities and duties of PropCo shall become the debts, liabilities and duties of Surviving Entity; provided, however, AHS shall have the right to receive all revenues, income, receipts and money (less any fees owed by the recipient in connection with the same) received by the Surviving Entity following the Effective Time arising out of or relating to any period prior to the Effective Time from the Department of Health Care Services in connection with the Hospital Quality Assurance Fee Program, and immediately following receipt of such funds, Surviving Entity shall transfer such funds to AHS.

1.5 Organizational Documents. The Articles of Organization of Surviving Entity, as of immediately prior to the Effective Time, shall be the Articles of Organization of Surviving Entity following the Merger. The operating agreement of Surviving Company shall be amended and restated in substantially the form attached hereto as Exhibit B (the "Surviving Company Operating Agreement"), and the Surviving Company Operating Agreement shall be the operating agreement of Surviving Entity following the Merger.

1.6 Lease Termination. Pursuant to Article II of the Lease, the term of the Lease expires on the Closing Date. Accordingly, effective as of the Closing Date, the Parties agree that the Lease is hereby terminated in its entirety, without any further action on the part of any person, and neither PropCo nor Surviving Entity will have any rights or obligations under the Lease.

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ARTICLE 2
CONVERSION OF SECURITIES

2.1 Conversion. At the Effective Time, by virtue of the Merger and without any action on the part of any person 100% of the equity interests in PropCo shall be converted to 100% of the equity interests in Surviving Entity.

2.2 Uncertificated Equity Interests. The outstanding equity interests of Surviving Entity are currently uncertificated and will remain uncertificated following the Closing.

ARTICLE 3
REPRESENTATIONS AND WARRANTIES

3.1 Representations and Warranties of PropCo.

3.1.1 Organization. PropCo is a limited liability company duly organized, validly existing and in good standing under the laws of the State of California, with full company power and authority to conduct its business as it is now conducted.

3.1.2 Authorization. PropCo has the requisite corporate power and authority to enter into this Agreement, to carry out its obligations hereunder and to consummate the transactions contemplated hereby. The execution and delivery by PropCo of this Agreement, the performance by PropCo of its obligations hereunder and the consummation by PropCo of the transactions contemplated hereby have been duly authorized by all requisite corporate action on the part of PropCo. This Agreement, when duly executed and delivered by PropCo, and (assuming due authorization, execution and delivery by the other Parties), constitutes a legal, valid and binding obligation of PropCo enforceable against PropCo in accordance with its terms.

3.2 Representations and Warranties of Surviving Entity.

3.2.1 Organization. Surviving Entity is a limited liability company duly organized, validly existing and in good standing under the laws of the State of California, with full company power and authority to conduct its business as it is now conducted.

3.2.2 Authorization. Surviving Entity has the requisite corporate power and authority to enter into this Agreement, to carry out its obligations hereunder and to consummate the transactions contemplated hereby. The execution and delivery by Surviving Entity of this Agreement, the performance by Surviving Entity of its obligations hereunder and the consummation by Surviving Entity of the transactions contemplated hereby have been duly authorized by all requisite corporate action on the part of Surviving Entity. This Agreement, when duly executed and delivered by Surviving Entity, and (assuming due authorization, execution and delivery by the other Parties), constitutes a legal, valid and binding obligation of Surviving Entity enforceable against Surviving Entity in accordance with its terms.

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ARTICLE 3
MISCELLANEOUS

3.1 Interpretation. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. In this Agreement, unless a contrary intention appears, (i) the words "herein," "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Article, Section or other subdivision, and (ii) reference to any Article or Section means such Article or Section hereof. No provision of this Agreement shall be interpreted or construed against any Party hereto solely because such Party or its legal counsel drafted such provision. Whenever the words "include," "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation." All Schedules and Exhibits referred to herein are intended to be and hereby are specifically made a part of this Agreement.

3.2 Governing Law. This Agreement shall be governed by and interpreted and enforced in accordance with the laws of the State of California as applied to contracts made and fully performed in such state, without giving effect to its conflicts or choice of law principles.

3.3 Binding Effect; No Assignment. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, executors, successors and assigns. This Agreement may not be assigned by any of the parties hereto without the prior written consent of the other parties hereto.

3.4 Amendments; Waivers. This Agreement may not be amended except by an instrument in writing signed on behalf of each Party. The failure or delay of any Party to assert any of its rights under this Agreement or otherwise shall not constitute a waiver of those rights.

3.5 Entire Agreement. This Agreement (including the schedules and the exhibits hereto) constitutes the entire agreement between the Parties with respect to the subject matter hereof and supersedes all prior agreements, understandings and negotiations, both written and oral, between the Parties with respect to the subject matter of this Agreement. No representation, inducement, promise, understanding, condition or warranty not set forth herein has been made or relied upon by any Party. Neither this Agreement nor any provision hereof is intended to confer upon any person other than the Parties any rights or remedies hereunder.

3.6 Severability. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof but shall be interpreted as if it were written so as to be enforceable to the maximum extent permitted by applicable laws, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. To the extent permitted by applicable laws, the parties hereby waive any provision of law which renders any provisions hereof prohibited or unenforceable in any respect.

3.7 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, and each Party may become a party hereto by executing a counterpart hereof. This Agreement and any counterpart so executed shall be

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deemed to be one and the same instrument. A signed copy of this Agreement delivered by facsimile, e-mail or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy of this Agreement.

[Remainder of Page Intentionally Left Blank.]

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IN WITNESS WHEREOF, the undersigned hereto have caused this Agreement to be duly executed effective as of the date first above written.

PROPCO:

FRMC HOSPITAL PROPERTY, LLC

By: _____
Name: Von Crockett
Title: Senior Vice President

SURVIVING ENTITY:

ALTA NEWPORT HOSPITAL, LLC

By: _____
Name: Von Crockett
Title: President

[Signature Page to Agreement and Plan of Merger]

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EXHIBIT A

CERTIFICATE OF MERGER

(See attached.)

EXHIBIT B

SURVIVING COMPANY OPERATING AGREEMENT

(See attached.)

Exhibit B

Form of Certificate of Merger

(See attached.)

MPT CONFIDENTIAL

OBE MERG

State of California
Secretary of State

Certificate of Merger

(California Corporations Code sections
1113(g), 3203(g), 6019.1, 8019.1, 9640, 12540.1, 15911.14, 16915(b) and 17710.14)

Filing Fee: $150.00; Certification Fee (Optional): $5.00

This Space For Filing Use Only

1. NAME OF SURVIVING ENTITY	2. TYPE OF ENTITY	3. CA SECRETARY OF STATE **ENTITY** NUMBER	4. JURISDICTION
Alta Newport Hospital, LLC	LLC	[redacted]	CA

5. NAME OF DISAPPEARING ENTITY	6. TYPE OF ENTITY	7. CA SECRETARY OF STATE **ENTITY** NUMBER	8. JURISDICTION
FRMC Hospital Property, LLC	LLC	[redacted]	CA

9. THE PRINCIPAL TERMS OF THE AGREEMENT OF MERGER WERE APPROVED BY A VOTE OF THE NUMBER OF INTERESTS OR SHARES OF EACH CLASS THAT EQUALED OR EXCEEDED THE VOTE REQUIRED. *(IF A VOTE WAS REQUIRED, SPECIFY THE CLASS AND THE NUMBER OF OUTSTANDING INTERESTS OF EACH CLASS ENTITLED TO VOTE ON THE MERGER AND THE PERCENTAGE VOTE REQUIRED OF EACH CLASS. ATTACH ADDITIONAL PAGES, IF NEEDED.)*

SURVIVING ENTITY			**DISAPPEARING ENTITY**		
CLASS AND NUMBER	**AND**	PERCENTAGE VOTE REQUIRED	CLASS AND NUMBER	**AND**	PERCENTAGE VOTE REQUIRED
Membership Interest		100%	Membership Interest		100%

10. IF EQUITY SECURITIES OF A PARENT PARTY ARE TO BE ISSUED IN THE MERGER, CHECK THE APPLICABLE STATEMENT.

☐ No vote of the shareholders of the parent party was required. ☐ The required vote of the shareholders of the parent party was obtained.

11. IF THE SURVIVING ENTITY IS A DOMESTIC LIMITED LIABLITY COMPANY, LIMITED PARTNERSHIP, OR PARTNERSHIP, PROVIDE THE REQUISITE CHANGES (IF ANY) TO THE INFORMATION SET FORTH IN THE SURVIVING ENTITY'S ARTICLES OF ORGANIZATION, CERTIFICATE OF LIMITED PARTNERSHIP OR STATEMENT OF PARTNERSHIP AUTHORITY RESULTING FROM THE MERGER. ATTACH ADDITIONAL PAGES, IF NECESSARY.

12. IF A DISAPPEARING ENTITY IS A DOMESTIC LIMITED LIABLITY COMPANY, LIMITED PARTNERSHIP, OR PARTNERSHIP, AND THE SURVIVING ENTITY IS NOT A DOMESTIC ENTITY OF THE SAME TYPE, ENTER THE PRINCIPAL ADDRESS OF THE SURVIVING ENTITY.

PRINCIPAL ADDRESS OF SURVIVING ENTITY | CITY AND STATE | ZIP CODE

13. OTHER INFORMATION REQUIRED TO BE STATED IN THE CERTIFICATE OF MERGER BY THE LAWS UNDER WHICH EACH CONSTITUENT OTHER BUSINESS ENTITY IS ORGANIZED. ATTACH ADDITIONAL PAGES, IF NECESSARY.

14. STATUTORY OR OTHER BASIS UNDER WHICH A FOREIGN OTHER BUSINESS ENTITY IS AUTHORIZED TO EFFECT THE MERGER.

15. FUTURE EFFECTIVE DATE, IF ANY

_____ - _____ - _____
(Month) (Day) (Year)

16. ADDITIONAL INFORMATION SET FORTH ON ATTACHED PAGES, IF ANY, IS INCORPORATED HEREIN BY THIS REFERENCE AND MADE PART OF THIS CERTIFICATE.

17. I CERTIFY UNDER PENALTY OF PERJURY UNDER THE LAWS OF THE STATE OF CALIFORNIA THAT THE FOREGOING IS TRUE AND CORRECT OF MY OWN KNOWLEDGE. I DECLARE I AM THE PERSON WHO EXECUTED THIS INSTRUMENT, WHICH EXECUTION IS MY ACT AND DEED.

SIGNATURE OF AUTHORIZED PERSON FOR THE SURVIVING ENTITY DATE	Von Crockett, Manager, SVP of Member TYPE OR PRINT NAME AND TITLE OF AUTHORIZED PERSON
SIGNATURE OF AUTHORIZED PERSON FOR THE SURVIVING ENTITY DATE	David Topper, Manager TYPE OR PRINT NAME AND TITLE OF AUTHORIZED PERSON
SIGNATURE OF AUTHORIZED PERSON FOR THE DISAPPEARING ENTITY DATE	Von Crockett, Senior Vice President of Member TYPE OR PRINT NAME AND TITLE OF AUTHORIZED PERSON
SIGNATURE OF AUTHORIZED PERSON FOR THE DISAPPEARING ENTITY DATE	TYPE OR PRINT NAME AND TITLE OF AUTHORIZED PERSON

For an entity that is a business trust, real estate investment trust or an unincorporated association, set forth the provision of law or other basis for the authority of the person signing: _____

Exhibit C

Form of Amended and Restated Operating Agreement

(See attached.)

MPT CONFIDENTIAL

AMENDED AND RESTATED OPERATING AGREEMENT

OF

ALTA NEWPORT HOSPITAL, LLC

(a California limited liability company)

This Amended and Restated Operating Agreement (this "Agreement") of Alta Newport Hospital, LLC (the "Company") is entered into by the Company and Prospect Intermediate Holdings, LLC, a Delaware limited liability company, as the sole member (the "Member") as of [_], 2023 (the "Effective Date").

WHEREAS, the Company was organized as a California corporation on November 7, 2013, pursuant to, and in accordance with, the California Corporations Code, as amended from time to time (the "CCC"), by an authorized person and by the filing of a Articles of Incorporation the Company (the "Prior Articles");

WHEREAS, on October 25, 2022, the Company converted into a California limited liability company pursuant to, and in accordance with the California Revised Uniform Limited Liability Company Act, as amended from time to time (the "Act") by the filing of Articles of Organization – Conversion (the "Articles") in accordance with the Prior Articles, the CCC and the Act;

WHEREAS, Alta Hospitals System, LLC, a California limited liability company, previously entered into that certain Operating Agreement of the Company dated October 25, 2022 (the "Original Agreement") as the sole member holding 100% of the issued and outstanding membership interests in the Company;

WHEREAS, pursuant to that certain Agreement and Plan of Merger, dated October 31, 2023, by and among the Company, FRMC Hospital Property, LLC, a California limited liability company ("FRMC Propco"), Prospect Medical Holdings, Inc., a Delaware corporation ("PMH"), and PHP Holdings, LLC, a Delaware limited liability company ("PHP Holdings"), the Company merged with and into FRMC Propco, with the Company surviving as a wholly owned subsidiary of the Member; and

WHEREAS, in accordance with Section 3.2(a)(iii) of that certain Amended and Restated Master Restructuring Agreement, dated as of May 23, 2023, as the same may be amended, restated or modified from time to time, and in accordance with Section 1.3(d) of the Third Amended and Restated Limited Liability Company Agreement of PHP Holdings, dated as of May 23, 2023, as the same may be amended, restated, or modified from time to time (the "PHPH LLC Agreement"), the Member desires to amend and restate the Original Agreement to, among other things, add certain protective provisions as set forth below and reflect the change in member of the Company.

NOW, THEREFORE, in consideration of the premises contained herein and each party intending to be legally bound, the parties hereto agree as follows:

ARTICLE I

NAME AND PURPOSES

1.1 Name. The name of the Company is Alta Newport Hospital, LLC.

1.2 Purpose; Operational Restrictions.

(a) The purpose of the Company is to engage in the Lines of Business and any other lawful act or activity that may be conducted by a limited liability company formed under the Act and to engage in any other activities and transactions necessary or incidental to the foregoing. The Company shall possess and may exercise all the powers and privileges granted by the Act or by any other law or by this Agreement, together with any powers incidental thereto, insofar as such powers and privileges are necessary or convenient to the conduct, promotion or attainment of the foregoing objectives and purposes of the Company, including without limitation, the ownership and operation of a general acute care hospital (the "Hospital") and to undertake all activities related thereto. The Hospital shall support, manage and furnish facilities, personnel and services, provide diagnosis, medical, surgical and hospital care, outpatient care and other hospital and medically-related services to sick, injured or disabled persons, and to provide well care programs as appropriate and feasible, without regard to patients' race, color, sex, age, national origin or disability, or in any other manner in violation of applicable law.

(b) Notwithstanding anything contrary herein, for so long as the Phase I Convertible Note remains outstanding or any MPT Member has any Membership Interest in PHP Holdings, from and after the Effective Date, the Company will not take any of the following actions unless approved by each MPT Member (or, as applicable, the holder of the Phase I Convertible Note) in writing (without unreasonable delay and in no case later than thirty (30) days after receiving such approval request), unless such decision requires independent medical judgment, impacts the delivery of health care or is otherwise required to be approved by the Board of Managers, the Local Governing Board, or the Medical Staff under applicable law, in which case the decision shall remain in the sole discretion of the Board of Managers, the Local Governing Board, or the Medical Staff, as so required by such applicable law:

(i) The Company will not, directly or indirectly, own, lease, operate, or manage, for itself or for any other entity (A) any lodging facility, as defined in Section 856(d)(9)(D)(ii) of the Code (a "Lodging Facility"); (B) any health care facility, as defined in Section 856(e)(6)(D)(ii) of the Code (a "Health Care Facility" and together with a Lodging Facility, collectively, a "Facility"); or (C) provide to any Person (under a franchise, license, or otherwise) rights to any brand name under which any Facility is operated;

(ii) In the event that each MPT Member consents to the ownership, leasing, operation, or management of a Facility pursuant to subsection (i) above, such Facility shall be operated and managed by an independent contractor with respect to the MPT Members and their Affiliates (including Medical Properties Trust, Inc. and any other taxable REIT subsidiary) acceptable to Company and the MPT Members in their respective sole discretion, subject to a Management Agreement and applicable law and regulations;

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(iii) The Company shall not enter into or incur any contractual obligation to acquire any Facility or organize and own any interests in any Facility in addition to the PHP Subsidiaries which are owned as of the Effective Date.

(iv) Other than the existing licenses held by the Company as of the Effective Date (which may be renewed in the ordinary course of business), the Company shall not hold a license to operate a Health Care Facility, to provide medical services, dispense pharmaceuticals, or conduct any other health care related activities.

(v) Any primary care medical services provided to patients by physicians who are members of the Company's medical staff, and other licensed medical care providers employed or contracted by, the Company shall be provided under the license authority of the licensed physician or other licensed medical care provider and all participation in the Medicare program under title XVIII of the Social Security Act shall be through such licensed professionals and not through any license held by PMH or the Company other than the existing licenses and provider agreements held by the Company as of the Effective Date (which may be renewed in the ordinary course of business).

(vi) The Company may not lease or sublease real property from any MPT Member or any Affiliate of any MPT Member, including a sublease of any office space or other real property from PMH or any Affiliate of PMH which is a tenant of any MPT Member of any Affiliate of an MPT Member.

1

As used herein, the terms "Affiliate," "Lines of Business," "Management Agreement," "Membership Interest," "MPT Member," "Person," "Phase I Convertible Note," "PHP Subsidiaries," and "REIT" shall have the respective meanings ascribed thereto in the PHPH LLC Agreement.

ARTICLE II

OFFICES

2.1 Principal Business Office. The principal business office of the Company shall be any place within or outside the State of California, or such other location as may hereafter be determined by the Member.

ARTICLE III

MEMBERSHIP AND MEMBERSHIP INTERESTS

3.1 Member. The name of the sole Member of the Company is Prospect Intermediate Holdings, LLC, with an address of [redacted]. No amendment of this Section 3.1 shall be valid or effective unless and until approved by the Member

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as provided in Section 3.2. The Member shall have and be entitled to exercise fully all rights and privileges of members of limited liability companies under the Act.

3.2 Powers Reserved by Member. In addition to those other rights reserved to the Member by this Agreement, the Member shall have the sole and exclusive right to act with respect to the following affairs of the Company:

(a) Amendment of the Articles of Organization and the Operating Agreement of the Company; provided, however, that the Board of Managers and the Local Governing Board may submit proposed amendments to the Member for its approval;

(b) Approval of the merger or consolidation of the Hospital with any other organization or entity; provided, however, that the Board of Managers may submit merger and consolidation proposals to the Member for its approval;

(c) Election to dissolve and wind up the affairs of the Hospital; provided, however, that the Board of Managers may submit a dissolution proposal to the Member for its approval;

(d) Sale, lease, exchange, mortgage, pledge or other disposition of all, or substantially all, the property and assets of the Hospital; provided, however, that the Board of Managers may submit proposals for such dispositions to the Member for its approval;

(e) Approval of annual operating, cash and capital budgets, and modifications thereof;

(f) Approval of strategic plans;

(g) Approval of the incurrence of debt or capital expenditure if: (i) the guarantee of the Member is required, (ii) the principal amount of any loan, bond issue or capital expenditure exceeds Ten Million ($10,000,000.00) Dollars, or (iii) as subject to the any strategic or planning policy of the Member;

(h) Guaranteeing the debts or obligations of any other person, firm, Company, partnership, association or other entity; and

(i) Material additions or deletions of Hospital services.

3.3 Pledge of Membership Interests. Any provision to the contrary contained in this Agreement, the Articles or any agreement to which the Company or the Member is a party or otherwise bound notwithstanding:

(a) the membership interests (for purposes hereof, "membership interests" shall be deemed to be inclusive of "limited liability company interests" under the Act) issued hereunder or covered hereby and all associated rights and powers may be pledged, hypothecated, mortgaged or assigned (collectively, "pledged") to any lender or lenders (or an agent therefor) (each, a "Secured Party") as collateral for the indebtedness, liabilities and obligations of the Company and/or any of its subsidiaries or affiliates to such Secured Party, and any such pledged membership

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interests and all associated rights and powers shall be subject to such Secured Party's rights under any collateral documentation governing or pertaining to such pledge;

(b) the pledge of such membership interests shall not, except as otherwise may result due to an exercise of rights and remedies under such collateral documentation, cause a Member to cease to be a Member or to have the power to exercise any rights or powers of a Member and, except as provided in such collateral documentation, such Secured Party shall not have any liability solely as a result of such pledge;

(c) without limiting the generality of the foregoing, the right of such Secured Party to enforce and exercise its rights and remedies under such collateral documentation and these provisions hereby is acknowledged by the Member and any such action taken in accordance therewith shall be valid and effective for all purposes under this Agreement and the Articles (in each case, regardless of any restrictions or procedures otherwise herein or therein contained) and applicable law (including the Act), and any assignment, sale or other disposition of the membership interests by such Secured Party pursuant to any such collateral documentation in connection with the exercise of any such Secured Party's rights and powers shall be valid and effective for all purposes, including, without limitation, under Sections 17301 and 17303 of the Act, this Agreement and the Articles and other applicable law, to transfer all right, title and interest (and rights and powers) of the applicable Member to such Secured Party, any other lender or other person or entity, including a nominee, an agent or a purchaser at a foreclosure (each an "Assignee") in accordance with such collateral documentation and applicable law (including, without limitation, (i) the right to succeed to the "limited liability company interests," (ii) all rights and powers to (A) participate in the management of the business and affairs of the Company, (B) replace, appoint, direct and substitute any manager of the Company, (C) vote as a "member", (D) amend and restate this Agreement, (E) manage and control the Company, (F) access information and review the Company's books and records, (G) compel dissolution of the Company, (H) share profits and losses, and (I) receive, cause and declare distributions, and to receive allocation of income, gain, loss, deduction, credit or similar items, and (iii) any and all other economic, control and "member status" rights) and such Assignee shall automatically (without further requirements, including under Section 3.2 hereof) be a Member of the Company with all rights and powers of a Member (and, if elected, of a manager) and as a "member" under the Act;

(d) no such assignment, sale or other disposition shall constitute an event of dissolution or withdrawal under Section 11.6 of this Agreement or any other provision hereunder or otherwise (and if at any time the Company would otherwise dissolve, such dissolution shall not occur if such Secured Party designates a successor member for admission to the Company, and such admission shall be consummated and memorialized in any manner designated by such Secured Party in its discretion);

(e) no such Secured Party or any such Assignee shall be liable for the obligations of any member assignor to make contributions; and

(f) the Member approves all of the foregoing and the Member agrees that no further approval, consent, notice or other action shall be required for the exercise of any rights or remedies under such collateral documentation (except as may be expressly provided in such collateral documentation).

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3.4 Certification of Interests. Any provision to the contrary contained in this Agreement notwithstanding, the membership interests issued hereunder or covered hereby shall not (i) be deemed to constitute a "security" or "investment property" governed by Article 8 of the Uniform Commercial Code or (ii) become certificated. Any certificate issued by the Company shall be void. This Section 3.4 shall not be amended or otherwise modified without the prior written consent of the lenders (or any representative thereof) to which all or any portion of the limited liability company interests have been pledged as collateral for so long as such indebtedness is outstanding.

ARTICLE IV

BOARD OF MANAGERS

4.1 Powers. Subject to the provisions of the Act and any limitations requiring approval by the Member, the business and affairs of the Company shall be managed and all corporate powers shall be exercised by or under the direction of the Board of Managers ("Board of Managers"). The Board of Managers may delegate management of the day-to-day operation of the Hospital business to its officers and employees and the Local Governing Board (as defined below), the Hospital administrator ("Administrator"), a management company, another governing board or other person, and/or a Committee of the Board of Managers; provided that the business and affairs of the Company shall be managed and all powers shall be exercised under the ultimate direction of the Board of Managers.

4.2 Number of Managers. The number of managers on the Board of Managers may be fixed or changed from time to time by the Member. If not so fixed, the number shall be two (2). The number of managers shall never be less than one (1) and at such times as there is one (1) member of the Company, the number of directors of the Company may be (1), as determined and fixed by the Member, but shall be two (2) in the absence of such determination.

4.3 Appointment of Managers. Managers shall be appointed by the Member.

4.4 Term of Office. Each manager, including a manager elected to fill a vacancy, shall hold office until the expiration of the term for which he is elected and until a successor has been elected, and qualified.

4.5 Vacancies. A vacancy in the Board of Managers exists whenever any authorized position of manager is not then filled by a duly elected manager, whether caused by death, resignation, removal, change in the authorized number of managers or otherwise. The Member may elect a manager at any time to fill any vacancy.

4.6 Removal. The Member may declare vacant the office of a manager with or without cause.

4.7 Resignation. Any manager may resign effective upon giving written notice to the Company CEO (as defined in Section 6.1 below), the President, the Secretary or the Board of Managers of the Company, unless the notice specifies a later time for the effectiveness of such

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resignation. If the resignation is effective at a future time, a successor may be elected to take office when the resignation becomes effective.

4.8 Fees and Compensation. Managers may be paid for their services in such capacity a sum in such amounts, at such times and upon such conditions as may be determined from time to time by resolution of the Board of Managers and may be reimbursed for their expenses, if any, for attendance at each meeting of the Board. No such payments shall preclude any manager from serving the Company in any other capacity and receiving compensation in any manner therefore.

4.9 Meetings. Meetings of the Board of Managers shall be held at the call of the Company CEO, the President or any manager, but not less than annually, at such place and time as the Board of Managers determines. The general public shall be invited to attend at least one (1) of the meetings of the Board of Managers each year, which shall be held at a time convenient for attendance by the general public. Proof of publication of the advertisement for the public meeting shall be kept with the Hospital's records.

4.10 Notice. Written notice of the time and place of any meeting of the Board of Managers or committee of the Board of Managers, shall be given to each manager personally, by first-class mail, by facsimile or by email not less than two (2) nor more than five (5) days before such meeting.

4.11 Quorum. Unless a greater or lesser number is required by law, a majority of the managers then in office constitutes a quorum for the transaction of business at any meeting of the Board of Managers. If a quorum is not present at any meeting, a majority of the managers present may adjourn the meeting from time to time without further notice.

4.12 Voting. Each manager is entitled to one (1) vote on any matter before the Board of Managers.

4.13 Manner of Acting. Unless otherwise required by law, the act of a majority of the managers present at a meeting at which a quorum is present shall be the act of the Board of Managers. Any action required or permitted to be taken by the Board of Managers under any provision of law, the Articles, or this Agreement may be taken without a meeting by the individual or collective consent, in writing, of all of the managers setting forth the action so taken. Such written consent(s) shall be filed with the proceedings of the Board of Managers and shall have the same force and effect as a unanimous vote of the managers.

4.14 Minutes. Minutes shall be taken at all Board of Manager meetings and meetings of any committee of the Board of Managers, and shall be disseminated on a regular basis to all members of the Board of Managers.

4.15 Role and Function of the Board of Managers. The Board of Managers shall:

(a) Assure the provision of appropriate physical resources and personnel required to meet the needs of the patients and participate in planning to meet the health needs of the patients and health needs of the community.

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(b) Approve short-range and long-range plans for the development of the Hospital.

(c) Take all reasonable steps to conform to all applicable Federal, State, and local laws and regulations.

(d) Provide for the control and use of the physical and financial resources of the Hospital.

(e) Approval of the initial bylaws and/or rules and regulations of the Hospital's Medical Staff.

(f) Review the annual audit of the financial operations of the Hospital.

(g) Ensure that Hospital provides for public disclosure of the persons owning 5.0% or more of the Hospital as well as the officers of the Hospital.

(h) Ensure that efficient and practical arrangements for the provision of extended care and of other long-term health care services are in place either provided in the Hospital or by outside resources through an effective transfer agreement, including home care services.

(i) Oversee preparation of and approve the annual operating plan and budget, and monitor performance on a periodic basis.

(j) Approve the selection of the Hospital CEO and Hospital's Medical Director.

(k) Make determinations whether to add, terminate or substantially change any medical service, program type or level of care offered by the Hospital, after reviewing medical needs assessment concerning the service involved.

(l) Assure that all services furnished on a contract basis at or by the Hospital meet the standards set forth by the Hospital's Medical Staff, Medical Director and Hospital CEO, and that such services are being furnished in compliance with all applicable Federal, State and accreditation agency requirements.

(m) Ensure that personnel policies which adequately provide for sound patient care practices are established and maintained.

(n) Ensure that the Company does not discriminate with respect to employment, staff privileges or the provision of professional services against a licensed clinical psychologist within the scope of his/her licensure, or against a licensed physician and surgeon or podiatrist on the basis of whether the physician and surgeon or podiatrist holds an M.D., D.O. or D.P.M. degree.

4.16 Committees. The Board of Managers may, by resolution adopted by a majority of the authorized number of managers, designate (1) one or more committees, each consisting of two or more directors, and (2) one or more managers as alternate members of any committee, who may

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replace any absent member at any meeting thereof. Any member or alternate member of a committee shall serve at the pleasure of the Board of Managers.

4.17 Powers of Committees. Any committee, to the extent provided in the resolution of the Board of Managers designating such committee, shall have all the authority of the Board of Managers, except with respect to:

(a) The approval of any action for which the Act also requires any action by the Member;

(b) The filling of vacancies on the Board of Managers or in any committee thereof;

(c) The fixing of compensation of the managers for serving on the Board of Managers or on any committee thereof;

(d) The amendment or repeal of this Agreement or the adoption of a new operating agreement;

(e) The amendment or repeal of any resolution of the Member or the Board of Managers which by its express terms is not so amendable or repeal able;

(f) A distribution to the members of the Company, except at a rate or in a periodic amount or within a price range determined by the Board of Managers; or

(g) The designation of other committees of the Board of Managers or the appointment of members or alternate members thereof.

ARTICLE V

LOCAL GOVERNING BOARD

5.1 Appointment. The Board of Managers shall initially appoint a local governing board for the Hospital (the "Local Governing Board"). If the Hospital has two or more "campuses," but only one license, the Hospital shall have only one Local Governing Board. The Local Governing Board shall be composed of no more than eleven (11) members, including the CEO of the Company, the Hospital CEO as a voting member, the Hospital's Chief Nursing Officer as a nonvoting attendee, the Chief of the Medical Staff, up to two (2) representatives of the communities served by the Hospital, up to four (4) other representatives of the Company, and up to two (2) other physicians on the Medical Staff.

5.2 Term. The current CEO of the Company always will serve as a regular member of the Local Governing Board, and the current Hospital CEO always will serve as a voting member of the Local Governing Board. Other Company representatives will serve at the discretion of the CEO. The Medical Staff and community members of the Hospital Governing Board will serve terms of two (2) years. Following the initial appointment of the Local Governing Board, all appointments to the Local Governing Board to fill vacancies caused for any reason including expiration of a director's term, death, disability, resignation, or removal of a member, shall be

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filled by the Company's CEO. Any member appointed to fill a vacancy shall serve until the expiration of the term of the member whose death, disability, resignation, or removal caused the vacancy. Notwithstanding any other provision of this Agreement, the Board of Managers may remove any member of a hospital's Local Governing Board, other than the President (if the President is a member), the CEO, and the person in the position of Hospital CEO, with or without cause; provided that upon removal of the President, the CEO or the Hospital CEO pursuant to this Agreement, such officer shall cease to be a member of the Local Governing Board.

5.3 Role and Functions of the Local Governing Board. The Local Governing Board shall not have the authority of the Board of Managers, but shall be subject in all respects to the direction of the Board of Managers. Subject to the foregoing, the Local Governing Board's responsibilities shall include, but not be limited to, the delegation of authority with respect to certain Hospital matters including:

(a) Overseeing the preparation of the annual operating plan and budget (including capital expenditures) and monitoring performance on a periodic basis;

(b) Approving the selection of the Hospital's Chief Executive Officer and the Hospital's Medical Director;

(c) Making determinations whether to add, terminate or substantially change any material service, program, type or level of care offered by the Hospital, after reviewing a medical needs assessment concerning the service involved;

(d) Providing for the organization of the physicians and other practitioners granted clinical privileges at hospital into a Medical Staff and Allied Health Professional Staff, respectively, pursuant to Medical Staff Bylaws approved by the Medical and the Local Governing Board;

(e) Approving, modifying or rejecting the Medical Staff's recommendations concerning Medical and Professional Staff appointments and requests for clinical privileges, and subject to the bylaws and rules and regulations of the Medical Staff;

(f) Ensuring through the Medical Staff that appropriate professional care is provided to hospital patients, including but not limited to: acting on reports of medical care evaluation, utilization management, quality improvement, and all other matters relating to the quality of care rendered in the hospital and following discharge;

(g) Directing all reasonable and necessary steps be taken by the Medical Staff and the Hospital CEO for meeting accreditation requirements of any applicable accrediting body, and complying with the licensing requirements of the State of California, and federal and state requirements for certification and payment under the Medicare and Medicaid programs;

(h) Assuring that all services furnished on a contract basis at or by the Hospital meet the standards set forth by the Hospital's Medical Staff, Medical Director and Hospital CEO, and that such services are being furnished in compliance with all applicable federal, state and accreditation agency requirements.

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(i) Reporting to the Board of Managers regarding performance and achievement by the Hospital of Hospital and system operational plans and goals;

(j) Reporting to the Board of Managers regarding performance and achievement by the Hospital of Hospital and system strategic plans and goals;

(k) Reporting to the Board of Managers regarding performance and achievement by the Hospital of hospital and system clinical and service quality improvement plans and goals;

(l) Reporting to the Board of Managers regarding performance and achievement by the Hospital of operating and capital budgets;

(m) Advising, directing and supporting the mission and community relations activities of the Hospital;

(n) Appointing an Administrator to act on its behalf in the overall management of the Company, whose qualifications, authority and duties shall be defined in a written statement adopted by the Local Governing Body, and provide the State Department of Public Health (and any other applicable State agencies) with notice, in writing, of any change of the Administrator.

(o) Such other duties and responsibilities as may be delegated to the Local Governing Board by the Board of Managers.

5.4 Resignation. Any member of the Local Governing Board may resign at any time by giving written notice to the Hospital CEO. Such resignation takes effect on the date of receipt or at any other time specified in it.

5.5 Insurance. The Company shall cause all members of the Local Governing Board to be included as insured persons under the appropriate general and professional liability policies and directors' and officers' policies held or provided by the Company.

ARTICLE VI

OFFICERS

6.1 Officers. The Company shall have as officers, a President, a Chief Executive Officer of the Company ("Company CEO"), a Secretary and a Chief Financial Officer ("CFO"), The Company also may, at the discretion of the Board of Managers, have a Chair of the Board of Managers, one or more vice presidents, one or more assistant secretaries, one or more assistant treasurers and such other officers as may be appointed in accordance with the provisions of Section 6.3. One person may hold two or more offices.

6.2 Appointment of Officers. The officers of the Company shall be appointed by the Board of Managers.

6.3 Removal and Resignation. Subject to the rights, if any, of an officer under any contract of employment, any officer may be removed, either with or without cause, by the Member.

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Subject to the rights, if any, of the Company under any contract of employment, any officer may resign at any time effective upon giving written notice to the Board of Managers.

6.4 Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in this Agreement for regular appointments to such office.

6.5 Company Chief Executive Officer. The Company CEO shall exercise and perform such powers and duties as may be from time to time assigned to the Company CEO by resolution of the Board of Managers or prescribed by this Agreement. The Company CEO shall be the chief executive officer of the Company, with all duties commonly incident to that office, and shall have authority to execute, in the name of the Company, bonds, contracts, deeds, leases and other written instruments to be executed by the Company.

6.6 President. The President shall be the general manager of the Company and shall have general supervision, direction and control of the business and affairs of the Company. The President shall have the general powers and duties of management usually vested in the office of president of a Company, and shall have such other powers and duties as may be prescribed from time to time as determined by the Board of Managers.

6.7 Hospital Chief Executive Officer. The Board of Managers shall select, employ, and monitor the performance of a competent Chief Executive Officer of the Hospital ("Hospital CEO") who is qualified by education and experience, and who shall be responsible for the management of the Hospital. The Board of Managers shall conduct periodic formal reviews of the Hospital CEO's performance. The Hospital CEO shall (i) be responsible for the day-to-day administration and operations of the Hospital; (ii) facilitate contracting opportunities for the Hospital; (iii) work in conjunction with the other officers, the Local Governing Board, and other committees to set long term goals for the Hospital and to foster the growth and success of the Hospital; (iv) attend and participate in meetings of committees as designated by the Board of Managers, its committees, and Local Governing Board and assist such committees as directed by the members of such committee; (v) participate in the Hospital's planning and budgeting processes; (vi) report to the Member on a periodic basis concerning the Hospital's conduct of its business and respond to all reasonable requests for information from the Board of Managers and/or its committees; and (vii) perform all duties incident to the position of Hospital CEO, and such other duties as from time to time may be requested of the Board of Managers or by the Local Governing Board.

The Hospital CEO shall have authority to execute certain contracts, agreements and other instruments on behalf of the Hospital in accordance with the policies and procedures developed by the Board of Managers from time to time.

6.8 Vice-President. In the absence or disability of the President, or the Company CEO, the vice-presidents designated by the Board of Managers, shall perform all the duties of the President, and when so acting shall have all the powers of, and be subject to all the restrictions upon, the President. The vice-presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the Board of Managers or as the President may from time to time delegate.

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6.9 Secretary. The Secretary shall keep or cause to be kept the minute book and the seal, if any, of the Company. The Secretary, an assistant secretary, or, if they are absent or unable to act, any other officer shall give, or cause to be given, notice of all meetings of the Board of Managers required by this Agreement or by law to be given, and shall have such other powers and perform such other duties as may be prescribed from time to time by the Board of Managers or any committee of the Board of Managers.

6.10 Chief Financial Officer. The Chief Financial Officer shall keep, or cause to be kept, the books and records of account of the Company. The Chief Financial Officer shall deposit all monies and other valuables in the name and to the credit of the Company with such depositories as may be designated from time to time by resolution of the Board of Managers. He or she shall disburse the funds of the Company as may be ordered by the Board of Managers, shall render to the President and the Board, whenever they, request it, an account of all of his or her transactions as Chief Financial Officer and of the financial condition of the Company, and shall have such other powers and perform such other duties as may be prescribed from time to time by the Board of Managers or as the President may from time to time delegate.

ARTICLE VII

MEDICAL STAFF

7.1 General. The Board of Managers shall appoint an organized medical staff (the "Medical Staff") for the Hospital to operate in accordance with this Agreement and the bylaws of the Medical Staff ("Medical Staff Bylaws"). The membership of the Medical Staff shall be comprised of all practitioners and others who are permitted membership in accordance with the Medical Staff Bylaws applicable to the hospital. Membership in the Medical Staff shall be a prerequisite to the exercise of clinical privileges in the Hospital, except as otherwise specifically provided in the Medical Staff Bylaws. The Hospital's Local Governing Board shall be the direct representative of the Board of Managers in all matters relating to the Medical Staff.

7.2 Medical Staff Bylaws, Rule and Regulations. The Local Governing Board shall cause to be prepared by the Medical Staff, and shall approve Medical Staff Bylaws and Rules and Regulations for the Hospital, which shall be effective when approved by the Local Governing Board and the Medical Staff. These Bylaws and Rules and Regulations shall govern the discharge of the functions and responsibilities assigned to the Medical Staff by the Board of Managers, and such Bylaws and Rules and Regulations shall be consistent with the accreditation requirements of DNV or other applicable accrediting body, applicable law, applicable Company policy, and the Articles and this Agreement. The Bylaws and Rules and Regulations shall state the purposes, functions and organization of the Medical Staff, including the selection of Medical Staff department or service chairs and appropriate officers, and shall set forth the policies by which the Medical Staff exercises and accounts for its functions and responsibilities.

7.3 Medical Staff Membership and Clinical Privileges.

(a) The Board of Managers, through the Local Governing Board, shall delegate to the Medical Staff of the Hospital the responsibility to investigate and evaluate all matters relating to Medical Staff membership status, clinical privileges and corrective action with respect

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to such hospital, with the oversight of the Local Governing Board as set forth in this Agreement, and shall require that the Medical Staff make recommendations to the Local Governing Board thereon. Final action on all such matters shall be taken by the Local Governing Board, after considering the Medical Staff recommendations forwarded pursuant to Section 7.3(b) below, and any further recommendations by the Local Governing Board.

(b) The Medical Staff Bylaws shall contain provisions for the Medical Staff to adopt and forward to the Local Governing Board specific written recommendations on all matters of Medical Staff membership status, clinical privileges and corrective action, and to document its recommendations in a manner that will allow the Local Governing Board to take informed action.

(c) No aspect of membership status nor specific clinical privileges shall be unlawfully limited or denied to a practitioner on the basis of sex, race, age, handicap, creed, color or national origin, or on the basis of any other criterion unrelated to good patient care at the hospital, or to professional ability, conduct and judgment, or to the needs of the Company or the community.

(d) Membership on the Medical Staff shall be restricted to practitioners, including physicians, dentists, podiatrists, and clinical psychologists, competent in their respective fields, worthy in character and in professional ethics.

7.4 Health Professional Affiliates. The Board of Managers shall delegate to the Medical Staff and the Local Governing Board the responsibility to investigate and evaluate each application by a health professional affiliate to perform specified services, such affiliate's Medical Staff department or service affiliation, and any modification in the services such affiliate may perform, at such Medical Staff s licensed hospital, and shall require that the Medical Staff make recommendations to the Local Hospital Board thereon. All such health professional affiliates may only exercise their clinical privileges within the scope of their licensure and certification. Final action on all matters relating to the performance of specified patient care services in the hospital by such affiliates shall be taken by the Local Governing Board after considering the Medical Staff recommendation.

7.5 Quality of Professional Services.

(a) The Local Governing Board shall require, after considering the recommendations of the Medical Staff, other health care professionals providing patient care services, the Company and Hospital administrative departments involved in quality improvement activities, specific review and evaluation activities to assess, preserve and improve the overall quality and efficiency of patient care in each licensed hospital operated by the Company. The Medical Staff and the departments of each licensed hospital will implement and report back to the Board of Managers on these activities through the Chief of the Medical Staff.

(b) The Medical Staff and individual health care professionals providing patient care services shall be accountable to the Local Governing Board, and ultimately to the Company, for conducting activities that contribute to the preservation and improvement of the quality and efficiency of patient care provided in the hospital, including, but not limited to:

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(i) The delineation of clinical privileges for members of the Medical Staff commensurate with individual credentials and demonstrated ability, judgment and integrity, and the assignment of patient care responsibilities to other health care professionals consistent with individual qualification and demonstrated ability.

(ii) The provision of continuing professional education, shaped primarily by the needs identified through the review and evaluation activities.

(iii) The prudent use of the Hospital's resources through utilization review measures.

(iv) The monitoring of patient care practice through defined functions of the Medical Staff, the other professional services and the Hospital's Administrator, including establishing and maintaining appropriate quality improvement mechanisms.

(v) The timely preparation and maintenance of a complete and accurate medical record for each patient.

(vi) Periodic meetings of the Medical Staff at regular intervals, as required by the Medical Staff Bylaws, to review and analyze its clinical experience on the basis of applicable medical records.

(vii) Such other measures as the Board of Managers may, after receiving and considering the advice of the Local Governing Board, Medical Staff and Administrator, deem necessary for the preservation and improvement of the quality and efficiency of patient care.

7.6 Rescission of Authority. The Board of Managers shall have the right to rescind at any time the delegation of any authority or procedures delegated to the Medical Staff by the Medical Staff Bylaws or otherwise granted by or pursuant to this Agreement.

ARTICLE VIII

RECORDS AND REPORTS

8.1 Minute Book. The Company shall keep or cause to be kept in written form at its principal executive office or such other place as the Board of Managers may order, a minute book which shall contain a record of all actions of the Board of Managers or committees of the Board of Managers, including the time, date and place of each meeting; whether a meeting is regular or special and, if special, how called; the manner of giving notice of each meeting and a copy thereof; the names of those present at each meeting of the Board of Managers or committees thereof; the proceedings of all meetings; any written waivers of notice, consents to the holding of a meeting or approvals of the minutes thereof; and written consents for action without a meeting.

8.2 Books and Records of Account. The Company shall keep or cause to be kept at its principal executive office or such other place as the Board of Managers may order, adequate and correct books and records of account.

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ARTICLE IX

INDEMNIFICATION

9.1 Mandatory Indemnification. The Company shall, to the extent and in the manner permitted by the Act, indemnify each of its directors and officers against expenses, judgments, fines, settlements, and other amounts actually and reasonably incurred in connection with any proceeding, arising by reason of the fact that such person is or was an agent of the Company. For purposes of this Article IX, a "director" or "officer" of the Company includes any person (i) who is or was a director or officer of the Company or a member of the Board of Managers or Local Governing Board, (ii) who is or was serving at the request of the Company as a director or officer of another Company, partnership, joint venture, trust or other enterprise, or (iii) who was a director or officer of the Company which was a predecessor Company of the Company or of another enterprise at the request of such predecessor Company.

9.2 Payment of Expenses in Advance. Expenses incurred in defending any civil or criminal action or proceeding for which indemnification is permitted pursuant to Section 1 may be paid by the Company in advance of the final disposition of such action or proceeding upon receipt of an undertaking by or on behalf of the indemnified party to repay such amount if it shall ultimately be determined that the indemnified party is not entitled to be indemnified as authorized in this Article IX.

9.3 Indemnity Not Exclusive. The indemnification provided by this Article IX shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any bylaw, agreement, vote of shareholders or disinterested directors or otherwise, both as to action in an official capacity and as to action in another capacity while holding such office, to the extent that such additional rights to indemnification are authorized in the Articles.

9.4 Insurance Indemnification. The Company shall have the power to purchase and maintain insurance on behalf of any person who is or was an agent of the Company against any liability asserted against or incurred by such person in such capacity or arising out of such person's status as such, whether or not the Company would have the power to indemnify him against such liability under the provisions of this Article IX.

9.5 Conflicts. No indemnification or advance shall be made under this Article IX, except where such indemnification or advance is mandated by law or the order, judgment or decree of any court of competent jurisdiction, in any circumstance where it appears:

(a) that it would be inconsistent with a provision of the Articles, this Agreement, a resolution of the Member or an agreement in effect at the time of the accrual of the alleged cause of the action asserted in the proceeding in which the expenses were incurred or other amounts were paid, which prohibits or otherwise limits indemnification; or

(b) that it would be inconsistent with any condition expressly imposed by a court in approving a settlement.

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ARTICLE X

FINANCIAL MATTERS

10.1 Fiscal Year. The fiscal year of the Company shall end on September 30.

10.2 Bank Accounts. The Member, or any officer designated by the Member, may from time to time open bank accounts in the name of the Company, and the Member or officer shall be the only signatory thereon, unless the Member determines otherwise.

10.3 Capital Contributions. The Member has contributed to the Company the property listed on the books and records of the Company. The Member is not required to make any additional capital contribution to the Company. To the extent that the Member makes an additional capital contribution to the Company, the Board of Managers shall revise the books and records of the Company.

10.4 Allocation of Profits and Losses. The Company's profits and losses shall be allocated to the Member.

10.5 Distributions. Distributions shall be made to the Member at the times and in the aggregate amounts determined by the Board of Managers in accordance with the Act and applicable law.

10.6 Tax Status. It is intended that the Company shall be a disregarded entity for federal, state, and local income tax purposes.

ARTICLE XI

MISCELLANEOUS

11.1 Execution of Contracts. The Member, except as otherwise provided in this Agreement, may authorize any officer or officers, agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the Company, and such authority may be general or confined to specific instances; and, unless so authorized or ratified by the Board of Managers, no officer, employee or other agent shall have any power or authority to bind the Company by any contract or engagement or to pledge its credit or to render it liable for any purpose or to any amount.

11.2 Confidentiality. The Company and its personnel are in possession of and have access to a broad variety of confidential, sensitive, and proprietary information, the inappropriate release of which could be injurious to individuals, the Company's business partners, and the Company. Every Manager and Officer of the Company, every member of the Local Governing Board, every employee, and every agent of the Company has an obligation to protect and safeguard confidential, sensitive, and proprietary information in a manner designed to prevent the unauthorized disclosure of such information.

(a) *Patient Information*. All personnel have an obligation to maintain the strict confidentiality of patient information in accordance with all applicable laws and regulations. All

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personnel shall refrain from revealing or disseminating any personal or confidential information concerning patients except as allowed by law, e.g., for claims processing by insurers or other third-party payers, or for purposes of patient care by the attending physician or other treating or consulting physicians. If questions arise regarding an obligation to maintain the confidentiality of information or the appropriateness of releasing information, employees should seek guidance from the Hospital CEO or the Hospital's Compliance Director.

(b) *Proprietary Information*. Information, ideas and intellectual property assets of the Company are important to organizational success. Information pertaining to the Company's competitive position or business strategies, payment and reimbursement information, and information relating to negotiations with employees or third parties should be protected and shared only with employees having a need to know such information in order to perform their job responsibilities. All personnel should exercise care to ensure that intellectual property rights, including but not limited to rights in patents, trademarks, copyrights, and software, are carefully maintained and managed to preserve and protect their value.

(c) *Personnel Information*. Salary, benefit, and other personal information relating to personnel of the Company shall be treated as strictly confidential. Personnel files, payroll information, disciplinary matters, and similar information shall be maintained in a manner designed to ensure strict confidentiality and in accordance with applicable laws. All personnel should exercise due care to prevent the release or sharing of information beyond those persons who may need such information to fulfill their job functions. If any questions arise concerning the release of employment information, employees should obtain guidance from the Hospital CEO or the Compliance Director.

11.3 Conflicts of Interest. All members of the Board of Managers, officers, members of the Local Governing Board, and employees ("covered persons") are expected to regulate their activities so as to avoid actual impropriety and/or the appearance of impropriety that might arise from the influence of those activities on business decisions of the Company, or from disclosure or private use of business affairs or plans of the Company. All covered persons shall execute a conflict of interest statement.

(a) *Self-Dealing Prohibition*. Members of the Board of Managers and the Local Governing Board shall not engage in the following forms of self-dealing:

(i) The sale, exchange or leasing of property or services between the Hospital and a member of the Board of Managers or the Local Governing Board, his or her employer or an organization substantially controlled by him or her on a basis less favorable to the hospital than that on which such property or service is made available to the general public.

(ii) Furnishing of goods, services, or facilities by the Hospital to a member of the Board of Managers or the Local Governing Board, unless such furnishing is made on a basis not more favorable than that on which such goods, services, or facilities are made available to the general public or employees of the Hospital.

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(iii) Any transfer to or use by or for the benefit of a member of the Board of Managers or the Local Governing Board of the income or assets of the Hospital, except by purchase for fair market value.

(b) *Outside Financial Interests*. While not all inclusive, the following will serve as a guide to the types of activities by a covered person, or household member of such person, which might cause conflicts of interest:

(i) Ownership in or employment by any outside concern that does business with the Company. This does not apply to stock or other investments in a publicly held Company, provided the value of the stock or other investments does not exceed 5% of the Company's stock. The Company may, following a review of the relevant facts, permit ownership interests that exceed these amounts if management concludes such ownership interests will not adversely impact the Company's business interests or the judgment of the covered person.

(ii) Conduct of any business not on behalf of the Company, with any vendor, supplier, contractor, or agency, or any of their officers or employees.

(iii) Representation of the Company by a covered person in any transaction in which he or she or a household member has a substantial personal interest.

(iv) Disclosure or use of confidential, special, or inside information of or about the Company, particularly for personal profit or advantage of the covered person or a household member.

(v) Competition with the Company by a covered person, directly or indirectly, in the purchase, sale or ownership of property or property rights or interests, or business investment opportunities.

(c) *Services for Competitors and/or Vendors*. No covered person shall perform work or render services for any competitor of the Company or for any organization with which the Company does business or which seeks to do business with the Company outside of the normal course of his/her employment without the approval of the President. A covered person shall not become a director, officer, or consultant of such an organization, nor permit his/her name to be used in any fashion that would tend to indicate a business connection with such organization.

(d) *Participation on Boards of Directors or other Governing Boards*.

(i) A covered person must obtain approval from the Company CEO prior to serving as a member of the board of directors or other governing board of any organization whose interests may conflict with those of the Company.

(ii) A covered person who is asked or seeks to serve on the board of directors or other governing board of any organization whose interest would not impact the Company (for example, a civic, charitable, or fraternal organization) will not be required to obtain such approval.

MPT CONFIDENTIAL MPT_PROSPECT_00031415

(i) All fees/compensation (other than reimbursement for expenses arising from board participation) that are received for board services provided during hours in which the covered person normally would be working for the Company shall be paid directly to the Company.

(iv) A covered person must disclose all director activities in the annual Conflict of Interest disclosure statement.

(ii) The Company retains the right to prohibit membership on any board of directors or other governing board where such membership might conflict with best interests of the Company.

(iii) Questions regarding whether or not board participation might present a conflict of interest should be discussed with a covered person's supervisor, or in the case of directors, officers, or members of the Local Governing Board, with the Company CEO or the President.

11.4 Auxiliary Organization. Any auxiliary organizations that may be established by the Board of Managers shall be responsible and accountable to the Board of Managers for the discharge of those duties and responsibilities delegated to it by the Board of Managers from time to time. In establishing an auxiliary organization, the Board of Managers shall initiate or approve bylaws, delineate the purpose and function of the organization and shall initiate or approve any and all subsequent amendments thereto. Auxiliary organizations shall report to the Board in a manner established by the Board from time to time. Nothing in this Article shall require the Board of Managers to establish any auxiliary organizations and the Board of Managers shall retain the power to change, restructure, reorganize or dissolve any such organization if established. All service functions performed by such auxiliary organizations shall be subject to the overall supervision and direction of the Company CEO.

11.5 Reliance by Third Parties. Persons dealing with the Company are entitled to rely conclusively upon the power and authority of the Board of Managers, and any officers designated by the Board of Managers.

11.6 Dissolution.

(a) The Company shall dissolve, and its affairs shall be wound up, upon the first to occur of the following:

(i) The written direction of the Member; or

(ii) The entry of an order of judicial dissolution of the Company under the Act.

(b) The dissolution, resignation or bankruptcy of the Member or the occurrence of any other event that terminates the continued membership of the Member shall not cause dissolution of the Company.

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(c) Upon dissolution, the Company shall cease carrying on any and all business other than the winding up of the Company business, but the Company is not terminated and shall continue until the winding up of the affairs of the Company is completed and a certificate of dissolution has been filed pursuant to the Act.

(d) Upon the winding up of the Company, the Company's property shall be distributed first to creditors, including the Member if the Member is a creditor, to the extent permitted by law, in satisfaction of the Company's liabilities, and then to the Member. Distributions shall be in cash or property or partly in both, as determined by the Member.

11.7 Advisory Law. This Agreement shall be governed by and interpreted in accordance with the laws of the State of California.

11.8 Amendment. This Agreement may be amended by a writing executed by the Company and the Member.

11.9 Entire Agreement. The terms and conditions contained herein constitute the entire agreement between the Member and the Company concerning the subject matter hereof, and shall supersede all previous communications, either oral or written, among the parties hereto.

11.10 Third Party Beneficiaries. Notwithstanding anything to the contrary contained herein, Secured Parties will be considered third-party beneficiaries of Sections 3.3 and 3.4 of this Agreement.

11.11 Protective Provisions. Neither the Company nor any of its respective Affiliates shall take and nor shall cause or allow any of their respective Affiliates to take any action or other activity (other than any non-binding and reasonable activity that is exploratory, investigatory, or similar in nature) regarding any "Major Decision" set forth in the PHPH LLC Agreement without the prior written consent of (i) the Requisite Series A-1 Holders (without unreasonable delay and in no case later than thirty (30) days after receiving such approval request, subject to the applicable discretionary standards set forth in the specific subsection in the definition of Major Decision relevant to the Major Decision), unless such decision requires independent medical judgment, impacts the delivery of health care or is otherwise required to be approved by the Board of Managers, the Local Governing Board, or the Medical Staff under applicable law, in which case the decision shall remain in the sole discretion of the Board of Managers, the Local Governing Board, or the Medical Staff, as so required by such applicable law, and (ii) the Independent Manager (solely with respect to clause (f) of such definition)). Any action taken by the Company or any of its respective Affiliates with respect to any Major Decision, without the prior written consent of the Requisite Series A-1 Holders, shall be an ultra vires act and shall be null and void ab initio, unless such decision requires independent medical judgment, impacts the delivery of health care or is otherwise required to be approved by the Board of Managers, the Local Governing Board, or the Medical Staff under applicable law, in which case the decision shall remain in the sole discretion of the Board of Managers, the Local Governing Board, or the Medical Staff, as so required by such applicable law. For the purposes hereof, the holder of the Phase I Convertible Note shall be considered a Holder at all times with respect to all of the Series A-1 Preferred Units issuable upon full conversion of the Phase I Convertible Note.

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As used herein, the terms "Affiliates," "Holder," "Independent Manager", "Major Decision", "Phase I Convertible Note", "Requisite Series A-1 Holders", and "Series A-1 Preferred Units" shall have the respective meanings ascribed thereto in the PHPH LLC Agreement.

[*Signature page follows.*]

MPT CONFIDENTIAL MPT_PROSPECT_00031418

IN WITNESS WHEREOF, the undersigned, intending to be legally bound hereby, have duly executed this Amended and Restated Operating Agreement as of the Effective Date.

COMPANY:

Alta Newport Hospital, LLC

By: _____
Name: Von Crockett
Title: President

MEMBER:

Prospect Intermediate Holdings, LLC

By: _____
Name: Von Crockett
Title: Senior Vice President

MPT CONFIDENTIAL

PROSPECT MEDICAL

Consolidated Financial Statements and Supplementary Information

As of and for the Years Ended
September 30, 2020 and 2019

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.

BDO

Prospect Medical Holdings, Inc.

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CONFIDENTIAL BUSINESS INFORMATION

Independent Auditor's Report

Board of Directors
Prospect Medical Holdings, Inc.
Los Angeles, California

We have audited the accompanying consolidated financial statements of Prospect Medical Holdings, Inc. (the "Company"), which comprise the consolidated balance sheets as of September 30, 2020 and 2019, and the related consolidated statements of operations, statements of comprehensive loss, statements of stockholder's deficit, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Prospect Medical Holdings, Inc. and its subsidiaries as of September 30, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Change in Accounting Policy

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for goodwill. The Company elected to adopt the private company alternative effective October 1, 2019 with prospective application. Our opinion is not modified with respect to this matter.

Emphasis of Matter Regarding Covid-19 and the CARES Act

As more fully described in Note 1 to the consolidated financial statements, the Company has been negatively impacted by the outbreak of a novel coronavirus ("COVID-19"), which was declared a global pandemic by the World Health Organization in March 2020. Furthermore, on March 27, 2020, the President signed into law the Coronavirus Aid, Relief, and Economic Security ("CARES Act") to provide certain relief funds as a result of the COVID-19 outbreak. The application for these relief funds requires the Company to among other things, meet certain conditions as defined, in order for them to be used to support the ongoing operations of the Company. The COVID-19 pandemic and the recognition of the relief funding under CARES Act has impacted the financial position, results of operations, and cash flows of the Company. Our opinion is not modified with respect to this matter.

BDO USA, LLP

December 18, 2020

CONFIDENTIAL BUSINESS INFORMATION PMH00022387

Prospect Medical Holdings, Inc.

Consolidated Balance Sheets
(in thousands, except par value and share amounts)

September 30,	**2020**	2019
Assets		
Current assets		
Cash and cash equivalents	**$ 386,824**	$ 52,091
Cash held in escrow	**70**	70,000
Restricted cash	**1,828**	1,485
Restricted investments	**31,354**	29,540
Patient accounts receivable, net of allowance for doubtful accounts of $198,052 and $165,719 at September 30, 2020 and 2019, respectively	**288,764**	306,587
Due from government payers	**20,390**	20,270
Other receivables, prepaid expenses and other current assets	**108,343**	118,000
Income taxes receivable	**4,154**	-
Inventories	**36,742**	34,229
Hospital fee program receivable	**189,941**	167,530
Current assets held for sale	**18,015**	37,277
Total current assets	**1,086,425**	837,009
Property, improvements and equipment, net	**544,256**	538,471
Deferred income taxes, net	**-**	823
Goodwill, net	**274,487**	302,377
Intangible assets, net	**20,054**	25,545
Other assets	**107,731**	118,022
Long term assets held for sale	**9,436**	44,120
Total assets	**$ 2,042,389**	$ 1,866,367

See accompanying notes to the consolidated financial statements.

CONFIDENTIAL BUSINESS INFORMATION

Prospect Medical Holdings, Inc.

Consolidated Balance Sheets
(in thousands, except par value and share amounts)

September 30,	2020	2019
Liabilities and Stockholder's Deficit		
Current liabilities:		
Accrued medical claims and other healthcare costs payable	$ 76,457	$ 72,508
Accounts payable and other accrued liabilities	383,040	264,252
Accrued salaries, wages and benefits	225,125	179,997
Hospital fee program liability	70,660	24,362
Due to government payers, current portion	32,749	28,606
Refund liability, current portion	62,115	-
Income taxes payable	-	7,395
Revolving line of credit, net	-	70,000
Capital leases, current portion	6,285	10,238
Long-term debt, current portion	19,138	18,983
MPT liabilities, current portion	47,484	43,145
Other current liabilities	15,592	25,249
Current liabilities held for sale	17,748	33,939
Total current liabilities	956,393	778,674
Long-term debt, net of current portion	190,201	187,367
Malpractice reserves	103,349	133,300
Refund liability, net of current portion	213,951	-
Capital leases, net of current portion	32,670	30,372
Asset retirement obligations	6,970	5,602
Other long-term liabilities	70,868	48,706
Pension obligations	231,941	302,372
MPT liabilities, net of current portion	1,290,556	1,338,040
Long term liabilities held for sale	5,105	11,994
Total liabilities	3,102,004	2,836,427
Commitments, contingencies and subsequent events		
Stockholder's deficit:		
Common stock, $0.01 par value; 100 shares authorized, issued and outstanding	1	1
Additional paid-in capital	64,961	64,961
Accumulated other comprehensive loss	(15,614)	(23,236)
Accumulated deficit	(1,116,992)	(1,019,073)
Total stockholder's deficit attributable to Prospect Medical Holdings, Inc.	(1,067,644)	(977,347)
Non-controlling interests	8,029	7,287
Total stockholder's deficit	(1,059,615)	(970,060)
Total liabilities and stockholder's deficit	$ 2,042,389	$ 1,866,367

See accompanying notes to the consolidated financial statements.

CONFIDENTIAL BUSINESS INFORMATION

Prospect Medical Holdings, Inc.

Consolidated Statements of Operations
(in thousands)

For the Years Ended September 30,	2020	2019
Revenues:		
Net Hospital Segment patient services revenues	$ 2,339,379	$ 2,487,156
Provision for bad debts	(102,251)	(98,306)
Net Hospital segment patient services revenues less provision for bad debts	2,237,128	2,388,850
Other non-patient Hospital revenues	38,464	49,377
Net Hospital Segment revenues	2,275,592	2,438,227
Medical Group revenues	372,646	353,954
Global Risk Management revenues	84,900	49,696
Corporate revenues	250	7,321
Total net revenues	2,733,388	2,849,198
Operating Expenses:		
Hospital operating expenses	1,937,766	1,966,380
Medical Group cost of revenues	242,314	259,631
Global Risk Management cost of revenues	52,851	33,444
General and administrative	493,486	501,586
Depreciation and amortization	80,040	92,011
Goodwill amortization	30,245	-
Total operating expenses	2,836,702	2,853,052
Pandemic relief grant income	117,148	-
Operating income from unconsolidated joint ventures	1,724	5,889
Operating income	15,558	2,035
Other expense:		
Interest expense and amortization of deferred financing costs, net	86,157	110,605
Net period benefit cost	9,242	17,230
Loss on early extinguishment of debt	-	30,052
Other expense, net	2,091	2,858
Total other expense, net	97,490	160,745
Loss before income taxes	(81,932)	(158,710)
Income tax (benefit) provision	(7,070)	16,455
Net loss from continuing operations	(74,862)	(175,165)
Loss from discontinued operations:		
Loss from discontinued operations	(23,610)	(141,539)
Income tax (provision) benefit	(2)	18,234
Loss on discontinued operations, net of taxes	(23,612)	(123,305)
Loss before allocation to non-controlling interests	(98,474)	(298,470)
Net income (loss) attributable to non-controlling interests	1,136	(734)
Net loss attributable to Prospect Medical Holdings, Inc.	$ (99,610)	$ (297,736)

See accompanying notes to the consolidated financial statements.

CONFIDENTIAL BUSINESS INFORMATION

Prospect Medical Holdings, Inc.

Consolidated Statements of Comprehensive Loss
(in thousands)

For the Years Ended September 30,	**2020**	2019
Net loss attributable to Prospect Medical Holdings, Inc.	**$ (99,610)**	$ (297,736)
Other comprehensive income (expense), net of tax:		
Pension obligation and other post-retirement benefits adjustment (net of $251 and $251 tax)	**9,267**	(45,796)
Debt and equity securities, unrealized gain	**46**	1,257
Total other comprehensive income (loss), net of tax	**9,313**	(44,539)
Total comprehensive loss	**$ (90,297)**	$ (342,275)

See accompanying notes to the consolidated financial statements.

CONFIDENTIAL BUSINESS INFORMATION

Prospect Medical Holdings, Inc.

Consolidated Statements of Stockholder's Deficit
(in thousands, except share amounts)

	Number of Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Prospect Medical Holdings, Inc. Stockholder's Deficit	Non-controlling Interests	Total Stockholder's Deficit
Balance at October 1, 2018	100	$ 1	$ 23,961	$ 21,303	$ (676,930)	$ (631,665)	$ 9,316	$ (622,349)
Non-controlling interest attributed to minority shareholders	-	-	-	-	-	-	(1,295)	(1,295)
Net loss	-	-	-	-	(297,736)	(297,736)	(734)	(298,470)
Capital contribution from stockholder	-	-	41,000	-	-	41,000	-	41,000
Dividend paid to stockholder	-	-	-	-	(44,407)	(44,407)	-	(44,407)
Other comprehensive loss, net of tax	-	-	-	(44,539)	-	(44,539)	-	(44,539)
Balance at September 30, 2019	100	1	64,961	(23,236)	(1,019,073)	(977,347)	7,287	(970,060)
Non-controlling interest attributed to minority shareholders	-	-	-	-	-	-	(394)	(394)
Net loss	-	-	-	-	(99,610)	(99,610)	1,136	(98,474)
Other comprehensive loss, net of tax	-	-	-	9,313	-	9,313	-	9,313
ASU 2016-01 adoption (see Note 2)	-	-	-	(1,691)	1,691	-	-	-
Balance at September 30, 2020	100	$ 1	$ 64,961	$ (15,614)	$ (1,116,992)	$ (1,067,644)	$ 8,029	$ (1,059,615)

See accompanying notes to the consolidated financial statements.

CONFIDENTIAL BUSINESS INFORMATION

Prospect Medical Holdings, Inc.

Consolidated Statements of Cash Flows
(in thousands)

For the Years Ended September 30,	2020	2019
Operating activities		
Net loss	$ (98,474)	$ (298,470)
Adjustments to reconcile net loss to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	110,285	92,011
Amortization of deferred financing costs, net	1,933	4,484
Write-off of deferred financing costs	-	13,444
Amortization of original issue discount and premium, net	-	3,478
Write-off of original issue discount and premium	-	16,608
Provision for bad debts	102,251	98,306
Pension obligation net periodic benefit cost	9,426	17,411
Excess contribution to pension plan	(71,097)	(15,939)
Deferred income taxes, net	822	1,152
Undistributed earnings from unconsolidated joint ventures	(1,724)	(5,889)
Loss on disposal of assets	2,886	3,398
Changes in operating assets and liabilities:		
Patient accounts receivable	(84,429)	(87,481)
Due to/from government payers, net	4,022	608
Refund liability	276,066	-
Other receivables, prepaid expenses and other current assets	16,395	(974)
Hospital fee program receivable	(22,412)	43,924
Hospital fee program liability	46,298	(41,604)
Inventories	(2,513)	(1,605)
Income taxes payable/receivable, net	(11,549)	10,132
Other assets	28,521	(36,325)
Accrued medical claims and other healthcare costs payable	3,949	9,621
Accounts payable, other accrued liabilities and other long term liabilities	87,880	2,399
Net cash and cash equivalents provided by operating activities from discontinued operations	13,700	99,863
Net cash and cash equivalents provided by (used in) operating activities	412,236	(71,448)
Investing activities		
Purchases of property, improvements and equipment	(26,349)	(52,075)
Cash paid for acquisitions, net of cash received and working capital adjustments	(3,333)	(390)
Distribution received from equity and cost method investments	1,465	2,355
Increase in investments	(2,018)	(4,253)
Net cash and cash equivalents provided by (used in) investing activities from discontinued operations	25,565	(11,224)
Net cash and cash equivalents used in investing activities	(4,670)	(65,587)

CONFIDENTIAL BUSINESS INFORMATION

Prospect Medical Holdings, Inc.

Consolidated Statements of Cash Flows (Continued)
(in thousands)

For the Years Ended September 30,	2020	2019
Financing activities		
Repayments on Senior Secured Notes	-	(1,114,400)
Borrowings on line of credit	420,000	290,000
Repayments on line of credit	(490,000)	(429,000)
Proceeds of other long-term debt	57,938	175,538
Repayments of long-term debt	(52,352)	(7,346)
Repayment of financing leases	(1,840)	(2,082)
Repayments of capital leases	(14,230)	(14,509)
Cash paid for deferred financing costs	(2,906)	(526)
Change in restricted cash	(343)	257
Change in cash held in escrow	69,930	(70,000)
Capital contribution from stockholder	-	41,000
Dividend paid to stockholder	-	(44,407)
Repayments of insurance premium financing	(6,738)	(37)
Cash paid for deferred financing costs related to MPT liability transaction	-	(21,781)
Proceeds from MPT liability transactions	-	1,385,796
Repayment of MPT liability transactions	(43,902)	(5,447)
Net cash and cash equivalents used in financing activities from discontinued operations	(8,390)	(1,624)
Net cash and cash equivalents (used in) provided by financing activities	(72,833)	181,432
Increase in cash and cash equivalents	334,733	44,397
Cash and cash equivalents, beginning of year	52,091	7,694
Cash and cash equivalents, end of year	$ 386,824	$ 52,091
Supplemental disclosure of cash flow information		
Interest paid (including cash paid on debt extinguishment)	$ 81,916	$ 101,251
Income taxes received	$ 397	$ 343
Schedule of non-cash investing and financing activities		
Equipment acquired under capital leases	$ 12,575	$ 15,213
Accrual of property, improvements and equipment	$ 41,961	$ 47,113
Insurance premium financed	$ 6,738	$ -

See accompanying notes to the consolidated financial statements.

CONFIDENTIAL BUSINESS INFORMATION

1. Organization

Prospect Medical Holdings, Inc. ("Prospect" or the "Company" or the "Parent Entity") is a Delaware corporation and a wholly owned indirect subsidiary of Ivy Holdings Inc. ("Ivy Holdings"). The Company's operations are currently organized into four primary reportable segments: Hospital Services, Medical Group, Global Risk Management and Corporate, as discussed below.

COVID-19 Pandemic

In January 2020, the Secretary of the U.S. Department of Health and Human Services ("HHS") declared a national public health emergency due to a novel strain of coronavirus. In March 2020, the World Health Organization declared the outbreak of COVID-19, a disease caused by this coronavirus strain, a pandemic. The resulting measures to contain the spread and impact of COVID-19 have adversely affected the Company's results of operations. Where applicable, the impact resulting from the COVID-19 pandemic during the year ended September 30, 2020, has been considered, including updated assessments of the recoverability of assets and evaluation of potential credit losses. As a result of the COVID-19 pandemic, federal and state governments have passed legislation, promulgated regulations and taken other administrative actions intended to assist healthcare providers in providing care to COVID-19 and other patients during the public health emergency. Sources of relief include the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"), which was enacted on March 27, 2020, and the Paycheck Protection Program and Health Care Enhancement Act (the "PPPHCE Act"), which was enacted on April 24, 2020. Together, the CARES Act and the PPPHCE Act include $175 billion in funding to be distributed to eligible providers through the Public Health and Social Services Emergency Fund (the "Provider Relief Fund" or "PRF"). HHS has allocated Provider Relief Fund among eligible health care providers through two completed phases of general distributions and a number of targeted distributions beginning in April 2020. In October 2020, HHS announced an additional $20 billion general distribution from the Provider Relief Fund that considers financial losses and changes in operating revenues and expenses, including expenses attributable to COVID-19, and payments already received through PRF distributions.

CARES Act and PPPHCE Act Funds (included Medicare Advanced Payments)

The CARES Act also alleviates some of the financial strain on hospitals, physicians, other healthcare providers and states through a series of Medicare and Medicaid payment policies that temporarily increase Medicare and Medicaid reimbursement and allow for added flexibility, as described below.

(1) Effective May 1, 2020 through December 31, 2020, the 2% sequestration reduction on Medicare fee for service ("FFS") and payments to hospitals, physicians and other providers is suspended and will resume effective January 2021 as authorized by the Sequestration Transparency Act of 2020. The estimated impact of this change on the Company's operations is an increase of approximately $3.2 million of revenues in fiscal 2020. The suspension is financed by a one-year extension of the sequestration adjustment through 2030.

(2) The CARES Act instituted a 20% increase in the Medicare Severity Diagnosis Related Groups ("MS-DRG") payment for confirmed COVID-19 hospital admissions for the duration of the public health emergency as declared by the Secretary of HHS.

(3) The CARES Act eliminated the scheduled nationwide reduction of $4 billion in federal Medicaid Disproportionate Share Hospital ("DSH") allotments to States in federal fiscal year ("FFY") 2020 mandated by the Affordable Care Act and decreased the FFY 2021 Medicaid DSH reduction from $8 billion to $4 billion effective December 1, 2020. Legislation passed in October 2020 delayed the 2021 reduction through December 11, 2020. The reduction mandated by the Patient Protection and Affordable Care Act ("PPACA") is set to be terminated at the end of FFY 2025.

(4) The CARES Act expanded the Medicare Accelerated and Advance Payments Program, which provides prepayment of claims to providers in certain circumstances, such as national emergencies or natural disasters. Under this measure, providers could request accelerated and advance payments during which time providers continue to receive payments for services. Under the CARES Act, accelerated and advance payments could be retained for 120 days; at the end of the 120-day period, the accelerated payment would be repaid via an offset of payments on claims that would otherwise be paid. Generally, repayments of the accelerated and advance payments the Company received were to commence during August 2020; however, under legislation passed in October 2020, providers may retain the accelerated payments for one year from the date of receipt before the Centers for Medicare and Medicaid Services ("CMS") commences recoupment, which will be effectuated by a 25% offset of claims payments for 11 months, followed by 50% offset for the succeeding six months. At the end of the 29-month period, interest on the unpaid balance will be assessed at 4% per annum. As of September 30, 2020, the Company had received Medicare accelerated and advance payments of approximately $276 million, of which approximately $62 million and $214 million were reflected in current and noncurrent refund liabilities, respectively, in the accompanying consolidated balance sheets.

(5) A 6.2% increase in the Federal Medical Assistance Percentage ("FMAP") matching funds was instituted to help states respond to the COVID-19 pandemic. The additional funds are available to states from January 1, 2020 through the quarter in which the public health emergency period ends, provided that states meet certain conditions. An increase in states' FMAP leverages Medicaid's existing financing structure, which allows federal funds to be provided to states more quickly and efficiently than establishing a new program or allocating money from a new funding stream. Increased federal matching funds support states in responding to the increased need for services, such as testing and treatment during the COVID-19 public health emergency, as well as increased enrollment as more people lose income and qualify for Medicaid during the economic downturn.

On September 19, 2020, HHS issued a Post-Payment Notice of Reporting Requirements for the PRF that were disbursed under the CARES Act. This notice changed guidance that had been previously communicated during June and July 2020. Key differences include introduction of the concept of calendar year measurement as opposed to quarterly measurement, the requirement to first apply stimulus monies received to healthcare related expenses attributable to COVID-19 (net of reimbursements from other sources), and change (negative change comparing calendar year 2020 over calendar year 2019) from lost revenues, as defined to net patient care operating income as defined, net of healthcare related expenses previously applied. The notice also allowed for an additional six months through June 30, 2021, for companies to use the remaining amounts toward expenses attributable to COVID-19 that have not been reimbursed by other sources, or apply toward lost net patient care operating income in an amount not to exceed the calendar 2019 net gain. Also, on October 22, 2020, HHS issued a notice that amended the September 19, 2020 guidance, to replace the comparison of operating income to lost revenues. The definitions included in the Post-Payment Notice of Reporting Requirements may be subject to change or further interpretation. Management will continue to evaluate and monitor compliance with the terms and conditions through June 30, 2021.

The following table shows the funds that the Company received through the PRF in both general and targeted distributions, net of amounts received for previously divested entities that were required to be repaid to HHS, during the year ended September 30, 2020 (in thousands):

	PRF Funds	Hotspot Funds	State funds	Other funds	Total
Funds received during the year ended September 30, 2020	$ 50,482	$ 83,088	$ 15,782	$ 33,702	$ 183,054
Funds transferred from discontinued operations to continuing operations	1,683	-	-	-	1,683
Funds applied to lost revenues	(48,004)	(69,144)	-	-	(117,148)
Funds applied to incremental expenses	(4,161)	(3,570)	(15,782)	(32,842)	(56,355)
Funds applied to incremental capital assets	-	-	-	(860)	(860)
Funds unused at September 30, 2020	$ -	$ 10,374	$ -	$ -	$ 10,374

The amount of lost revenues (represented as a negative change in year-over-year net revenues from patient care related sources) was recorded in "pandemic relief grant income" and incremental expenses were recognized as a reduction to operating expense within the accompanying consolidated statements of operations for the year ended September 30, 2020. The recognition of amounts received is conditioned upon the provision of care for individuals with possible or actual cases of COVID-19 after January 31, 2020, certification that payment will be used to prevent, prepare for and respond to coronavirus and shall reimburse the recipient only for healthcare related expenses or lost revenues that are attributable to coronavirus, and receipt of the funds. Amounts are recognized as a reduction to operating costs and expenses only to the extent the Company is reasonably assured that underlying conditions are met. These monies have been recognized following the grant accounting model, recognizing income or reduction to expenses over the applicable reporting period as management becomes reasonably assured of meeting the required criteria. As of September 30, 2020, the Company has $10,373,000 in funds that had not been recognized in the consolidated statements of operations, and such amounts are reflected in accounts payable and other accrued liabilities on the accompanying consolidated balance sheets. As of September 30, 2020, the Company has $5,890,000 in funds that have not been recognized on the consolidated statements of operations related to facilities held for sale, that are not included in the asset purchase agreement, and accordingly, this amount is reflected in accounts payable and other accrued liabilities on the accompanying consolidated balance sheets (see Note 4).

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HHS has also used funds appropriated to the Provider Relief Fund and the Families First Coronavirus Response Act ("FFCRA") to provide claims reimbursement to health care providers for testing uninsured individuals for COVID-19, treating uninsured individuals with a primary COVID-19 diagnosis, and administering a COVID-19 vaccine to uninsured individuals. The COVID-19 uninsured program is administered through HHS's Health Resources & Services Administration ("HRSA") and began providing reimbursement in May of 2020. Generally, reimbursements under this program are set at Medicare FFS rates, exclusive of the 20% increase in the MS-DRG payment for confirmed COVID-19 hospital admissions under the CARES Act.

Liquidity

With the funds that the Company has received under the programs described above, there has been no borrowing through the Company's line of credit under the ABL Agreement (see Note 8) since the Medicare Advanced Payments were received in April 2020. As of September 30, 2020, the Company had cash and cash equivalents of approximately $387 million, net working capital of $130 million, and availability on its ABL Facility of approximately $211 million. The Company believes that its current liquidity or access to financing will be sufficient to meet its operating, investing and financing cashflow requirements for the next year from the date these consolidated financial statements were available to be issued.

Hospital Services Segment

As of September 30, 2020, through its subsidiaries, the Company owns 16 acute care and behavioral hospitals in Southern California, Rhode Island, Pennsylvania and Connecticut with approximately 3,100 licensed beds, and a network of specialty and primary care clinics. The Hospital Services segment subsidiaries are wholly owned by Prospect, except for the facilities in Rhode Island, in which Prospect has an 85% interest in the subsidiary that owns such facilities.

Additionally, at September 30, 2020, through its subsidiaries the Company owns one acute care hospital in New Jersey, as well as two behavioral health hospitals in Texas that were closed during the year ended September 30, 2020. The Texas subsidiary still owns one building that is expected to be sold in fiscal 2021 and it leases a building that is in the process of being subleased. Subsequent to year-end, the Company entered into an Asset Purchase Agreement to sell substantially all of the assets of the facility in New Jersey, which is expected to be completed in the third quarter of fiscal 2021, subject to regulatory approvals (see Note 15). Accordingly, and as further discussed in Note 4, for all periods presented the assets and liabilities of these businesses have been classified as "held for sale," and the operations (as it relates to revenues and expenses that will no longer continue post sale) have been shown within discontinued operations. All of the footnotes in these consolidated financial statements refer to continuing operations unless otherwise stated.

Admitting physicians are primarily practitioners in the local area. The hospitals have payment arrangements with Medicare, Medicaid and other third-party payers, including commercial insurance carriers, health maintenance organizations ("HMOs") and preferred provider organizations ("PPOs").

Medical Group Segment

The Medical Group segment is a healthcare management services organization that provides management services to affiliated physician organizations that operate as independent physician associations ("Medical Groups" or "IPAs"). The IPAs, either directly or through Prospect's risk management entities ("RMEs"), enter into agreements with HMOs to provide HMO enrollees with a full range of medical services in exchange for fixed monthly fees ("Capitation"). The Medical Groups contract with physicians (primary care and specialist) and other healthcare providers to provide enrollees with medical services.

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Prospect currently manages the provision of healthcare services for contracted enrollees through Prospect's IPAs and RMEs in California, Texas, Rhode Island, Connecticut, Pennsylvania and New Jersey. The California network consists of various IPAs that are generally wholly owned by Prospect Medical Group, Inc. ("PMG") and managed by the two medical management company subsidiaries that are wholly owned by Prospect. Prospect's networks in its other states consist of IPA subsidiaries of Prospect Provider Groups, Inc. The Medical Group segment also owns clinic facilities in California, Rhode Island, Pennsylvania and Connecticut that operate by employing physicians to serve their patients. In California, the clinic facilities are owned through New Genesis Medical Associates, Inc. ("NGMA"). PMG and NGMA are owned by a nominee physician shareholder pursuant to an assignable option agreement, under which Prospect has an assignable option, obtained for a nominal amount that would be due the nominee shareholder upon an option's exercise. The option entitles Prospect to designate the purchaser (successor physician) for all or part of PMG's or NGMA's, as applicable, issued and outstanding stock in Prospect's sole discretion.

The IPAs and RMEs in California and Texas have entered into Management Service Agreements ("MSA") with Prospect Medical Systems Inc., ("PMS"), and have agreed to pay a management fee to PMS, which is based in part on the costs to the management company and on a percentage of revenues. The IPAs and RMEs in Rhode Island, Pennsylvania, Connecticut and New Jersey are operated and managed through the Global Risk Management segment discussed below. In return for payment of a management fee under each MSA in California and Texas, PMS has agreed to provide financial management, information systems, marketing, advertising, public relations, risk management, and administrative support, including for utilization review and quality of care. At its cost, PMS has assumed the obligations for all facilities and employs physician and non-physician personnel for administrative services. The management fee is earned based on a combination of percentage of revenue and share of pre-tax income. The management fees fluctuate based on the revenue and profitability of each IPA and RME. The MSAs are not terminable by the IPAs or RMEs except in the case of gross negligence, fraud or other illegal acts, or bankruptcy, of PMS.

Prospect consolidates the revenues and expenses of its IPAs (except for one entity that is a 50/50 joint venture, which is accounted for under the equity method) from the respective dates of execution of the Management Agreements. All significant inter-entity balances have been eliminated in consolidation. In the case of the joint venture, only that portion of the results which are contractually identified as Prospect's are recognized in the consolidated financial statements, together with the management fee that Prospect charges the joint venture for managing the other owners' share of the joint venture operations.

PMS has also entered into management services agreements with unaffiliated third parties to manage services to their HMO enrollees. These management agreements do not have characteristics that give rise to the consolidation of the entities under current accounting literature. These management services agreements are terminable in accordance with the agreements.

The affiliated IPAs and RMEs provided medical services to a combined total of approximately 609,000 and 445,000 enrollees as of September 30, 2020 and 2019, respectively. The enrollees include approximately 394,000 and 237,000 enrollees that Prospect manages for the economic benefit of certain independent third parties, and for which Prospect earns management fee income as of September 30, 2020 and 2019, respectively. The total paid member months including managed enrollees, for the years ended September 30, 2020 and 2019 was approximately 5,635,000 and 5,435,000, respectively.

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Global Risk Management Segment

The Global Risk Management ("GRM") segment exists in pursuit of Prospect's coordinated regional care ("CRC") operating model and risk management platform. The GRM segment has operations in California, Texas, Rhode Island, Pennsylvania, Connecticut and New Jersey, including Medicare accountable care organizations ("ACOs") operating in Rhode Island, Connecticut and Pennsylvania. These RMEs contract with third-party health plans, and the ACOs contract with CMS, on progressive risk reimbursement models leading to global risk contracts for physicians, other medical services and institutional services including hospital inpatient and outpatient services, home health, skilled nursing facility and other institutional services. In turn, the RMEs and ACOs contract with owned and third-party IPAs, owned and third-party hospitals and other health care providers to assume and manage this global risk. Through these contracts, Prospect manages health plan member populations with a focus on delivering coordinated care to members across our network of physicians and other providers under risk and value-based contracts.

The GRM segment also includes Coordinated Regional Care Group, Inc. ("CRCG"). CRCG incurs development and operating costs related to the GRM segment for new markets and strategic initiatives. As noted above, in California and Texas, Prospect's IPAs and RMEs have entered into MSAs with PMS to arrange for their management. CRCG provides management services to the IPAs, RMEs and ACOs in Rhode Island, Pennsylvania, Connecticut and New Jersey. Additionally, the RMEs in those states have entered into Administrative Services Agreements ("ASA") with PMS pursuant to which they have agreed to reimburse PMS for the costs of certain administrative services provided by PMS on their behalf. In return for payment of an administrative services fee, PMS has agreed to provide financial management, certain information systems, and limited administrative support. The negotiated fees fluctuate based on the services provided. The services provided under an ASA are more limited than those provided under an MSA and each ASA is terminable by either party upon the delivery of 90 days prior written notice thereof.

The GRM segment, through its contracted owned and unaffiliated providers, provides medical services for a combined total of approximately 298,000 and 289,000 enrollees as of September 30, 2020 and 2019, respectively.

Corporate Segment

The Company has two captive insurance companies, Prospect Medical Holding Risk Retention Group, Inc. ("RRG"), based in Vermont, and Connecticut Healthcare Insurance Company ("CHIC"), based in the Cayman Islands. The RRG was formed to provide primary insurance coverage for hospital and physician professional and general liability risks for the Company's subsidiary health care organizations located in Pennsylvania. CHIC provides hospital and physician professional and general liability coverage to all of the Company's hospitals and affiliated subsidiaries. CHIC is an exempted Company with limited liability under the Companies Law of the Cayman Islands and it holds a Class "B(i)" Insurer's License under Section 4(3)(b) of the Cayman Islands Insurance Law 2010. CHIC's principal activity is to issue primary policies for hospital liabilities covering Prospect, its subsidiaries and employees, on a claims-made basis. The Company also provides excess healthcare professional liability and umbrella liability insurance coverage on a claims-made basis covering healthcare professional liability, general liability, automobile liability, employer's liability, helipad liability and non-owned aircraft liability of the Company and its affiliates. This excess coverage under this policy is 100% reinsured by commercial reinsurance carriers rated at minimum A- by AM Best. CHIC also provides a deductible reimbursement policy for workers compensation to the Company's facilities all of which have high deductible program structures or are qualified self-insureds (see Note 2).

The Company does not allocate interest expense related to acquisition debt or income taxes to the other reporting segments.

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2. Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of all controlled subsidiaries, of which control is effectuated through ownership of voting common stock or by other means, but do not include the accounts of the parent companies, Ivy Holdings Inc. and Ivy Intermediate Holding Inc. The Company has a variable interest in various entities under the Medical Group segment due to the existence of two call options, under which the Company has the ability to require the holders of all of the voting common stock of the underlying subsidiaries to sell their shares at a fixed nominal price ($1,000) to another designated physician chosen by the Company. This call option agreement represents rights provided through a variable interest other than the equity interest itself that limits the returns that could be earned by the equity holders. In addition, the Company has management agreements with the physician organizations under the Medical Group segment which allows the Company to direct the activities of such physician organizations that most significantly impact their economic performance, retain the right to receive expected residual returns and assume the obligation to absorb losses. Accordingly, the Company is considered to be the primary beneficiary and these entities are consolidated within the accompanying consolidated financial statements.

Operating results for acquisitions are consolidated with the Company's consolidated financial statements from their acquisition dates. All significant intercompany balances and transactions have been eliminated in consolidation. Non-controlling interests in less-than-wholly owned consolidated subsidiaries of the Company are presented as a component of total equity to distinguish between the interests of the Company and the interests of the non-controlling owners.

The consolidation of these entities does not change any legal ownership, and does not change the assets or the liabilities and equity of the Parent Entity as a stand-alone entity. These entities had total revenues of approximately $346,182,000 and $330,930,000 and total net income of approximately $36,243,000 and $14,245,000 for the years ended September 30, 2020 and 2019, respectively. The assets and liabilities of the variable interest entities are as follows (in thousands):

September 30,	**2020**	2019
Assets		
Total current assets	$ **120,920**	$ 86,966
Total non-current assets	**110,180**	89,049
Total assets	$ **231,100**	$ 176,015
Liabilities		
Total current liabilities	$ **70,963**	$ 52,120
Total long-term liabilities	**730**	730
Total liabilities	$ **71,693**	$ 52,850

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Revenues

Revenues by reportable segment are comprised of the following amounts (in thousands):

For the Years Ended September 30,	2020	2019
Net Hospital Services		
Inpatient	$ 1,377,468	$ 1,392,340
Outpatient	802,318	926,645
Capitation	147,588	148,800
Other	12,005	19,371
Total Hospital Segment patient service revenues	2,339,379	2,487,156
Less: Provision for bad debts	(102,251)	(98,306)
Total Net Hospital Segment patient service revenues less provision for bad debts	2,237,128	2,388,850
Other non-patient revenues	38,464	49,377
Total Hospital Segment revenues	2,275,592	2,438,227
Medical Group		
Capitation	310,521	302,734
Management fees	11,563	15,044
Other	50,562	36,176
Total Medical Group revenues	372,646	353,954
Global Risk Management		
Capitation	55,290	37,018
Other	29,610	12,678
Total Global Risk Management revenue	84,900	49,696
Corporate Segment revenues	250	7,321
Total net revenues	$ 2,733,388	$ 2,849,198

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Hospital Services Segment

Net Patient Service Revenues

Operating revenue of the Hospital Services segment consists primarily of net patient service revenue. The Company reports net patient service revenue at the estimated net realizable amounts from patients and third-party payers and others in the period in which services are rendered. The Company has agreements with third-party payers, including Medicare, Medicaid, managed care and other insurance programs that are paid at negotiated rates. These payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments, as further described below. Estimates of contractual allowances are based upon the payment terms specified in the related contractual agreements. The Company accrues for amounts that it believes may ultimately be due to or from the third-party payers. Normal estimation differences between final settlements and amounts accrued in previous years are reported as changes in estimates in the current year. Outstanding receivables, net of allowances for contractual discounts and bad debts, are included in patient accounts receivable in the accompanying consolidated balance sheets.

The following is a summary of sources of patient service revenues (net of contractual allowances and discounts) before provision for bad debts and exclude revenues from discontinued operations (in thousands):

Years Ended September 30,	**2020**	2019
Medicare	**$ 745,780**	$ 822,407
Medicaid	**757,626**	750,909
Managed Care	**571,749**	579,141
Self-Pay/Other	**104,631**	166,528
Capitation	**147,588**	148,800
Other	**12,005**	19,371
Total patient service revenue	**$ 2,339,379**	$ 2,487,156

A summary of the payment arrangements with major third-party payers follows:

Medicare: Medicare is a federal program that provides certain hospital and medical insurance benefits to persons aged 65 and over, some persons with end-stage renal disease and certain other beneficiary categories, including eligible disabled persons. Most inpatient hospital services rendered to Medicare program beneficiaries are paid on a fee-for-service basis at prospectively determined rates per discharge, according to a patient classification system based on clinical, diagnostic, and other factors. Most outpatient services also are paid on a fee-for-service basis generally using prospectively determined rates. The Company receives, as appropriate, Medicare DSH and bad debt payments at tentative rates, with final settlement determined after submission of the annual Medicare cost report and audit thereof by the Medicare Administrative Contractor. The Company also receives, as appropriate, Medicare uncompensated care DSH payments, which are generally not subject to cost report audit except to determine eligibility for Medicare DSH. The Company also receives Medicare outlier payments on an ongoing basis during the year for cases that are unusually costly, and under certain circumstances these payments may be reconciled to more closely reflect the costs in excess of outlier thresholds after the submission and audit of the annual Medicare cost report. Normal estimation differences between filed settlements and amounts accrued are reflected in net patient service revenue.

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The Company is reimbursed by Medicare for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare Administrative Contractor. The estimated amounts due to or from the program are reviewed and adjusted annually based on the status of such audits and any subsequent appeals. Differences between final settlements and amounts accrued in previous years are reported as adjustments to net patient service revenue in the year that examination is substantially completed.

Although services for most Medicare beneficiaries are paid by the Federal government on a fee-for-service basis, approximately one-third of Medicare beneficiaries are enrolled in a "Medicare Advantage" plan, which is a type of health plan that contracts with the Medicare program to provide hospital and medical benefits to Medicare beneficiaries. Medicare Advantage Plans include Health Maintenance Organizations, Preferred Provider Organizations, Private Fee-For-Service Plans, Special Needs Plans, and Medicare Medical Savings Account Plans. For Medicare beneficiaries enrolled in a Medicare Advantage plan, most Medicare services are covered by the plan and are not paid for under fee-for-service Medicare. Certain Medicare Advantage plans make capitation payments to the Company using a "Risk Adjustment model," which compensates providers based on the health status (acuity) of each enrollee. Providers with higher acuity enrollees generally will receive more and those with healthier enrollees will receive less.

Medicaid: Medicaid is a joint federal-state funded healthcare benefit program that is administered by states to provide benefits to qualifying individuals who are unable to afford care. The Company receives reimbursements under the fee-for-service component of Medicaid programs in each state in which it operates at prospectively determined rates for inpatient services and a mixture of fee schedules and cost reimbursement methodologies for outpatient services depending on the specific state regulations. Cost report settlements are recorded based upon as-filed cost reports (if required by the respective facility's state) and adjusted for tentative and final settlements, if any. In addition, in California, Rhode Island, and Pennsylvania, a substantial portion of Medicaid beneficiaries are enrolled in Medicaid managed care organizations. The Company received payments for services furnished to these beneficiaries based on negotiated contract rates or non-contract payment methodologies where the Company does not have a contract with the managed care organization.

The various states in which the Company operates have additional programs in which certain of the Company's facilities participate in, related to medical facilities serving a disproportionate number of low-income patients. The following table shows the revenues generated by these programs during the years ended September 30, 2020 and 2019 (in thousands), which are reflected in Net Hospital Services revenues in the accompanying consolidated statements of operations:

Years Ended September 30,	**2020**	2019
California Medi-Cal Disproportional Share ("CA DSH") *(a)*	**$ 32,216**	$ 28,967
Rhode Island DSH and Upper Payment Limit ("UPL") *(b)*	**20,239**	20,456
Pennsylvania State Programs *(c)*	**48,988**	68,831
Connecticut Medicaid DSH revenue *(d)*	**27,659**	26,338
	$ 129,102	$ 144,592

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(a) Revenues are accrued based on the expected total annual awards. Differences between the estimated and the actual awards are recorded in the period they become known, and are subject to retrospective revision prior to finalization, which could lead to material retractions. The Company records retrospective retractions when they are estimable and probable. Retrospective additional revenues are recorded when the amounts are received.

(b) Rhode Island hospitals receive federal and state Medicaid funds as additional reimbursement for treating a disproportionate share of low-income patients. A portion of these funds are financed through a license fee on all hospitals in Rhode Island based on each hospital's net patient revenue. The license fee revenues are used as the state share, which is matched by the federal government, to make final DSH payments. The Company recorded $17,846,000 and $17,565,000 of expense during the years ended September 30, 2020 and 2019, respectively, as a result of the license fee.

(c) The Company's Pennsylvania hospitals are participants in Pennsylvania statewide hospital assessment, Medicaid Modernization Assessment ("MMA"), which has been extended through June 30, 2023. The assessments have enabled the Commonwealth of Pennsylvania to maintain the updated inpatient payment system, make changes to existing disproportionate share/supplemental payments, and to create new payments where applicable. Pennsylvania has reauthorized the statewide Quality Care Assessment ("QCA") legislation which authorizes the Pennsylvania Department of Human Services (DHS) to impose a statewide assessment on hospitals. The legislation was originally implemented to allow this assessment as of July 1, 2010. Act 40 of 2018 reauthorized the QCA effective July 1, 2018 through June 30, 2023. During the assessment period, hospitals will have an opportunity to review the data used to determine both net inpatient revenue and net outpatient revenue amounts. Hospitals will receive a notice of both their net inpatient and net outpatient revenue to be used in the calculation of the assessment amount. Hospitals can file a dispute during the designated review period if the hospital determines inaccurate revenue data is reflected in the notice. The QCA has generated early $10 billion in MA payments for hospital services. The primary goal of the QCA is to ensure access to quality hospital services for Pennsylvania MA beneficiaries. The payments under the QCA are designed to recognize and encourage hospitals serving a high volume or percentage of MA beneficiaries. The Company has also recognized revenues from the Pennsylvania Community Access Fund ("CAF"). This year, with the ongoing COVID-19 pandemic, Pennsylvania developed the Hospital Emergency Loan Program ("HELP"), to provide short-term financial relief to Pennsylvania's hospitals. HELP is a $450 million loan package available to the commonwealth's hospitals to provide immediate financial support for working capital to ensure that these facilities have sufficient personnel, equipment, and personal protective equipment to deal with the ongoing health crisis posed by the pandemic. Pennsylvania hospitals and healthcare providers also received disbursements from the federal Provider Relief Fund authorized by the CARES Act, also in response to this year's pandemic. Under HELP, the Company received loans of $35 million during the year ended September 30, 2020, all of which were repaid in full in September 2020.

(d) The Company's hospitals in Connecticut participate in its Medicaid DSH program and receive additional reimbursement for treating a disproportionate share of low-income patients. Connecticut assesses a provider tax based on total net revenue received by a hospital for the provision of inpatient hospital services and outpatient hospital services. The amount of the provider tax has been the subject of litigation, which was settled at the end of 2019. The state General Assembly approved the settlement, together with legislation to implement its terms, on December 18, 2019, and the Governor signed the bills into law on December 19, 2019. As of June 22, 2020, Connecticut received all necessary federal approvals from CMS to finalize the

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settlement. The court thereafter approved the settlement agreement; however, the state can ask the court to modify the agreement if the state's overall costs are between $50 and $100 million in any State fiscal year ("SFY"), and the state can terminate the agreement if the state's overall costs rise by $100 million in any SFY. The settlement agreement is estimated to have a financial impact on hospitals of approximately $1.8 billion in state and federal funds between now and 2026. The agreement includes one-time payments or refunds totaling approximately $79 million to certain hospitals, along with declining taxes on hospitals and corresponding increasing state payments to facilities during the applicable time period.

Managed Care: The Company has also entered into payment agreements with certain commercial insurance carriers, HMOs, and PPOs. The basis for payment under these agreements is in accordance with negotiated contracted rates or at the Company's standard charges for services provided. Some of these payments are capitated, meaning that the Company receives an agreed amount per patient for providing an agreed range of services.

Self-Pay: Self-pay patients represent those patients who do not have health insurance and are not covered by some other form of third-party arrangement. Such patients are evaluated, at the time of services or shortly thereafter, for their ability to pay based upon federal and state poverty guidelines, qualifications for Medicaid, as well as the Company's local hospital's indigent and charity care policy.

Laws and regulations governing the third-party payor arrangements are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Normal estimation differences between subsequent cash collections on patient accounts receivable and net patient accounts receivable estimated in the prior year are reported as adjustments to net patient service revenue in the current period.

The following is a summary of due from and due to governmental payers at September 30, 2020 and 2019 (in thousands):

September 30,	2020	2019
Due from government payers:		
Medicaid disproportionate share	$ 14,828	$ 19,301
Medicare cost report settlements	5,417	969
Medicaid Section 1115 receivable	145	-
	$ 20,390	$ 20,270
Due to government payers:		
Medicaid disproportionate share	$ 4,461	$ -
Medicare cost report settlements	4,160	19,464
Medicaid cost report settlements	24,128	9,142
	$ 32,749	$ 28,606

The Company is not aware of any material claims, disputes, or unsettled matters with any payers that would affect revenues that have not been adequately provided for and disclosed in the accompanying consolidated financial statements.

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California Hospital Fee Program

The Company recognizes revenues related to supplemental Medi-Cal payments under California provider fee programs. These programs are funded by quality assurance fees paid by participating hospitals and matching federal funds.

Based on formulas contained in the legislation as well as modeling done by the California Hospital Association ("CHA"), the Company recognized supplemental payments, included in net patient service revenue, and quality assurance fee expense, included in general and administrative expenses in the accompanying consolidated statements of operations as follows (in thousands):

Years Ended September 30,	**2020**	2019
Hospital services revenues	**$ 140,691**	$ 122,976
General and administrative expenses	**97,270**	53,775
Net pre-tax impact	**$ 43,421**	$ 69,201

As of September 30, 2020 and 2019, the Company had receivables related to the California Hospital Fee Program of approximately $189,941,000 and $167,530,000, respectively, and had liabilities related to the California Hospital Fee Program of approximately $70,660,000 and $24,362,000, respectively, in the accompanying consolidated balance sheets.

In December 2017, CMS approved the fee-for-service inpatient and outpatient payments and taxes for the period from January 1, 2017 to June 30, 2019 ("QAF 5"). Under the Managed Care piece of QAF 5, there is a reconciliation every six months in which health plans submit paid data to the State to which the hospitals need to reconcile and attest. The Company originally recorded revenues related to QAF 5 based on the estimated models approved by CHA, but the actual subsequent reconciliations differed from the original estimates due to differences in the Directed Payments. During the year ended September 30, 2020, the Company recorded a reduction in revenues and increase in expenses of approximately $25.5 million and $3.5 million, respectively, related to both differences in periods that have been reconciled (through December 2018), as well as estimated differences for the remaining time periods within the cycle. The current cycle of the California Hospital Fee Program relates to the period from July 1, 2019 through December 31, 2021 ("QAF 6") and CMS approved the fee-for-service inpatient and outpatient payments and taxes for QAF 6 in February 2020. As is typical, CMS has not yet approved revised capitation rates for the Medi-Cal managed care plans, which are in turn paid to hospitals as additional Medi-Cal managed care payments, for some or all of QAF 5 and QAF 6. During the year ended September 30, 2020, the Company recorded revenues under the QAF 6 program of $169.2 million, of which $33.3 million was related to the previous fiscal year. The Company has recorded revenues in line with the models approved by CHA, which is estimated using the most current information available.

Charity Care

The Company provides charity care to patients who lack financial resources and are deemed to be medically indigent based on criteria established under the Company's charity care policy. This care is provided without charge or at amounts less than the Company's established rates. Because the Company does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue. The direct and indirect costs related to this care totaled approximately $6,545,000 and $7,559,000 for the years ended September 30, 2020 and 2019, respectively. Direct and indirect costs for providing charity care are estimated by calculating a ratio of cost to gross charges and then multiplying that ratio by the gross uncompensated charges associated with providing care to charity

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patients. In addition, the Company provides services to other medically indigent patients under various state Medicaid programs. Such programs pay amounts that are less than the cost of the services provided to the recipients. The Company has not changed its charity care or uninsured discount policies during the years ended September 30, 2020 and 2019.

Provisions for Contractual Allowances and Bad Debts

Collection of receivables from third-party payers and patients are the Company's primary source of cash and is critical to its operating performance. The Company closely monitors its historical collection rates, as well as changes in applicable laws, rules and regulations and contract terms, to assure that provisions for contractual allowances are made using the most accurate information available. However, due to the complexities involved in these estimations, actual payments from payers may be materially different from the amounts management estimates and records. The Company's primary collection risks relate to uninsured patients and the portion of the bill which is the patient's responsibility, primarily co-payments and deductibles. Payments for services may also be denied due to issues over patient eligibility for medical coverage, the Company's ability to demonstrate medical necessity for services rendered and payer authorization of hospitalization.

Accounts receivable are reduced by an allowance for doubtful accounts. Valuation of the collectability of accounts receivable and provision for bad debts is based on historical collection experience, payer mix and the age of the receivables. Management routinely reviews accounts receivable balances in conjunction with these factors and other economic conditions which might ultimately affect the collectability of the patient accounts, and makes adjustments to the Company's allowances as warranted. For receivables associated with services provided to patients who have third-party coverage, management analyzes contractually due amounts and subsequently calculates an allowance for doubtful accounts and provision for bad debts once the age of the accounts reaches a specific age category based on historical experience. For receivables associated with self-pay patients, management records a significant provision for bad debts beginning in the period services were provided based on past experience that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. During the year ended September 30, 2020, the Company transitioned from trended models based on a payment to charge ratios ("PCR") to models which primarily consider contractual rates for billed claims, but retained the PCR model for unbilled accounts receivable. Under the new models, net patient revenue was reduced by approximately $38.1 million. The allowance for doubtful accounts as a percent of gross accounts receivable was 41% and 35% at September 30, 2020 and September 30, 2019, respectively. The allowance for doubtful accounts was approximately $198,052,000 and $165,719,000 as of September 30, 2020 and 2019, respectively.

Legislation

All of the Company's hospital facilities are subject to the Emergency Medical Treatment and Active Labor Act ("EMTALA"). This federal law and accompanying regulations require any hospital that participates in the Medicare program to conduct an appropriate medical screening examination of every person who comes to the hospital's emergency department for treatment and, if the patient is suffering from an emergency medical condition, to either stabilize that condition or make an appropriate transfer of the patient to a facility that can treat the condition. The obligation to screen and stabilize emergency medical conditions exists regardless of a patient's ability to pay for treatment. There are severe penalties under EMTALA for violations of the law and regulations, including if a hospital fails to screen or appropriately stabilize or transfer a patient or if the hospital delays appropriate treatment in order to first inquire about the patient's ability to pay. Penalties for violations of EMTALA include civil monetary penalties and exclusion from participation in the Medicare program. In addition, an injured patient, the patient's family or a medical facility that suffers a financial loss as a direct result of another hospital's violation of the law can bring a civil suit against that other hospital. The Company believes

that it is in compliance with EMTALA and is not aware of any pending or threatened EMTALA investigations involving allegations of potential wrongdoing that would have a material effect on the Company's consolidated financial statements.

Medical Group Segment

Medical Group Revenues

Operating revenue of the Medical Group segment consists primarily of payments for medical services procured by certain entities included within the Medical Group segment ("Affiliates") under capitated contracts with various managed care providers including HMOs. Capitation revenue under HMO contracts is prepaid monthly to the Affiliates based on the number of enrollees electing any one of the Affiliates as their health care provider. See "Concentrations of Credit Risks" below for revenues received from the five largest contracted HMOs.

Capitation revenue (net of capitation withheld to fund risk share deficits discussed below) is recognized in the month in which the physician organizations are obligated to provide services. Minor ongoing adjustments to prior months' capitation, primarily arising from contracted HMOs' finalizing of monthly patient eligibility data for additions or subtractions of enrollees, are recognized in the month they are communicated to the Company. Additionally, Medicare pays capitation using a "Risk Adjustment model," which compensates managed care organizations and providers based on the health status (acuity) of each enrollee. Health plans and providers with higher acuity enrollees will receive more and those with healthier enrollees will receive less. Under Risk Adjustment, capitation is determined based on health severity, measured using patient encounter data. Capitation is paid on an interim basis based on data submitted for the enrollee for the preceding year and is adjusted in subsequent periods (generally in the Company's fourth quarter) after the final data is compiled. Positive or negative capitation adjustments are made for Medicare enrollees with conditions requiring more or less healthcare services than assumed in the interim payments. Since the Company cannot reliably predict these adjustments, periodic changes in capitation amounts earned as a result of Risk Adjustment are recognized generally in the fourth quarter when those changes are communicated by the health plans to the Company. During the years ended September 30, 2020 and 2019, the Company returned and recognized as a reduction in revenue, approximately $1,395,000 and $1,749,000, respectively, as a result of the final Hierarchical Condition Category ("HCC") reconciliation.

HMO contracts also include provisions to share in the risk for hospitalization, whereby the physician organization can earn additional incentive revenue or incur penalties based upon the utilization of hospital services. Typically, any shared risk deficits are not payable until and unless the Company generates future risk sharing surpluses, or if the HMO withholds a portion of the capitation revenue to fund any risk share deficits. At the termination of the HMO contract, any accumulated risk share deficit is typically extinguished. Due to the lack of access to information necessary to estimate the related costs, shared-risk amounts receivable from the HMOs are only recorded when such amounts are known. Risk pools for the prior contract years are generally final settled in the third or fourth quarter of the following fiscal year. For the years ended September 30, 2020 and 2019, Medical Group revenues included approximately $24,166,000 and $10,482,000, respectively, relating to risk-sharing profit. At September 30, 2020 and 2019, contingent liabilities for carry-forward risk-pool deficits expected to be forgiven, or offset against future surpluses were approximately $68,702,000 and $88,991,000, respectively, based on the available information from the health plans.

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The Company also receives incentives under "pay-for-performance" programs for quality medical care based on various criteria. These incentives, which are included in other revenues within Medical Group revenues, are generally recorded in the third and fourth quarters of the fiscal year when such amounts are known. Performance and incentive revenues recorded during the years ended September 30, 2020 and 2019 were $21,272,000 and $11,221,000, respectively.

Management fee revenue is earned in the month the services are rendered. Management fee arrangements with unaffiliated entities provide for compensation ranging from 6.5% to 10% of revenues. Management fee revenues recorded during the years ended September 30, 2020 and 2019 were $11,895,000 and $10,248,000, respectively. Management fees for revenue for entities that are consolidated are eliminated on consolidation.

Medical Group Cost of Revenues

The cost of health care services consists primarily of capitation and claims payments, pharmacy costs and incentive payments to contracted providers. These costs are recognized in the period incurred, or when the services are provided. Claims costs also include an estimate of the cost of services which have been incurred but not yet reported to the Company. The estimate for accrued medical costs is based on projections of costs using historical studies of claims paid and adjusted for seasonality, utilization and cost trends. These estimates are subject to trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management records its best estimate of the amount of medical claims incurred at each reporting period. Estimates are continually monitored and reviewed and, as settlements are made or estimates adjusted, differences are reflected in current period. See Note 13 for changes in claims estimates during the years ended September 30, 2020 and 2019.

The Company has contractual reimbursement obligations to providers and discretionary incentive payment obligations to physicians. These payments are in large part predicated on the pay-for-performance, shared risk revenues, and favorable senior capitation risk adjustment payments received by the Company from the health plans. The Company records these revenues generally in the third or fourth quarter of each fiscal year when the incentives and capitation adjustments due from the health plans are known. During this period, the Company also finalizes the physician discretionary incentive.

The Company recorded physician incentives expense of approximately $24,230,000 and $17,643,000 for the years ended September 30, 2020 and 2019, respectively. As of September 30, 2020 and 2019, physician incentive accruals of approximately $22,484,000 and $14,351,000, respectively, were included in accounts payable and other accrued liabilities in the accompanying consolidated financial statements.

The Company also periodically evaluates the need to establish premium deficiency reserves for the probability that anticipated future health care costs could exceed future capitation payments from HMOs under capitated contracts and, where appropriate, records a premium deficiency reserve. There were no such premium deficiencies recorded at September 30, 2020 and 2019, respectively.

The Company, for certain matters, maintains stop loss coverage for health care costs that are in excess of set thresholds.

Global Risk Management Segment

Global Risk Management Revenues

Operating revenue of the Global Risk Management segment consists primarily of payments for medical services procured under global capitation arrangements from third-party health plans. Capitation revenue under these global capitation contracts is prepaid monthly to the Global Risk Management segment based on the number of enrollees. Entities within the Global Risk Management segment entered into Management Services Agreements with the Hospital Services and Medical Group segments, under which up to 98% of capitation revenue received is transferred to these segments. During the years ended September 30, 2020 and 2019, capitation revenue received from health plans was $265,513,000 and $267,300,000, respectively, of which $101,556,000 and $105,755,000, and $119,328,000 and $120,119,000 were transferred to our Hospital Services segment and Medical Group segment, respectively.

Similar to the Medical Group segment, capitation revenue is recognized in the month in which the Global Risk Management segment is obligated to provide services. Minor ongoing adjustments to prior months' capitation, primarily arising from contracted HMOs' finalizing of monthly patient eligibility data for additions or subtractions of enrollees, are recognized in the month they are communicated to the Company. Additionally, Medicare pays capitation using a "Risk Adjustment model," which compensates managed care organizations and providers based on the health status (acuity) of each enrollee. Health plans and providers with higher acuity enrollees will receive more and those with healthier enrollees will receive less. Under Risk Adjustment, capitation is determined based on health severity, measured using patient encounter data. Capitation is paid on an interim basis based on data submitted for the enrollee for the preceding year and is adjusted in subsequent periods (generally in the Company's fourth quarter) after the final data is compiled. Positive or negative capitation adjustments are made for Medicare enrollees with conditions requiring more or less healthcare services than assumed in the interim payments. Since the Company cannot reliably predict these adjustments, periodic changes in capitation amounts earned as a result of Risk Adjustment are recognized generally in the fourth quarter when those changes are communicated by the health plans to the Company. During the years ended September 30, 2020 and 2019, the Global Risk Management Segment recognized capitation risk adjustments of $9,646,000 and $4,552,000, respectively.

Global Risk Management Cost of Revenues

The cost of health care services consists primarily of the transfer of capitation revenue to the Hospital Services and Medical Group segments under the Management Services Agreements, and capitation and claims payments. These costs are recognized in the period incurred, or when the services are provided. Claims costs also include an estimate of the cost of services which have been incurred but not yet reported to the Company. The estimate for accrued medical costs is based on projections of costs using historical studies of claims paid and adjusted for seasonality, utilization and cost trends. These estimates are subject to trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management records its best estimate of the amount of medical claims incurred at each reporting period. Estimates are continually monitored and reviewed and, as settlements are made or estimates adjusted, differences are reflected in current operations.

The Company also periodically evaluates the need to establish premium deficiency reserves for the probability that anticipated future health care costs could exceed future capitation payments from HMOs under capitated contracts and, where appropriate, record a premium deficiency reserve. There were no such premium deficiencies recorded at September 30, 2020 or 2019.

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The Company, for certain matters, maintains stop loss coverage for health care costs that are in excess of set thresholds.

Property, Improvements and Equipment

Property, improvements and equipment are stated on the basis of cost or, in the case of acquisitions, at their acquisition date fair values. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, and amortization of leasehold improvements is provided using the straight-line basis over the shorter of the remaining lease period or the estimated useful lives of the leasehold improvements. Leasehold improvements are generally depreciated over 5 to 40 years, buildings are depreciated over 5 to 40 years, equipment is depreciated over 2 to 15 years and furniture and fixtures are depreciated over 2 to 20 years. Equipment capitalized under capital lease obligations are amortized over the lesser of the life of the lease or the useful life of the asset.

As more fully described in Note 12, the Company is required to comply with certain seismic standards as required by the state of California by dates ranging from February 2021 through July 2022. The useful life of buildings subject to seismic retrofit requirements may be limited if the Company does not make the necessary upgrades by the required compliance date.

Goodwill

Goodwill represents the excess of the consideration paid and liabilities assumed over the fair value of the net assets acquired, including identifiable intangible assets.

On October 1, 2019, the Company elected to adopt the private company alternative, under which private companies can elect to amortize goodwill on a straight-line basis over 10 years, or less than 10 years if the entity demonstrates that another useful life is more appropriate. It also permits a private company to apply a simplified impairment model to goodwill, allowing impairment analysis to be evaluated at the entity level. Accordingly, the Company began amortizing goodwill prospectively as of October 1, 2019, on a straight-line basis over 10 years. The Company evaluates goodwill for impairment at the entity level when a triggering event occurs that indicates that the fair value of the entity may be below its carrying amount. When a triggering event occurs, the Company first assesses qualitative factors to determine whether the quantitative impairment test is necessary. If that qualitative assessment indicates that it is more likely than not that goodwill is impaired, the Company performs the quantitative test to compare the entity's fair value with its carrying amount, including goodwill. If the qualitative assessment indicates that it is not more likely than not that goodwill is impaired, further testing is unnecessary. The goodwill impairment loss, if any, represents the excess of the carrying amount of the entity over its fair value.

In March 2020, the COVID-19 pandemic was identified as a triggering event. In evaluating whether indicators of impairment exist, the Company considered adverse changes in market value, laws and regulations, profitability, cash flows, ability to maintain enrollment and renew payer contracts at favorable terms, among other factors.

Prior to election of the private company alternative, goodwill was not amortized; rather it was reviewed annually for impairment for each reporting unit, or more frequently if impairment indicators arose. Impairment of goodwill was tested by comparing each reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. The fair value of the reporting units were estimated. The goodwill impairment test was a one-step process which consisted of estimating based on a weighted combination of (i) the guideline company method that utilizes revenue or earnings multiples for comparable publicly-traded companies, and (ii) a discounted cash flow model. If the estimated fair value

of the reporting unit is less than its carrying value, this indicated that goodwill would be impaired, and impairment would be recorded based on the deficiency of fair value compared to the carrying value.

There was no goodwill impairment recorded during the years ended September 30, 2020 and 2019.

Intangible Assets

Intangible assets include customer relationships, trade names, and favorable leaseholds. The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The Company considers assets to be impaired and writes them down to fair value if estimated undiscounted cash flows associated with those assets are less than their carrying amounts. Fair value is based upon the present value of the associated cash flows. Changes in circumstances (for example, changes in laws or regulations, technological advances or changes in strategies) may also reduce the useful lives from initial estimates. Changes in planned use of intangibles may result from changes in customer base, contractual agreements, or regulatory requirements. In such circumstances, management will revise the useful life of the long-lived asset and amortize the remaining net book value over the adjusted remaining useful life. In March 2020, the COVID-19 pandemic was identified as a triggering event. In evaluating whether indicators of impairment exist, the Company considered adverse changes in market value, laws and regulations, profitability, cash flows, ability to maintain enrollment and renew payer contracts at favorable terms, among other factors. There were no impairments recorded during the years ended September 30, 2020 and 2019.

Insurance Reserves

Medical Malpractice Liability Insurance

The individual physicians who contract with the physician organizations carry their own medical malpractice insurance, some of which may be purchased from RRG or CHIC. In the Hospital Services segment, the Company's hospitals carry professional and general liability insurance to cover medical malpractice claims under claims-made policies. Under the policies, insurance premiums cover only those claims actually reported during the policy term. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims related to occurrences during the policy term but reported subsequent to the policy's termination may be uninsured. The Company's hospitals have a consolidated policy for professional and general liability insurance with separate retentions for each entity. The Pennsylvania MCARE fund provides the $500,000 in excess of $500,000 RRG malpractice coverage for Prospect Crozer, LLC ("Crozer").

During the years ended September 30, 2020 and 2019 at Crozer, RRG provided primary malpractice insurance ($500,000 per occurrence and $1,500,000 in the aggregate) and general liability ($1,000,000 per occurrence and $2,000,000 in the aggregate). In addition, the RRG provided coverage for losses of $4,000,000 in excess of $1,000,000 for each hospital professional liability claim with no aggregate limit. RRG also provides additional layers of excess coverage over $5,000,000 up to $20,000,000, which are 100% reinsured by third party insurance carriers through multiple layers. The excess coverage provided for general liability is over $10,000,000 up to $50,000,000, which is also 100% reinsured by third party carriers. Additionally, there is $1,000,000 per occurrence and $3,000,000 in the aggregate) coverage for non-healthcare provider professional liability.

During the years ended September 30, 2020 and 2019, CHIC provided malpractice and general liability ($5,000,000 per occurrence and $37,000,000 in the aggregate) coverage for all facilities, except Crozer. CHIC also provided an excess healthcare professional liability and umbrella liability insurance policy on a claims-made basis covering healthcare professional liability, general liability, automobile liability, employers' liability, helipad liability and non-owned aircraft liability. The limit provided was $80,000,000 during the years ended September 30, 2020 and 2019) for each loss event and in the annual aggregate excess of the primary coverage layers described above. This coverage was fully reinsured by third party carriers.

GAAP requires that a health care organization record and disclose the estimated costs of medical malpractice claims in the period of the incident of malpractice, if it is reasonably possible that liabilities may be incurred and losses can be reasonably estimated. The Company has recognized an estimated liability for incurred but not reported claims and the self-insured risks (including deductibles and potential claims in excess of policy limits) based upon an actuarial valuation of the Company's historical claims experience of its hospitals. At September 30, 2020 and 2019, the total gross claims liability, was $103,349,000 and $133,300,000 and reinsurance recoverable on unpaid losses were $17,506,000 and $49,552,000, respectively, included in other assets on the accompanying consolidated balance sheets, and were estimated using a discount factor ranging from 3.50% to 4.00%.

Workers' Compensation Insurance

The workers' compensation coverage provides the statutory benefits required by law with a $500,000 deductible reimbursement policy provided by CHIC for the Company's entities located in California and Connecticut, and Pennsylvania. The facilities in Rhode Island were fully insured for workers' compensation claims with no deductible.

Through the commutation agreement noted above, risk was transferred for self-insured layers of coverage for workers compensation deductible reimbursement program from the Company's captive insurance companies to the Company's hospitals and affiliated subsidiaries. There are no changes to coverage and deductible.

At September 30, 2020 and 2019, included in accrued salaries, wages and benefits are accruals for uninsured claims and claims incurred but not reported of approximately $32,532,000 and $29,182,000 and reinsurance recoverable on unpaid losses of $5,218,000 and $3,134,000, respectively, included in other assets on the accompanying consolidated balance sheets. The amounts are estimated based upon an actuarial valuation of claims experience, using a discount factor of 4%.

Reserve Methodology

The claims reserve is based on the best data available to the Company. The estimate, however, is subject to a significant degree of inherent variability. The estimate is continually monitored and reviewed, and as the reserve is adjusted, the difference is reflected in current operations. While the ultimate amount of the medical malpractice and workers' compensation claims liability is dependent on future developments, management is of the opinion that the associated liabilities recognized in the accompanying consolidated financial statements are adequate to cover such claims. Management is not aware of any potential claims whose settlement, if any, would have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Stock Options

Ivy Holdings has a stock option plan (the "Ivy Plan"), which is administered by the Compensation Committee of the Ivy Holdings Board. The plan includes an Incentive Stock Option Agreement and a Non-Qualified Stock Option Agreement to be used in connection with the grant of options under the plan. These options granted under the Ivy Plan are exercisable into Ivy Holdings stock and vest based on a number of criteria.

Compensation costs for option awards are measured and recognized in the consolidated financial statements based on their grant date fair value, net of estimated forfeitures over the awards' service period. Options subject to variable accounting treatment are subject to revaluation at the end of each reporting period. The Company uses the Black-Scholes option pricing model and a single option award approach to estimate the fair value of stock options granted. The fair value of restricted stock grants are determined on the date of grant, based on the number of shares granted and the quoted price or estimated fair market value of the Company's common stock. Equity-based compensation is classified within the same line items as cash compensation paid to employees. Compensation costs related to stock options that vest or are exercisable when certain corporate transactions occur, including a change in control, are recognized at the time that such an event occurs.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments with initial maturities of 90 days or less to be cash equivalents. Cash and cash equivalents are primarily comprised of deposits with banks. The Company maintains its cash at banks with high credit-quality ratings.

Restricted Cash

Some of the Company's cash is restricted for various purposes including research, regulatory requirements and letters of credit. The Company is also required to keep restricted deposits by certain HMOs for the payment of claims. Such restricted deposits are classified as a current asset in the accompanying consolidated balance sheets, as they are restricted for payment of current liabilities. Restricted cash also include certificates of deposit with maturity dates of more than 90 days when purchased.

Cash Held in Escrow

As of September 30, 2019, the Company held $70,000,000 of cash in escrow, which was contributed to the Company's pension plans in January 2020. At September 30, 2020, there was $70,000 remaining in cash held in escrow.

Restricted Investments

Investments in marketable securities, primarily mutual funds, and are classified as available for sale and are stated at fair value. Unrealized gains and losses are recorded in the statements of other comprehensive income. Investment securities are exposed to various risk, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in values of investment securities could occur in the near term and such changes could materially affect investment. These investments are held in the Company's captive insurance companies and are shown as restricted because the state/local regulators require their approval before dividends or return of capital to the Parent Entity.

Inventories

Inventories of supplies are valued at the lower of amounts that approximate the weighted average cost or net realizable value, which approximates market value, and are expensed as incurred. Inventories consist primarily of medical and surgical supplies and pharmaceuticals.

Internal Use Software

Included within other receivables, prepaid expenses and other current assets are hosting arrangements related to the Oracle suite of products, which are accounted for as service contracts. The gross carrying amount of capitalized service costs was approximately $14,298,000 and $12,100,000 at September 30, 2020 and 2019, respectively. There is no expected residual value for capitalized costs. At September 30, 2020 and 2019, there was approximately and $12,100,000, respectively, of capitalized costs for hosting arrangements accounted for as service contracts that is was in the development stage and amortization is scheduled to commence once the project is complete and ready for its intended use. The estimated amortization period is 5 years. Amortization expense was $1,648,000 during the year ended September 30, 2020. There was no amortization expense during the year ended September 30, 2019.

Deferred Financing Costs

Deferred financing costs are amortized over the period in which the related debt is outstanding using the effective interest method and are classified as a deduction from the carrying amount of the related debt. As it relates to MPT liabilities, deferred financing costs are classified in other assets in the accompanying consolidated balance sheets.

Income Taxes

Deferred income tax assets and liabilities are recognized for differences between financial and income tax reporting bases of assets and liabilities based on enacted tax rates and laws. To the extent a deferred tax asset cannot be recognized under the preceding criteria, allowances must be established. The impact on deferred taxes of changes in tax rates and laws, if any, are applied to the years during which temporary differences are expected to be settled and reflected in the financial statements in the period of enactment. The Company recognizes interest and penalties associated with income tax matters and unrecognized tax benefits in the income tax expense line item of the statements of operations.

An entity is required to evaluate its tax positions using a two-step process. First, the entity should evaluate the position for recognition. An entity should recognize the financial statement benefit of a tax position if it determines that it is more likely than not that the position will be sustained on examination. Next, the entity should measure the amount of benefit that should be recognized for those tax positions that meet the more-likely-than-not test.

Sale-Leaseback Transactions

The Company evaluates sale-leaseback transactions by determining whether the transaction meets the qualifying criteria to be recognized as a sale-leaseback, including the transfer of risk and rewards of ownership as well as the absence of continuing involvement of the Company. When the qualifying criteria for a sale-leaseback transaction are not met, the Company accounts for the transaction as a financing (see Notes 8 and 9).

Comprehensive Income

Comprehensive income consists of net income and other gains and losses affecting stockholder's equity that, under generally accepted accounting principles, are excluded from net income (loss) attributable to the Company. For the Company, such items consist primarily of unrealized gains or losses on debt as well as changes related to pension and other postretirement liabilities that are not recognized immediately in net periodic benefit costs (see Note 11).

Fair Value of Financial Instruments

Financial instruments consist primarily of cash and cash equivalents, restricted cash, restricted investments, patient and other accounts receivables, accrued salaries and benefits, accounts payable and accrued expenses, medical claims and related liabilities, amounts due to government agencies, notes receivable and payable, capital lease obligations, debt, MPT liability and other liabilities. The carrying amounts of current assets and liabilities approximate their fair value due to the relatively short period of time between the origination of the instruments and their expected realization.

Fair Value Measurement

Relevant accounting guidance establishes a framework for measuring fair value and clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

The guidance requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of inputs as follows: Level 1 quoted prices in active markets for identical assets or liabilities; Level 2 quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; or Level 3 unobservable inputs for the asset or liability, such as discounted cash flow models or valuations. The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The Company's Level 1 assets include cash and cash equivalents and investments (certificates of deposit and money market mutual funds). The inputs for fair value of goodwill and intangible assets (including long-lived assets and intangible assets subject to amortization) would be based on Level 3 inputs as data used for such fair value calculations would be based on discounted cash flows that are not observable from the market, directly or indirectly.

Financial Items Measured at Fair Value on a Recurring Basis

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis and where they are classified within the hierarchy (in thousands):

September 30, 2020	Total	Level 1	Level 2	Level 3
Mutual funds	$ 31,354	$ 31,354	$ -	$ -
September 30, 2019				
Mutual funds	$ 29,540	$ 29,540	$ -	$ -

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The Company's investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices. The Company's defined benefit pension plan assets are also measured at fair value (see Note 11).

The Company's carrying amount of long-term debt approximated fair value as of September 30, 2020 and 2019, respectively.

Concentrations of Credit Risk

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits of $250,000 per depositor of each financial institution. The Company has not experienced any losses to date related to these balances.

Financial instruments that potentially subject the Company to concentrations of credit risk consist of receivables due from Medicare, Medicaid, patients, and health plans including shared-risk arrangements.

The Company invests excess cash in liquid securities at institutions with strong credit ratings, following established guidelines relative to diversification and maturities to maintain safety and liquidity. These guidelines are periodically reviewed and modified to take into consideration trends in yields and interest rates and principal risk. Management attempts to schedule the maturities of the Company's investments to coincide with the Company's expected cash requirements. Credit risk with respect to receivables is limited since amounts are generally due from large HMOs within the Medical Group segment and from the Medicare and Medicaid programs within the Hospital Services segment. Management reviews the financial condition of these institutions on a periodic basis and does not believe the concentration of cash or receivables results in a high level of risk.

For the years ended September 30, 2020 and 2019, the Hospital Services segment received a total of 64% and 63% of its net patient revenues from Medicare and Medicaid programs, respectively, and the Medical Group segment received a total of 58% and 65% for the years ended September 30, 2020 and 2019, respectively, of their capitation revenues from its five largest HMOs, as follows (in thousands):

Years Ended September 30,		**2020**	**% of Total Revenue**			2019	% of Total Revenue
Hospital Services:							
Government Payers:							
Medicare	$	**745,780**	**32%**		$	822,407	33%
Medicaid		**757,626**	**32%**			750,909	30%
Total	$	**1,503,406**	**64%**		$	1,573,316	63%
Medical Group:							
HMO A	$	**41,136**	**13%**	HMO A		61,087	20%
HMO E		**36,299**	**12%**	HMO B		35,674	12%
HMO B		**35,819**	**12%**	HMO E		34,684	11%
HMO F		**35,166**	**11%**	HMO F		34,207	11%
HMO D		**30,477**	**10%**	HMO D		32,617	11%
Total	$	**178,897**	**58%**		$	198,269	65%

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The Global Risk Management segment received all of their revenues from seven health plans during the years ended September 30, 2020 and 2019.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities at the dates, and for the periods, that the consolidated financial statements are prepared. Actual results could materially differ from those estimates. Principal areas requiring the use of estimates include third party settlements, settlements under risk sharing programs, allowances for contractual discounts and doubtful accounts, accruals for medical claims, impairment of goodwill, long-lived assets and intangible assets, share-based payments, professional and general liability claims and workers' compensation claims, reserves for pension obligations and other postretirement benefit reserves, reserves for outcome of legislation and valuation allowances against deferred tax assets.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)" with effective dates deferred for all entities by ASU 2015-14, and further deferred for nonpublic entities by ASU 2020-05. The core principle of ASU 2014-09 is built on the contract between a vendor and a customer for the provision of goods and services, and attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this objective, the standard requires five basic steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, (v) recognize revenue when (or as) the entity satisfies a performance obligation. Nonpublic entities will apply the new standard for annual periods beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Three basic transition methods are available — full retrospective, retrospective with certain practical expedients, and a cumulative effect approach. Under the third alternative, an entity would apply the new revenue standard only to contracts that are incomplete under legacy U.S. GAAP at the date of initial application and recognize the cumulative effect of the new standard as an adjustment to the opening balance of retained earnings. That is, prior years would not be restated and additional disclosures would be required to enable users of the financial statements to understand the impact of adopting the new standard in the current year compared to prior years that are presented under legacy U.S. GAAP. The Company has evaluated the effect of this guidance on its consolidated financial statements and do not expect the impact to be material to the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" with effective dates deferred for all entities by ASU 2019-10, and further deferred for nonpublic entities by ASU 2020-05. The core principle of ASU 2016-02 is that a lessee should recognize the assets and liabilities that arise from leases, including operating leases. Under the new requirements, a lessee will recognize in the statement of financial position a liability to make lease payments (the lease liability) and the right-of-use asset representing the right to the underlying asset for the lease term. For leases with a term of 12 months or less, the lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous GAAP. Nonpublic entities will apply the new standard for annual periods beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The Company is currently evaluating the standard and the impact on its consolidated financial statements and footnote disclosures.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments". The amendments in this standard require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. In addition, this standard amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendment is effective for nonpublic entities for annual reporting periods beginning after December 22, 2019. Early adoption is permitted. The Company is currently evaluating the standard and the impact on its consolidated financial statements and footnote disclosures.

In August 2018, the FASB issued ASU 2018-14, "Compensation - Retirement Benefits - Defined Benefit plans - General (Topic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans", which amends ASC 715 to add, remove and clarify disclosure requirements related to defined benefit pension and other postretirement plans. This ASU is effective for fiscal years ending after December 15, 2021. Early adoption is permitted. The Company is currently evaluating the provision of ASU 2018-14 and its impact on its consolidated financial statements and related disclosures.

Recently Adopted Accounting Pronouncements

The Company adopted ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities", effective October 1, 2019. The ASU amends ASC Topic 825, Financial Instruments—Overall, to classify equity securities with readily determinable fair values into different categories and require equity securities to be measured at fair value with changes in the fair value recognized through net income among other changes. On the date of adoption, a reclassification in the amount of $1,691,000 was made from accumulated other comprehensive income to retained deficit in the accompanying consolidated balance sheets and accompanying consolidated statements of stockholder's deficit.

The Company adopted ASU 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," effective October 1, 2019, using the full-retrospective method. The standard requires employers to present the service cost component of the net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. The other components of net benefit cost, including interest cost, expected return on plan assets, amortization of prior service cost/credit and actuarial gain/loss, and settlement and curtailment effects, are to be presented outside of any subtotal of operating income. The Company elected to apply the practical expedient and used the amounts disclosed in Note 11 to the consolidated financial statements for the year ended September 30, 2020 as the estimation basis for applying the retrospective presentation requirements of the standard.

Reclassifications

Certain reclassifications were made to the prior year consolidated financial statements in order to conform to the current year presentation. These reclassifications did not have a material impact on previously reported consolidated financial statements.

3. Property, Improvements and Equipment

Property, improvements and equipment, consisted of the following (in thousands):

September 30,	2020	2019
Land and land improvements	$ 68,374	$ 68,403
Buildings and improvements	378,882	359,570
Leasehold improvements	27,971	12,097
Equipment	409,784	373,153
Furniture and fixtures	6,032	5,288
	891,043	818,511
Less: accumulated depreciation	(412,812)	(342,106)
	478,231	476,405
Construction in Progress	66,025	62,066
Property, improvements and equipment, net	$ 544,256	$ 538,471

At September 30, 2020 and 2019, the Company had assets under capitalized leases of approximately $56,244,000 and $53,861,000, respectively, and related accumulated depreciation of $11,392,000 and $10,771,000, respectively.

Depreciation expense was approximately $70,706,000 and $83,683,000 for the years ended September 30, 2020 and 2019, respectively.

Included within equipment is capitalized software costs, which relate to significant system conversions. The estimated amortization period is 5 years. The gross carrying amount of capitalized software for internal use (related to the Cerner suite of products) was approximately $36,157,000 and $39,538,000 at September 30, 2020 and 2019, respectively, and the net carrying amount considering accumulated amortization was approximately $31,870,000 and $37,449,000 at September 30, 2020 and 2019, respectively. There is no expected residual value for capitalized internal-use software. At September 30, 2020 and 2019, there was approximately $24,973,000 and $28,355,000, respectively, of capitalized costs for internal-use software that is in the development stage and amortization is scheduled to commence once the software project is complete and ready for its intended use. Amortization expense was $2,237,000 and $2,050,000 for the years ended September 30, 2020 and 2019, respectively.

4. Discontinued Operations

During the year ended September 30, 2019, the Company made the determination to sell the operations of Nix Hospital System ("Nix Health") in Texas and East Orange General Hospital ("EOGH") in New Jersey. The initial plan as approved by the Company's Board of Directors in March 2019 was to sell both Nix Health and EOGH as "going concern" businesses. Subsequent to the initial plan, the plans for Nix Health changed as a result of interest in the marketplace. The decision to sell the acute hospital building as a real estate transaction was made in August 2019. The hospital closed to patient admissions in September 2019 and the building was sold for $27.2 million in December 2019. The decision was made in October 2019 to initially consolidate, and then close, the behavioral business. The two behavioral health businesses were closed in November 2019. The owned building remains for sale. Another building that was part of the behavioral business was subject to a long-term lease. The long-term lease was terminated on May 21, 2020 by payment of an early termination fee of $520,622. Nix also master leased an outpatient

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center in Alamo Heights, Texas. Efforts are underway to sublease the outpatient building. Subsequent to year-end, the Company entered into an Asset Purchase Agreement to sell substantially all of the assets of EOGH for a sale price of $6.2 million (see Note 15). The Company's decision to discontinue the operations of each of these entities was based on the strategy of the Company's management in their respective markets and financial results.

Accordingly, for the year ended September 30, 2020 and 2019, the operations (as they relate to revenues and expenses that will no longer continue post sale/closure) have been shown within discontinued operations. At September 30, 2019, all the assets and liabilities of these businesses have been classified as "held for sale." At September 30, 2020, as it relates to Nix Health only the building that is in the process of being sold is presented as "held for sale"; as it relates to EOGH, only the assets and liabilities that are being transferred as part of the sale are presented as "held for sale."

In connection with the presentation of discontinued operations, the Company was required to test the long-lived assets for impairment as of September 30, 2020 and 2019. As of September 30, 2020, as a result of the impairment test, at EOGH: (i) property, improvements and equipment were impaired by approximately $5.3 million; and (ii) other receivables, prepaid expenses and other current assets at EOGH were impaired by approximately $3.6 million. As of September 30, 2019, as a result of the impairment test: property, improvements and equipment at EOGH was impaired by approximately $55.9 million and (i) goodwill at Nix Health was fully impaired; (ii) property, improvements and equipment at EOGH was impaired by approximately $55.9 million and at Nix Health was impaired by $17.8 million, respectively.

Summarized financial information for discontinued operations is included below (in thousands):

September 30,	**2020**	2019
Patient accounts receivable, net of allowance for doubtful accounts and other receivables	**$ 11,771**	$ 26,037
Due from government payors	**-**	2,022
Other receivables, prepaid expenses and other current assets	**4,865**	7,732
Inventories	**1,379**	1,486
Total current assets	**18,015**	37,277
Property, improvements and equipment, net	**7,430**	42,401
Intangible assets, net	**1,555**	1,555
Other assets	**451**	164
Total assets of the disposal groups classified as held for sale in the consolidated balance sheets	**$ 27,451**	$ 81,397

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September 30,	2020	2019
Accrued medical claims and other healthcare costs payable	$ -	$ 53
Accounts payable and other accrued liabilities	12,516	23,325
Accrued salaries, wages and benefits	4,784	7,929
Due to government payers	-	855
Current portion of capital leases	448	1,777
Total current liabilities	17,748	33,939
Long-term debt, net of current portion	922	946
Malpractice reserves	3,933	2,677
Capital leases, net of current portion	250	7,310
Other long-term liabilities	-	1,061
Total liabilities of the disposal groups classified as held for sale in the consolidated balance sheets	$ 22,853	$ 45,933

For the Years Ended September 30,	2020	2019
Net patient service revenues	$ 77,962	$ 189,063
Provision for bad debts	2,140	(19,953)
Net patient service revenues	80,102	169,110
Other non-patient revenues	7,394	4,762
Total revenues	87,496	173,872
Hospital operating expenses	90,254	181,145
General and administrative	29,312	47,829
Depreciation and amortization	-	7,224
Total operating expenses	119,566	236,198
Pandemic relief grant income	15,658	-
Net operating loss	(16,412)	(62,326)
Interest expense, net	923	1,708
Goodwill impairment	-	3,138
Property, improvement and equipment impairment	8,857	73,682
Other expense (income), net	(2,582)	685
Total other expense, net	7,198	79,213
Loss on discontinued operations before income taxes	(23,610)	(141,539)
Income tax (provision) benefit	(2)	18,234
Loss on discontinued operations, net of taxes	$ (23,612)	(123,305)

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The following table shows the funds that the Company received through the PRF in both general and targeted distributions, including amounts received for Nix Health that were required to be repaid to HHS, during the year ended September 30, 2020 (in thousands), as it relates to discontinued operations:

	PRF Funds	Hotspot Funds	Other Funds	Total
Funds received during the year ended September 30, 2020	$ 4,068	$ 12,350	$ 14,835	$ 31,253
Funds applied to lost revenues	-	(6,460)	(9,198)	(15,658)
Funds applied to incremental expenses	-	-	(5,637)	(5,637)
Funds that were refunded	(2,385)	-	-	(2,385)
Funds transferred from discontinued operations to continuing operations	(1,683)	-	-	(1,683)
Funds unused at September 30, 2020	$ -	$ 5,890	$ -	$ 5,890

As of September 30, 2020, the Company has $5,890,000 in funds related to EOGH that had not been recognized in the accompanying consolidated statements of operations. These liabilities will not transfer upon the completion of the sale of EOGH and accordingly are reflected in accounts payable and other accrued liabilities in the accompanying consolidated balance sheets.

As of September 30, 2020, the Company had received Medicare advance payments of approximately $10,152,000 related to EOGH. These liabilities will not transfer in the sale of EOGH and accordingly are reflected in refund liabilities in the accompanying consolidated balance sheets.

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5. Goodwill and Intangible Assets

The net carrying value of goodwill by reporting unit is as follows (in thousands):

September 30, 2020	Gross	Accum. Impairment	Accum. Amortization	Total
Southern California Hospitals	$ 130,912	$ -	$ (13,091)	$ 117,821
California Medical Groups	30,722	-	(2,864)	27,858
Prospect CharterCARE, LLC ("CharterCare")	14,665	(14,228)	(22)	415
Crozer	140,216	(978)	(13,946)	125,292
Prospect ECHN, Inc. ("ECHN")	535	-	(54)	481
Prospect Waterbury, Inc. ("Waterbury")	2,888	-	(268)	2,620
Total	$ 319,938	$ (15,206)	$ (30,245)	$ 274,487

September 30, 2019	Gross	Accum. Impairment	Accum. Amortization	Total
Southern California Hospitals	$ 130,912	$ -	$ -	$ 130,912
California Medical Groups	28,222	-	-	28,222
CharterCare	14,228	(14,228)	-	-
Crozer	140,216	-	-	140,216
ECHN	535	-	-	535
Waterbury	2,492	-	-	2,492
Total	$ 316,605	$ (14,228)	$ -	$ 302,377

The changes in the net carrying amount of goodwill for the years ended September 30 are as follows (amounts in thousands):

September 30,	2020	2019
Balance, beginning of year	$ 302,377	$ 301,988
Acquisitions	3,333	389
Disposition	(978)	-
Amortization	(30,245)	-
Balance, end of year	$ 274,487	$ 302,377

Amortization expense was $30,245,000 for the year ended September 30, 2020 and is included in goodwill amortization expense in the accompanying consolidated statements of operations. There was no amortization expense recorded during the year ended September 30, 2019 (see Note 2).

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Estimated amortization expense for each fiscal year of goodwill is as follows (in thousands):

Years ending September 30,	
2021	$ 30,471
2022	30,471
2023	30,471
2024	30,471
2025	30,471
Thereafter	122,132
Total future amortization expense	$ 274,487

The weighted-average remaining useful life for the goodwill was approximately nine years as of September 30, 2020.

Identifiable intangible assets are comprised of the following (in thousands):

September 30,	Useful lives	**2020**	2019
HMO membership	14 years	**$ 25,200**	$ 25,200
Trade names, net of impairment	3 - 20 years	**42,030**	42,030
Other	5 - 6 years	**97**	97
Gross carrying value		**67,327**	67,327
Accumulated amortization		**(47,273)**	(41,782)
Intangible assets, net		**$ 20,054**	$ 25,545

Amortization is recognized on a straight-line basis (management's best estimate of the period of economic benefit) over the respective useful lives and expense for the years ended September 30, 2020 and 2019 was $5,491,000 and $6,278,000, respectively, and is included in depreciation and amortization expense in the accompanying consolidated statements of operations. There are no expected residual values related to these intangible assets.

Estimated amortization expense for each future fiscal year of intangible assets is as follows (in thousands):

Years ending September 30,	
2021	$ 5,184
2022	3,395
2023	2,875
2024	2,875
2025	2,875
Thereafter	2,850
	$ 20,054

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The weighted-average remaining useful life for the intangible assets was approximately five years as of September 30, 2020.

6. Related Party Transactions

Jeereddi Prasad, M.D., a shareholder of Ivy Holdings, a director of Ivy Holdings and the Company, and an officer of the Upland Medical Group, a Professional Medical Group and Pomona Valley Medical Group, Inc. (collectively "ProMed Entities"), has ownership interests in physician medical groups that provide medical services to ProMed members, including Chaparral Medical Group, Inc., (in which the Company beneficially owns a 13.2% interest). For the years ended September 30, 2020 and 2019, the ProMed Entities paid these groups approximately $19,998,000 and $21,922,000, respectively. As of September 30, 2020 and 2019, the Company had accounts payable and other accrued liabilities due to these related parties of $731,000 and $806,000, respectively.

Pursuant to a Management Services Agreement, dated December 15, 2010 and amended on May 3, 2012 (the "LGP Management Agreement"), between the Company and Leonard Green & Partners, L.P. ("LGP"), a private equity fund with affiliated funds that collectively constitute the majority shareholder of Ivy Holdings, LGP provides to the Company, (a) certain investment banking services, (b) management, consulting and financial planning services and (c) financial advisory and investment banking services in connection with major financial transactions from time to time. In consideration for the services provided by LGP under the LGP Management Agreement, the Company pays LGP an annual fee of $1,000,000, payable in monthly installments, and reimburses LGP for its related expenses up to $50,000 annually. If approved by the unanimous consent of the Board of Directors of the Company, additional customary fees may be due to LGP pursuant to the terms of the LGP Management Agreement for services rendered in connection with major transactions from time to time. The Company stopped accruing LGP monthly fees in March 2020. As of September 30, 2020 and 2019, there was approximately $1,000,000 and $500,000, respectively, included in accounts payable and other accrued liabilities in the accompanying consolidated balance sheets.

During the year ended September 30, 2019, the Company received a capital contribution of $41.0 million and paid a dividend of approximately $44.4 million (see Note 10). There were no capital contributions from Ivy Intermediate or dividends paid during the year ended September 30, 2020.

The Company is a wholly owned indirect subsidiary of Ivy Holdings. Therefore, Ivy Holdings is the parent of an affiliated group of corporations within the meaning of Section 1504(a) of the Internal Revenue Code of 1986. On December 15, 2010, Ivy Holdings, Ivy Intermediate and the Company entered into a Tax Sharing Agreement. The Tax Sharing Agreement allows the Company to make payments to Ivy Holdings as necessary to fund their payment of any required taxes incurred due to such parent status. Under this agreement, the Company received refunds (net of payments) of $(397,000) and $(343,000) for the years ended September 30, 2020 and September 30, 2019, respectively.

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7. Income Taxes

The components of the income tax (benefit) provision are as follows (in thousands):

Year Ended September 30,	2020	2019
Current:		
Federal	$ (8,944)	$ 11,940
State	1,874	3,353
	(7,070)	15,293
Deferred:		
Federal	-	1,162
State	-	-
	-	1,162
Total:		
Federal	(8,944)	13,102
State	1,874	3,353
	$ (7,070)	$ 16,455

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Temporary differences and carry forward items that result in deferred income tax balances as of September 30, are as follows (in thousands):

September 30,	2020	2019
Deferred tax assets:		
Accrued medical claims	$ 8,038	$ 3,443
Malpractice reserves	4,013	3,254
Accounts receivable	723	26,596
Accrued salaries & wages	13,936	13,478
Pension obligation	58,511	65,919
Net operating losses and 163j	100,061	44,026
Tax Credits	2,350	1,719
Outside basis differences	(1,920)	7,244
Lease liability	128,496	132,400
Deferred revenue	5,720	-
Deferred FICA tax	7,016	-
Deferred tax assets	326,944	298,079
Valuation allowance	(246,584)	(203,335)
Net deferred tax assets	80,360	94,744
Deferred tax liabilities:		
Property, plant & equipment	(71,010)	(72,053)
Intangible assets	(5,834)	(6,642)
Prepaid expenses	(2,830)	(2,969)
Other comprehensive income	(297)	(11,585)
UTP & other	(389)	(672)
Deferred tax liabilities	(80,360)	(93,921)
Net deferred tax assets	$ -	$ 823

Deferred tax assets and liabilities reflect the effect of temporary differences between the assets and liabilities recognized for financial reporting purposes and the amounts recognized for income tax purposes.

Management assesses the available positive and negative evidence to estimate whether sufficient future pretax income will be generated to permit use of the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative pretax losses incurred over the three-year period ended September 30, 2020. Such objective evidence limits the ability to consider other subjective evidence, such as the Company's projections for future growth. Based on this evaluation, at September 30, 2020 and 2019, a valuation allowance of approximately $246.6 million and $203.3 million, respectively, was recorded. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased or if negative objective evidence in the form of cumulative losses is no longer present and additional weight is given to subjective evidence such as the Company's projections for growth.

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A consolidated federal tax return is filed for Ivy Holdings, with the exception of Nuestra Familia Medical Group Inc. ("Nuestra"), which files its own federal tax returns. The Company files combined state tax returns for California, Texas, Rhode Island, Connecticut, New Jersey and file separate state returns for Pennsylvania and Florida. The Company's filed tax returns are generally subject to examination by the IRS and state tax boards for 3 to 4 years. As of September 30, 2020 the Company had Federal and State net operating loss carryforwards totaling approximately $44.2 million and $880.2 million (aggregated across multiple states). As of September 30, 2019 the Company had Federal and State net operating loss carryforwards totaling approximately $77.2 million and $638.4 million. Federal net operating losses have an indefinite carryforward period. State net operating loss carryforwards expire beginning 2038.

During fiscal year 2019, the Company completed an IRS examination for Ivy Holdings, Inc. & Subsidiaries for fiscal year 2014 through 2016 federal income tax returns without any adjustment to reported taxable income. The Company's tax years 2016 through 2018 are open for federal income tax examination, and generally the states are open for tax years 2015 through 2018. The Company is under examinations by the California Franchise Tax Board for tax years ended September 30, 2014 through 2017. During the year ended September 30, 2020, the Company recorded a liability in the amount of $4.1 million related to uncertain tax positions ("UTP") with respect to California Unitary Combined Filing, which was recorded in other long-term liabilities in the accompanying consolidated balance sheets. The Company does not currently anticipate any changes to our unrecognized tax benefits for the next twelve months related to these examinations.

During the year ended September 30, 2018, the Company recorded a liability in the amount of $12.7 million related to uncertain tax positions ("UTP") with respect to impermissible accounting methods for federal income tax purposes, which was recorded in other long-term liabilities in the accompanying consolidated balance sheets. During the year ended September 30, 2019, the Company has removed the UTP liability due to filing with IRS for a change from an improper to a proper accounting method change.

The Company has evaluated the CARES Act and does not expect the legislation to have a significant impact on the effective tax rate or the income tax payable of the Company.

The differences between the income tax provision at the federal statutory rate and that reflected in the accompanying consolidated statements of operations are summarized as follows:

Years Ended September 30,	**2020**	2019
Tax provision at statutory rate	**21%**	21%
State taxes, net of federal benefit	**20%**	16%
Return to provision adjustments	**11%**	0%
Goodwill amortization	**(8)%**	0%
Deferred tax adjustments	**8%**	0%
Valuation allowance	**(39)%**	(56)%
UTP	**(5)%**	8%
Other	**1%**	1%
	9%	(10)%

8. Long-Term Debt

Long-term debt consists of the following (in thousands):

September 30,	2020	2019
MPT TRS loan *(1)*	$ 105,508	$ 112,215
MPT Foothill loan *(1)*	51,267	51,267
Sale-leaseback financing obligations	31,401	33,403
Other debt *(2)*	21,163	9,465
Total debt	209,339	206,350
Less: current maturities	(19,138)	(18,983)
Long-term debt, net of current maturities	$ 190,201	$ 187,367

(1) See Note 9 for more information related to MPT sale-leaseback transactions.
(2) Other debt is comprised of building, equipment and software loans.

Senior Secured and Revolving Credit Facilities

On February 22, 2018, the Company refinanced and replaced its previous term loan and revolving credit facilities, and entered into an Amended and Restated Term Loan Credit Agreement (the "TL Agreement"), by and among the Company (as the borrower), the lenders party thereto and JPMorgan Chase Bank, N.A. ("JPMorgan"), as administrative agent and collateral agent. The TL Agreement replaced the term Loan with a new Term B-1 Loan ("Term B-1 Loan"). The principal amount of the Term B-1 Loan was $1.120 million and such loan incurred interest at LIBOR (subject to a 1.0% floor) plus 5.5%. The Term B-1 Loan was issued with an original discount of 2.00% and was originally scheduled to mature on February 22, 2024. The Term B-1 Loan was repaid on August 23, 2019 (see Note 9).

On February 22, 2018, the Company entered into an ABL Credit Agreement (the "ABL Agreement"), by and among the Company (as the borrower), the lenders party thereto and JPMorgan Chase Bank, N.A. ("JPMorgan"), as administrative agent and collateral agent. Under the ABL Agreement, the maximum revolving commitment was $250.0 million with ability to expand the facility to $325,000,000 (the "ABL Facility"), and the ABL facility bears interest at a variable base rate plus an applicable spread that is based on excess availability under the ABL Facility, as further described in the ABL Agreement, which was 4.0% and 6.0% as of September 30, 2020 and 2019, respectively. From January 2019 through July 2019 the Company entered into various amendments to the ABL Agreement. Such amendments (i) waived certain events of default at September 30, 2018; (ii) increased the maximum revolving commitment from $250.0 million to $280.0 million, and further to $285.0 million, while simultaneously reducing and removing future expansion of the facility; (iii) introduced $40.0 million of a first in last out ("FILO") revolving facility, which incurred interest at either 2.5% or 3.5% per annum depending on whether they are Eurodollar loans or ABR loans (which were repaid on August 23, 2019); (iv) provides for a reduction in the maximum revolving commitment by $20.0 million and $10.0 million upon the future planned closure or disposition of Nix Health and EOGH, respectively. In January 2020, the maximum revolving commitment under the ABL Agreement decreased by $10.0 million to $275.0 million in connection with the sale of the acute care hospital building at Nix Health in December 2019. The ABL Facility matures on February 22, 2023. As of September 30, 2019, the outstanding balance on the ABL facility was approximately $70.0 million and the available balance was $175.6 million. As of September 30, 2020, no amounts were borrowed under the ABL Facility and the available balance to borrow was approximately $210.8 million.

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The ABL Facility is secured by a first priority security interest on the working capital assets of the Company and its wholly owned subsidiaries except Prospect Health Plan, Inc., CHIC, RRG, Prospect Health Access Network, Inc. and certain immaterial subsidiaries and a second priority security interest on their fixed assets. The ABL Agreement does not have any financial maintenance covenants. The ABL Agreement has a "springing" fixed charge ratio covenant that applies if excess availability is less than the greater of 10% of the maximum borrowing amount and $22,000,000. The fixed charge ratio covenant was not required to be tested for the fiscal quarter ended September 30, 2020 because no amounts were borrowed as of September 30, 2020.

Demand Notes

The Company has a commitment from a bank for a $15,000,000 equipment leasing facility to finance various equipment at the Company's hospital facilities. As of September 30, 2020 and 2019, draws under the facility are classified as capital lease arrangements. Draws represent demand notes until conversion to capital leases, and interest accrues on such draws at the bank prime rate plus 1.50% with a floor of 4.50% and payable monthly. As of September 30, 2020 and 2019, approximately $58,000 and $15,000,000, respectively, had been drawn under the line.

Scheduled payments under the Company's current and long-term debt as of September 30, 2020 are as follows (in thousands):

Years ending September 30,	
2021	$ 19,137
2022	18,078
2023	13,825
2024	9,965
2025	10,282
Thereafter	138,052
Total scheduled payments	209,339
Less: Current maturities	(19,138)
Total long-term debt	$ 190,201

9. Transactions with MPT

On August 23, 2019, the Company closed a series of transactions with affiliates of Medical Properties Trust, Inc. ("MPT"), a publicly traded Real Estate Investment Trust ("REIT"). Under these transactions, the Company sold to MPT the Company's hospital buildings in California (excluding Foothill Regional Medical Center ("Foothill")), Connecticut and Pennsylvania for an aggregate purchase price of $1,386,000,000. Concurrent with the sale transactions, the Company entered into two master lease agreements whereby the hospital properties and related medical office buildings were leased back for an initial 15 year term, with options to extend twice for an additional 5 years each and for a further 4.75 year extension. Monthly rent is defined as 7.5% of the lease base, subject to annual escalation of consumer price index, limited to a minimum of 2% and a maximum of 4%. For the first master lease, the Company has the option to buy the properties at their fair value at the end of the lease term. For the second master lease, the Company has the option to purchase at a price that is fixed at the time of entering into the lease (the "Option Price"). If the Company chooses not to exercise this option, and the fair value at the end of the lease is below the Option Price, then the Company must pay MPT a sum equal to the difference between the fair value and the Option Price. These transactions do not qualify for sale

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leaseback accounting because of the Company's deemed continuing involvement with the buyer-lessor, including the requirements to pay reserves for major repairs, and the option to purchase included in the lease, which are considered a form of contingent collateral and results in the transaction being recorded under the financing method. All of the legal entities that are parties to the master lease agreement (which are the hospital entities in California, Connecticut and Pennsylvania) provide cross guarantees on all of the obligations to MPT, which guarantees include both lease payments under the master lease as well as indebtedness due to MPT. As of September 30, 2020 and 2019, the balances due under the leases are $1,338,040,000 and $1,381,185,000, respectively, and are reflected in MPT liabilities in the accompanying consolidated financial statements.

Further, MPT provided the Company with a $51,266,700 mortgage on the Foothill property. This mortgage is secured by the buildings at Foothill. The interest on this mortgage is 7.5% per annum and is subject to annual escalation of consumer price index, limited to a minimum of 2% and a maximum of 4%. The maturity date of this loan is in August 2034. MPT can purchase the property on event of default or at end of term, or if Company does not exercise purchase rights for the aforementioned leased properties. Effective September 30, 2019, the Foothill property was no longer used as collateral for a promissory note payable to Prospect Medical Group, Inc. ("PMG"), one of the Company's California Medical Groups. In accordance with the terms of the MPT agreements, the termination of that collateral pledge requires the Company to provide MPT with the option to purchase the Foothill property and lease it back to the Company under the second master lease agreement, for an amount equal to the outstanding principal balance. As of September 30, 2020, and subject to any subsequent extension from MPT, the Company has until December 31, 2020 to offer this right to MPT. The referenced promissory note payable to PMG has been included in the calculation of PMG's Tangible Net Equity in connection with requirements of the California Department of Managed Health Care. As of September, 30 2020 and 2019, the balances due under the promissory note payable to MPT are $51,267,000 and $51,627,000, respectively, and are reflected in long term debt in the accompanying consolidated financial statements (see Note 8).

Additionally, the Company entered into a promissory note (the "TRS Note"), under which MPT has advanced to the Company $112,937,000. The interest on this note is 7.5% per annum and is subject to annual escalation of consumer price index, limited to a minimum of 2% and a maximum of 4%. The maturity date of this note is the earlier of July 2022 or, if it occurs, a sale-leaseback of the properties in Rhode Island. As of September 30, 2020 and 2019, the balances due under this note are $105,508,000 and $112,215,000, respectively, and are reflected in long term debt in the accompanying consolidated financial statements (see Note 8).

All of the agreements referenced in this footnote are cross-collateralized and cross defaulted among the parties and the assets included therein (which do not include any of the hospital operating entities or real properties in Rhode Island, Texas or New Jersey). Based on annualized Adjusted EBITDAR (as defined) achieved over the three years from the transaction date, additional amounts between $50 million to $250 million will be payable to the Company. As of September 30, 2020, there has been no accounting for these amounts in the consolidated financial statements. The proceeds from these transactions were used to pay off in full the Term B-1 Loan and the FILO facility and to pay down the amounts outstanding under the Amended ABL Agreements (see Note 8), as well as fund a restricted cash account for the future paydown of the Company's pension liabilities and to provide working capital.

The MPT transaction documents contain certain customary covenants and restrictions and a financial covenant based on EBITDAR performance. The Company was in compliance with all such covenants at September 30, 2020 or obtained a waiver.

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In connection with the transactions with MPT, the Company incurred deferred financing costs of $24,890,000. Amortization expense was approximately $1,933,000 during the year ended September 30, 2020. No amortization expense was recorded during the year ended September 30, 2019 because it was not material.

Interest expense under these agreements was $60,789,000 and $6,649,000 for the years ended September 30, 2020 and 2019, respectively.

See Note 12 for future minimum lease payments related to sale leaseback commitments as of September 30, 2020.

10. Stockholder's Equity

Equity Based Compensation Plans

Effective December 15, 2010, the Board of Directors of Ivy Holdings adopted the Ivy Plan that initially authorized the issuance of options exercisable for up to 155,110 shares of the common stock of Ivy Holdings ("Initial Options") to employees, certain consultants and independent members of the boards of directors, of Ivy Holdings and its subsidiaries (including the Company and its subsidiaries). These options are exercisable into Ivy Holdings stock and vest based on a number of criteria, including time, Company and Business Unit performance based on EBITDA targets and CEO and Compensation Committee discretion. Since the Ivy Holdings stock options were granted to Company employees for their services related to the Company, the related compensation cost has been recorded in the Company's consolidated financial statements. Effective June 30, 2015, the Board of Directors of Ivy Holdings adopted the First Amendment to the Ivy Plan. Under the First Amendment, and subsequent amendments, a further 63,704 shares of common stock of Ivy Holdings ("New Options") can be issued.

The New Options are exercisable into Ivy Holdings stock and vest based on a number of criteria, including the same criteria as the Initial Options. However, they only become exercisable on the occurrence of certain corporate transactions, including a change in control of Ivy Holdings, as defined in the Incentive Stock Option Agreements ("Corporate Transaction"). Because the occurrence and timing of a Corporate Transaction was not determinable as of September 30, 2020 and 2019, no compensation cost has been recorded in the Company's consolidated financial statements for the years then ended.

Under the terms of the Ivy Plan, the exercise price of an incentive stock option ("ISO") may not be less than 100% of the fair market value of the Company's common stock on the date of grant and, if granted to a shareholder owning more than 10% of the Company's common stock, then not less than 110%. Stock options granted under the Ivy Plan have a maximum term of 10 years from the grant date, and are exercisable at such time and upon such terms and conditions as determined by the Compensation Committee. Stock options granted to employees generally vest over four years, subject to continued service, performance, and other criteria. In the case of an ISO, the amount of the aggregate fair market value of common stock with respect to which the ISO grant is exercisable, for the first time by an employee during any calendar year, may not exceed $100,000.

Stock Options Activity

The following table summarizes information about Ivy Holdings stock options outstanding as of September 30, 2020 and 2019 and activity during the years then ended:

	Shares Subject to Options	Weighted Average Exercise Price	Weighted Average Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term (Months)
Outstanding as of October 1, 2018	163,253	$ 140.47	$ 156.53	70.5
Granted	—	—	—	—
Exercised	—	—	—	—
Canceled/Forfeited	(14,233)	231.42	—	—
Outstanding as of September 30, 2019	149,020	131.79	—	56.2
Granted	—	—	—	—
Exercised	—	—	—	—
Canceled/Forfeited	(6,261)	126.07	—	—
Outstanding as of September 30, 2020	142,759	$ 132.03	$ —	44.2

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the estimated fair value of the Company's common stock for those awards that have an exercise price currently below the estimated fair value. As of September 30, 2020, the outstanding shares had no aggregate intrinsic value. As of September 30, 2020, there were 97,130 options that are exercisable at a weighted average exercise price of $47.62.

A summary of Ivy Holdings non-vested options and the changes during the years ended September 30, 2020 and 2019 is presented as follows:

	Shares	Weighted Average Grant Date Fair Value
Ivy Holdings Stock Options:		
Nonvested at October 1, 2018	34,296	$ 181.07
Granted	—	—
Vested	—	—
Canceled/Forfeited	(1,876)	200.11
Nonvested at September 30, 2019	32,420	$ 179.97
Granted	—	$ —
Vested	—	—
Canceled/Forfeited	(1,452)	359.40
Nonvested at September 30, 2020	30,968	$ 171.55

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Stock-Based Compensation Expense

Stock-based compensation expense for all share-based payments in exchange for employee services (including stock options and restricted stock) is measured at fair value on the date of grant, estimated using an option pricing model and is recognized in the consolidated financial statements, net of estimated forfeitures over the awards requisite service period.

The Company uses the Black-Scholes option pricing model and a single option award approach to estimate the fair value of options granted. Estimated forfeitures will be revised in future periods if actual forfeitures differ from the estimates and will impact compensation cost in the period in which the change in estimate occurs. The determination of fair value using the Black-Scholes option-pricing model is affected by the Company's estimated stock price as well as assumptions regarding a number of complex and subjective variables, including expected stock price volatility, risk-free interest rate, expected dividends and projected employee stock option exercise behaviors.

There were no options granted during the years ended September 30, 2020 and 2019. There was no stock-based compensation expense for the stock options during the years ended September 30, 2020 and 2019. At September 30, 2020, there were 30,968 unvested options, which could potentially vest over the next eight fiscal years, subject to meeting the vesting requirements noted above. Options which are expected to vest based on CEO and Compensation Committee discretion are treated as variable stock options and are subject to revaluation at each fiscal year end reporting period. Management determined the fair value of the discretionary vested options using a Black Scholes calculation but determined that the change in compensation expense was not material to the consolidated financial statements for the years ended September 30, 2020 and 2019.

Contributions

On January 25, 2019 and on February 6, 2019, Ivy Holdings made equity contributions in the amount of $40,000,000 and $1,000,000, respectively, to Ivy Intermediate Holding Inc., which was then contributed as equity to the Company. There were no contributions made during the year ended September 30, 2020.

Dividends

On February 22, 2018, the Board of Directors of Ivy Holdings, Inc. (the "Board") approved special cash in the amount of approximately $33,000,000 in bonus payments were made ("the Bonuses") to Option Holders in connection with the dividend provided that any Bonus with respect to an unvested portion of an option shall be payable upon the date such unvested portion becomes vested and exercisable, subject to the Optionee's continued employment with Prospect through such date. At September 30, 2020 and 2019, approximately $2,200,000 and $2,300,000, respectively, was accrued for bonuses in connection with this. To reflect the Dividend and pursuant to the terms of the Option Plan, the Board further resolved to equitably adjust the Options by reducing the per-share exercise price of the Options to an amount determined with reference to the Bonus amount payable by Prospect Medical with respect to such Option (the "Adjusted Exercise Price").

The Company distributed approximately $44,407,000 in connection with the TL Agreement during the year ended September 30, 2019, which was recorded against retained earnings, and was ultimately paid to the common stockholders of Ivy Holdings, Inc. (see Note 8). There were no distributions during the year ended September 30, 2020.

Merger Agreement

Effective October 2, 2019, Ivy Holdings entered into an Agreement and Plan of Merger ("Merger Agreement") with Chamber, Inc. ("Chamber"), Chamber Merger Sub, Inc. and affiliates of LGP. Chamber is owned by two individuals who hold the largest individual shareholdings in Ivy Holdings. The Merger Agreement contemplates, among other things, (i) the purchase of Ivy Holdings by and merger into by Chamber Merger Sub, Inc. (ii) the buyout of all of the other current stockholders of Ivy Holdings, (iii) the termination of all options that have not previously been exercised. The Merger Agreement is subject to regulatory approval by various state agencies. The approvals that remain open are from the Attorney General of Rhode Island and the Department of Health of Rhode Island. The transaction is expected to close during the first half of fiscal 2021.

11. Retirement Benefits

The Company sponsors various employee non-contributory, defined benefit pension plans (the "DB Plan") covering certain full-time employees of Crozer, ECHN and Waterbury.

In connection with the acquisition of Crozer, the plan was frozen with all benefits accruals ceased as of July 1, 2016. With respect to each Represented Employee who is a member of the Laborers' International Union of North America, the Monthly Compensation (as defined), the Credited Service (as defined), the Eligibility Service (as defined) and the accrued benefit was frozen and determined as of July 1, 2016. No benefits accrue since that date. The plan was amended to provide for determination of Vesting Service (as defined) for employees who were employed with the Company before July 1, 2016, such that years of service shall include all periods of employment completed on and after July 1, 2016, subject to the Break in Service rules (as defined). The plan was further amended on September 3, 2016 to provide certain Qualifying Participants (as defined) the right to make a Special Benefit Election (as defined) during "2016 Lump Sum Option Window" period from October 15, 2016 through November 30, 2016 to receive or commence receiving his or her vested Accrued Benefit as of December 1, 2016 in accordance with procedures adopted by the Committee. Further, the Company will adopt a plan amendment to terminate the plan effective within such five year period and will liquidate, fully fund and satisfy, and pay all benefits owed to participants and beneficiaries of the plan by providing lump sum distributions to participants, purchasing annuities for participants who do not elect a lump sum distribution, subject to applicable filing and authorization by the applicable government agency or entity. The five-year period can be extended in the event certain discount rates fall below certain defined thresholds. Presently the discount rates are below those thresholds and the Company intends to delay the termination of the Crozer DB plan.

Crozer also sponsors a postretirement benefit program (the "OPEB Plan") which is an unfunded medical care and life insurance benefit program, and a supplemental executive retirement plan (the "SERP Plan") which is an unfunded retirement plan that covers a group of current and former executives. These plans were frozen and all benefit accruals ceased as of July 1, 2016. No benefits will accrue since that date. The SERP plan was terminated and all funds paid out. With respect to each Represented Employee who is a member of the Laborers' International Union of North America, benefits will continue to accrue until a settlement of an ongoing union contract negotiation is reached for the OPEB Plan.

ECHN sponsors a DB Plan that covered substantially all of its employees. The benefits were based upon years of service and compensation for the five highest years during the employee's last 10 years of service. On December 31, 2008, ECHN implemented a soft freeze on the plan. All qualified employees were eligible to enter into the defined contribution plan, ECHN contributed 3% of eligible employees' salaries. This contribution was non-guaranteed for all employees, except certain union workers covered under a collective bargaining agreement. Effective December 31, 2013, ECHN froze the plan for all remaining participants. During September 2013, the Board passed a resolution to freeze all benefits related to the plan.

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ECHN also sponsors an OPEB Plan that provides health care benefits to vested, retired employees, who are age 55 or older and start collecting under the defined benefit plan described above once retired. The retiree must be enrolled into the medical plan on the date of retirement to be eligible for the continuation. Full-time registered nurse retirees from ECHN's Manchester facility (retired prior to October 1, 2005 and were eligible per the collective bargaining agreement) were grandfathered and required to pay at least 50% of the total cost of the medical and dental coverage they elect for themselves under the OPEB Plan.

Waterbury has a noncontributory defined benefit cash balance plan. The plan was frozen to non-union participants effective June 30, 2015. Participants who are part of the Connecticut Healthcare Associates Technical Unit remain active in the plan. Non-union employees no longer accrue additional employer contribution credits in the plan. These participants will continue to receive interest credits based on their account balances in accordance with the terms of the plan. They will be entitled to their account balance (the retirement benefit they have earned up to June 30, 2015) plus applicable interest credits after the Plan were frozen.

For all plans, the Company has made contributions sufficient to meet the minimum funding requirements of applicable laws and regulations.

The activity of the pension plans for the years ended September 30, 2020 and 2019 is as follows (in thousands):

September 30,		**2020**		2019
Changes in benefit obligations				
Projected benefit obligations, beginning of period	$	**768,614**	$	660,176
Service cost		**184**		181
Interest cost		**24,457**		28,432
Plan participant contributions		**187**		918
Actuarial loss		**32,994**		115,016
Benefits paid		**(28,822)**		(20,482)
Lump sum benefits paid and annuity purchase		**(469)**		(15,606)
Plan changes		**-**		(21)
Projected benefit obligation, end of year	$	**797,145**	$	768,614
Changes in plan assets				
Fair value of plan assets, beginning of year	$	**460,688**	$	400,468
Actual return on plan assets		**56,532**		80,668
Contributions by plan sponsor		**71,097**		15,939
Plan participant contributions		**187**		327
Benefits paid		**(28,822)**		(21,108)
Lump sum benefits paid and annuity purchase		**(469)**		(15,606)
Fair value of plan assets, end of year	$	**559,213**	$	460,688
Funded status of the plan, end of year	$	**(237,932)**	$	(307,926)
Accumulated benefit obligation, end of year	$	**(237,932)**	$	(307,926)

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The funded status of the pension plans as of September 30, 2020 and 2019 is as follows (in thousands), split between the pension plans and the post retirement plans:

	2020 Pensions	2020 OPEBs	2020 Total	2019 Pensions	2019 OPEBs	2019 Total
Current liability	$ -	$ 440	$ 440	$ -	$ 500	$ 500
Non-current liability	231,941	5,551	237,492	302,372	5,054	307,426
	$ 231,941	$ 5,991	$ 237,932	$ 302,372	$ 5,554	$ 307,926

The components of net periodic benefit cost for the years ended September 30, 2020 and 2019 are as follows (in thousands):

September 30,	2020	2019
Components of net periodic benefit cost:		
Service cost	$ 184	$ 181
Interest cost	24,457	28,432
Expected return on plan assets	(15,202)	(11,154)
Amortization of net loss	38	-
Amortization of prior service credit	(51)	(48)
Total net periodic benefit cost	$ 9,426	$ 17,411

Service cost is recorded in Hospital operating expenses on the consolidated statements of operations. All other components of net periodic benefit costs are recorded in other expense on the consolidated statements of operations.

	2020	2019
Other change in benefit obligations recognized in accumulated other comprehensive income:		
(Gain) loss due to assumption change	$ -	$ 111,382
Loss due to participant experience	1,167	4,849
Amortization of net (gain) loss	(19)	63
Asset return gain	(9,523)	(70,275)
Prior service cost	51	28
Total recognized in other comprehensive loss (income) and accumulated other comprehensive loss (income)	$ (8,324)	$ 46,047

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The assumptions used in determining the actuarial present value of the projected benefit obligations for pension plans as of September 30, 2020 and 2019 and for the years then ended are as follows:

	2020	2019
Weighted average assumptions used to determine benefit obligations at end of period		
Discount rate	**2.34-2.97%**	2.92-3.31%
Rate of compensation increase	**0.00-2.00%**	0.00-2.00%
Weighted average assumptions used to determine net periodic benefit cost for the period ended		
Discount rate	**2.92-3.31%**	4.24-4.48%
Rate of compensation increase	**0.00-2.00%**	0.00-2.00%
Expected return on the plan assets	**0.00-4.75%**	0.00-4.50%

Assumed health care cost trend rates for the next period used to measure the expected cost of benefits covered by the plan are as follows:

	2020	2019
Health care trend rate assumed for next year	**6.75%**	6.75%
Rate to which the cost trend is assumed to decline (the ultimate rate)	**4.75%**	4.50%
Year that the rate reaches the ultimate trend rate	**2028**	2027

Assumed health care cost trend rates have a significant effect on amounts reported for other postretirement benefit programs. A one-percentage-point change in assumed health care cost trends would have the following effects (in thousands):

	1% Increase	1% Decrease
Effect on other postretirement benefit obligations	$135	$121
Effect on total of service and interest cost components	$3	$3

The asset allocation percentage by major asset class for the plans and the target allocation for 2020 follows:

	Target	2020
Asset class:		
Cash and cash equivalents	0% -20%	1%
Fixed income	10% - 100%	96%
Alternative investments and hedge funds	0% - 30%	3%
		100 %

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The investment objectives of the plans are to invest consistently with the fiduciary standards of ERISA, to provide for the funding and anticipated withdrawals on an ongoing basis, conserve and enhance the capital value of the plans in real terms while maintaining a moderate risk profile, to minimize principal fluctuations over the investment cycle, and achieve a long-term level of return commensurate with contemporary economic conditions. The expected long-term rate of return with respect to the plans is based on an aggregate of expected capital market returns within each asset category.

The following tables set forth the assets in the plans measured at fair value, by input level (in thousands):

September 30, 2020	Level 1	Level 2	Level 3	Net asset value	Total
Fixed income securities:					
Short-Term Duration	$ -	$ 41,769	$ -	$ -	$ 41,769
Extended Duration	-	231,197	-	-	231,197
Interim Duration	-	59,346	-	-	59,346
Long-Term Duration	-	210,351	-	-	210,351
Real estate	-	-	555	-	555
Alternative investments	-	-	13,142	-	13,142
Cash and cash equivalents	-	-	-	2,853	2,853
Total	$ -	$ 542,663	$ 13,697	$ 2,853	$ 559,213

September 30, 2019	Level 1	Level 2	Level 3	Net asset value	Total
Fixed income securities:					
Short-Term Duration	$ -	$ 36,534	$ -	$ -	$ 36,534
Extended Duration	-	172,610	-	-	172,610
Interim Duration	-	48,328	-	-	48,328
Long-Term Duration	-	181,570	-	-	181,570
Real estate	-	-	1,056	-	1,056
Alternative investments	-	-	17,809	-	17,809
Cash and cash equivalents	-	-	-	2,781	2,781
Total	$ -	$ 439,042	$ 18,865	$ 2,781	$ 460,688

Pension plan assets classified as Level 3 in the fair value hierarchy represent investments in which the trustee has used significant unobservable inputs in the valuation model. The hedge funds consist of equity/long/short funds and multi-strategy funds in which fair values have been estimated using the net asset value per share of the investment. The alternative investments primarily consist of investments in limited partnerships that invest in the Public-Private Investment Program which fair values have been estimated using the net asset value per share of the investment.

On an annual basis, the Company assesses the valuation hierarchy for pension assets recorded at fair value. From time to time, assets will be transferred within the fair value hierarchy as a result of changes in, among other things, inputs used, liquidity, or valuation methodologies. During the years ended September 30, 2020 and 2019, there were no transfers in classification within the fair value hierarchy. The following table is a rollforward of the plans' assets classified within Level 3 of the fair value hierarchy (in thousands):

September 30,	**2020**	2019
Balance, beginning of year	**$ 18,865**	$ 21,555
Actual return on plan assets:		
Unrealized (loss) gain	**(5,168)**	(2,690)
Balance, end of year	**$ 13,697**	$ 18,865

The expected long-term future benefit payments to retirees with respect to the plans and are as follows (in thousands):

2021	$ 49,120
2022	43,660
2023	43,550
2024	44,228
2025	44,434
2026 - 2030	219,470
	$ 444,462

Waterbury participates in multi-employer pension plans that cover substantially all union employees. Contributions to the plans are based upon a percentage of each participant's total salary. The risks of participating in these multi-employer plans are different from single employer plans in the following aspects:

- Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of another participating employer.

- If a participating employer stops contributing to the plan, the unfunded obligation of the plan may be borne by the remaining participating employers.

- If Waterbury chose to stop participating in the multi-employer plans, Waterbury may be required to pay those plans an amount based on the underfunded status of the plans, referred to as a withdrawal liability.

The following table presents Waterbury's participation in these plans as of and for the years ended September 30, 2020 and 2019.

Pension Trust Fund	EIN / Pension Plan	Pension Protection Act ("PPA") Certified Zone Status *(1)*		FIP / RP Status Pending / Implemented *(2)*	Contributions		Surcharge Imposed	Exp. Date of CBA
		2020	2019		2020	2019		
Connecticut Health Care Associates Pension Fund	06-1313462	**Red**	Red	Implemented	**$ 2,024,000**	$ 2,122,000	No	7/1/22
New England Health Care Employees Pension Fund	22-3071963	**Green**	Green	NA	**818,000**	754,000	No	3/15/21
Total contributions					**$ 2,842,000**	$ 2,876,000		

(1) The most recent PPA zone status available in 2020 is for the plan's year-ending during 2019. The zone status is based on information received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the orange zone are less than 80 percent funded and have an accumulated funding deficiency in the current year or projected in the next six years, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded.

(2) The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented. As it relates to the Connecticut Health Care Associates ("CHCA") Pension Plan, the trustees adopted a Rehabilitation Plan on May 7, 2018. The Rehabilitation Period, as defined, commenced on January 1, 2019 and ends on December 31, 2028. The trustees updated the Rehabilitation Plan on December 12, 2019 which reflects various reductions to plan benefits effective January 1, 2020.

During the years ended September 30, 2020 and 2019, Waterbury's contributions to the CHCA Pension Plan and the New England Health Care Employees Pension Plan represented 80.1% and 2.5% and 98.1% and 2.4% of the total contributions made to the plans by all participating employers, respectively.

Governmental regulations impose certain requirements relative to union-sponsored pension plans. In the event of plan termination or employer withdrawal, an employer may be liable for a portion of the plan's unfunded vested benefits. As of September 30, 2020, Waterbury has not recorded any liabilities for future withdrawal obligations related to the multi-employer plans.

Defined contribution plans

The Company sponsors two defined contribution plans covering substantially all employees who meet certain eligibility requirements, which are segregated between union and non-union employees. Under these plans, employees can contribute up to 50% of their compensation up to the IRS deferred annual maximum. There is currently no company match offered under the plans, except at certain facilities in Rhode Island and Pennsylvania, for which the expense for the employer match was $17,778,000 and $18,863,000 for the years ended September 30, 2020 and 2019, respectively.

12. Commitments and Contingencies

Leases

The Company leases various office facilities and equipment from third parties under non-cancelable operating and capital lease arrangements expiring at various dates through 2031. Certain operating leases contain rent escalation clauses and renewal options, which have been factored into determining rent expense on a straight-line basis over the lease terms. Capital leases bear interest at rates ranging from 1.3% to 41.0% per annum.

The future minimum annual lease payments required under leases in effect at September 30, 2020, are as follows (in thousands):

For the Years ending September 30,	Capital Leases	Operating Leases	MPT Liability*
2021	$ 8,472	$ 25,891	$ 106,273
2022	8,132	23,668	109,461
2023	7,273	21,871	112,745
2024	6,199	20,297	116,128
2025	4,249	17,877	119,611
Thereafter	17,920	33,045	1,238,499
Total minimum lease payments	52,245	$ 142,649	1,802,717
Less: amounts representing interest	(13,290)		(511,853)
Add: amounts representing land	-		47,176
	38,955		1,338,040
Less: current portion	(6,285)		(47,484)
	$ 32,670		$ 1,290,556

** Excludes debt related to the Foothill and TRS Notes entered into in fiscal 2019 with MPT (see Note 9).*

Rent expense related to operating leases for the years ended September 30, 2020 and 2019 was approximately $51,246,000 and $44,959,000, respectively. Sublease rental income was not material to the consolidated financial statements for the years ended September 30, 2020 and 2019.

Litigation

The Company is subject to a variety of claims and suits that arise from time to time in the ordinary course of its business, acquisitions, or other transactions. While the Company's management currently believes that resolving all of these matters, individually or in the aggregate, will not have a material adverse impact on the Company's consolidated financial position or results of operations, the litigation and other claims that the Company faces are subject to inherent uncertainties and management's view of these matters may change in the future. Should an unfavorable final outcome occur, there exists the possibility of a material adverse impact on the Company's consolidated financial position, results of operations and cash flows for the period in which the effect becomes probable and reasonably estimable.

Seismic Standards

The Company's California Hospitals (with the exception of Bellflower, which currently only provides psychiatric services) are required to comply with laws that regulate the seismic performance of all aspects of hospital facilities in California and imposes near-term and long-term compliance deadlines for seismic safety assessment, submission of corrective plans, and retrofitting or replacement of medical facilities to comply with current seismic standards. These laws and regulations require hospitals to meet seismic performance standards to ensure that they are capable of providing medical services to the public after an earthquake.

The Company was required to conduct engineering studies at its hospitals to determine whether and to what extent modifications to the hospital facilities will be required. Two buildings at Southern California Hospital at Culver City ("SCH Culver City") do not currently meet the applicable seismic requirements. These buildings are currently classified at Structural Performance Category 1 ("SPC-1") and, subject to possible deadline extensions discussed below, they must be upgraded to at least SPC-2 by July 1, 2022. That deadline date was set pursuant to an extension granted upon the Company's application submitted in accordance with California Senate Bill 90 and approved by the Office of Statewide Health Planning and Development ("OSHPD").

OSHPD has a voluntary program to re-evaluate the seismic risk of hospital buildings classified as SPC-1. These buildings are considered hazardous and at high risk of collapse in the event of an earthquake and they were required to be retrofitted, replaced or removed from providing acute care services by the applicable deadline. OSHPD is using Hazards U.S. ("HAZUS"), a state-of-the-art methodology, to reassess the seismic risk of SPC-1 buildings. Once the SPC-1 buildings have been seismically upgraded to SPC-2, they are no longer considered a significant risk to occupants, but they may not be repairable or functional after an earthquake. Participation in the HAZUS program is optional for hospital owners wishing to have their SPC-1 buildings evaluated.

Applications for HAZUS evaluation of seismic risk were submitted for all five of the Company's California acute care facilities: Southern California Hospital at Hollywood ("SCH Hollywood"); SCH Culver City; Los Angeles Community Hospital; Los Angeles Community Hospital at Norwalk ("LACH Norwalk"); and Foothill. All buildings at these five facilities obtained SPC-2 reclassification using HAZUS, except for the aforementioned two buildings at SCH Culver City that are still classified as SPC-1. Currently, failure to obtain SPC-2 reclassification for the two remaining SPC-1 buildings by July 1, 2022 would mean that the buildings would not be allowed to provide acute care services starting on that date.

Recently enacted Assembly Bill 2190 was utilized to request additional extension. OSHPD granted extensions to June 1, 2022 and October 1, 2021 for the Tower Building and Pavilion Building at SCH Culver City. The construction was started in February 2020 for both buildings. SCH Culver City is evaluating pursuing an alternate "replacement" scheme that would relocate the Emergency department into the adjoining One-Story Building which currently classified as an SPC-2 structure. The Tower Building would be retained as a "non-hospital" OSHPD building useable for lower acuity services such as behavioral health and subacute/skilled nursing services.

The Company will also be required to make significant capital expenditures in the future to comply with 2030 seismic standards (i.e., upgrade to SPC-4D and NPC-4D/5) for any buildings that will be utilized for hospital facilities beyond January 1, 2030. Such modifications to the hospital facilities could potentially result in environmental remediation liabilities which may be material to the Company.

These requirements can result in significant operational changes and capital outlays. Management is continuing to assess its options and the methods of financing the required retrofits. Based on management's evaluation, the costs of renovation needed to comply with the California seismic safety standards for its acute-care facilities, including asbestos abatement, are not estimable at this time.

Legislation and HIPAA

Numerous state and federal laws and regulations govern the collection, dissemination, use, privacy, confidentiality, security, availability and integrity of personally identifiable information, including protected health information. These laws and regulations include the Health Insurance Portability and Accountability Act, as amended, and its implementing regulations, as well as The Health Information Technology for Economic and Clinical Health Act ("HITECH Act") (collectively, "HIPAA"). HIPAA establishes a set of basic national privacy and security standards for the protection of protected health information, or PHI, by health plans, healthcare clearinghouses and certain healthcare providers, referred to as covered entities, and the business associates with whom such covered entities contract for services, which includes us.

HIPAA requires the Company to develop and maintain policies and procedures with respect to PHI that is used or disclosed, including the adoption of administrative, physical and technical safeguards to protect such information. HIPAA also implemented the use of standard transaction code sets and standard identifiers that covered entities must use when submitting or receiving certain electronic healthcare transactions, including activities associated with the billing and collection of healthcare claims.

HIPAA imposes mandatory penalties for certain violations. Penalties for violations of HIPAA and its implementing regulations start at $100 per violation and are not to exceed $50,000 per violation, subject to a cap of $1.5 million for violations of the same standard in a single calendar year. However, a single breach incident can result in violations of multiple standards. HIPAA also authorizes state attorneys general to file suit on behalf of their residents. Courts will be able to award damages, costs and attorneys' fees related to violations of HIPAA in such cases. Although HIPAA does not create a private right of action allowing individuals to sue the Company in civil court for violations of HIPAA, its standards have been used as the basis for duty of care in state civil suits such as those for negligence or recklessness in the misuse or breach of PHI.

In addition, HIPAA mandates that HHS conduct periodic compliance audits of HIPAA covered entities or business associates for compliance with the HIPAA Privacy and Security Standards. It also tasks HHS with establishing a methodology whereby harmed individuals who were the victims of breaches of unsecured PHI may receive a percentage of the Civil Monetary Penalty fine paid by the violator.

HIPAA further requires that patients be notified of any unauthorized acquisition, access, use or disclosure of their unsecured PHI that compromises the privacy or security of such information, with certain exceptions related to unintentional or inadvertent use or disclosure by employees or authorized individuals. HIPAA specifies that such notifications must be made "without unreasonable delay and in no case later than 60 calendar days after discovery of the breach." If a breach affects 500 patients or more, it must be reported to HHS without unreasonable delay, and HHS will post the name of the breaching entity on its public web site. Breaches affecting 500 patients or more in the same state or jurisdiction must also be reported to the local media. If a breach involves fewer than 500 people, the covered entity must record it in a log and notify HHS at least annually.

In addition to these HIPAA laws, states have also developed their own standards for the privacy and security of health information as well as for reporting certain violations and breaches (for example, California's Confidentiality of Medical Information Act and Lanterman-Petris Short Act). When these state laws provide greater patient privacy protection, they are considered more stringent than HIPAA and are not preempted by HIPAA (HIPAA preempts state privacy laws that provide lesser patient privacy protection than HIPAA's Privacy Rule and state security laws that are contrary to HIPAA's Security Rule). Other federal privacy laws may also apply to certain services provided by the Company, including 42 C.F.R. Part 2, which addresses the confidentiality of substance use disorder records.

Numerous other federal and state laws protect the confidentiality, privacy, availability, integrity and security of personally identifiable information ("PII"), including protected health information ("PHI") governed by HIPAA. These PII laws in many cases are more restrictive than, and may not be preempted by, HIPAA and may be subject to varying interpretations by courts and government agencies, creating complex compliance issues for us and potentially exposing the Company to additional expense, adverse publicity and liability.

New health information standards, whether implemented pursuant to HIPAA, congressional action or otherwise, could have a significant effect on the manner in which the Company must handle healthcare related data, and the cost of complying with standards could be significant. If the Company does not comply with existing or new laws and regulations related to PHI, the Company could be subject to criminal or civil sanctions.

Because of the extreme sensitivity of the PII that is stored and transmitted, the security features of the Company's information systems are very important. If the security measures are breached or fail, unauthorized persons may be able to obtain access to PII and PHI. As a result, the Company's reputation could be severely damaged, the Company could face litigation, damages for contract breach, penalties and regulatory actions for violation of HIPAA and other applicable laws or regulations and significant costs for remediation, notification to individuals and for measures to prevent future occurrences. Any potential security breach could also result in increased costs associated with liability for stolen assets or information, repairing system damage that may have been caused by such breaches, implementing measures to prevent future occurrences, and engaging third-party experts and consultants. While the Company maintains insurance covering certain security and privacy damages and claim expenses, the Company may not carry insurance or maintain coverage sufficient to compensate for all liability and in any event, insurance coverage would not address the reputational damage that could result from a security breach of PHI or PII.

The Company outsources important aspects of the storage and transmission of client and patient information, and thus rely on third parties to manage functions that have material cyber-security risks. The Company attempts to address these risks in part by requiring outsourcing subcontractors who handle client and patient information to sign business associate agreements contractually requiring those subcontractors to adequately safeguard personal health data to the same extent that applies to the Company. However, it cannot be assured that these contractual measures and other safeguards will adequately protect the Company from the risks associated with the storage and transmission of client and patients' proprietary and protected health information.

The Company also publishes statements to patients that describe how the Company handles and protects personal information. If federal or state regulatory authorities or private litigants consider any portion of these statements to be untrue, the Company may be subject to claims of deceptive practices, which could lead to significant liabilities and consequences, including, without limitation, costs of responding to investigations, defending against litigation, settling claims and complying with regulatory or court orders.

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In June 2020, the Company identified a malware incident at Crozer that affected some of its hospital computer systems. It was promptly isolated and the systems were quickly repaired and brought back to full functionality. The Company engaged a nationally recognized forensic security firm to assist in conducting an investigation, during which all data accessed by the ransomware group was recovered. As such, the Company believes it is unlikely that the impacted data was misused or at-risk for future misuse. As PHI and PII data were accessed, the Company notified affected individuals and the incident was reported to the Office for Civil Rights and applicable state agencies as required by federal and state privacy laws.

Affordable Care Act

The PPACA has made significant changes to the United States health care system. The legislation impacted multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Under this legislation, 36 states and the District of Columbia have expanded their Medicaid programs to cover previously uninsured childless adults, and voters in two additional states (Missouri and Oklahoma) approved ballot measures in 2020 to add Medicaid expansion to the state's constitution with expansion coverage to begin no later than July 1, 2021. In addition, many uninsured individuals have had the opportunity to purchase health insurance via state-based marketplaces, state-based marketplaces using a federal platform, state-partnership marketplaces or the federally-facilitated marketplace. PPACA also implemented a number of health insurance market reforms, such as allowing children to remain on their parents' health insurance until age 26 or prohibiting certain plans from denying coverage based on pre-existing conditions. Nationally, these reforms have reduced the number of uninsured individuals.

It is unclear what changes may be made to PPACA, if any, following the results of the presidential and congressional races and pending Supreme Court over the validity of PPACA. The current Administration has promulgated rules to broaden the availability of coverage options that do not comply with the full range of PPACA requirements for individual market coverage, namely Association Health Plans and Short-Term Limited-Duration Insurance. The Administration has also provided additional guidance on state PPACA waivers. These executive actions have been or may be challenged in court. In addition, the Tax Cuts and Jobs Act ("TCJA"), passed in December 2017, eliminated the individual mandate shared responsibility payment (penalty) under PPACA, effective January 1, 2019. The individual mandate penalty was included in PPACA to address concerns that other market reforms expanding access to coverage might produce adverse selection and higher premiums. Although data suggests that some reduction in enrollment occurred in 2019 following elimination of the individual mandate penalty and that premium rates also dropped slightly nationally, the extent to which the repeal of the individual mandate penalty will impact the uninsured rate and future premiums are unclear at this juncture.

On December 14, 2018, the United States District Court for the Northern District of Texas ruled that the individual mandate without the penalty is unconstitutional and that PPACA is therefore invalid in its entirety. On December 18, 2018, a panel of the United States Court of Appeals for the Fifth Circuit largely affirmed, concluding that the plaintiffs have standing to challenge the law and that the individual mandate without the penalty is unconstitutional, but remanded the matter to the district court for further analysis of the extent to which the individual mandate is severable from some, all, or none of PPACA's other provisions. Litigation in this matter is ongoing, with the Supreme Court scheduled to hear oral arguments on November 10, 2020. The outcome of this appeal is uncertain following the passing of Justice Ruth Bader Ginsburg and the nomination of Judge Amy Coney Barrett to fill her seat on the Court. In addition, the outcome of the election could result in legislative changes that moot or impact litigation. This litigation along with any future legislative changes to PPACA or other federal and state legislation could have a material impact on the operations of the Company. The Company is continuing to monitor the legislative environment and developments in pending litigation for risks and uncertainties.

PPPHCE Act

A majority-owned subsidiary of Waterbury applied for, and received, approximately $1.9 million of PPP monies under the PPHCE Act during the year ended September 30, 2020. The Company determined that such subsidiary was ineligible to receive funds under the PPPHCE Act. Accordingly, subsequent to year-end, the monies were returned in full.

Collective Bargaining Agreements

As of September 30, 2020, the Company had approximately 17,000 employees, of whom approximately 5,200 employees or 31% are represented by various labor organizations. Of those, approximately 700 employees or 4% of the Company's employees are employed under union contracts that have expired or will expire before September 30, 2021.

As of September 30, 2019, the Company had approximately 17,800 employees, of whom approximately 5,500 employees or 31% are represented by various labor organizations. Of those, approximately 1,300 employees or 7% of the Company's employees are employed under union contracts that have expired or will expire before September 30, 2020.

Tangible Net Equity ("TNE") Requirement

The Company's affiliated California physician organizations and licensed healthcare service plans may be subject to one or more of the following requirements: minimum working capital, Tangible Net Equity, cash-to-claims ratio and claims payment requirements as prescribed by the California Department of Managed Health Care ("DMHC"). TNE is defined as net assets, less intangibles and amounts due from affiliates, plus subordinated obligations. As of September 30, 2020, the Company's affiliated California physician organizations were in compliance with these regulatory requirements.

Employee Health Plans

The Company offers self-insured EPO/HMO and PPO plans to all eligible employees.

Employee health benefits are administered by a third party claims administrator, based on plan coverage and eligibility guidelines determined by the Company, as well as by collective bargaining agreements (as reflected above). All locations were covered by insurance policies with CHIC for per occurrence losses in excess of $350,000, except for Crozer for which the limit is $750,000. CHIC maintains reinsurance coverage above $500,000 for all locations except for Crozer, for which the limit is $750,000. Effective September 30, 2020, the CHIC policies were revised to only include the reinsurance coverage noted above. An actuarially and internally estimated liability of approximately $18,114,000 and $12,808,000 for incurred but not reported claims has been included in accrued salaries, wages, and benefits as of September 30, 2020 and 2019, respectively.

Provider Contracts

Many of the Company's payer and provider contracts are complex in nature and may be subject to differing interpretations regarding amounts due for the provision of medical services. Such differing interpretations may not come to light until a substantial period of time has passed following contract implementation. Liabilities for claims disputes are recorded when the loss is probable and can be estimated. Any adjustments to reserves are reflected in current operations

PACE financing

In August 2019 the Company entered into an agreement with a third party that specializes in property assessed clean energy ("PACE") financing to finance approximately $49 million for qualifying renovations for the properties in California. The full amount of the funds was deposited into an escrow account managed by a third party administrator, less deductions for the first year of prepaid interest of approximately $3.2 million and deferred financing fees totaling approximately $2.6 million. The Company received cash from the escrow account of approximately $13.5 million which was used to refinance related completed qualifying expenditures under the PACE program and invoices for construction in progress that had been paid. The amount financed is subject to an annual interest rate of 6.0% and the financing has a maturity date of September 2, 2045. Payments are collected through property tax bills as a non-ad valorem assessment. Payments commenced in July 2020. At September 30, 2020 and 2019, the Company had a related financing liability of approximately $20 million and $14 million, respectively, which is classified within other long-term liabilities in the accompanying consolidated balance sheets. At September 30, 2020, there was approximately $27 million left in escrow, required to be spent on qualifying renovations.

In May 2020 the Company entered into an agreement with a third party that specializes in PACE financing to finance approximately $42 million for qualifying renovations for the property in Rhode Island located at Roger Williams Medical Center. The full amount of the funds were deposited into an escrow account managed by a third party administrator, less deductions for deferred financing fees totaling approximately $2.7 million and lease payoffs of approximately $6.0 million. The Company received cash from the escrow account of approximately $14.9 million which was used to refinance related completed qualifying expenditures under the PACE program and invoices for construction in progress that had been paid. The amount financed is subject to an annual interest rate of 5.75% and the financing has a maturity date of April 30, 2045. Payments are collected through property tax bills as a non-ad valorem assessment. Payments commenced in July 2020. At September 30, 2020, the Company had a financing liability of approximately $27 million which is classified within other long-term liabilities in the accompanying consolidated balance sheets. At September 30, 2020, there was approximately $15 million left in escrow, required to be spent on qualifying renovations.

13. Accrued Medical Claims and Other Healthcare Costs Payable

The following table presents the roll-forward of incurred but not reported ("IBNR") claims reserves (Medical Group segment, Global Risk Management segment, and full risk contracts) as of and for each of the years ended September 30, 2020 and 2019 (in thousands):

September 30,	**2020**	2019
IBNR as of beginning of year	**$ 72,508**	$ 62,887
Claim expenses incurred during the year:		
Related to current year	**258,958**	296,817
Related to prior year	**(5,212)**	4,523
Total incurred	**253,746**	301,340
Claims paid during the year:		
Related to current year	**(192,609)**	(229,417)
Related to prior year	**(57,188)**	(62,302)
Total paid	**(249,797)**	(291,719)
IBNR as of end of year	**$ 76,457**	$ 72,508

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Following is a table showing the details of the Medical Group and Global Risk Management segments cost of revenues per the consolidated statements of operations (in thousands):

Years Ended September 30,	2020	2019
Capitation expense	$ 97,903	$ 98,254
Fee-for-service claims expense	142,971	167,702
Other physician compensation	29,628	24,561
Other cost of revenues	24,663	2,558
Total cost of revenues	$ 295,165	$ 293,075

14. Joint Ventures and Unconsolidated Equity Investments

The Company has invested in several joint ventures with unrelated third parties, which are accounted for under the equity method of accounting. Ownership percentages as of September 30, 2020 and 2019 are as follows:

September 30,	2020	2019
CharterCare:		
Roger Williams Radiation Therapy	20.00%	20.00%
Southern New England Regional Cancer Center, LLC	20.00%	20.00%
Crozer:		
University Technology Park, Inc.	50.00%	50.00%
Delaware Valley Sleep Management Company, LLC	21.25%	21.25%
DCMH MOB Associates	35.00%	35.00%
ECHN:		
NRRON, LLC	50.00%	50.00%
Aetna Ambulance Service, Inc.	50.00%	50.00%
Ambulance Service of Manchester, LLC	50.00%	50.00%
Evergreen Endoscopy Center, LLC	50.00%	50.00%
Connecticut Occupational Medicine Partners, LLC	25.00%	25.00%
Waterbury:		
Harold Leever Regional Cancer Center Inc	50.00%	50.00%
PMG:		
AMVI/Prospect Medical Group	50.00%	50.00%

These joint ventures under the equity method are included in the other assets in the accompanying consolidated balance sheets as of September 30, 2020 and 2019 are $45,881,000 and $28,119,000, respectively. For the years ended September 30, 2020 and 2019, the Company received $1,407,000 and $1,828,000, respectively, in distributions for equity method investments, and $58,000 and $527,000, respectively, for cost method investments.

Summarized combined unaudited financial information for the Company's joint ventures as of September 30, 2020 and 2019 and for the years then ended is as follows (in thousands):

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September 30,	2020	2019
Cash	$ 35,793	$ 18,976
Receivables	10,359	10,096
Other current assets	4,221	21,329
Total current assets	50,373	50,401
Property, improvements and equipment, net	32,273	32,972
Goodwill	7,142	7,142
Intangible assets	814	821
Other long-term assets	2,673	2,904
Total assets	93,275	94,240
Accounts payable and accrued liabilities	4,910	5,827
Other long-term liabilities	7,777	6,116
Equity	80,588	82,297
Total liabilities and partner's capital	$ 93,275	$ 94,240

Years ended September 30,	2020	2019
Revenues	$ 65,162	$ 74,095
Net income	$ 5,346	$ 12,178
PMH's income from equity method investments	$ 2,030	$ 5,358

15. Subsequent Events

The Company has evaluated subsequent events through December 18, 2020, the date the Company's consolidated financial statements were available for issuance.

In October 2020, the Company entered into an Asset Purchase Agreement to sell the majority of the assets of EOGH to an unrelated third party, for a purchase price of $6.2 million. The transaction requires approval by the Attorney General in the state of New Jersey, and is expected to close in the second quarter of fiscal 2021.

Subsequent to year-end, through a commutation agreement certain policies and reinsurance amendments were revised, which transferred risk for self-insured layers of coverage for workers compensation deductible reimbursement program, hospital and physician professional and general liability, medical stop loss and certain buffer layer excess programs from both of the Company's captive insurance companies to the Company's hospitals and affiliated subsidiaries.

Supplementary Information

Redacted
www.bdo.com

Redacted
Costa Mesa, CA 92626

Independent Auditor's Report on Supplementary Information

Our audits of the consolidated financial statements included in the preceding section of this report were conducted for the purpose of forming an opinion on those statements as a whole. The supplementary information presented in the following section of this report is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

BDO USA, LLP

December 18, 2020

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Prospect Medical Holdings, Inc.

Consolidating Balance Sheets
As of September 30, 2020

	Hospital Segment																							
	Alta-California								CCHP			Waterbury		ECHN			Crozer							
	Los Angeles	Norwalk	Van Nuys	Hollywood	Foothill	Bellflower	Clover	Corporate	Roger Williams	Fatima	Non-Hospital Entities	Waterbury	Non-Hospital Entities	Rockville	Manchester	Non-Hospital Entities	Hospital Entities	Non-Hospital Entities	PHHH	IPA	CRC	Corporate	Discontinued Operations	Inter-Segment Elimination & Adjustments	Grand Total
Assets																									
Current assets																									
Cash and cash equivalents	(1,221)	(1,020)	(201)	(952)	(3,123)	(176)	(3,372)	(1,062)	553	177	1,090	(1,211)	8,568	(509)	(2,100)	1,126	(1,547)	(3,094)	2,185	347,232	34,145	11,336	-	-	386,824
Cash held in escrow	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	70	-	-	70
Restricted cash	-	-	-	-	-	-	-	-	475	42	3	-	-	-	-	-	-	-	-	-	1,308	-	-	-	1,828
Restricted investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	31,354	-	-	31,354
Patient accounts receivable, net of allowance for dou	12,969	5,579	2,751	7,869	9,346	1,754	29,489	-	18,779	13,994	2,984	25,308	5,879	2,018	17,789	4,773	73,451	5,637	11,696	36,445	-	254	-	-	288,764
Due from government payers	3,156	543	1,134	909	170	625	4,632	-	3,286	2,994	-	-	-	-	-	-	522	-	31	-	-	2,388	-	-	20,390
Other receivables, prepaid expenses and other currer	375,829	109,445	84,937	249,744	17,765	48,753	(33,486)	(107,439)	32,007	25,486	(13,004)	126,416	(76,232)	(20,511)	82,708	(20,840)	264,814	(166,974)	4,333	(54,137)	(46,852)	(766,568)	-	(7,851)	108,343
Income tax receivable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,154	-	-	4,154
Inventories	641	427	43	513	1,360	771	3,271	-	4,054	2,196	318	3,161	496	1,014	4,376	38	13,612	436	15	-	-	-	-	-	36,742
Hospital fee program receivable	74,828	-	-	45,802	14,504	2,250	52,557	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	189,941
Current Assets Held for Sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	18,015	-	18,015
Total current assets	**466,202**	**114,974**	**88,664**	**303,885**	**40,022**	**53,977**	**53,091**	**(108,501)**	**59,154**	**44,889**	**(8,609)**	**153,674**	**(61,289)**	**(17,988)**	**102,773**	**(14,903)**	**350,852**	**(163,995)**	**18,260**	**329,540**	**(11,399)**	**(717,012)**	**18,015**	**(7,851)**	**1,086,425**
Property, improvements and equipment, net	16,258	8,065	7,024	17,647	23,728	19,572	38,013	9,943	59,903	24,125	2,087	48,975	4,115	24,012	51,402	9,934	115,783	61,419	1,939	2,676	2	(2,366)	-	-	544,256
Deferred income taxes, net	-	-	-	-	-	-	-	-	-	-	-	(11,086)	-	-	-	(5,853)	86,946	(380)	-	14,533	124	(84,284)	-	-	-
Goodwill	-	-	-	-	-	-	21,936	95,885	-	-	415	-	2,619	-	-	482	-	125,292	-	27,858	-	-	-	-	274,487
Intangible assets, net	-	-	-	-	-	-	-	3,320	-	-	-	1,722	-	-	-	2,064	-	10,120	-	2,828	-	-	-	-	20,054
Other assets	2,044	234	108	101	217	17	1,162	30	4,062	877	622	12,023	443	1,604	6,018	10,949	-	770	709	91,386	-	572,539	-	(598,184)	107,731
Long-Term Assets Held for Sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9,436	-	9,436
Total assets	**484,504**	**123,273**	**95,796**	**321,633**	**63,967**	**73,566**	**114,202**	**677**	**123,119**	**69,891**	**(5,485)**	**205,308**	**(54,112)**	**7,628**	**160,193**	**2,673**	**553,581**	**33,226**	**20,908**	**468,821**	**(11,273)**	**(231,123)**	**27,451**	**(606,035)**	**2,042,389**

CONFIDENTIAL BUSINESS INFORMATION

Prospect Medical Holdings, Inc.

Consolidating Balance Sheets
As of September 30, 2020

	Hospital Segment																							
	Alta-California								CCHP			Waterbury		ECHN			Crozer							
Liabilities and Stockholder's (Deficit) Equity																								
Current liabilities:																								
Accrued medical claims and other healthcare costs p	-	-	-	-	22,319	-	6,333	9,263	-	-	-	-	-	-	-	-	-	(7)	-	26,748	9,033	2,768	-	-	76,457
Accounts payable and other accrued liabilities	9,502	3,064	1,139	4,698	7,230	1,275	16,804	15,102	12,941	10,342	6,442	27,410	1,917	2,862	23,828	4,263	81,830	19,090	1,951	32,373	4,184	98,455	-	(3,662)	383,040
Accrued salaries, wages and benefits	8,430	3,859	2,883	4,263	6,333	981	16,673	5,671	9,852	6,436	7,683	6,195	4,828	2,007	7,899	1,893	33,244	44,162	1,997	7,617	1,221	40,998	-	-	225,125
Hospital fee program liability	19,055	-	-	18,533	2,183	5,684	25,205	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	70,660
Due to government payers	700	-	-	875	242	-	676	-	3,280	2,573	(111)	8,859	-	2,362	8,110	1,560	3,262	-	(270)	(38)	-	669	-	-	32,749
Refund liability, current portion	4,052	-	-	17,197	2,339	-	-	-	3,663	2,291	243	6,670	306	1,001	3,847	278	16,773	713	449	9	-	2,284	-	-	62,115
Income taxes payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Revolving line of credit, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Current portion of capital leases	27	15	-	16	66	-	151	2	52	164	38	163	107	186	981	122	2,146	981	-	198	-	870	-	-	6,285
Current portion of long-term debt	-	-	-	-	-	-	-	-	-	-	50	-	-	548	894	735	12	-	112	-	-	86,754	-	(69,967)	19,138
Current portion of MPT liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	47,484	-	-	47,484
Other current liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,964	2,596	9,959	-	(2,927)	15,592
Current Liabilities Held for Sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	17,748	-	17,748
Total current liabilities	**41,766**	**6,938**	**4,022**	**45,582**	**40,712**	**7,940**	**65,842**	**30,038**	**29,788**	**21,806**	**14,345**	**49,297**	**7,158**	**8,966**	**45,559**	**8,851**	**137,267**	**64,939**	**4,239**	**72,871**	**17,034**	**290,241**	**17,748**	**(76,556)**	**956,393**
Long-term debt, net of current portion	-	-	-	-	-	-	7,762	(7,762)	-	-	13	-	-	5,637	2,174	7,104	-	-	2,076	-	-	173,197	-	-	190,201
Malpractice reserves	3,273	961	185	352	981	11	5,298	-	5,705	5,306	3,465	5,229	2,282	3,768	8,792	-	11,762	9,236	-	-	-	36,743	-	-	103,349
Refund liability, net of current portion	13,955	-	-	59,234	8,056	-	-	-	12,619	7,892	837	22,976	1,052	3,446	13,252	957	57,774	2,455	1,548	30	-	7,868	-	-	213,951
Capital leases, net of current portion	12	6	-	15	166	-	173	-	216	665	51	1,886	575	812	1,511	262	7,991	17,745	-	100	-	484	-	-	32,670
Asset retirement obligations	-	-	-	-	-	-	-	-	671	2,312	-	3,463	-	132	280	-	112	-	-	-	-	-	-	-	6,970
Other long-term liabilities	-	-	-	-	4	27	-	268	27,496	-	-	2,303	2,052	-	962	-	1,756	9,763	-	749	-	25,488	-	-	70,868
Pension obligations	-	-	-	-	-	-	-	-	-	-	-	9,213	-	14,986	53,853	-	153,889	-	-	-	-	-	-	-	231,941
MPT Liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,290,556	-	-	1,290,556
Long-Term Liabilities Held for Sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,105	-	5,105
Total liabilities	**59,006**	**7,905**	**4,207**	**105,183**	**49,919**	**7,978**	**79,075**	**22,544**	**76,495**	**37,981**	**18,711**	**94,367**	**13,119**	**37,747**	**126,383**	**17,174**	**370,551**	**104,138**	**7,863**	**73,750**	**17,034**	**1,824,577**	**22,853**	**(76,556)**	**3,102,004**
Commitments and contingencies																									
Stockholder's (deficit) equity:																									
Common stock, $0.01 par value; 100 shares authoriz	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	-	1
Additional paid-in capital	-	-	-	-	15,000	20,546	15,967	138,968	33,760	28,535	42,428	-	-	1,281	19,276	6,117	100,000	79,635	-	256	2,300	109,684	32,719	(581,511)	64,961
Accumulated other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	(1,043)	-	(4,401)	(15,069)	-	17,470	-	-	-	-	(12,571)	-	-	(15,614)
(Accumulated deficit) retained earnings	425,498	115,368	91,589	216,450	(952)	45,042	19,160	(160,835)	12,864	3,375	(71,243)	111,021	(69,050)	(26,999)	29,603	(21,078)	65,560	(150,547)	13,045	394,647	(30,607)	(2,152,814)	(28,121)	52,032	(1,116,992)
Total stockholder's (deficit) equity attributable to Pro	**425,498**	**115,368**	**91,589**	**216,450**	**14,048**	**65,588**	**35,127**	**(21,867)**	**46,624**	**31,910**	**(28,815)**	**109,978**	**(69,050)**	**(30,119)**	**33,810**	**(14,961)**	**183,030**	**(70,912)**	**13,045**	**394,903**	**(28,307)**	**(2,055,700)**	**4,598**	**(529,479)**	**(1,067,644)**
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	4,619	963	1,819	-	-	460	-	-	-	168	-	-	-	-	8,029
Total stockholder's (deficit) equity	425,498	115,368	91,589	216,450	14,048	65,588	35,127	(21,867)	46,624	31,910	(24,196)	110,941	(67,231)	(30,119)	33,810	(14,501)	183,030	(70,912)	13,045	395,071	(28,307)	(2,055,700)	4,598	(529,479)	(1,059,615)
Total liabilities and stockholder's (deficit) equity	**484,504**	**123,273**	**95,796**	**321,633**	**63,967**	**73,566**	**114,202**	**677**	**123,119**	**69,891**	**(5,485)**	**205,308**	**(54,112)**	**7,628**	**160,193**	**2,673**	**553,581**	**33,226**	**20,908**	**468,821**	**(11,273)**	**(231,123)**	**27,451**	**(606,035)**	**2,042,389**

The headers above are defined as follows: Alta Hospitals System, LLC ("Alta-California"), Southern California Healthcare System, Inc. (dba "Hollywood," "Van Nuys," and "Culver"), Alta Los Angeles Hospitals, Inc. (dba "Los Angeles," "Norwalk," and "Bellflower"), Alta Newport Hospital, Inc. ("Foothill"), Prospect CharterCARE, LLC ("CCHP" dba "Roger Williams" and "Fatima"), Prospect Waterbury, Inc. ("Waterbury"), Prospect ECHN, Inc. ("ECHN" dba "Rockville" and "Manchester"), Prospect Crozer, LLC ("Crozer"), and Prospect Home Health and Hospice, LLC ("PHHH").

CONFIDENTIAL BUSINESS INFORMATION

Prospect Medical Holdings, Inc.

Consolidating Balance Sheets
As of September 30, 2019

	Hospital Segment																							
	Alta-California								CCHP			Waterbury		ECHN			Crozer							
	Los Angeles	Norwalk	Van Nuys	Hollywood	Foothill	Bellflower	Culver	Corporate	Roger Williams	Fatima	Non-hospital entities combined	Waterbury	Non-hospital entities combined	Rockville	Manchester	Non-hospital entities	Hospital entities	Non-hospital entities	PHHH	Medical Group Segment	CRC Segment	Corporate Segment	Dis-continued Operations	Eliminations	Total
Assets																								
Current assets																								
Cash and cash equivalents	$ 967	$ (1,302)	$ (196)	$ (236)	$ (1,976)	$ (203)	$ (458)	$ (690)	$ (1,524)	$ (1,809)	$ (89)	$ (992)	$ 10,554	$ 31	$ 1,882	$ 870	$ (9,105)	$ (882)	$ 1,476	$ 46,155	$ 4,790	$ 4,828	$ -	$ -	$ 52,091
Cash held in escrow	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	70,000	-	-	70,000
Restricted cash	-	-	-	-	-	-	8	-	158	13	3	-	-	-	-	-	-	-	-	-	1,303	-	-	-	1,485
Restricted investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	29,540	-	-	29,540
Patient accounts receivable, net of allowance for doubtful accounts	15,958	6,046	2,595	8,639	13,104	1,555	33,109	-	25,290	20,929	3,493	31,701	5,980	7,073	22,678	6,620	85,549	8,822	6,718	728	-	-	-	-	306,587
Due from government payers	6,436	1,451	1,186	951	494	460	3,011	-	2,759	2,772	-	-	-	-	-	-	750	-	-	-	-	-	-	-	20,270
Other receivables, prepaid expenses and other current assets	304,525	100,932	77,851	143,371	(15,324)	36,757	(80,412)	(16,485)	(2,802)	(4,135)	(3,051)	49,140	(69,571)	(19,203)	34,062	(14,535)	111,798	(65,446)	1,303	228,874	(25,406)	(568,290)	-	(85,953)	118,000
Income tax receivable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Inventories	496	411	39	416	1,074	35	3,158	-	3,657	1,996	321	3,314	360	1,336	4,249	42	13,300	9	16	-	-	-	-	-	34,229
Hospital fee program receivable	63,568	-	-	50,526	507	13,034	39,895	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	167,530
Current assets held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	37,277	-	37,277
Total current assets	391,950	107,538	81,475	203,667	(2,121)	51,638	(1,689)	(17,175)	27,538	19,766	677	83,163	(52,677)	(10,763)	62,871	(7,003)	202,292	(57,497)	9,513	275,757	(19,313)	(463,922)	37,277	(85,953)	837,009
Property, improvements and equipment, net	16,587	8,411	7,358	18,425	25,394	20,763	38,646	11,559	35,090	23,979	2,103	49,984	3,403	24,361	56,370	10,427	127,120	46,235	2,131	3,888	2	6,235	-	-	538,471
Deferred income taxes, net	-	-	-	-	-	-	-	-	-	-	-	(11,086)	-	-	-	(5,853)	86,946	(380)	-	14,533	124	(83,461)	-	-	823
Goodwill	-	-	-	-	-	-	24,373	106,539	-	-	-	-	2,492	-	-	535	69,351	70,865	-	28,222	-	-	-	-	302,377
Intangible assets, net	-	-	-	-	-	-	-	3,805	-	-	19	2,296	-	-	-	2,408	-	11,880	-	5,137	-	-	-	-	25,545
Other assets	408	658	62	59	122	4	3,232	38	3,754	615	796	11,977	492	1,404	5,250	10,745	-	1,045	663	72,988	-	596,278	-	(592,568)	118,022
Long term assets held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	44,120	-	44,120
Total assets	$ 408,945	$ 116,607	$ 88,895	$ 222,151	$ 23,395	$ 72,405	$ 64,562	$ 104,766	$ 66,382	$ 44,360	$ 3,595	$ 136,334	$ (46,290)	$ 15,002	$ 124,491	$ 11,259	$ 485,709	$ 72,148	$ 12,307	$ 400,525	$ (19,187)	$ 55,130	$ 81,397	$ (678,521)	$ 1,866,367

CONFIDENTIAL BUSINESS INFORMATION

Prospect Medical Holdings, Inc.

Consolidating Balance Sheets
For the Year Ended September 30, 2019

	Hospital Segment																									
	Alta-California								CCHP			Waterbury		ECHN			Crozer									
	Los Angeles	Norwalk	Van Nuys	Hollywood	Foothill	Bellflower	Culver	Corporate	Roger Williams	Fatima	Non-hospital entities combined	Waterbury	Non-hospital entities combined	Rockville	Manchester	Non-hospital entities	Hospital entities	Non-hospital entities	PHHH	Medical Group Segment	CRC Segment	Corporate Segment	Dis-continued Operations	Eliminations	Total
Liabilities and Stockholder's (Deficit) Equity																									
Current liabilities:																									
Accrued medical claims and other healthcare costs payable	$ -	$ -	$ -	$ -	$ 18,628	$ -	$ 6,248	$ 9,293	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 32,219	$ 6,120	$ -	$ -	$ -	$ 72,508
Accounts payable and other accrued liabilities	7,882	3,398	801	4,663	6,137	1,313	17,269	12,748	12,617	10,212	7,226	16,350	2,207	1,874	16,062	4,147	54,021	17,765	1,447	23,954	1,244	57,949	-	(17,034)	264,252
Accrued salaries, wages and benefits	5,662	2,330	1,648	2,796	3,536	586	8,698	6,556	7,588	4,642	5,920	3,751	3,152	1,169	6,093	1,781	44,677	24,647	1,743	3,949	1,164	37,909	-	-	179,997
Hospital fee program liability	6,728	-	-	7,014	658	2,556	7,379	-	-	12	-	-	-	-	-	-	-	-	-	-	15	-	-	-	24,362
Due to government payers	279	-	-	738	-	-	709	-	2,497	2,024	378	4,938	-	1,562	6,002	1,111	7,980	-	388	-	-	-	-	-	28,606
Income taxes payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,395	-	-	7,395
Revolving line of credit, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	70,000	-	-	70,000
Current portion of capital leases	26	14	-	15	75	2	144	2	-	38	11	430	7	24	1,388	77	654	543	-	-	-	6,788	-	-	10,238
Current portion of long-term debt	-	-	-	-	-	-	-	50,491	-	-	51	-	-	487	619	711	12	-	157	-	-	103,528	-	(137,073)	18,983
Current portion of MPT liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	43,145	-	-	43,145
Other current liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,904	411	20,934	-	-	25,249
Current liabilities held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	33,939	-	33,939
Total current liabilities	20,577	5,742	2,449	15,226	29,034	4,457	40,447	79,090	22,702	16,928	13,586	25,469	5,366	5,116	30,164	7,827	107,344	42,955	3,735	64,026	8,954	347,648	33,939	(154,107)	778,674
Long-term debt, net of current portion	-	-	-	-	-	-	7,762	(7,762)	-	-	63	-	-	5,765	1,918	7,839	12	-	2,197	-	-	169,573	-	-	187,367
Malpractice reserves	389	1,888	111	135	280	6	5,588	-	3,211	2,895	2,392	3,691	1,238	2,462	5,746	-	7,253	5,693	-	-	-	90,322	-	-	133,300
Capital leases, net of current portion	39	21	-	30	231	-	97	-	-	-	43	-	27	8	1,057	136	5,247	18,118	-	-	-	5,318	-	-	30,372
Asset retirement obligations	-	-	-	-	-	-	-	-	832	2,290	-	1,955	-	132	280	-	113	-	-	-	-	-	-	-	5,602
Other long-term liabilities	-	-	-	-	5	20	-	111	297	-	-	443	-	-	1,162	-	5,011	20,407	-	1,003	-	20,247	-	-	48,706
Pension obligations	-	-	-	-	-	-	-	-	-	-	-	11,635	-	19,019	68,344	-	203,374	-	-	-	-	-	-	-	302,372
MPT Liabilities, net of current portion	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,338,040	-	-	1,338,040
Long term liabilities held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	11,994	-	11,994
Total liabilities	$ 21,005	$ 7,651	$ 2,560	$ 15,391	$ 29,550	$ 4,483	$ 53,894	$ 71,439	$ 27,042	$ 22,113	$ 16,084	$ 43,193	$ 6,631	$ 32,502	$ 108,671	$ 15,802	$ 328,354	$ 87,173	$ 5,932	$ 65,029	$ 8,954	$ 1,971,148	$ 45,933	$ (154,107)	$ 2,836,427
Commitments and contingencies																									
Stockholder's (deficit) equity:																									
Common stock, $0.01 par value; 100 shares authorized, issued and outstanding	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1	$ -	$ -	$ 1
Additional paid-in capital	-	-	-	-	15,000	20,546	15,967	138,968	33,760	28,535	42,428	-	-	1,281	19,276	6,117	100,000	79,635	-	256	2,300	64,274	78,129	(581,511)	64,961
Accumulated other comprehensive (loss) income	-	-	-	-	-	-	-	-	-	-	-	(1,343)	-	(4,840)	(16,915)	-	10,382	-	-	-	-	(10,520)	-	-	(23,236)
(Accumulated deficit) retained earnings	387,940	108,956	86,335	206,760	(21,155)	47,376	(5,299)	(105,641)	5,580	(6,288)	(58,643)	94,484	(55,867)	(13,941)	13,459	(11,113)	46,973	(94,660)	6,375	335,078	(30,441)	(1,969,773)	(42,665)	57,097	(1,019,073)
Total stockholder's (deficit) equity attributable to Prospect Medical Holdings, Inc.	387,940	108,956	86,335	206,760	(6,155)	67,922	10,668	33,327	39,340	22,247	(16,215)	93,141	(55,867)	(17,500)	15,820	(4,996)	157,355	(15,025)	6,375	335,334	(28,141)	(1,916,018)	35,464	(524,414)	(977,347)
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	3,726	-	2,946	-	-	453	-	-	-	162	-	-	-	-	7,287
Total stockholder's (deficit) equity	387,940	108,956	86,335	206,760	(6,155)	67,922	10,668	33,327	39,340	22,247	(12,489)	93,141	(52,921)	(17,500)	15,820	(4,543)	157,355	(15,025)	6,375	335,496	(28,141)	(1,916,018)	35,464	(524,414)	(970,060)
Total liabilities and stockholder's (deficit) equity	$ 408,945	$ 116,607	$ 88,895	$ 222,151	$ 23,395	$ 72,405	$ 64,562	$ 104,766	$ 66,382	$ 44,360	$ 3,595	$ 136,334	$ (46,290)	$ 15,002	$ 124,491	$ 11,259	$ 485,709	$ 72,148	$ 12,307	$ 400,525	$ (19,187)	$ 55,130	$ 81,397	$ (678,521)	$ 1,866,367

CONFIDENTIAL BUSINESS INFORMATION

Prospect Medical Holdings, Inc.

Consolidated Statement of Operations
For the Year Ended September 30, 2020

	Hospital Segment																						
	Alta-California								CCHP			Waterbury		ECHN			Crozer						
	Los Angeles	Norwalk	Van Nuys	Hollywood	Foothill	Bellflower	Culver	Corporate	Roger Williams	Fatima	Non-hospital entities combined	Waterbury	Non-hospital entities combined	Rockville	Manchester	Non-hospital entities	Hospital Entities	Non-hospital entities	PHHH	Medical Group Segment	CRC Segment	Corporate Segment	Dis-continued Operations	Eliminations	Total
Revenues:																									
Net Hospital Segment patient services revenues	123,779	36,491	22,174	79,892	168,643	17,310	229,757	28,988	177,387	127,996	29,462	230,883	49,505	39,189	185,834	29,988	664,741	58,450	38,910	-	-	-	77,962	-	2,339,379
Provision for bad debts	(3,300)	(2,191)	(173)	(2,405)	(2,296)	(158)	(10,285)	-	(9,680)	(7,000)	(421)	(11,614)	(1,141)	(1,527)	(7,850)	(750)	(36,785)	(4,007)	(628)	-	-	-	2,146	-	(102,251)
Net Hospital segment patient services revenues less provision for bad debts	120,479	34,300	22,001	77,487	166,347	17,152	219,472	28,988	167,707	120,996	29,051	219,269	48,364	37,662	177,984	29,238	627,956	54,443	38,282	-	-	-	80,102	-	2,237,128
Other non-patient Hospital revenues	-	-	-	-	123	15	(267)	-	2,291	39	509	(683)	9,618	79	899	30	14,301	19,745	986	-	-	-	7,394	(9,221)	38,464
Net Hospital Segment revenues	120,479	34,300	22,001	77,487	166,470	17,167	219,205	28,988	169,998	121,035	29,560	218,586	57,982	37,741	178,883	29,268	642,257	74,188	39,268	-	-	-	87,496	(9,221)	2,275,592
Medical Group revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	380,894	-	-	-	(8,248)	372,646
Global Risk Management revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	315,719	-	-	(230,819)	84,900
Corporate revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	250	-	-	250
Total net revenues	120,479	34,300	22,001	77,487	166,470	17,167	219,205	28,988	169,998	121,035	29,560	218,586	57,982	37,741	178,883	29,268	642,257	74,188	39,268	380,894	315,719	250	87,496	(248,288)	2,733,388
Operating Expenses:																									
Hospital operating expenses	72,474	24,503	12,986	60,951	138,063	16,684	170,512	67,611	139,136	95,317	38,760	181,152	66,002	37,289	136,663	48,673	524,617	75,705	31,661	-	-	-	90,254	(1,193)	1,937,766
Medical Group cost of revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	242,314	-	-	-	-	242,314
Global Risk Management cost of revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	292,889	-	-	(240,038)	52,851
General and administrative	9,282	5,512	3,825	6,075	7,002	3,029	25,705	1,469	30,996	26,067	2,846	26,170	6,300	10,674	24,181	(9,917)	101,591	37,216	2,077	76,051	23,121	80,368	29,312	(7,054)	403,486
Depreciation and amortization	1,358	554	457	1,007	2,779	1,241	3,018	3,063	5,455	2,834	614	9,622	963	2,813	10,163	968	5,062	19,071	233	4,110	1	5,254	-	-	80,040
Goodwill amortization	-	-	-	-	-	-	2,457	10,654	-	-	22	-	268	-	-	54	13,948	-	-	2,864	-	-	-	-	30,245
Total operating expenses	83,114	30,569	16,668	68,955	147,844	20,954	201,472	82,797	175,587	125,218	42,242	216,944	73,533	50,776	171,007	39,778	645,218	131,992	33,971	325,339	316,011	85,622	119,566	(248,285)	2,856,702
Pandemic relief grant income	220	2,898	(67)	1,206	1,644	1,466	6,449	-	15,537	17,337	1,988	17,198	2,426	475	10,296	1,018	28,355	7,234	1,460	208	-	-	15,658	-	117,148
Operating income from unconsolidated joint ventures	-	-	-	-	-	-	-	-	881	-	-	482	-	99	358	8	-	108	-	(152)	-	-	-	-	1,724
Operating (loss) income	**37,585**	**6,429**	**5,266**	**9,710**	**20,270**	**(2,321)**	**24,182**	**(53,809)**	**10,829**	**13,154**	**(10,694)**	**19,922**	**(13,125)**	**(12,521)**	**18,530**	**(5,484)**	**25,396**	**(50,462)**	**6,757**	**55,611**	**(292)**	**(85,372)**	**(16,412)**	**(3)**	**15,558**
Other (income) expense:																									
Interest expense and amortization of deferred financing costs, net	20	17	12	20	67	13	(277)	1,385	(186)	(4,263)	52	1,293	49	112	303	286	7,048	4,492	89	(4,118)	(127)	79,870	923	-	86,157
Net period benefit cost	-	-	-	-	-	-	-	-	228	5,265	-	1,388	-	634	1,727	-	-	-	-	-	-	-	-	-	9,242
Loss on early extinguishment of debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Goodwill impairment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,857	-	-
Other expense (income), net	7	-	-	-	-	-	-	-	3,503	2,489	961	474	9	(209)	356	188	(239)	933	(2)	154	1	(31,596)	(2,582)	5,062	2,091
Total other expense, net	27	17	12	20	67	13	(277)	1,385	3,545	3,491	1,013	3,155	58	537	2,386	474	6,809	5,425	87	(3,964)	(126)	48,274	7,198	5,062	97,490
(Loss) income before income taxes	**37,558**	**6,412**	**5,254**	**9,690**	**20,203**	**(2,334)**	**24,459**	**(55,194)**	**7,284**	**9,663**	**(11,707)**	**16,767**	**(13,183)**	**(13,058)**	**16,144**	**(5,958)**	**18,587**	**(55,887)**	**6,670**	**59,575**	**(166)**	**(133,646)**	**(23,610)**	**(5,065)**	**(81,932)**
Income tax provision	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(7,070)	-	-	(7,070)
Net (loss) income from continuing operations	**37,558**	**6,412**	**5,254**	**9,690**	**20,203**	**(2,334)**	**24,459**	**(55,194)**	**7,284**	**9,663**	**(11,707)**	**16,767**	**(13,183)**	**(13,058)**	**16,144**	**(5,958)**	**18,587**	**(55,887)**	**6,670**	**59,575**	**(166)**	**(146,576)**	**(23,610)**	**(5,065)**	**(74,862)**
Income from discontinued operations:																									
Income from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(23,610)	-	23,610
Income tax provision	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2)	-	2
Income on discontinued operations, net of taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(23,612)	-	23,612
Net (loss) income before allocation to non-controlling interests	**37,558**	**6,412**	**5,254**	**9,690**	**20,203**	**(2,334)**	**24,459**	**(55,194)**	**7,284**	**9,663**	**(11,707)**	**16,767**	**(13,183)**	**(13,058)**	**16,144**	**(5,958)**	**18,587**	**(55,887)**	**6,670**	**59,575**	**(166)**	**(146,576)**	**(23,612)**	**(5,065)**	**(98,474)**
Net (loss) income attributable to non-controlling interests	-	-	-	-	-	-	-	-	-	-	893	230	-	-	-	7	-	-	-	6	-	-	-	-	1,136
Net (loss) income attributable to Prospect Medical Holdings, Inc.	**37,558**	**6,412**	**5,254**	**9,690**	**20,203**	**(2,334)**	**24,459**	**(55,194)**	**7,284**	**9,663**	**(12,600)**	**16,537**	**(13,183)**	**(13,058)**	**16,144**	**(5,965)**	**18,587**	**(55,887)**	**6,670**	**59,569**	**(166)**	**(146,576)**	**(23,612)**	**(5,065)**	**(99,610)**
Other comprehensive income, net of tax:																									
Pension obligation and other post-retirement benefits adjustment (net of tax)	-	-	-	-	-	-	-	-	-	-	-	300	-	499	1,691	-	7,088	-	-	-	-	(251)	-	-	9,267
Debt and equity securities, unrealized gain	-	-	-	-	-	-	-	-	-	-	-	-	-	-	155	-	-	-	-	-	-	(109)	-	-	46
Total other comprehensive income (loss), net of tax	-	-	-	-	-	-	-	-	-	-	-	300	-	499	1,846	-	7,088	-	-	-	-	(360)	-	-	9,313
Total comprehensive (loss) income	**37,558**	**6,412**	**5,254**	**9,690**	**20,203**	**(2,334)**	**24,459**	**(55,194)**	**7,284**	**9,663**	**(12,600)**	**16,837**	**(13,183)**	**(12,619)**	**17,990**	**(5,965)**	**25,675**	**(55,887)**	**6,670**	**59,569**	**(166)**	**(146,936)**	**(23,612)**	**(5,065)**	**(90,297)**

The headers above are defined as follows: Alta Hospitals System, LLC ("Alta-California"), Southern California Healthcare System, Inc. (dba "Hollywood," "Van Nuys," and "Culver"), Alta Los Angeles Hospitals, Inc. (dba "Los Angeles," "Norwalk," and "Bellflower"), Alta Newport Hospital, Inc. ("Foothill"), Prospect CharterCARE, LLC ("CCHP" dba "Roger Williams" and "Fatima"), Prospect Waterbury, Inc. ("Waterbury"), Prospect ECHN, Inc. ("ECHN" dba "Rockville" and "Manchester"), Prospect Crozer, LLC ("Crozer"), and Prospect Home Health and Hospice, LLC ("PHHH").

CONFIDENTIAL BUSINESS INFORMATION

Prospect Medical Holdings, Inc.

Consolidated Statement of Operations
For the Year Ended September 30, 2019

	Hospital Segment																								
	Alta-California								CCHP			Waterbury		ECHN			Crozer								
	Los Angeles	Norwalk	Van Nuys	Hollywood	Foothill	Bellflower	Culver	Corporate	Roger Williams	Fatima	Non-hospital entities combined	Waterbury	Non-hospital entities combined	Rockville	Manchester	Non-hospital entities	Hospital Entities	Non-hospital entities	PHHH	Medical Group Segment	CRC Segment	Corporate Segment	Discontinued Operations	Eliminations	Grand Total
Revenues:																									
Net Hospital Services revenues	128,483	40,426	21,280	88,781	149,967	24,825	226,005	38,343	188,268	148,471	29,520	245,666	47,914	60,379	199,998	36,998	689,334	80,401	42,097	-	-	-	189,063	-	2,487,156
Provision for bad debts	(2,839)	(2,288)	(327)	(1,505)	(3,495)	(249)	(11,866)	-	(7,006)	(6,813)	(471)	(12,732)	(1,170)	(4,188)	(12,222)	(1,579)	(23,115)	(5,754)	(687)	-	-	-	(19,953)	-	(98,306)
Net Hospital Services revenues less provision for bad debts	125,644	38,138	20,953	87,276	146,472	24,576	214,139	38,343	181,262	141,658	29,049	232,934	46,744	56,191	187,776	35,419	666,219	74,647	41,410	-	-	-	169,110	-	2,388,850
Other non-patient revenue	-	-	-	-	-	-	-	-	1,926	1,419	1,195	3,550	8,465	(331)	(860)	2,760	11,116	20,043	94	-	-	-	4,762	-	49,377
Total net hospital services revenue	125,644	38,138	20,953	87,276	146,472	24,576	214,139	38,343	183,188	143,077	30,244	236,484	55,209	55,860	186,916	38,179	677,335	94,690	41,504	-	-	-	173,872	-	2,438,227
Medical Group revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	361,651	-	-	-	(7,697)	353,954
Net Global Risk Management revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	280,865	-	-	(231,169)	49,696
Other revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,321	-	-	7,321
Total net revenues	125,644	38,138	20,953	87,276	146,472	24,576	214,139	38,343	183,188	143,077	30,244	236,484	55,209	55,860	186,916	38,179	677,335	94,690	41,504	361,651	280,865	7,321	173,872	(238,866)	2,849,198
Operating Expenses:																									
Hospital operating expenses	64,068	24,356	11,089	48,928	129,575	13,918	160,999	74,200	140,191	104,956	39,531	175,857	73,352	44,253	137,513	61,768	520,777	107,267	34,939	-	-	-	181,107	(1,157)	1,966,380
Medical Group cost of revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	259,631	-	-	-	-	259,631
Global Risk Management cost of revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	264,142	-	-	(230,698)	33,444
General and administrative	8,339	5,221	4,003	6,434	7,005	3,200	26,435	2,530	33,816	28,493	3,998	23,580	5,896	14,556	35,830	(14,875)	111,562	27,226	2,172	66,789	24,900	81,477	47,867	(7,011)	501,586
Depreciation and amortization	1,522	614	550	1,427	3,497	1,501	5,318	4,987	7,306	7,212	554	7,963	764	3,115	10,834	917	18,657	4,359	304	4,922	1	5,687	7,224	-	92,011
Total operating expenses	73,929	30,191	15,642	56,789	140,077	18,619	192,752	81,717	181,313	140,661	44,083	207,410	80,012	61,924	184,177	47,810	650,996	138,852	37,415	331,342	289,043	87,164	236,198	(238,866)	2,853,052
Operating income from unconsolidated joint ventures	-	-	-	-	-	-	-	-	560	13	-	4,307	-	284	793	15	-	582	-	(665)	-	-	-	-	5,889
Operating (loss) income	**51,715**	**7,947**	**5,311**	**30,487**	**6,395**	**5,957**	**21,387**	**(43,374)**	**2,435**	**2,429**	**(13,839)**	**33,381**	**(24,803)**	**(5,780)**	**3,532**	**(9,616)**	**26,339**	**(43,580)**	**4,089**	**29,644**	**(8,178)**	**(79,843)**	**(62,326)**	**-**	**2,035**
Other (income) expense:																									
Interest expense and amortization of deferred financing costs, net	64	24	13	24	91	7	282	2,494	139	1,047	22	(578)	36	126	555	311	11,395	(8,382)	75	(6,262)	(897)	110,099	1,708	-	110,605
Net period benefit cost	-	-	-	-	-	-	-	-	-	-	-	1,164	-	1,343	3,653	-	-	11,070	-	-	-	-	-	-	17,230
Loss on early extinguishment of debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	30,052	-	-	30,052
Goodwill impairment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	76,820	-	-
Other expense (income), net	(8)	5	-	1	(2)	-	-	6	-	-	(90)	(2,252)	(268)	(63)	529	143	1,741	3,518	76	(478)	-	8,576	685	(8,576)	2,858
Total other expense, net	56	29	13	25	89	7	282	2,460	139	1,047	(68)	(1,666)	(232)	1,406	4,737	454	13,136	6,206	151	(6,740)	(897)	148,687	79,213	(8,576)	160,745
(Loss) income before income taxes	**51,659**	**7,918**	**5,298**	**30,462**	**6,306**	**5,950**	**21,105**	**(45,834)**	**2,296**	**1,382**	**(13,771)**	**35,047**	**(24,571)**	**(7,186)**	**(1,205)**	**(10,070)**	**13,203**	**(49,786)**	**3,938**	**36,384**	**(7,281)**	**(228,530)**	**(141,539)**	**8,576**	**(158,710)**
Income tax provision	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	16,455	-	-	16,455
Net (loss) income from continuing operations	**51,659**	**7,918**	**5,298**	**30,462**	**6,306**	**5,950**	**21,105**	**(45,834)**	**2,296**	**1,382**	**(13,771)**	**35,047**	**(24,571)**	**(7,186)**	**(1,205)**	**(10,070)**	**13,203**	**(49,786)**	**3,938**	**36,384**	**(7,281)**	**(244,985)**	**(141,539)**	**8,576**	**(175,165)**
Income from discontinued operations:																									
Income from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(141,539)	-	141,539
Income tax provision	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	18,234	-	(18,234)
Income on discontinued operations, net of taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(123,305)	-	123,305
Net (loss) income before allocation to non-controlling interests	**51,659**	**7,918**	**5,298**	**30,462**	**6,306**	**5,950**	**21,105**	**(45,834)**	**2,296**	**1,382**	**(13,771)**	**35,047**	**(24,571)**	**(7,186)**	**(1,205)**	**(10,070)**	**13,203**	**(49,786)**	**3,938**	**36,384**	**(7,281)**	**(244,985)**	**(18,234)**	**8,576**	**(298,470)**
Net (loss) income attributable to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(1,513)	-	733	-	-	51	-	-	-	(5)	-	-	-	-	(734)
Net (loss) income attributable to Prospect Medical Holdings, Inc.	**51,659**	**7,918**	**5,298**	**30,462**	**6,306**	**5,950**	**21,105**	**(45,834)**	**2,296**	**1,382**	**(12,258)**	**35,047**	**(25,304)**	**(7,186)**	**(1,205)**	**(10,121)**	**13,203**	**(49,786)**	**3,938**	**36,389**	**(7,281)**	**(244,985)**	**(18,234)**	**8,576**	**(297,736)**
Other comprehensive income, net of tax:																									
Pension obligation and other post-retirement benefits adjustment (net of ta	-	-	-	-	-	-	-	-	-	-	-	(2,186)	-	(2,168)	(7,679)	-	(34,014)	-	-	-	-	251	-	-	(45,796)
Debt and equity securities, unrealized gain	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	-	-	-	-	-	1,256	-	-	1,257
Total other comprehensive income (loss), net of tax	-	-	-	-	-	-	-	-	-	-	-	(2,186)	-	(2,168)	(7,678)	-	(34,014)	-	-	-	-	1,507	-	-	(44,539)
Total comprehensive (loss) income	**51,659**	**7,918**	**5,298**	**30,462**	**6,306**	**5,950**	**21,105**	**(45,834)**	**2,296**	**1,382**	**(12,258)**	**32,861**	**(25,304)**	**(9,354)**	**(8,883)**	**(10,121)**	**(20,811)**	**(49,786)**	**3,938**	**36,389**	**(7,281)**	**(243,478)**	**(18,234)**	**8,576**	**(342,275)**

CONFIDENTIAL BUSINESS INFORMATION

PROSPECT MEDICAL

CONTACT:
Redacted Corporate Finance and Treasury
Redacted

PROSPECT MEDICAL HOLDINGS REPORTS FISCAL 2022 FIRST QUARTER FINANCIAL RESULTS

Q1 FY 2022 Highlights

- **Revenue was $759 million compared to $758 million in the same quarter in the prior year.**
- **Adjusted EBITDA, excluding the operations in Connecticut and Pennsylvania, for which we have signed non-binding letters of intent to sell (see page 3), was $11.3 million for Q1 FY22.**

Los Angeles, CA - February 18, 2022 - Prospect Medical Holdings, Inc. ("Prospect" or the "Company") today announced financial results for its fiscal 2022 first quarter ended December 31, 2021. The Company will host a conference call on March 2, 2022 at 1:00 pm PST / 4:00 pm EST to discuss these results - details at page 5 of this release.

CONSOLIDATED RESULTS OVERVIEW

Consolidated revenues were $759.0 million for the fiscal quarter ended December 31, 2021. This is an increase of $0.8 million when compared to consolidated revenues of $758.2 million for the same quarter last year. Hospital segment revenue decreased by $16.6 million to $602.8 million from $619.4 million, Medical Group segment revenue increased by $8.2 million to $125.7 million from $117.5 million, and Global Risk Management segment revenue increased by $8.9 million to $30.1 million from $21.2 million for the fiscal quarter ended December 31, 2021, compared to the same quarter last year.

Adjusted EBITDA, excluding the operations in Connecticut and Pennsylvania, for which we have signed non-binding letters of intent to sell (see page 3), was $11.3 million for the fiscal quarter ended December 31, 2021. Adjusted EBITDA, including those operations, was negative $9.3 million for the fiscal quarter ended December 31, 2021.

These condensed consolidated financial statements should be read in conjunction with the audited financial statements for the year ended September 30, 2021, including the accompanying footnotes.

IMPACT OF THE COVID-19 PANDEMIC

During 2020 and 2021, federal, state and local authorities took several administrative actions intended to assist healthcare providers in providing care during the COVID-19 public health emergency. Sources of relief include the Coronavirus Aid, Relief and Economic Security Act, the Paycheck Protection Program and Health Care Enhancement Act (the "PPPHCE Act"), the Continuing Appropriations Act, 2021 and Other Extensions Act, and the Consolidated Appropriations Act, 2021 (collectively, (the "COVID Acts"). With the COVID Acts, the federal government authorized funding to be distributed through the Public Health and Social Services Emergency Fund ("Provider Relief Fund" or "PRF"). HHS will recoup PRF grant funds not utilized by the established deadlines. The COVID Acts also revised the Medicare accelerated payment program in an attempt to disburse payments to hospitals and other care providers more quickly and permitted employers to defer payment of the 6.2% employer Social Security tax beginning March 27, 2020 through December 31, 2020. In June 2021, the U.S. Department of Health and Human Services ("HHS") established new deadlines for when recipients of PRF grants must use the funding received, generally 12 to 18 months after receipt of the grant funds.

In certain circumstances, when a hospital is experiencing financial difficulty due to delays in receiving payment for the Medicare services it provided, it may be eligible for an accelerated or advance payment pursuant to the Medicare accelerated payment program. The COVID Acts revised the Medicare accelerated payment program in an attempt to disburse payments to healthcare providers more quickly. Recipients may retain the accelerated payments for one year from the date of receipt before recoupment commences, which is effectuated by a 25% offset of claims payments for 11 months, followed by a 50% offset for the succeeding six months. The initial 11-month recoupment period began in April 2021. At the end of the 29-month period, interest on the unpaid balance will be assessed at 4% per annum. As of December 31, 2021, the Company had received Medicare accelerated and advance payments of approximately $276 million, of which approximately $27.4 million and $48.7 million had been repaid during the three months ended December 31, 2021 and the year ended September 30, 2021 and approximately $200.0 million and $227.3 million were reflected in current refund liabilities in the accompanying consolidated balance sheets as of December 31, 2021 and September 30, 2021, respectively.

GRANT INCOME AND EXPENSE OFFSET

The amount of lost revenues (represented as a negative change in year-over-year net revenues from patient care related sources) was recorded in "pandemic relief grant income" and incremental expenses were recognized as a reduction to operating expense within the accompanying consolidated statements of operations in accordance with the terms of the grants. Amounts are recognized as a reduction to operating costs and expenses only to the extent the Company is reasonably assured that underlying conditions are met. These monies have been recognized following the grant accounting model, recognizing income or reduction to expenses over the applicable reporting period as management becomes reasonably assured of meeting the required criteria. Through December 31, 2021, the Company had received $213.0 million in grant funds directly through the PRF (to be used against incremental expenses and lost revenues) and an additional $24.0 million in state, local and hospital association grants (to be used against incremental expenses and lost business) (including funds related to discontinued operations). As of December 31, 2021 and September 30, 2021, there were no deferred grant payments on the accompanying condensed consolidated balance sheets.

CASH FLOW AND LIQUIDITY

Net cash used in operating activities was $85.4 million for the quarter ended December 31, 2021 compared to $84.6 million for the quarter ended December 31, 2020.

Net cash used in investing activities was $8.2 million for the quarter ended December 31, 2021 compared to $12.4 million for the quarter ended December 31, 2020.

Net cash provided by financing activities was $100.8 million for the quarter ended December 31, 2021 compared to net cash used of $27.6 million for the quarter ended December 31, 2020. The increase is cash provided is primarily due to borrowing on the line of credit of $135 million during the quarter ended December 31, 2021.

In addition, total cash paid for interest was $18.1 million and $18.5 million for the quarters ended December 31, 2021 and 2020, respectively.

At December 31, 2021, the Company had outstanding borrowings under its revolving line of credit (under its ABL Credit Agreements entered into on February 22, 2018 and amended from time to time thereafter (the "ABL Facility")) of $180 million. At December 31, 2021, the Company had cash, cash equivalents and restricted cash of approximately $118 million and availability on its ABL Facility of approximately $95 million. The Company believes that its current liquidity or access to financing will be sufficient to meet its operating, investing and financing cashflow requirements for the next year from the date these condensed consolidated financial statements were available to be issued.

CONFIDENTIAL BUSINESS INFORMATION

DISCONTINUED OPERATIONS

The operations of Nix Hospital Systems, LLC, dba Nix Health Care System ("Nix Health") in Texas and Prospect EOGH, Inc., dba East Orange General Hospital ("EOGH") in New Jersey have been presented within discontinued operations. In the first quarter of fiscal 2021, the Company entered into an Asset Purchase Agreement to sell the majority of the assets of EOGH to an unrelated third party for a purchase price of $6.2 million plus adjustments for working capital. The monies related to the purchase were transferred on December 30, 2021 and the transaction was completed on January 1, 2022. Approximately $6.8 million of the sale proceeds were placed into an escrow account and are related to Medicare Advance payments; this is presented within cash held in escrow in the accompanying unaudited interim consolidated financial statements at December 31, 2021.

Accordingly, for the quarters ended December 31, 2021 and 2020, the operations (as they relate to revenues and expenses that no longer continue post sale/closure) are shown within discontinued operations. The assets and liabilities that are presented as "held for sale" are those assets and liabilities at EOGH that were transferred as part of the sale on January 1, 2022.

SUBSEQUENT EVENTS

On February 10, 2022, we announced the signing of a Letter of Intent ("LOI") for Yale New Haven Health to acquire our two Connecticut health systems. The agreement also includes the health systems' related businesses, real estate assets, physician clinic operations and outpatient services.

On February 11, 2022, we announced the signing of an LOI for Christiana Care Health System to acquire Crozer Health. The agreement also includes the hospitals' related businesses, real estate assets, Crozer Health Medical Group and the associated assets, ambulatory centers, medical office buildings, physician clinics and ancillary outpatient services.

Both LOIs are non-binding and we expect to sign definitive agreements in the second quarter of calendar 2022. The transactions are subject to customary regulatory approvals, with transaction closing targeted for later in calendar 2022.

We have not presented the operations of these facilities within discontinued operations at December 31, 2021.

RECENTLY ADOPTED ACCOUNTING PRONOUCEMENTS

The Company adopted the new revenue recognition standard, Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)", using a modified retrospective method of application to all contracts existing on October 1, 2020. The core principle of the guidance in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. For the Hospital Segment, the adoption of ASU 2014-09 resulted in changes to the presentation and disclosure of revenue primarily related to uninsured or underinsured patients. Prior to the adoption of ASU 2014-09, a significant portion of the provision for doubtful accounts related to self-pay patients, as well as co-pays, co-insurance amounts and deductibles owed by patients with insurance. Under ASU 2014-09, the estimated uncollectable amounts due from these patients are generally considered implicit price concessions that are a direct reduction to net operating revenues, with a corresponding reduction in the amounts presented as provision for doubtful accounts.

The guidance in ASU 2014-09 was adopted in Q4 FY21 but effective October 1, 2020. Accordingly, the condensed consolidated financial statements presented for the three months ended December 31, 2020 reflect adoption of the ASU 2014-09 as of October 1, 2020. Previously issued earnings releases for Q1 FY21, Q2 FY21, and Q3 FY21 did not reflect the adoption of this ASU because, as a private company, the Company is only required to present for the first interim period in the year after adoption.

The Company has revised its accounting policies related to revenues effective October 1, 2020 and these are discussed in the footnotes to the audited consolidated financial statements for the year ended September 30, 2021.

CONFIDENTIAL BUSINESS INFORMATION

RECLASSIFICATIONS

Certain reclassifications were made to the prior period financials in order to conform to the current year presentation, including related to the adoption of ASU 2014-09, as previously noted. These reclassifications did not have a material impact on previously reported unaudited interim condensed consolidated financial statements. In addition, certain changes have been made to the historical presentation of Adjusted EBITDA to conform to current period presentation, and such changes are discussed on page 24.

USE OF NON-GAAP MEASURES

This document contains "non-GAAP financial measures," that is, financial measures that either exclude or include amounts that are not excluded or included in the most directly comparable measure calculated and presented in accordance with generally accepted accounting principles. Specifically, we make use of the non-GAAP measures "EBITDA," "Adjusted EBITDA," and "Proforma Adjusted EBITDA."

We define EBITDA as net income (loss) plus (i) income (loss) from discontinued operations, (ii) provision for income taxes, (iii) interest expense, net (including amortization of deferred financing costs), (iv) depreciation, and (v) amortization. In addition, we define Adjusted EBITDA as EBITDA as further adjusted to eliminate the impact of certain items that we do not consider indicative of our ongoing operating performance, including transaction costs, certain legal expenses, stock-based compensation, sponsor structuring and management fees, purchase price adjustments and pre-acquisition items, other unusual and non-recurring charges, and other noncash charges. Further, prior to the fourth quarter of FY20, we defined Proforma Adjusted EBITDA as Adjusted EBITDA as further adjusted for proforma adjustments related to the California Hospital Fee Program and lost margins as a result of the COVID-19 pandemic. From the fourth of quarter of FY20, in line with the revised guidance that HHS issued in October 2020, which changed the comparison of change in operating income to lost revenues (see discussion above under "COVID-19 Pandemic"), we have changed the definition of Proforma Adjusted EBITDA to reflect lost revenues compared to the same period in the prior year. Management believes that EBITDA, Adjusted EBITDA and Proforma Adjusted EBITDA are useful tools for investors and other users of our financial statements in assessing our ability to service and/or incur indebtedness, maintain current operating levels of capital assets and acquire additional operations and businesses. A reconciliation of EBITDA, Adjusted EBITDA, and Proforma Adjusted EBITDA to our net income (loss) under generally accepted accounting principles, or GAAP, for certain periods presented in our financial statements is included in this document. However, EBITDA, Adjusted EBITDA, and Proforma Adjusted EBITDA are not necessarily comparable to other similarly titled financial measures of other companies due to the potential inconsistencies in the method of calculation. EBITDA, Adjusted EBITDA, and Proforma Adjusted EBITDA have limitations as analytical tools and should not be considered in isolation or as substitutes for analyzing the Company's results as reported under GAAP. Some of these limitations are:

- They do not reflect cash outlays for capital expenditures or future contractual commitments;
- They do not reflect changes in, or cash requirements for, working capital;
- They do not reflect interest expense, or the cash requirement necessary to service interest, or principal payments, on its indebtedness;
- They do not reflect income tax expense or the cash necessary to pay income taxes;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA, Adjusted EBITDA, and Proforma Adjusted EBITDA do not reflect cash requirements for such replacements; and
- Other companies, including other companies in our industry, may not use such measures or may calculate the measures differently than as presented in this earnings release, limiting their usefulness as a comparative measure.

Because of these limitations, EBITDA, Adjusted EBITDA, and Proforma Adjusted EBITDA or any related ratio using such measures should be considered only as a supplemental measure in addition to, and not in lieu of, our GAAP income and cash flow statements, and not as a measure of discretionary cash available to invest in business growth or reduce indebtedness.

CONFIDENTIAL BUSINESS INFORMATION

CONFERENCE CALL

Management will host a conference call on March 2, 2022 at 1:00 pm PST / 4:00 pm EST to discuss these results. Interested parties may participate in the call by dialing Redacted (Domestic) or Redacted (Toll) approximately 10 minutes before the call is scheduled to begin and ask to be connected to the Prospect Medical Holdings conference call. The conference call will be broadcast live over the internet at the following link: Redacted To listen to the live call on the internet, go to the website at least 15 minutes early to register, and download and install any necessary audio software. A replay of the call will be available for 30 days by dialing Redacted (Toll-Free) or Redacted Toll) with conference ID: Redacted

PROSPECT MEDICAL HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par value and share amounts)

	As of (Unaudited) December 31, 2021	As of September 30, 2021
ASSETS		
Current assets		
Cash and cash equivalents	$ 62,500	$ 58,993
Cash held in escrow	42,070	45,270
Restricted cash	8,681	1,793
Restricted investments	35,329	34,283
Patient accounts receivable	330,201	296,119
Due from government payers	28,033	23,298
Other receivables, prepaid expenses and other current assets	178,245	171,204
Income taxes receivable	8,580	8,535
Inventories	38,122	35,996
Hospital fee program receivable	179,771	178,042
Current assets held for sale	18,424	16,843
Total current assets	929,956	870,376
Property, improvements and equipment, net	560,572	579,765
Goodwill, net	236,979	244,067
Intangible assets, net	13,865	14,870
Other assets	96,724	97,539
Long-term assets held for sale	17,721	8,550
Total assets	$ 1,855,817	$ 1,815,167
LIABILITIES AND STOCKHOLDER'S DEFICIT		
Current liabilities		
Accrued medical claims and other healthcare costs payable	$ 99,881	$ 93,702
Accounts payable and other accrued liabilities	346,122	340,164
Accrued salaries, wages and benefits	201,550	219,142
Hospital fee program liability	71,225	71,197
Due to government payers, current portion	25,615	20,218
Refund liability, current portion	199,958	227,330
Revolving line of credit, net	180,000	45,000
Capital leases, current portion	12,604	12,947
Long-term debt, current portion	23,677	16,032
MPT liabilities, current portion	52,082	50,978
Other current liabilities	13,874	7,824
Current liabilities held for sale	20,346	15,944
Total current liabilities	1,246,934	1,120,478
Long-term debt, net of current portion	163,449	167,683
Malpractice reserves	125,028	121,691
Capital leases, net of current portion	48,074	50,094
Asset retirement obligations	6,993	6,975
Other long-term liabilities	88,076	96,716
Pension obligations	286,842	284,674
MPT liabilities, net of current portion	1,227,110	1,240,348
Long-term liabilities held for sale	892	898
Total liabilities	3,193,398	3,089,557
Stockholder's deficit		
Common stock, $0.01 par value; 100 shares authorized, issued and outstanding	1	1
Additional paid-in capital	57,765	57,765
Accumulated other comprehensive loss	(63,841)	(63,848)
Accumulated deficit	(1,335,448)	(1,272,303)
Total stockholder's deficit attributable to Prospect Medical Holdings, Inc.	(1,341,523)	(1,278,385)
Non-controlling interests	3,942	3,995
Total stockholder's deficit	(1,337,581)	(1,274,390)
Total liabilities and stockholder's deficit	$ 1,855,817	$ 1,815,167

CONFIDENTIAL BUSINESS INFORMATION

PROSPECT MEDICAL HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands)

	Three Months Ended December 31, (Unaudited)	
	2021	2020
Revenues:		
Net Hospital revenues	$ 602,790	$ 619,361
Medical Group revenues	125,687	117,477
Global Risk Management revenues	30,090	21,187
Corporate revenues	466	182
Total net revenues	759,033	758,207
Operating expenses:		
Hospital operating expenses	519,869	485,822
Medical Group cost of revenues	91,678	89,809
Global Risk Management cost of revenues	18,733	14,541
General and administrative	143,416	156,447
Depreciation and amortization	22,179	19,806
Goodwill amortization	7,625	7,615
Total operating expenses	803,500	774,040
Pandemic relief grant income (loss)	1,091	(2,021)
Operating income from unconsolidated joint ventures	679	1,009
Operating loss	(42,697)	(16,845)
Other expense:		
Interest expense and amortization of deferred financing costs, net	19,032	21,128
Net periodic benefit cost	3,274	3,608
Other expense, net	29	91
Total other expense, net	22,335	24,827
Loss before income taxes	(65,032)	(41,672)
Income tax provision	261	333
Net loss from continuing operations	(65,293)	(42,005)
Income (loss) on discontinued operations, net of tax	2,336	(1,163)
Net loss before allocation to non-controlling interests	(62,957)	(43,168)
Net loss (income) attributable to non-controlling interests	188	(2,967)
Net loss attributable to Prospect Medical Holdings, Inc.	(63,145)	(40,201)
Other comprehensive income, net of tax:		
Pension obligation and other post-retirement benefits adjustment	7	10
Debt and equity securities, unrealized gain	-	139
Total other comprehensive income, net of tax	7	149
Total comprehensive loss	$ (63,138)	$ (40,052)

CONFIDENTIAL BUSINESS INFORMATION

PROSPECT MEDICAL HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Three Months Ended December 31, (Unaudited)	
	2021	2020
Operating activities		
Net loss before allocation to non-controlling interests	$ (62,957)	$ (43,169)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	29,804	27,421
Amortization of deferred financing costs, net	498	463
Pension obligation net periodic benefit cost	3,268	3,059
Excess contribution to pension plan	(1,093)	-
Deferred income taxes, net	5,827	210
Undistributed earnings from unconsolidated joint ventures	(679)	(1,009)
Gain (loss) on disposal of assets	(181)	(393)
Change in operating assets and liabilities:		
Patient accounts receivable	(34,082)	(16,872)
Due to/from government payers, net	664	374
Refund liability	(27,372)	-
Other receivables, prepaid expenses and other current assets	4,928	(23,608)
Hospital fee program receivable	(1,729)	(10,548)
Hospital fee program liability	28	(5,455)
Inventories	(2,126)	(1,930)
Income taxes payable/receivable, net	(45)	112
Deposits and other assets	443	3,968
Accrued medical claims and other healthcare costs payable	6,179	12,774
Accounts payable, other accrued liabilities and other long-term liabilities	(1,630)	(28,939)
Net cash, cash equivalents, cash held in escrow and restricted cash provided by operating activities from discontinued operations	(5,138)	(1,019)
Net cash, cash equivalents, cash held in escrow and restricted cash used in operating activities	(85,393)	(84,561)
Investing activities		
Purchases of property, improvements and equipment	(6,055)	(7,357)
Cash paid for investment in equity method investee	-	(5,178)
Distribution received from equity and cost method investments	552	1,057
Change in investments	(1,046)	(1,366)
Cash paid for acquisitions	(538)	-
Net cash, cash equivalents, cash held in escrow and restricted cash (used in) provided by investing activities from discontinued operations	(1,135)	483
Net cash, cash equivalents, cash held in escrow and restricted cash used in investing activities	$ (8,222)	$ (12,361)

CONFIDENTIAL BUSINESS INFORMATION

PROSPECT MEDICAL HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Three Months Ended December 31, (Unaudited)	
	2021	2020
Financing activities		
Borrowings on line of credit	$ 135,000	$ -
Borrowings on long-term debt	1,295	300
Repayments of long-term debt	(13,017)	(4,815)
Repayment of financing leases	-	(614)
Repayments of capital leases	(3,984)	(2,863)
Cash paid for deferred financing costs	-	(3,322)
Insurance premium financing, net	(3,580)	(4,501)
Repayment of MPT liabilities transactions	(14,820)	(11,642)
Net cash, cash equivalents, cash held in escrow and restricted cash used in financing activities from discontinued operations	(84)	(119)
Net cash, cash equivalents, cash held in escrow and restricted cash provided by (used in) financing activities	100,810	(27,576)
Change in cash, cash equivalents, cash held in escrow and restricted cash	7,195	(124,498)
Cash, cash equivalents, cash held in escrow and restricted cash at beginning of period	106,056	388,722
Cash, cash equivalents, cash held in escrow and restricted cash at end of period	$ 113,251	$ 264,224
Supplemental disclosure of cash flow information		
Interest paid	$ 18,114	$ 18,454
Income taxes paid, net	$ 469	$ 11
Schedule of non-cash investing and financing activities		
Equipment acquired under capital leases	$ 1,621	$ 1,150
Accrual of property, improvements and equipment	$ 3,414	$ 8,850
Pace liabilities	$ 4,435	$ -
Insurance premium financed	$ 11,970	$ 11,560

CONFIDENTIAL BUSINESS INFORMATION

Hospital Services Segment

As of December 31, 2021, the operations of Nix Health had ceased and the sale of the operations of EOGH had been completed, with an effective date of January 1, 2022. Both are reported in the Hospital Services segment. Accordingly, under applicable accounting literature, the statements of operations below present the operations of Nix Health and EOGH within operating income (loss from) discontinued operations and represent revenues and expenses that do not continue after the respective closure/sale of these facilities.

The following table sets forth the results of operations for our Hospital Services segment for the three and twelve months ended December 31, 2021 and 2020, respectively. Hospital services expenses do not include allocation of corporate overhead or interest expense - see "Corporate Segment" on page 21.

	Three Months Ended December 31, (Unaudited)	
(in thousands)	2021	2020
Revenues:		
Net Hospital Services revenues:		
Medicare	$ 180,172	$ 197,939
Medicaid	149,539	217,870
Managed care	177,392	193,425
Self pay / other payor	31,404	(30,196)
Capitation revenue	50,812	37,329
Other	13,471	2,994
Total Revenues	602,790	619,361
Hospital Services operating expenses:		
Salaries, wages and benefits	310,580	294,975
Supplies	70,080	62,828
Capitation expense	39,809	33,504
Other operating expenses	99,400	94,515
Total Hospital Services operating expenses	519,869	485,822
General and administrative	95,834	111,578
Depreciation and amortization	20,252	17,571
Goodwill amortization	6,857	6,847
Total non-medical expenses	122,943	135,996
Pandemic relief grant income (loss)	1,091	(2,609)
Operating income from unconsolidated joint ventures	724	1,006
Operating loss from continuing operations	(38,207)	(4,060)
Operating loss from discontinued operations	(5,390)	(844)
Operating loss	$ (43,597)	$ (4,904)

CONFIDENTIAL BUSINESS INFORMATION

The table below reflects the revenues and expenses recorded related to supplemental reimbursement programs.

	Three Months Ended December 31, (Unaudited)	
(in thousands)	2021	2020
California hospital fee program revenues	35,328	34,620
California hospital fee program expenses	(19,427)	(19,363)
Net pre-tax impact	15,901	15,257
California hospital DSH revenues	10,434	7,821
California hospital DSH expenses	-	-
Net pre-tax impact	10,434	7,821
Pennsylvania medicaid modernization revenues	7,315	10,464
Pennsylvania medicaid modernization expenses	(3,824)	(3,825)
	3,490	6,639
Pennsylvania Community access fund and legislative initiative revenues	2,933	2,933
Net pre-tax impact	6,423	9,572
Rhode Island DSH & UPL revenues	6,149	5,343
Rhode Island license fees	(3,856)	(2,974)
Net pre-tax impact	2,293	2,369
Connecticut medicaid DSH revenues	6,354	6,312
Connecticut provider tax	(9,428)	(9,795)
Net pre-tax impact	(3,074)	(3,483)
Total hospital services revenues	68,512	67,493
Total hospital services operating expenses	(36,535)	(35,957)
Total net pre-tax impact	31,977	31,536

CALIFORNIA HOSPITAL FEE PROGRAM

The Company recognizes revenues related to supplemental Medi-Cal payments under California provider fee programs using the most likely outcome method, which is based on formulas contained in the legislation as well as modeling performed by the California Hospital Association ("CHA"). The estimates also consider whether it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. These programs are funded by quality assurance fees ("QAF") paid by participating hospitals and matching federal funds. The current cycle of the California Hospital Fee Program relates to the period from July 1, 2019 through December 31, 2021 ("QAF 6").

Summarized financial information for discontinued operations is included below. Note that the segment financial statements exclude the effect of taxes, but these are included in the table below to reconcile to the unaudited interim condensed consolidated financial statements on page 7.

(in thousands)	Three Months Ended December 31, (Unaudited) 2021	2020
Net Hospital revenues	$ 23,196	$ 22,067
Operating expenses	22,708	20,203
General and administrative expenses	5,888	5,047
Total expense	28,596	25,250
Pandemic grant relief income	10	2,339
Net operating loss	(5,390)	(844)
Interest expense, net	12	83
Other (income)/expense, net	(7,738)	236
Income (loss) on discontinued operations	$ 2,336	$ (1,163)

CONFIDENTIAL BUSINESS INFORMATION

The following table shows certain selected historical operating statistics for our hospitals for the three months ended December 31, 2021 and 2020, respectively, for continuing operations:

(dollars in thousands)	Three Months Ended December 31, (Unaudited) 2021	2020	Inc (Dec)
Licensed beds at end of the period	3,094	3,087	0%
Average staffed beds	1,547	1,732	-12%
Occupancy rate for staffed beds (1)	96.4%	96.0%	0%
Admissions (2)	21,106	21,923	-4%
Adjusted patient admissions (3)	34,992	37,610	-7%
Patient days	137,148	152,993	-12%
Adjusted patient days (4)	217,471	231,724	-7%
Average length of patients' stay (days) (5)	6.5	7.0	-8%
Outpatient visits	543,816	608,716	-12%
IP Surgery - Cases	3,949	3,670	7%
OP Surgery - Cases	12,233	12,561	-3%
Total Surgery Cases	16,182	16,231	0%
Net inpatient revenues excluding CA Program revenues	$ 273,269	$ 345,603	-26%
CA Hospital Fee Program revenues	35,328	34,620	2%
Net inpatient revenues including CA program revenues (6)	308,597	380,223	-23%
Net inpatient revenue per admission	14,621	17,344	-19%
Net inpatient revenue per adjusted admission	8,819	10,110	-15%
Net inpatient revenue per patient day	2,250	2,485	-10%
Net inpatient revenue per adjusted patient day	1,419	1,641	-16%
Capitation revenues	50,812	37,329	27%
Other hospital services revenues (7)	13,471	2,994	78%
Net outpatient revenues	229,910	198,815	14%
Net outpatient revenue per visit	423	327	23%
Total hospital services revenue	$ 602,790	$ 619,361	-3%

CONFIDENTIAL BUSINESS INFORMATION

(1) The occupancy rate for staffed beds represents average daily census in the period divided by staffed beds. Occupancy rates are affected by many factors, including the population size and general economic conditions within the particular market service areas, the degrees of variation in medical and surgical products, outpatient use of hospital services, quality and treatment availability at competing hospitals, and seasonality.

(2) Charity care admissions represented 0.0% and 0.1% of total admissions for the three months ended December 31, 2021 and 2020, respectively. Loss in revenue due to charity write-offs represented $0.3 million and $1.4 million for the three months ended December 31, 2021.

(3) Adjusted patient admissions are total admissions adjusted for outpatient volume. Adjusted patient admissions are computed by multiplying admissions (inpatient volume) by the sum of gross inpatient charges and gross outpatient charges and then dividing the resulting amount by gross inpatient charges.

(4) Adjusted patient days are total patient days adjusted for outpatient volume. Adjusted patient days are computed by multiplying patient days (inpatient volume) by the sum of gross inpatient charges and gross outpatient charges and then dividing the resulting amount by gross inpatient charges.

(5) Average length of patients' stay ("ALOS") is calculated by dividing total discharged patient days by total patient discharges during the period and includes the length of patients' stay related to acute, psychiatric, sub-acute, and rehabilitation services.

(6) Net inpatient revenues include self-pay revenues of $13 million and $7.7 million for the three months ended December 31, 2021 and 2020, and in this presentation exclude revenues under the California Hospital Fee Program, which are presented in the table separately.

(7) Other hospital service revenues consist of revenues earned from ancillary, workers compensation and other hospital operations, while other revenues consist primarily of rental income and other revenues.

CONFIDENTIAL BUSINESS INFORMATION

Results of Operations - Q1 FY22 vs Q1 FY21

Net Hospital Service revenues

- Hospital Services segment revenues and provision for doubtful accounts components of net operating revenues were impacted by our adoption of ASU 2014-09, effective October 1, 2020, in the Q4 FY21 condensed consolidated financial statements. Prior to the adoption of ASU 2014-09, a significant portion of our provision for doubtful accounts related to self-pay patients, as well as co-pays, co-insurance amounts and deductibles owed to us by patients with insurance. Under ASU 2014-09, the estimated uncollectable amounts due from these patients are generally considered implicit price concessions that are a direct reduction to net operating revenues, with a corresponding material reduction in the amounts presented separately as provision for doubtful accounts. Net Hospital Services segment revenues net of implicit price concessions and provision for doubtful accounts decreased by 2.6% from $619.4 million for Q1 FY21 to $602.8 million for Q1 FY22. The decline in performance was driven primarily by lower census (as a result in a decline in the severity and length of stay of COVID cases in Q1 FY22 compared with Q1 FY21) as well as a shift in the payor mix.

Salaries, wages and benefits ("SWB") expense

- SWB expense increased from $295.0 million, or 47.7% of patient service revenue, during Q1 FY21 to $310.6 million, or 53.1% of patient service revenue, during Q1 FY22. The increase in SWB expense is primarily related to higher staffing costs; this has been driven by higher turnover of staff, as well as the impact from a nationwide shortage of nursing staff. Additionally, we have incurred higher overtime, premium pay and other additional benefit costs, as well as HERO pay at our facility in Culver City, California. Additionally, $3.3 million and $6.9 million was applied as an offset to SWB cost by the recording of stimulus funds in in the accompanying condensed consolidated statements of operations in Q1 FY22 and Q1 FY21, respectively.

Supplies expense

- Supplies expense increased from $62.8 million, or 10.1% of patient service revenue, during Q1 FY21 to $70.1 million, or 12.0% of patient service revenue, during Q1 FY22. The increase in supplies expense is primarily due to incremental costs incurred through the COVID-19 pandemic, as well as increased cost driven by the increase in ED visits and inpatient surgeries. Additionally, $3.5 million and $5.5 million was applied as an offset to total supplies expense by the recording of stimulus funds in in the accompanying condensed consolidated statements of operations in Q1 FY22 and Q1 FY21, respectively.

Capitation expense

- Capitation expense increased from $33.5 million, or 5.4% of patient service revenue, during Q1 FY21 to $39.8 million, or 6.6% of patient service revenue, during Q1 FY22. The increase was driven by a new capitated arrangement with an independent physician association effective August 1, 2021, where we began to manage an additional 36,000 lives in California. We recognize revenue and expenses in the Hospital Services segment for global capitation arrangements for which hospitals in our Hospital Services segment are responsible for the provision of care to members under such arrangements.

Other operating expenses

- Other operating expenses increased from $94.5 million, or 15.3% of patient service revenue, during Q1 FY21 to $99.4 million, or 17.0% of patient service revenue, during Q1 FY22, primarily due to an increase in expenses for repairs and maintenance cost, rent and utilities.

Hospital general and administrative ("G&A") expenses

- G&A expense decreased from $111.6 million, or 18.0% of patient service revenue, in Q1 FY21 to $95.8 million, or 16.3% of patient service revenue, in Q1 FY22. The decline in expense was primarily driven by the provision for a legal settlement of $22 million Q1 FY21 at our facilities in Rhode Island (please refer to the footnotes to the audited financial statements for the year ended September 30, 2021 for further details), offset by an increase in registry costs of approximately $10 million, driven by the nationwide nursing staffing shortage.

Depreciation and amortization expense

- Depreciation and amortization expense increased from $17.6 million during Q1 FY21 to $20.3 million during Q1 FY22.

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Goodwill amortization

- Goodwill amortization was $6.9 million during Q1 FY22 and Q1 FY21.

Pandemic relief grant income (loss)

- Pandemic relief grant income (loss) increased from a loss of $2.6 million during Q1 FY21 to income of $1.1 million during Q1 FY22 and represents reimbursement for lost revenues incurred by the Hospital Segment as a result of the COVID-19 pandemic and application against stimulus funds received under the CARES Act. The loss recorded in Q1 FY21 relates to a reallocation of stimulus funds from lost revenues to incremental expenses, in line with the calculations being on a calendar year basis.

Operating income from unconsolidated joint ventures

- Operating income from unconsolidated joint ventures decreased from $1.0 million during Q1 FY21 to $0.7 million during Q1 FY22.

Operating loss from discontinued operations

- Operating loss from discontinued operations increased from a loss of $0.8 million during Q1 FY21 to a loss of $5.4 million during Q1 FY22 and reflects the operating activity for the operations at EOGH and Nix Health.

Medical Group Segment

The following table sets forth the results of operations for our Medical Group operations for the three and twelve months ended December 31, 2021 and 2020. Cost of revenues does not include allocation of corporate overhead or interest expense - see "Corporate Segment" on page 21.

	Three Months Ended December 31, (Unaudited)	
(in thousands)	2021	2020
Medical Group revenues:		
Capitation	$ 105,165	$ 95,807
Management fees	3,760	3,864
Other operating revenues (1)	16,762	17,806
Total Medical Group revenues	125,687	117,477
Medical Group cost of revenues:		
PCP capitation	19,232	17,953
Specialist capitation	15,834	14,120
Claims expense	50,683	53,112
Physician incentives	5,898	4,713
Other cost of revenues	31	(89)
Total Medical Group cost of revenues	91,678	89,809
Gross margin	34,009	27,668
General and administrative	23,023	22,561
Depreciation and amortization	569	1,016
Goodwill amortization	768	768
Total operating expenses	24,360	24,345
Pandemic relief grant loss	-	(5)
(Loss) Income from unconsolidated joint ventures	(45)	3
Operating income	$ 9,604	$ 3,321

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The following table sets forth the approximate number of members, by category, as of December 31, 2021 and 2020:

	As of December 31, (unaudited)	
(in thousands)	2021	2020
Commercial - owned	81.8	73.9
Commercial - managed (2)	10.3	10.0
Senior - owned	36.4	36.9
Senior - managed (2)	7.7	6.2
Medicaid - owned	194.3	178.9
Medicaid - managed (2)	71.6	70.1
Health Insurance Exchange - managed (2) (3)	11.5	18.4
Value Based Reimbursement (4)	285.7	243.0
	699.3	637.4

(1) Other operating revenues primarily consist of payments from HMOs under pay-for-performance programs and are recognized when such amounts are known, as well as patient service revenues related to clinical operations.

(2) Represents third-party Independent Physician Associations' ("Managed IPA") membership that we manage in exchange for a monthly management fee.

(3) Our management services company is party to an agreement with one of our major HMOs to manage the provision of medical services to members enrolled under the Patient Protection and Affordable Care Act ("PPACA") Health Insurance Exchange program. We receive a fixed per member per month management fee under the program and also earn the upside to the risk pool for the population under management.

(4) Value Based Membership is also defined as population under management. We have direct contracts with multiple Health Plans in all the states where we operate for the provision of quality care services to the population under management improving care delivery to the members in most cost-efficient manner for a fixed infrastructure payment. In many of the contracts, we also receive variable revenue for pay-for-performance for improving health scores and closing quality gaps. In addition, in some of the contracts, we are also eligible for upside and downside sharing of risk pools for the population under management.

Results of Operations - Q1 FY22 vs Q1 FY21

Medical Group Revenue

- Capitation revenue increased from $95.8 million during Q1 FY21 to $105.2 million during Q1 FY22. The increase is driven by organic growth and higher senior per member per month ("PMPM") rates.

- Management fee revenue for Managed IPAs decreased from $3.9 million during Q1 FY21 to $3.8 million during Q1 FY22. The decrease is driven by lower revenue of our Managed IPAs. Management fees range from 6.5% to 14.0% of revenues, depending on the type of revenue.

- Other operating revenue, which contains incentive, hospital and shared risk pool revenues, decreased from $17.9 million during Q1 FY21 to $16.8 million during Q1 FY22. The decrease is due to higher patient admissions which caused the hospital risk pool to underperform.

Medical Group Operating Expenses

- Primary care physician ("PCP") capitation expense increased from $18.0 million during Q1 FY21 to $19.2 million during Q1 FY22. PCP capitation expense as a percentage of capitation revenues decreased from 18.7% for Q1 FY21 to 18.2% for Q1 FY22 due to changes in our membership mix within the capitation revenue.

- Specialist capitation expense increased from $14.1 million during Q1 FY21 to $15.8 million during Q1 FY22. Specialist capitation expense as a percentage of capitation revenues increased from 14.7% for Q1 FY21 to

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15.1% for Q1 FY22. The percentage increase is driven by an effort to convert certain higher specialty costs to capitation.

- Claims expense decreased from $53.1 million during Q1 FY21 to $50.7 million during Q1 FY22. Claims expense as a percentage of capitation revenues decreased from 55.4% for Q1 FY21 to 48.2% for Q1 FY22, primarily driven by conversion of certain specialty costs to capitation and lower professional utilization.

- Physician incentives expense increased from $4.7 million during Q1 FY21 to $5.9 million during Q1 FY22 primarily due to higher performance on the physician incentive pool and higher discretionary bonuses to the physicians.

Medical Cost Ratio and Gross Margin

- Medical costs as a percentage of capitation revenues (the medical cost ratio, a non-GAAP measure) decreased from 93.6% for Q1 FY21 to 87.2% for Q1 FY22, and the gross margin as a percentage of total revenue, increased from 6.4% for Q1 21 to 12.8%% for Q1 FY22 due to lower professional utilization.

Medical Group General and Administrative ("G&A")

- G&A expenses increased from $22.6 million during Q1 FY21 to $23.0 million during Q1 FY22. G&A expenses as a percentage of total Medical Group revenues increased from 19.2% for Q1 FY21 to 20.7% for Q1 FY22. The increase in G&A expenses was due to inflation while G&A expenses as a percentage of total revenue will vary as these costs have a direct correlation to the number of members rather than total revenue.

Depreciation and Amortization

- Depreciation and amortization expense decreased from $1.0 million during Q1 FY21 to $0.6 million during Q1 FY22.

Goodwill amortization

- Goodwill amortization was $0.8 million for Q1 FY21 and Q1 FY22.

(Loss) Income from Unconsolidated Joint Ventures

- (Loss) income from unconsolidated joint ventures (our 50% partnership interest in AMVI/Prospect Medical Group) decreased from a $3 thousand income during Q1 FY21 to a $45 thousand dollar loss during Q1 FY22.

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Global Risk Management Segment

The following table sets forth the results of operations for our Global Risk Management segment for the three months ended December 31, 2021 and 2020. Global Risk Management expenses do not include allocation of corporate overhead or interest expense - see "Corporate Segment" on page 21. Capitation revenue includes surplus from Shared risk pool and net capitation revenue retained by the Global Risk Management segment after transfer of capitation to the Hospital Services and Medical Group segments. Global Risk Management segment also retains other operating revenue, which includes infrastructure and incentive payments.

	Three Months Ended December 31, (Unaudited)	
(in thousands)	2021	2020
Global Risk Management revenues:		
Capitation revenue	$ 20,902	$ 16,949
Other operating revenues	9,188	4,238
Total Global Risk Management revenues	30,090	21,187
Global Risk Management cost of revenues:		
Capitation expense	433	(45)
Claims expense	10,417	5,321
Other cost of revenues	7,883	9,265
Total Global Risk Management cost of revenues	18,733	14,541
Gross margin	11,357	6,646
General and administrative	5,133	4,701
Depreciation and amortization	7	-
Total operating expenses	5,140	4,701
Operating income	$ 6,217	$ 1,945

Results of Operations - Q1 FY22 vs Q1 FY21

Global Risk Management revenues

- The Global Risk Management segment entered into provider agreements with our Medical Group and Hospital Services segments, under which 98% of capitation revenue for the segment's California operations, through Prospect Health Plan, Inc. ("PHP"), and approximately 84% and 77% of the entire segment's capitation revenue is transferred to the Medical Group and Hospital Services segments during Q1 FY21 and Q1 FY22, respectively. Capitation and other revenues increased from $21.2 million during Q1 FY21 to $30.1 million during Q1 FY22. During Q1 FY22, capitation revenue received from health plans was $80.0 million, of which $25.4 million and $36.0 million were transferred to our Hospital Services segment and Medical Group segment, respectively. During Q1 FY21, capitation revenue received from health plans was $67.7 million, of which $25.0 million and $31.6 million were transferred to our Hospital Services segment and Medical Group segment, respectively.

Capitation revenue

- Capitation revenue increased from $16.9 million during Q1 FY21 to $20.9 million during Q1 FY22. The increase is driven by a growth in overall membership from 167,000 to 189,000 member months along with an increase in accrual for RAF in Q1 FY2022. The increase in capitation revenue of $7.3 million was offset by a decrease in Shared Risk Revenue of $3.4 million, primarily due to a reduction in revenue from Rhode Island Blue Cross Blue Shield program.

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Other Operating Revenues

- Other operating revenues increased from $4.2 million during Q1 FY21 to $9.2 million during Q1 FY22. The increase is primarily driven by an increase in PMPM rates in the Pennsylvania market, specifically for Keystone First Health Plan and Aetna Better Health, which increased from $7.50 PMPM to $20 PMPM and $3.50 PMPM to $7.50 PMPM respectively. In addition, Pennsylvania market accrued an additional $1.0 million in Total Value of Care program in Q1 FY22 that was not accrued for in Q1 FY21.

Global Risk management Cost of Revenues

- Cost of revenues increased from $14.5 million during Q1 FY21 to $18.7 million during Q1 FY22. Cost of revenues consists primarily of claims and other expense related to capitation retained by the Global Risk Management segment. Cost of revenues as a percentage of total revenues increased to 68.6% for Q1 FY22 from 62.3% for Q1 FY21.

- Capitation expense and other cost of revenue decreased from $9.2 million during Q1 FY21 to $8.3 million during Q1 FY22. The decrease is mostly attributable to the reduction in provider distribution of $1.6 million, primarily in the Rhode Island market for BCBSRI. In addition, due to membership growth, Capitation expense increased by $0.7 million.

- Claim Expense increased from $5.3 million during Q1 FY21 to $10.4 million during Q1 FY22. The increase is due to a combination of growth in overall membership and recovering from COVID-19 pandemic which resulted in higher health care utilization.

Global Risk general and administrative ("G&A") expenses

- G&A expenses increased from $4.7 million during Q1 FY21 to $5.1 million during Q1 FY22 is primarily due to an increase in staffing to support the Company's risk pool performance and incentive program initiatives.

Corporate Segment

The Corporate segment primarily reflects certain expenses incurred at Prospect not specifically allocable to the Hospital Services, Medical Group, or Global Risk Management segments. These include, but are not limited to: salaries, benefits and other compensation for corporate employees; financing expenses; insurance expenses; rent; legal fees; and accounting fees. Additionally, this segment includes operations of two captive insurance companies. In FY21, through commutation agreements, certain policies and reinsurance amendments were revised, which transferred risk for self-insured layers of coverage for workers compensation deductible reimbursement program, hospital and physician professional and general liability and certain buffer layer excess programs from both of the Company's captive insurance companies to the Company's hospitals and affiliated subsidiaries. The Company does not allocate interest expense related to debt or income taxes to the other reporting segments. The following table summarizes our corporate expenses for the three months ended December 31, 2021 and 2020:

	Three Months Ended December 31, (Unaudited)	
(in thousands)	2021	2020
Corporate revenues:		
Other revenues	$ 466	$ 182
Gross margin	466	182
Operating Expenses:		
General and administrative	19,426	17,607
Depreciation and amortization	1,351	1,219
Total Corporate Expenses	20,777	18,826
Pandemic relief grant income	-	593
Operating loss	$ (20,311)	$ (18,051)

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Results of Operations - Q1 FY22 vs Q1 FY21

Other Revenue increased from $0.2 million during Q1 FY21 to $0.5 million during Q1 FY22.

G&A expenses increased from $17.6 million during Q1 FY21 to $19.4 million during Q1 FY22. This increase is attributable to certain IT costs being recorded in the Corporate segment in FY22 compared to the Hospital Segment in FY21.

Depreciation and amortization expense increased from $1.2 million during Q1 FY21 to $1.4 million during Q1 FY22.

Pandemic relief grant income was $0.6 million in Q1 FY21 and $0 in Q1 FY22 and represented reimbursement for lost revenues incurred as a result of the COVID-19 pandemic and application against stimulus funds received under the CARES Act.

Consolidated Results of Operations

Results of Operations - Q1 FY22 vs Q1 FY21

Other Expense, Net

Total other expense decreased from $24.8 million during Q1 FY21 to $22.3 million during Q1 FY22, primarily as a result of a reduction in interest cost, which largely relates to the sale-leaseback of real estate.

Provision for Income Taxes

Income taxes was a provision of $0.3 million and $0.3 million for Q1 FY22 and Q1 FY21, respectively.

Income (loss) from Discontinued Operations, net

Net loss from discontinued operations, net of tax for Q1 FY21 was $1.2 million and net income from discontinued operations, net of tax for Q1 FY22 $2.3 million for Q1 FY22. See discussion in Hospital Segment above as it relates to operating loss.

Adjusted EBITDA and Proforma Adjusted EBITDA Reconciliation
(Unaudited, in millions)

A reconciliation of Adjusted EBITDA and Proforma Adjusted EBITDA to the most directly comparable GAAP measure for certain quarterly periods:

	Q2 20	Q3 20	Q4 20	Q1 21	Q2 21	Q3 21	Q4 21	Q1 22
EBITDA Reconciliation (1):								
Net income from operations	$ (38.9)	$ (109.7)	$ 83.0	$ (43.2)	$ (47.9)	$ (21.9)	$ (36.2)	$ (63.0)
Net income from discontinued operations	$ (7.8)	$ (2.7)	$ (4.8)	$ (1.2)	$ (3.9)	$ 6.0	$ (8.5)	$ 2.3
Net income from continuing operations (2)	$ (31.1)	$ (107.0)	$ 87.8	$ (42.0)	$ (44.0)	$ (27.9)	$ (27.7)	$ (65.3)
Provision (benefit) for income taxes	11.4	1.5	(10.5)	0.3	0.3	0.2	(3.0)	0.3
Interest expense	25.8	19.8	25.5	24.3	21.9	21.3	21.7	21.8
Depreciation and amortization	28.1	27.1	27.2	27.4	27.4	27.9	29.6	29.8
Amortization of financing costs	1.2	0.8	(0.5)	0.5	1.0	1.5	2.0	0.5
Other	1.9	0.1	1.0	0.1	(1.6)	2.3	0.2	-
EBITDA	37.3	(57.7)	130.5	10.6	5.0	25.3	22.8	(12.9)
Adjustments (3)								
Sponsor structuring and management fees	0.2	-	-	-	-	-	-	-
Reasonable costs related to strategic business planning	2.5	3.6	3.5	2.6	2.5	2.8	3.1	1.7
Non-recurring, one-time items (4)	2.1	1.3	49.6	24.6	0.1	5.7	(8.3)	1.5
Change in accounting principle (5)	8.1	-	28.8	-	2.8	-	-	-
Business optimization expenses	3.4	3.9	2.7	2.2	2.3	2.4	0.8	1.2
COVID-19 Non-reimbursed expenses (6)	5.7	49.8	(52.1)	3.2	11.0	9.7	9.1	(0.8)
Adjusted EBITDA (1)	$ 59.3	$ 0.9	$ 163.0	$ 43.2	$ 23.7	$ 45.9	$ 27.5	$ (9.3)
Proforma adjustments								
QAF 6 (7)	(31.3)	(1.2)	(11.7)	-	-	-	-	-
Quarterly Proforma Adjusted EBITDA	$ 28.0	$ (0.3)	$ 151.3	$ 43.2	$ 23.7	$ 45.9	$ 27.5	$ (9.3)
Trailing Twelve Months Proforma Adjusted EBITDA	$ 85.8	$ 143.3	$ 261.0	$ 260.9	$ 282.0	$ 274.9	$ 184.7	$ 131.6

(1) For the earnings releases originally issued for the periods prior to Q1 FY22, we have changed the presentation of this table. In particular, we previously presented "addbacks" for lost revenues and lost margins (calculated using then current HHS guidelines), but in the current earnings release we have removed these.

(2) California Hospital Program ("QAF") revenues were $100.0 million in Q2 FY20, related to the period from July 1, 2019 to March 31, 2020 upon approval of the QAF 6 program by CMS; $33.4 million of net QAF revenues was recorded in Q3 FY20; $35.9 million of net QAF revenues was recorded in Q4 FY20 for the current QAF 6 program, offset by net reductions of $28.6 million for the prior QAF 5 program; $35.9 million of net QAF revenues was recorded in Q1 FY21; $34.9 million of net QAF revenues was recorded in Q2 FY21 and in Q3 FY21; $33.5 million of net QAF revenues was recorded in Q4 FY21; and $35.3 million of net QAF revenues was recorded in Q1 FY22.

(3) Management adjusts for expenses and gains that is not considered in evaluating core operating performance for compensation, internal capital allocations, acquisition analysis or other strategic purposes, and that meet the definitions of addbacks under our lending arrangements.

(4) "Non-recurring, one-time items" in Q4 FY20 primarily include QAF 5 adjustments of $28.6 million and onerous rent expense of $9.1 million for office space released during the COVID-19 pandemic; in Q1 FY21 primarily includes the provision for a legal settlement of approximately $22 million; in Q3 FY21 primarily includes equity incentive bonus of $4.5 million; and in Q4 FY21 includes $12 million insurance recovery for legal settlement.

(5) Change in accounting principle relates to alignment of the calculating the reserve methodology of patient accounts receivable, along with methodology for bad debt expenses to fully reserve for patient accounts receivable over 365 days, across the Hospital Segment, which were $8.1 million in Q2 FY20 and $23 million for Q4 FY20. In addition, there were $6.1 million in Q4 FY20 and $2.8 million in Q2 FY21 related changes in reserving methodology for claims liabilities.

(6) Related to the COVID-19 pandemic in Q2 FY20 and Q3 FY20, incremental expenses directly related to COVID-19 were added back in the calculation for Adjusted EBITDA,. In Q4 FY20, in line with the guidance from HHS, we recorded stimulus monies into the condensed consolidated statements of operations: (a) reimbursement of COVID-19 incremental expenses were recorded as offsets against operating expenses and (b) reimbursement for the loss in revenues were recorded as pandemic relief grant income; and therefore, we reversed the "addbacks" that were previously presented. In Q1 FY21, the calculations were updated for (a) additional incremental COVID-19 expenses incurred during the quarter; (b) lost revenues as the calculation is on a calendar year basis compared to the prior calendar year; and (c) to incorporate the updated guidance from HHS which allows targeted distributions to be accounted for in the same way as general distributions. Accordingly, during Q1 FY21, we recorded $19.7 million as a reduction to expenses, and pandemic relief grant loss of $2.6 million (largely due to a

decline in lost revenues for calendar 2020 vs. calendar 2019, when compared to the calculation through September 30, 2020). There were incremental non-reimbursed expenses of $3.4 million in Q4 FY20, $3.2 million in Q1 FY21, $11.0 million in Q2 FY21, $9.7 million in Q3 FY21, and $9.1 million in Q4 FY21. In Q1 FY22, there were incremental non-reimbursed expenses of $11.3 million; we also recorded reimbursement of expenses related to Q2 FY21 of $12.1 million due to stimulus funds received in Q1 FY22, and noting that calculations are performed on a calendar year basis. These expenses were not reimbursed because they relate to non-hospital entities that did not receive stimulus funds or there were not enough stimulus funds received to cover such expenses, and accordingly have been reflected as addbacks in the calculation for Adjusted EBITDA.

(7) QAF proforma adjustments for Q4 FY19 and Q1 FY20 had previously been calculated based on the "run rate" for QAF 5 that had not been recorded in the unaudited interim condensed consolidated financial statements because CMS had not yet approved QAF 6, however our MPT covenants specifically allow for adjustments in respect of this matter. During Q2 FY20, CMS approved QAF 6 and we recorded EBITDA of $45.2 million during the quarter. As a result of recording such amount, we reversed prior proforma adjustments in the amount of $35.2 million. Accordingly, for the periods ended Q2 FY20, Q3 FY20 and Q4 FY20, we retained cumulative proforma adjustments of $9.0 million, $1.2 million and $11.7 million, respectively, which had not been recorded in the condensed consolidated financial statements. In Q4 FY20, we released the entire remaining proforma adjustments through the end of the QAF 6 program.

PROSPECT MEDICAL

CONTACT:

Redacted orporate Finance and Treasury

Redacted

PROSPECT MEDICAL HOLDINGS REPORTS FISCAL 2023 FIRST QUARTER FINANCIAL RESULTS

Q1 FY 2023 Highlights

- **Revenue was $814.6 million compared to $759.0 million in the same quarter last year.**
- **Proforma Adjusted EBITDA, excluding the hospital operations in Rhode Island, Pennsylvania and Connecticut that are being sold pursuant to a plan approved by management, was $22.6 million for Q1 FY23**

Los Angeles, CA - March 21, 2023 - Prospect Medical Holdings, Inc. ("Prospect" or the "Company") today announced financial results for its fiscal 2023 first quarter ended December 31, 2022. The Company will host a conference call on March 29, 2023 at 1 pm PDT / 4 pm EDT to discuss these results - details at page 4 of this release.

CONSOLIDATED RESULTS OVERVIEW

Consolidated revenues were $814.6 million for the first quarter ended December 31, 2022, representing an increase of $55.6 million when compared to the first quarter ended December 31, 2021 with consolidated revenues at $759.0 million. Hospital segment revenues were $617.8 million for the first quarter ended December 31, 2022, representing an increase of $15.0 million when compared to the first quarter ended December 31, 2021, with hospital revenues at $602.8 million. Medical Group revenues were $137.3 million for the first quarter ended December 31, 2022, representing an increase of $11.6 million when compared to the first quarter ended December 31, 2021, with Medical Group revenues at $125.7 million. Global Risk Management revenues were $58.3 million for the first quarter ended December 31, 2022, representing an increase of $28.2 million when compared to the first quarter ended December 31, 2021, with Global Risk Management revenues at $30.1 million.

IMPACT OF THE COVID-19 PANDEMIC

During the Coronavirus disease (COVID-19) pandemic, federal, state, and local authorities took several administrative actions intended to assist healthcare providers in providing care during the COVID-19 public health emergency. Sources of relief include the Coronavirus Aid, Relief and Economic Security Act, the Paycheck Protection Program and Health Care Enhancement Act (the "PPPHCE Act"), the Continuing Appropriations Act, 2021 and Other Extensions Act, and the Consolidated Appropriations Act, 2021 (collectively, (the "COVID Acts"). With the COVID Acts, the federal government authorized funding to be distributed through the Public Health and Social Services Emergency Fund ("Provider Relief Fund" or "PRF"). HHS will recoup PRF grant funds not utilized by the established deadlines. The COVID Acts also revised the Medicare accelerated payment program to disburse payments to hospitals and other care providers more quickly and permitted employers to defer payment of the 6.2% employer Social Security tax beginning March 27, 2020, through December 31, 2020. In June 2021, the U.S. Department of Health and Human Services ("HHS") established new deadlines for when recipients of PRF grants must use the funding received, generally 12 to 18 months after receipt of the grant funds.

In 2021, during the height of COVID-19, Medicare arranged for advanced payments to assist hospitals with their cash flow needs during this difficult time. Recoupment of those special advances began one year later than the disbursement. Recoupment began in month 13 utilizing a payment offset methodology whereby 25% of Medicare

payments were withheld for the next 11 months and applied against the advanced total. The recoupment rate increased to 50% for the succeeding six months or less if the advances are not fully repaid. The remaining amounts were considered due and payable to Medicare at the end of the six month period; however, hospitals were able to apply for an extended repayment plan at a rate of 4% per annum for a period not to exceed an additional 60 months if they demonstrate a financial need for the extension. We applied for and were granted repayment extensions ranging from 18 months to 60 months and plan to apply for advances for the remining two hospitals that are currently in the 50% repayment corridor, as their advances were initially delayed. The Company had received Medicare accelerated and advance payments of approximately $276.1 million, of which approximately $206.9 million had been recouped through a reduction of our Medicare claims payments through September 30, 2022. During the three months ended December 31, 2022, $18.3 million had been recouped and no additional advances were received. Approximately $50.9 million and $69.2 million of the remaining Medicare advance liabilities are reflected in the accompanying unaudited condensed balance sheet as of December 31, 2022 and September 30, 2022, respectively.

GRANT INCOME AND EXPENSE OFFSET

The amount of lost revenues (represented as a negative change in year-over-year net revenues from patient care related sources) was recorded in "pandemic relief grant income" and incremental expenses were recognized as a reduction to operating expense within the accompanying consolidated statements of operations in accordance with the terms of the grants. Amounts are recognized as a reduction to expenses only to the extent the Company is reasonably assured that underlying conditions are met. These monies have been recognized following the grant accounting model, recognizing income or reduction to expenses over the applicable reporting period as management becomes reasonably assured of meeting the required criteria. Through December 31, 2022, the Company had received $220.7 million in grant funds directly through the PRF (to be used against incremental expenses and lost revenues) and an additional $24.0 million in state, local and hospital association grants (to fund incremental expenses and lost revenues) (including funds related to discontinued operations). As of December 31, 2022 and September 30, 2022, we had unrecognized funds balances of $0 and $0, respectively.

CASH FLOW AND LIQUIDITY

Net cash provided by operating activities was $59.6 million for the quarter ended December 31, 2022 compared to the net cash used of $85.4 million for the quarter ended December 31, 2021.

Net cash used in investing activities was $10.4 million for the quarter ended December 31, 2022 compared to net cash used of $8.2 million for the quarter ended December 31, 2021.

Net cash used in financing activities was $58.5 million for the quarter ended December 31, 2022 compared to net cash provided of $100.8 million for the quarter ended December 31, 2021. The decrease is primarily due to borrowing on the line of credit of $135 million during the quarter ended December 31, 2021.

In addition, total cash paid for interest was $18.8 million and $18.1 million for the quarters ended December 31, 2022 and 2021, respectively.

At December 31, 2022, the Company had outstanding borrowings of $170.8 million under its revolving line of credit under its ABL Credit Agreements entered into on February 22, 2018 and amended from time to time.

DISCONTINUED OPERATIONS

The operations of Nix Hospital Systems, LLC, dba Nix Health Care System ("Nix Health") in Texas and Prospect EOGH, Inc., dba East Orange General Hospital ("EOGH") in New Jersey have been presented within discontinued operations. In the first quarter of fiscal 2021, the Company entered into an Asset Purchase Agreement to sell most of the assets of EOGH to an unrelated third party for a purchase price of $6.2 million plus adjustments for working capital. The monies related to the purchase were transferred on December 30, 2021 and the transaction was completed on January 1, 2022.

During the first quarter of 2022, following a strategic review of the company's growth strategies and structure, our management approved a plan to sell the hospital operations in, Rhode Island, Pennsylvania and Connecticut. We

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have not presented the operations of these facilities within discontinued operations in the accompanying unaudited interim condensed consolidated financial statements.

Asset Purchase Agreements

On October 5, 2022, the Company entered into an asset purchase agreement with Yale New Haven Health Services Corporation, a Connecticut nonstock corporation, pursuant to which the Company agreed to sell, and the purchaser agreed to purchase, substantially all of the assets of the Company related to the Company's ECHN and Waterbury hospital systems in Connecticut. The transaction is pending.

On November 18, 2022, the Company entered into an asset purchase agreement with Centurion Foundation, Inc., pursuant to which the Company agreed to sell, and the purchaser agreed to purchase, substantially all of the assets of the Company related to the Company's CharterCARE hospital system in Rhode Island. The transaction is pending.

SUBSEQUENT EVENTS

On February 22, 2023, an ABL forbearance agreement was signed between the Company and the forbearing lenders (or the parties). Under this agreement, the parties forbear from exercising any rights and remedies arising from or related to the occurrence and continuation of certain defaults until March 24, 2023. Accordingly, the ABL Facility's required repayment date was extended to March 24, 2023.

On February 23, 2023, a MPT forbearance agreement was signed between the Company and the MPT Parties. Under this agreement, each of the MPT Parties agrees to temporarily forbear from further enforcing or exercising its rights or remedies with respect to each specified event of default during the forbearance period commencing on the agreement effective date and ending on March 24, 2023.

RECENTLY ADOPTED ACCOUNTING PRONOUCEMENTS

Effective October 1, 2021, we adopted ASU 2018-14, "Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20) Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans" ("ASU 2018-14"), which applied to all employers that sponsor defined benefit pension or other postretirement plans. The amendments in ASU 2018-14, removed, modified, or added certain disclosure requirements as part of the FASB's disclosure framework project to improve the effectiveness of the notes to the financial statements. The adoption of this ASU did not impact our financial position, results of operations or cash flows.

RECLASSIFICATIONS

Certain prior period amounts have been reclassified to conform to the current period presentation. These reclassifications did not affect net loss, revenues and stockholders' equity.

USE OF NON-GAAP MEASURES

This document contains "non-GAAP financial measures," that is, financial measures that either exclude or include amounts that are not excluded or included in the most directly comparable measure calculated and presented in accordance with generally accepted accounting principles. Specifically, we make use of the non-GAAP measures "EBITDA," "Adjusted EBITDA," and "Proforma Adjusted EBITDA."

We define EBITDA as net income (loss) plus (i) income (loss) from discontinued operations, (ii) provision for income taxes, (iii) interest expense, net (including amortization of deferred financing costs), (iv) depreciation, and (v) amortization. In addition, we define Adjusted EBITDA as EBITDA as further adjusted to eliminate the impact of certain items that we do not consider indicative of our ongoing operating performance, including transaction costs, certain legal expenses, stock-based compensation, sponsor structuring and management fees, purchase price adjustments and pre-acquisition items, other unusual and non-recurring charges, and other noncash charges. Further, we define Proforma Adjusted EBITDA as Adjusted EBITDA as further adjusted for proforma adjustments related to the California Hospital Fee Program and lost margins because of the COVID-19 pandemic. From the fourth of quarter of FY20, in line with the revised guidance that HHS issued in October 2020, which changed the

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comparison of change in operating income to lost revenues (see discussion above under "COVID-19 Pandemic"), we have changed the definition of Proforma Adjusted EBITDA to reflect lost revenues compared to the same period in the prior year. Management believes that EBITDA, Adjusted EBITDA and Proforma Adjusted EBITDA are useful tools for investors and other users of our financial statements in assessing our ability to service and/or incur indebtedness, maintain current operating levels of capital assets and acquire additional operations and businesses. A reconciliation of EBITDA, Adjusted EBITDA, and Proforma Adjusted EBITDA to our net income (loss) under generally accepted accounting principles, or GAAP, for certain periods presented in our financial statements is included in this document. However, EBITDA, Adjusted EBITDA, and Proforma Adjusted EBITDA are not necessarily comparable to other similarly titled financial measures of other companies due to the potential inconsistencies in the method of calculation. EBITDA, Adjusted EBITDA, and Proforma Adjusted EBITDA have limitations as analytical tools and should not be considered in isolation or as substitutes for analyzing the Company's results as reported under GAAP. Some of these limitations are:

- They do not reflect cash outlays for capital expenditures or future contractual commitments.
- They do not reflect changes in, or cash requirements for, working capital.
- They do not reflect interest expense, or the cash requirement necessary to service interest, or principal payments, on its indebtedness.
- They do not reflect income tax expense or the cash necessary to pay income taxes.
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA, Adjusted EBITDA, and Proforma Adjusted EBITDA do not reflect cash requirements for such replacements; and
- Other companies, including other companies in our industry, may not use such measures or may calculate the measures differently than as presented in this earnings release, limiting their usefulness as a comparative measure.

Because of these limitations, EBITDA, Adjusted EBITDA, and Proforma Adjusted EBITDA or any related ratio using such measures should be considered only as a supplemental measure in addition to, and not in lieu of, our GAAP income and cash flow statements, and not as a measure of discretionary cash available to invest in business growth or reduce indebtedness.

CONFERENCE CALL

Management will host a conference call on March 29, 2023 at 1 pm PDT / 4 pm EDT to discuss these results. Interested parties may participate in the call by dialing Redacted (Domestic) or Redacted (Toll) approximately 10 minutes before the call is scheduled to begin and ask to be connected to the Prospect Medical Holdings conference call. The conference call will be broadcast live over the internet at the following link: Redacted To listen to the live call on the internet, go to the website at least 15 minutes early to register, and download and install any necessary audio software. A replay of the call will be available for 30 days by dialing Redacted (Toll-Free) or Redacted (Toll) with conference ID: Redacted

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PROSPECT MEDICAL HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par value and share amounts)
(Unaudited)

	December 31, 2022	September 30, 2022
ASSETS		
Current assets		
Cash and cash equivalents	$ 53,539	$ 56,084
Cash held in escrow	21,277	28,105
Restricted cash	7,717	7,638
Restricted investments	34,944	33,298
Patient accounts receivable	303,350	302,532
Due from government payers	23,043	27,913
Other receivables, prepaid expenses and other current assets	217,327	205,844
Income taxes receivable	-	892
Inventories	42,363	41,415
Hospital fee program receivable	190,782	180,228
Total current assets	894,342	883,949
Property, improvements and equipment, net	622,260	613,824
Goodwill, net	210,106	223,732
Intangible assets, net	22,553	13,069
Other assets	84,374	90,041
Total assets	$ 1,833,635	$ 1,824,615
LIABILITIES AND STOCKHOLDER'S DEFICIT		
Current liabilities		
Accrued medical claims and other healthcare costs payable	$ 132,160	$ 120,301
Accounts payable and other accrued liabilities	534,186	427,594
Accrued salaries, wages and benefits	203,639	201,242
Hospital fee program liability	109,210	96,814
Due to government payers, current portion	64,979	49,016
Refund liability, current portion	15,654	23,638
Revolving line of credit, net	170,800	196,300
Capital leases, current portion	16,617	16,613
Long-term debt, current portion	119,632	112,415
MPT liabilities, current portion	58,899	81,976
Other current liabilities	14,510	11,594
Total current liabilities	1,440,286	1,337,503
Long-term debt, net of current portion	194,764	197,060
Malpractice reserves	135,671	132,257
Refund liability, net of current portion	35,282	45,567
Capital leases, net of current portion	44,142	47,705
Asset retirement obligations	6,915	6,844
Other long-term liabilities	95,171	96,290
Pension obligations	239,944	235,184
MPT liabilities, net of current portion	1,163,538	1,184,347
Total liabilities	3,355,713	3,282,757
Stockholder's deficit		
Common stock, $0.01 par value; 100 shares authorized, issued and outstanding	1	1
Additional paid-in capital	59,572	57,675
Accumulated other comprehensive loss	(13,349)	(14,196)
Accumulated deficit	(1,571,967)	(1,505,533)
Total stockholder's deficit attributable to Prospect Medical Holdings, Inc.	(1,525,743)	(1,462,053)
Non-controlling interests	3,665	3,911
Total stockholder's deficit	(1,522,078)	(1,458,142)
Total liabilities and stockholder's deficit	$ 1,833,635	$ 1,824,615

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PROSPECT MEDICAL HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands)
(Unaudited)

	Three Months Ended December 31,	
	2022	2021
Revenues:		
Net Hospital revenues	$ 617,849	$ 602,790
Medical Group revenues	137,329	125,687
Global Risk Management revenues	58,257	30,090
Corporate revenues	1,138	466
Total net revenues	814,572	759,033
Operating expenses:		
Hospital operating expenses	538,619	519,869
Medical Group cost of revenues	97,757	91,678
Global Risk Management cost of revenues	47,853	18,733
General and administrative	153,501	143,416
Depreciation and amortization	4,934	22,179
Goodwill amortization	4,041	7,625
Total operating expenses	846,704	803,500
Pandemic relief grant income	-	1,091
Operating income from unconsolidated joint ventures	848	679
Operating loss	(31,284)	(42,697)
Other expense:		
Interest expense and amortization of deferred financing costs, net	27,422	19,032
Net periodic benefit cost	5,093	3,274
Other expense, net	387	29
Total other expense, net	32,902	22,335
Loss before income taxes	(64,186)	(65,032)
Income tax provision	326	261
Net loss from continuing operations	(64,512)	(65,293)
Income (loss) on discontinued operations, net of tax	(83)	2,336
Net loss before allocation to non-controlling interests	(64,595)	(62,957)
Net loss (income) attributable to non-controlling interests	189	188
Net loss attributable to Prospect Medical Holdings, Inc.	(64,784)	(63,145)
Other comprehensive income, net of tax:		
Pension obligation and other post-retirement benefits adjustment	7	7
Debt and equity securities, unrealized gain	841	-
Total other comprehensive income, net of tax	848	7
Total comprehensive loss	$ (63,936)	$ (63,138)

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PROSPECT MEDICAL HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended December 31,	
	2022	2021
Operating activities		
Net loss before allocation to non-controlling interests	$ (64,595)	$ (62,957)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	8,955	29,804
Amortization of deferred financing costs, net	682	498
Pension obligation net periodic benefit cost	-	3,268
Excess contribution to pension plan	5,087	(1,093)
Deferred income taxes, net	(320)	5,827
Undistributed earnings from unconsolidated joint ventures	(848)	(679)
Loss (Gain) on sale of equity method investments	842	-
Gain (loss) on disposal of assets	8	(181)
Change in operating assets and liabilities:		
Patient accounts receivable	(818)	(34,082)
Due to/from government payers, net	20,833	664
Refund liability	(18,269)	(27,372)
Other receivables, prepaid expenses and other current assets	1,358	4,928
Hospital fee program receivable	(10,554)	(1,729)
Hospital fee program liability	12,396	28
Inventories	(948)	(2,126)
Income taxes payable/receivable, net	-	(45)
Other assets	5,797	443
Accrued medical claims and other healthcare costs payable	11,859	6,179
Accounts payable, other accrued liabilities and other long-term liabilities	88,129	(1,630)
Net cash, cash equivalents, cash held in escrow and restricted cash (used in) provided by operating activities from discontinued operations	-	(5,138)
Net cash, cash equivalents, cash held in escrow and restricted cash (used in) provided by operating activities	59,594	(85,393)
Investing activities		
Purchases of property, improvements and equipment	(8,797)	(6,055)
Distribution received from equity and cost method investments	500	552
Change in investments	(1,646)	(1,046)
Cash paid for acquisitions	(465)	(538)
Net cash, cash equivalents, cash held in escrow and restricted cash used in investing activities from discontinued operations	-	(1,135)
Net cash, cash equivalents, cash held in escrow and restricted cash used in investing activities	$ (10,408)	$ (8,222)

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PROSPECT MEDICAL HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited, Continued)

	Three Months Ended December 31,	
	2022	2021
Financing activities		
Borrowings on line of credit	$ 12,000	$ 135,000
Repayments on line of credit	(37,500)	-
Borrowings on long-term debt	-	1,295
Repayments of long-term debt	(13,782)	(13,017)
Repayment of financing leases	7	-
Repayments of capital leases	(3,705)	(3,984)
Insurance premium financing, net	(1,230)	(3,580)
Repayment of MPT liabilities transactions	(14,270)	(14,820)
Net cash, cash equivalents, cash held in escrow and restricted cash used in financing activities from discontinued operations	-	(84)
Net cash, cash equivalents, cash held in escrow and restricted cash (used in) provided by financing activities	(58,480)	100,810
Change in cash, cash equivalents, cash held in escrow and restricted cash	(9,294)	7,195
Cash, cash equivalents, cash held in escrow and restricted cash at beginning of period	91,827	106,056
Cash, cash equivalents, cash held in escrow and restricted cash at end of period	$ 82,533	$ 113,251
Supplemental disclosure of cash flow information		
Interest paid	$ 18,804	$ 18,114
Income taxes paid, net (refunded), net	$ (2,746)	$ 469
Schedule of non-cash investing and financing activities		
Equipment acquired under capital leases	$ 142	$ 1,621
Accrual of property, improvements and equipment	$ 2,364	$ 3,414
Pace liabilities	$ 3,134	$ 4,435
Insurance premium financed	$ 11,949	$ 11,970

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Hospital Services Segment

The following table sets forth the results of operations for our Hospital Services segment for the three months ended December 31, 2022, and 2021, respectively. Hospital services expenses do not include allocation of corporate overhead or interest expense - see "Corporate Segment" on page 18.

	Three Months Ended December 31, (Unaudited)	
(in thousands)	2022	2021
Revenues:		
Net Hospital Services revenues:		
Medicare	$ 179,221	$ 180,172
Medicaid	169,813	149,539
Managed care	164,287	177,392
Self pay / other payor	10,306	31,404
Capitation revenue	69,268	50,812
Other	24,954	13,471
Total Revenues	617,849	602,790
Hospital Services operating expenses:		
Salaries, wages and benefits	307,526	310,580
Supplies	63,808	70,080
Capitation expense	55,635	39,809
Other operating expenses	111,649	99,400
Total Hospital Services operating expenses	538,619	519,869
General and administrative	99,912	95,834
Depreciation and amortization	3,268	20,252
Goodwill amortization	3,273	6,857
Total non-medical expenses	106,453	122,943
Pandemic relief grant income	-	1,091
Operating income from unconsolidated joint ventures	907	724
Operating loss from continuing operations	(26,316)	(38,207)
Operating loss from discontinued operations (1)	(83)	(5,390)
Operating loss	$ (26,399)	$ (43,597)

(1) Includes only EOGH and Nix

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CALIFORNIA HOSPITAL FEE PROGRAM

The Company recognizes revenues related to supplemental Medi-Cal payments under California provider fee programs using the most likely outcome method, which is based on formulas contained in the legislation as well as modeling performed by the California Hospital Association ("CHA"). The estimates also consider whether it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. These programs are funded by quality assurance fees paid by participating hospitals and matching federal funds.

The table below reflects the revenues and expenses recorded related to supplemental reimbursement programs.

	Three Months Ended December 31, (Unaudited)	
(in thousands)	2022	2021
California hospital fee program revenues	$ 37,167	$ 35,328
California hospital fee program expenses	(20,318)	(19,427)
Net pre-tax impact	16,849	15,901
California hospital DSH revenues	11,536	10,434
California hospital DSH expenses	-	-
Net pre-tax impact	11,536	10,434
Pennsylvania medicaid modernization revenues	7,198	7,315
Pennsylvania medicaid modernization expenses	(3,824)	(3,824)
	3,373	3,490
Pennsylvania Community access fund and legislative initiative revenues	2,843	2,933
Net pre-tax impact	6,217	6,423
Rhode Island DSH & UPL revenues	6,721	6,149
Rhode Island license fees	(3,967)	(3,856)
Net pre-tax impact	2,754	2,293
Connecticut medicaid DSH revenues	5,787	6,354
Connecticut provider tax	(9,428)	(9,428)
Net pre-tax impact	(3,641)	(3,074)
Total hospital services revenues	71,252	68,512
Total hospital services operating expenses	(37,537)	(36,535)
Total net pre-tax impact	$ 33,714	$ 31,977

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DISCONTINUED OPERATIONS

Summarized financial information for discontinued operations is included below. Note that the segment financial statements exclude the effect of taxes, but these are included in the table below to reconcile to the unaudited interim condensed consolidated financial statements on page 6.

(in thousands)	Three Months Ended December 31, (Unaudited) 2022	2021
Net Hospital revenues	$ 13	$ 23,196
Operating expenses	80	22,708
General and administrative expenses	16	5,888
Total expense	96	28,596
Pandemic grant relief income	-	10
Net operating loss	(83)	(5,390)
Interest expense, net	-	12
Other (income)/expense, net	-	(7,738)
Income (loss) on discontinued operations	$ (83)	$ 2,336

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The following table shows certain selected historical operating statistics for our hospitals for the three months ended December 31, 2022, and 2021, respectively, for continuing operations:

(in thousands)	Three Months Ended December 31, (Unaudited) 2022	2021	Inc(Dec)
Licensed beds at end of the period (1)	2,788	2,964	-6%
Average staffed beds	1,474	1,547	-5%
Occupancy rate for staffed beds (2)	95.7%	96.4%	-1%
Admissions	19,480	21,106	-8%
Adjusted patient admissions (3)	33,860	34,992	-3%
Patient days	129,685	137,148	-6%
Adjusted patient days (4)	208,117	217,471	-4%
Average length of patients' stay (days) (5)	6.7	6.5	2%
Outpatient visits	493,589	543,816	-10%
IP Surgery - Cases	2,945	3,949	-34%
OP Surgery - Cases	10,979	12,233	-11%
Total Surgery Cases	13,924	16,182	-16%
Net inpatient revenues excluding CA Program revenues	$ 293,140	$ 273,269	7%
CA Hospital Fee Program revenues	37,167	35,328	5%
Net inpatient revenues including CA program revenues (6)	330,307	308,597	7%
Net inpatient revenue per admission	16,956	14,621	14%
Net inpatient revenue per adjusted admission	9,755	8,819	10%
Net inpatient revenue per patient day	2,547	2,250	12%
Net inpatient revenue per adjusted patient day	1,587	1,419	11%
Capitation revenues	70,174	50,812	28%
Other hospital services revenues (7)	18,671	13,471	28%
Net outpatient revenues	198,697	229,910	-16%
Net outpatient revenue per visit	403	423	-5%
Total hospital services revenue	$ 617,849	$ 602,790	2%

(1) Licensed beds at end of the period decreased by 176 from 2,964 on December 31, 2021 to 2,788 at December 31, 2022. It was mainly due to the decrease of 122 license beds at in Crozer. The decrease in Crozer was triggered by decline in services at Crozer's Delaware County Memorial Hospital.

(2) The occupancy rate for staffed beds represents average daily census in the period divided by staffed beds. Occupancy rates are affected by many factors, including the population size and general economic conditions within the particular market service areas, the degrees of variation in medical and surgical products, outpatient use of hospital services, quality and treatment availability at competing hospitals, and seasonality.

(3) Adjusted patient admissions are total admissions adjusted for outpatient volume. Adjusted patient admissions are computed by multiplying admissions (inpatient volume) by the sum of gross inpatient charges and gross outpatient charges and then dividing the resulting amount by gross inpatient charges.

(4) Adjusted patient days are total patient days adjusted for outpatient volume. Adjusted patient days are computed by multiplying patient days (inpatient volume) by the sum of gross inpatient charges and gross outpatient charges and then dividing the resulting amount by gross inpatient charges.

(5) Average length of patients' stay ("ALOS") is calculated by dividing total discharged patient days by total patient discharges during the period and includes the length of patients' stay related to acute, psychiatric, sub-acute, and rehabilitation services.

(6) Net inpatient revenues include self-pay revenues of $2.4 million and $1.6 million for the three months ended December 31, 2022 and 2021, respectively, and in this presentation exclude revenues under the California Hospital Fee Program, which are presented in the table separately.

(7) Other hospital service revenues consist of revenues earned from ancillary, workers compensation and other hospital operations, while other revenues consist primarily of rental income and other revenues.

Results of Operations - Q1 FY23 vs Q1 FY22

Net Hospital Service revenues

Net Hospital Services segment revenues net of implicit price concessions and provision for doubtful accounts increased by 2% from $602.8 million for Q1 FY22 to $617.8 million for Q1 FY23. The increase in was driven primarily by a new capitation agreement in California.

Salaries, wages, and benefits ("SWB") expense

SWB expenses decreased from $310.6 million, or 51.5% of hospital service revenue in Q1 FY22 to $307.5 million, or 49.8% of hospital service revenue in Q1 FY23. The decrease in SWB is due to lower adjusted patient days including decreased overtime and bonuses.

Supplies expense

Supplies expense decreased from $70.1 million, or 11.6% of hospital service revenue in Q1 FY22 to $63.8 million, or 10.3% of hospital service revenue, in Q1 FY23. This decrease was driven by a decrease in inpatient and outpatient surgeries and decrease in admissions and decrease in purchase of PPE supplies.

Capitation expense

Capitation expense increased from $39.8 million, or 6.6% of hospital service revenue, in Q1 FY22 to $55.6 million, or 9.0% of hospital service revenue, in Q1 FY23. This increase was driven by an increase in Capitation revenue. We recognize revenue and expenses in the Hospital Services segment for global capitation arrangements for which hospitals in our Hospital Services segment are responsible for the provision of care to members under such arrangements.

Other operating expenses

Other operating expenses increased from $99.4 million, or 16.5% of hospital service revenue, in Q1 FY22 to $111.6 million, or 18.1% of hospital service revenue, in Q1 FY23. The increase in operating expenses is mainly from the increase in registry expenses due to the continued staffing shortages in the healthcare industry.

Hospital general and administrative ("G&A") expenses

G&A expenses increased from $95.8 million, or 15.9% of hospital service revenue, in Q1 FY22 to $99.9 million, or 16.2% of hospital service revenue in Q1 FY23. Most of the increase came from non-medical professional fees, property taxes and others.

Depreciation and amortization expense

Depreciation and amortization expense decreased from $20.3 million in Q1 FY22 to $3.3 million in Q1 FY23. The Company ceased depreciating/amortizing any property, plant, and equipment, and intangibles included in a disposal group. During the first quarter of 2022, following a strategic review of the company's growth strategies and structure, our management approved a plan to sell the hospital operations, Rhode Island, Pennsylvania and Connecticut. We have not presented the operations of these facilities within discontinued operations in these unaudited interim condensed consolidated financial statements as the annual audit of the consolidated financial statements as of and for the year ended September 30, 2022 is in progress.

Goodwill amortization

Goodwill amortization expense decreased from $6.9 million in Q1 FY22 to $3.3 million in Q1 FY23. The Company ceased amortizing goodwill included in a disposal group.

Pandemic relief grant income (loss)

Pandemic relief grant income was $0 during Q1 FY23 and $1.1M during Q1 FY22 represents net reimbursement for lost revenues incurred by the Hospital Segment because of the COVID-19 pandemic and application against stimulus funds received under the CARES Act.

Operating income from unconsolidated joint ventures

Income from unconsolidated joint ventures increased from $0.7 million in Q1 FY22 to $0.9 million in Q1 FY23.

Operating loss from discontinued operations

Operating income from discontinued operations decreased from $5.4 million in Q1 FY22 to a loss of $0.1 million in Q1 FY23 given that the sale of EOGH was completed on January 1, 2022.

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Medical Group Segment

The following table sets forth the results of operations for our Medical Group operations for the three months ended December 31, 2022, and 2021. Cost of revenues does not include allocation of corporate overhead or interest expense - see "Corporate Segment" on page 18.

	Three Months Ended December 31, (Unaudited)	
(in thousands)	2022	2021
Medical Group revenues:		
Capitation	$ 119,214	$ 105,165
Management fees	4,197	3,760
Other operating revenues (1)	13,918	16,762
Total Medical Group revenues	137,329	125,687
Medical Group cost of revenues:		
PCP capitation	21,379	19,232
Specialist capitation	16,926	15,834
Claims expense	54,109	50,683
Physician incentives	5,270	5,898
Other cost of revenues	73	31
Total Medical Group cost of revenues	97,757	91,678
Gross margin	39,572	34,009
General and administrative	25,486	23,023
Depreciation and amortization	164	569
Goodwill amortization	768	768
Total operating expenses	26,418	24,360
Loss from unconsolidated joint ventures	(59)	(45)
Operating income	$ 13,095	$ 9,604

The following table sets forth the approximate number of members, by category, as of December 31, 2022 and 2021:

	As of December 31, (unaudited)	
(in thousands)	2022	2021
Commercial - owned	92.8	81.8
Commercial - managed (2)	9.4	10.3
Senior - owned	39.7	36.4
Senior - managed (2)	10.2	7.7
Medicaid - owned	226.5	194.3
Medicaid - managed (2)	74.3	71.6
Health Insurance Exchange - managed (2) (3)	6.8	11.5
Value Based Reimbursement (4)	206.3	285.7
	665.9	699.3

(1) Other operating revenues primarily consist of payments from HMOs under pay-for-performance programs and are recognized each year once the amounts of such items are known, as well as patient service revenues related to clinical operations.

(2) Represents third-party Independent Physician Associations' ("Managed IPA") membership that our management services organization manages in exchange for a monthly management fee.

(3) Our management services organization is a party to an agreement with one of the major HMOs to manage the provision of medical services to members enrolled under the Patient Protection and Affordable Care Act ("PPACA") Health Insurance Exchange program.

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We receive a fixed per member per month management fee under the program and do not share in the risk for medical services for such members.

(4) Value Based Membership is also defined as population under management. We have direct contracts with multiple Health Plans in all the states where we operate for the provision of quality care services to the population under management improving care delivery to the members in the most cost-efficient manner for a fixed infrastructure payment. In many of the contracts, we also receive variable revenue for pay-for-performance for improving health scores and closing quality gaps. In addition, in some of the contracts, we are also eligible for upside and downside sharing of risk pools for the population under management.

Results of Operations - Q1 FY23 vs Q1 FY22

Medical Group Revenue

Capitation revenue increased $14.0 million to $119.2 million during Q1 FY23 from $105.2 million Q1 FY22. The increase is driven by organic growth in membership of 14% across all lines of business.

Management fee revenue for Managed IPAs increased $0.4 million to $4.2 million during Q1 FY23 from $3.8 million during Q1 FY22. The increase is primarily driven by the increase in membership of 4.8% by our Managed IPAs. Management fees range from 6.5% to 14.0% of revenues, depending on the type of revenue.

Other operating revenue, which contains incentive, hospital, and shared risk pool revenues, decreased $2.8 million to $13.9 million during Q1 FY23 from $16.7 million during Q1 FY22. The decrease is due to higher patient admissions.

Medical Group Operating Expenses

Primary care physician ("PCP") capitation expense increased $2.2 million during Q1 FY23 to $21.4 million from $19.2 million during Q1 FY22. PCP capitation expense as a percentage of capitation revenue was 17.9% in Q1 F23 compared to 18.3% for Q1 FY22 due to shifts in membership and variations in rates.

Specialist capitation expenses increased $1.1 million to $16.9 million during Q1 FY23 from $15.8 million during Q1 FY22. Specialist capitation expense as a percentage of capitation revenue decreased to 14.2% for Q1 FY23 from 15.1% for Q1 FY22. The percentage decrease is driven by shifts in membership and variations in rates.

Claims expenses increased $3.4 million to $54.1 million during Q1 FY23 from $50.7 million during Q1 FY22. Claims expense as a percentage of capitation revenue decreased to 45.4% for Q1 FY23 from 48.2% for Q1 FY22, primarily driven by shifts in membership and variations in rates.

Physician incentives expense decreased $0.6 million to $5.3 million during Q1 FY23 from $5.9 million during Q1 FY22 primarily due to lower estimated discretionary bonuses to be paid to providers.

Medical Cost Ratio and Gross Margin

Medical costs as a percentage of capitation revenue (the medical cost ratio, a non-GAAP measure) decreased to 82.0% for Q1 FY23 from 87.2% for Q1 FY22, and the gross margin as a percentage of total Medical Group revenues increased to 28.8% during Q1 FY23 compared to 27.1% for Q1 FY22 due to improvements in medical utilization and provider rates.

Medical Group General and Administrative ("G&A")

G&A expenses increased $2.4 million to $25.5 million during Q1 FY23 from $23.0 million during Q1 FY22. G&A expenses as a percentage of total Medical Group revenues increased slightly to 18.6% for Q1 FY23 from 18.3% for Q1 FY22. The increase in G&A expenses was due to additional personnel to support the increased revenue and inflation while G&A expenses as a percentage of total revenue will vary.

Depreciation and Amortization

Depreciation and amortization expenses decreased to $0.2 million during Q1 FY23 from $0.6 million during Q1 FY22.

Goodwill amortization

Goodwill amortization expense remained the same at $0.8 million for Q1 FY23 and $0.8 million during Q1 FY22.

(Loss) Income from Unconsolidated Joint Ventures

(Loss) income from unconsolidated joint ventures (our 50% partnership interest in AMVI/Prospect Medical Group) decreased to loss of $(59) thousand during Q1 FY23 from loss of $(45) thousand during Q1 FY22.

Global Risk Management Segment

The following table sets forth the results of operations for our Global Risk Management segment for the three months ended December 31, 2022 and 2021. Global Risk Management expenses do not include allocation of corporate overhead or interest expense - see "Corporate Segment" on page 26. Capitation revenue includes surplus from Shared risk pool and net capitation revenue retained by the Global Risk Management segment after transfer of capitation to the Hospital Services and Medical Group segments. Global Risk Management segment also retains other operating revenue, which includes infrastructure and incentive payments.

	Three Months Ended December 31, (Unaudited)	
(in thousands)	2022	2021
Global Risk Management revenues:		
Capitation revenue	$ 50,936	$ 20,902
Other operating revenues	7,321	9,188
Total Global Risk Management revenues	58,257	30,090
Global Risk Management cost of revenues:		
Capitation expense	1,350	597
Claims expense	38,538	10,417
Other cost of revenues	7,966	7,719
Total Global Risk Management cost of revenues	47,853	18,733
Gross margin	10,403	11,357
General and administrative	5,472	5,133
Depreciation and amortization	-	7
Total operating expenses	5,472	5,140
Operating income	$ 4,931	$ 6,217

Results of Operations - Q1 FY23 vs Q1 FY22

Global Risk Management revenues

The Global Risk Management segment entered into provider agreements with our Medical Group and Hospital Services segments, under which 98% of capitation revenue for the segment's California operations, through Prospect Health Plan, Inc. ("PHP"), and approximately 77% and 58% of the entire segment's capitation revenue is transferred to the Medical Group and Hospital Services segments during Q1 FY22 and Q1 FY23, respectively. Capitation and other revenues increased from $30.1 million during Q1 FY22 to $60.9 million during Q1 FY23. During Q1 FY23, capitation revenue received from health plans was $109.1 million, of which $27.5 million and $36.0 million were transferred to our Hospital Services segment and Medical Group segment, respectively. During Q1 FY22, capitation revenue received from health plans was $80 million, of which $25.40 million and $36.1 million were transferred to our Hospital Services segment and Medical Group segment, respectively.

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Capitation revenue

Capitation revenue increased from $20.9 million during Q1 FY22 to $50.9 million during Q1 FY23. The increase in capitation revenue of $30 million is mainly driven by a new Full Risk contract with Blue Cross Blue Shield Rhode Island for the Medicare Advantage membership effective Jan 1, 2022. In addition, Prospect Health Plan (PHP) and Prospect Health Service Texas grew from 189,000 member months in Q1 FY22 to 200,000 member months in Q1 FY23.

Shared Risk Pool Revenue increased from $2.4 million to $5.6 million due to lower utilization for Tufts Medicaid in Rhode Island, while the Connecticut market had a new Shared Risk program that contributed to the higher revenue in Q1 FY23.

Other Operating Revenue

Other Operating Revenue decreased from $9.2 million during Q1 FY22 to $7.3 million during Q1 FY23, primarily due to the Blue Cross Blue Shield - Rhode Island arrangement switching to capitation revenue and no longer providing infrastructure revenue. In additional, the Pennsylvania market does not receive infrastructure revenue for Aetna Better Health and Independent Blue Cross in FY23.

Global Risk management Cost of Revenues

Capitation and Claim Expense increased from $11.0 million during Q1 FY22 to $39.9 million during Q1 FY23. The increase in expense is mostly attributable to the new Full Risk contract with Blue Cross Blue Shield Rhode Island for the Medicare Advantage membership, along with the growth of PHP & TX membership, which grew from 189,000 member months in Q1 FY22 to 200,000 member months in Q1 FY23.

Other cost of revenue increased from $7.7 million during Q1 FY22 to $7.9 million during Q1 FY23. The slight increase is due to a higher profit share distributed to contracted physician providers.

Global Risk general and administrative ("G&A") expenses

G&A expenses increased from $5.1 million during Q1 FY22 to $5.5 million during Q1 FY23. The increase is primarily driven by additional Management fees paid to the Prospect Medical System and increased salary expense to help support the new Blue Cross Blue Shield Full Risk program. G&A expense as a percentage of total revenue decreased from 17.1% in Q1 FY22 to 8.7% in Q1 FY23.

Corporate Segment

The Corporate segment primarily reflects certain expenses incurred at Prospect not specifically allocable to the Hospital Services, Medical Group, or Global Risk Management segments. These include, but are not limited to salaries, benefits, and other compensation for corporate employees; financing expenses; insurance expenses; rent; legal fees; and accounting fees. Additionally, this segment includes the operations of two captive insurance companies. In FY21, through commutation agreements, certain policies and reinsurance amendments were revised, which transferred risk for self-insured layers of coverage for workers compensation deductible reimbursement program, hospital and physician professional and general liability and certain buffer layer excess programs from both Company's captive insurance companies to the Company's hospitals and affiliated subsidiaries. The Company does not allocate interest expenses related to debt or income taxes to the other reporting segments. The following table summarizes our corporate expenses for the three months ended December 31, 2022, and 2021:

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(in thousands)	Three Months Ended December 31, (Unaudited) 2022	2021
Corporate revenues:		
Other revenues	$ 1,138	$ 466
Gross margin	1,138	466
Operating Expenses:		
General and administrative	22,586	19,426
Depreciation and amortization	1,502	1,351
Total Corporate Expenses	24,088	20,777
Operating loss	$ (22,950)	$ (20,311)

Results of Operations - Q1 FY23 vs Q1 FY22

Other Revenues

Other Revenue increased from $0.5 million during Q1 FY22 to $1.1 million during Q1 FY23.

Corporate general and administrative ("G&A") expense

G&A expenses increased from $19.4 million during Q1 FY22 to $22.6 million during Q1 FY23.

Depreciation and amortization expense

Depreciation and amortization increased from $1.4 million during Q1 FY22 to $1.5 million during Q1 FY23.

Consolidated Results of Operations

Results of Operations - Q1 FY23 vs Q1 FY22

Other expense, net

Other expenses, net increased from $22.3 million for Q1 FY22 to $32.9 million for Q1 FY23. This was primarily due to greater interest expenses compared to the same period in the prior year.

Provision for Income Taxes

Income taxes were $0.3 million during Q1 FY22 and $0.3 million for Q1 FY23, respectively. The income taxes were immaterial due to the company's net loss position.

Loss from discontinued operations, net

Net income (loss) from discontinued operations decreased from an income of $2.3 million during Q1 FY22 to loss of $0.1 million during Q1 FY23. The sale of EOGH was completed on January 1, 2022, and therefore its operations and results during Q1 FY22 is de minimis.

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A reconciliation of Adjusted EBITDA and Proforma Adjusted EBITDA to the most directly comparable GAAP measure for certain quarterly periods:

Adjusted EBITDA and Proforma Adjusted EBITDA Reconciliation
(Unaudited, $ in millions)

	FY2021			FY2022				FY2023
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
EBITDA Reconciliation (1):								
Net income (loss) from operations	$ (47.9)	$ (21.9)	$ (36.2)	$ (63.0)	$ (94.4)	$ (92.6)	$ 17.7	$ (64.6)
Net income (loss) from discontinued operations	$ (3.9)	$ 6.0	$ (8.5)	$ 2.3	$ 2.5	$ 0.6	$ 0.8	$ (0.1)
Net income (loss) from continuing operations (2)	$ (44.0)	$ (27.9)	$ (27.7)	$ (65.3)	$ (96.9)	$ (93.2)	$ 16.9	$ (64.5)
Provision (benefit) for income taxes	0.3	0.2	(3.0)	0.3	(0.1)	(0.5)	(2.3)	0.3
Interest expense	21.9	21.3	21.7	21.8	18.6	22.2	25.3	31.8
Depreciation and amortization	27.4	27.9	29.6	29.8	33.3	33.9	(34.3)	9.0
Amortization of financing costs	1.0	1.5	2.0	0.5	1.0	1.6	2.1	0.7
Other	(1.6)	2.3	0.2	-	0.6	0.3	1.0	0.4
EBITDA	5.0	25.3	22.8	(12.9)	(43.5)	(35.7)	8.6	(22.3)
Adjustments (3)								
Reasonable costs related to strategic business planning	2.5	2.8	3.1	1.7	6.8	3.6	4.4	5.5
Non-recurring, one-time items (4)	0.1	5.7	(8.3)	1.5	0.3	0.3	3.8	2.0
Change in accounting principle (5)	2.8	-	-	-	-	-	-	-
Business optimization expenses	2.3	2.4	0.8	1.2	1.2	1.4	1.2	1.3
COVID-19 Non-reimbursed expenses (6)	11.0	9.7	9.1	(0.8)	22.6	11.3	13.5	12.4
Adjusted EBITDA (1)	$ 23.7	$ 45.9	$ 27.5	$ (9.3)	$ (12.6)	$ (19.1)	$ 31.5	$ (1.1)
Proforma adjustments								
QAF 7 (7)	-	-	-	-	18.8	18.8	(37.6)	-
Quarterly Proforma Adjusted EBITDA	$ 23.7	$ 45.9	$ 27.5	$ (9.3)	6.2	(0.2)	(6.2)	(1.1)
Trailing Twelve Months Proforma Adjusted EBITDA	$ 282.0	$ 274.9	$ 184.7	$ 131.6	$ 74.8	$ 24.2	$ (9.5)	$ (1.3)

(1) For the earnings releases originally issued for the periods prior to Q1 FY22, we have changed the presentation of this table. We previously presented "addbacks" for lost revenues and lost margins (calculated using then current HHS guidelines), but in the current earnings release we have removed these.

(2) California Hospital Program ("QAF") net benefit were $15.5 million in Q2 FY21, $15.5 million in Q3 FY21, $17.9 million in Q4 FY21, 15.9 million in Q1 FY22, $53.9 million in Q4 FY22, and $14.9 million in Q1 FY23. No net benefit was recorded in Q2 and Q3 FY22 (see Note 7 below).

(3) Management adjusts for expenses and gains that is not considered in evaluating core operating performance for compensation, internal capital allocations, acquisition analysis or other strategic purposes, and that meet the definitions of addbacks under our lending arrangements.

(4) "Non-recurring, one-time items" in Q3 FY21 primarily includes equity incentive bonus of $4.5 million; in Q4 FY21 primarily includes $12 million insurance recovery for legal settlement; and in Q4 FY22 primarily includes $1.6 million of IT implementation associated with Cerner Corporation.

(5) Change in accounting principle relates to alignment of calculating the reserve methodology of patient accounts receivable, along with methodology for bad debt expenses to fully reserve for patient accounts receivable over 365 days, across the Hospital Segment, which was $2.8 million in Q2 FY21 related changes in reserving methodology for claims liabilities.

(6) In Q1 FY21 and going forward, the calculations were updated (a) for additional incremental COVID-19 expenses incurred during the quarter; (b) for lost revenues as the calculation is on a calendar year basis compared to the prior calendar year; and (c) to incorporate the updated guidance from HHS which allows targeted distributions to be accounted for in the same way as general distributions.

(7) QAF 7 runs for the period from January 1, 2022 to December 31, 2022. For the quarters ended Q2 and Q3 FY22, CMS had not yet approved QAF 7, however our MPT covenants specifically allow for adjustments in respect of this matter. The amount reflected in this proforma adjustment for Q2 and Q3 FY22 is derived from the current model from the California Hospital Association. For the quarter ended Q4 FY22, CMS approved QAF 7. Therefore, the amounts previously recorded, $18.8 million in Q2 FY22 and $18.8 million in Q3 FY22, respectively, were reversed in Q4 FY22 because the amounts were then to be included in net income of $17.7 million in Q4 FY22.

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Medical Properties Trust

March 21, 2019

Mr. Steve Aleman
Chief Financial Officer
Prospect Medical Holdings, Inc.
[redacted]
Los Angeles, CA 90034

Via email: [redacted]

Dear Mr. Aleman:

MPT is pleased to submit this non-binding proposal and indicative term sheet outlining the general terms of a possible transaction between affiliates of MPT Operating Partnership, L.P. ("MPT") and affiliates of Prospect Medical Holdings, Inc. ("Prospect") with regard to the acquisition and leaseback of the 20 Prospect hospitals listed in Exhibit I to this letter (the "Hospitals").

Subject to our discretionary diligence, MPT Board approval, and completion of definitive legal documentation, MPT expects to acquire from and lease back to Prospect all of the real estate interests (including land and all improvements located thereon, collectively, the "Real Estate") in the Hospitals on terms described in Exhibit II to this letter. Our proposal reflects the following assumptions:

- Initial valuation (funded at closing) of $1.6 billion; conditional valuation (based on Year 2 EBITDAR of $350,000,000) of $1.8 billion
- Consolidated Pro Forma Adjusted EBITDAR of approximately $300,000,000 in the first 12 months subsequent to closing and $350,000,000 in the following 12 months
- Initial annual rent of $120,000,000
- Minimum 15-year initial lease term with three, five-year renewal options
- Annual rent escalations based on CPI with a floor of 2.0% and a ceiling of 5.0%

As noted above and based on your 2019 Pro Forma EBITDAR projection of approximately $300 million, we would expect to fund a purchase price of $1.6 billion at closing. Furthermore, based on achievement of sustained annual EBITDAR of up to $350 million during a to-be-defined period after closing, we would fund an additional purchase consideration of up to $200 million. We have also discussed with you means to mitigate or defer capital gains taxes that would otherwise be paid. These may include limited use of mortgage financing and other investment by MPT in certain Prospect capital investments.

If the provisions described in this letter are satisfactory to you, we would begin our diligence procedures immediately, along with simultaneously drafting definitive agreements. MPT has more than $1.0 billion of cash on hand in addition to $1.3 billion of immediately available cash under our revolving credit facility. We are not dependent on any type of capital raise to fund this transaction.

Medical Properties Trust, Inc.
[redacted] Birmingham, Alabama 35242
Redacted Fax [redacted] www.medicalpropertiestrust.com

Although this non-binding proposal sets forth some of the principal terms of our proposal for Prospect, it does not include all of the representations, warranties, defaults, definitions, covenants (affirmative and negative) and other terms which will be contained in the definitive documents for the transaction. Moreover, this non-binding proposal creates no obligation or right of any party with respect to any other party.

Please do not hesitate to contact me with any questions.

Regards,

R. Steven Hamner
Executive Vice President & CFO

CC: Edward K. Aldag, Jr.
Samuel S. Lee

Medical Properties Trust, Inc.
[redacted] Birmingham, Alabama 35242
Redacted www.medicalpropertiestrust.com

Exhibit I
Schedule of Projects

#	Property	City	State	Hospital Type
1	Southern California Hospital at Van Nuys	Van Nuys	California	Behavioral
2	Southern California Hospital at Hollywood	Los Angeles	California	General Acute
3	Los Angeles Community Hospital	Los Angeles	California	General Acute
4	Southern California Hospital at Culver City	Culver City	California	General Acute
5	Los Angeles Community Hospital at Bellflower	Bellflower	California	Behavioral
6	Los Angeles Community Hospital at Norwalk	Norwalk	California	General Acute
7	Foothill Regional Medical Center	Tustin	California	General Acute
8	Waterbury Hospital	Waterbury	Connecticut	General Acute
9	Rockville General Hospital	Vernon	Connecticut	General Acute
10	Manchester Memorial Hospital	Manchester	Connecticut	General Acute
11	Nix Behavioral Health Center	San Antonio	Texas	Behavioral
12	Nix Medical Center	San Antonio	Texas	General Acute
13	Nix Specialty Health Center	San Antonio	Texas	Behavioral
14	Springfield Hospital	Springfield	Pennsylvania	General Acute
15	Crozer-Chester Medical Center	Chester	Pennsylvania	General Acute
16	Taylor Hospital	Ridley Park	Pennsylvania	General Acute
17	Delaware County Memorial Hospital	Drexel Hill	Pennsylvania	General Acute
18	East Orange General Hospital	East Orange	New Jersey	General Acute
19	Our Lady of Fatima Hospital	North Providence	Rhode Island	General Acute
20	Roger Williams Medical Center	Providence	Rhode Island	General Acute

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Exhibit II
Schedule of Certain Terms for
Proposed Transaction with Prospect Medical Holdings, Inc.
March 20, 2019

This is a draft of certain terms of a proposed agreement only and should not be construed as an offer to enter into any transaction. This draft document shall not create any legal obligation of any party to any other party. None of the parties shall have any rights or obligations with respect to any possible transaction unless and until definitive agreements are entered into, and then only to the extent specifically stated in those agreements; and no party shall have any liability to any other party for failure to enter into such definitive agreements for any reason, or for no reason, including, without limitation, failure of any party to enter into any such agreement as a result of the exercise of such party's sole and absolute discretion.

Transaction	• Acquisition from and master lease to Prospect of the properties described in Exhibit I to this letter
Properties	• Hospitals described in Exhibit I to this letter
Purchase Price	• Initial Purchase Price of $1,600,000,000 on a debt-free, cash-free basis, and conditional valuation of $1,800,000,000 (based on Year 2 EBITDAR of $350,000,000)
Lessee	• Affiliates of Prospect Medical Holdings, Inc.
Guarantor	• Full performance and payment guaranty of Lease provided by Prospect, or another entity acceptable to MPT
Lease Structure	• Absolute net master lease with Lessee responsible for all costs of ownership, including capital expenditures, structural, HVAC, foundation and other costs
Initial Lease Rate	• 7.50% of Purchase Price; cadence of payments to be agreed between MPT and Prospect
Annual Escalator	• Annual escalators of CPI with an annual floor of 2.0% and a ceiling of 5.0%
Lease Term	• Minimum 15 years, with three, five-year renewals (MPT receptive to longer initial term)
Purchase Option	• At expiration of the Lease Term, Lessee will have the right to purchase the Hospitals at the greater of fair market value or MPT's total capital invested to date
Expansions	• The Master Lease will contain a mechanism whereby either MPT or Prospect can fund expansions, at Prospect's option. Any expansion funded by MPT will be added to the lease base associated with the hospital benefiting from the investment
Additional Capital Commitment	• Subject to diligence, MPT is eager to provide a committed capital line to fund the development or acquisition of additional hospitals • Terms substantially similar to those of the Hospitals. All facilities leased to Prospect by MPT to be joined to the Master Lease
Credit Enhancement & Other	• Any deposit or letter of credit provision to be determined subject to diligence and agreement • Financial covenants: to be agreed between MPT and Prospect, but limited to (i) EBITDAR to lease payment coverage at the facility level and (ii) fixed charge coverage at the Guarantor level • No Lessor restriction on periodic alteration of bed layout; changes to services

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provided, repositioning certain services and programs, etc., all in Lessee's discretion subject to maintaining primary purposes

- Subject to completion of diligence, MPT Board approval, and definitive documentation

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MANAGEMENT SERVICES AGREEMENT

This MANAGEMENT SERVICES AGREEMENT, dated as of December 15, 2010 (this "Agreement"), is made by and between Prospect Green Management, LLC, a Delaware limited liability company ("Management Subsidiary") and a subsidiary of Prospect Medical Holdings, Inc. ("PMH") and Leonard Green & Partners, L.P., a Delaware limited partnership (the "Advisor").

WHEREAS, as of the date hereof, Ivy Merger Sub Corp, a Delaware corporation ("Merger Sub") and indirect, wholly owned subsidiary of Ivy Holdings Inc., a Delaware corporation (the "Company") has merged with and into PMH (the "Merger"), pursuant to an Agreement and Plan of Merger, dated as of August 16, 2010, by and among the Company, Merger Sub and PMH (the "Merger Agreement");

WHEREAS, Management Subsidiary is an Unrestricted Subsidiary (as defined in that certain Indenture, dated as of July 29, 2009, among PMH, certain subsidiaries of PMH and U.S. Bank National Association (the "Indenture")) of the Company's recently acquired subsidiary, PMH;

WHEREAS, Management Subsidiary desires to obtain from the Advisor, and the Advisor desires to provide, certain services to Management Subsidiary, the Company and other Advisees (as defined below) on an ongoing basis as provided herein.

NOW, THEREFORE, in consideration of the mutual promises made herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by each party, the parties, intending to be legally bound, hereby agree as follows:

1. Retention of Services

1.1 Investment Banking Services. Subject to the terms and conditions of this Agreement, Management Subsidiary hereby retains the Advisor, and the Advisor hereby agrees to be retained by Management Subsidiary, to provide investment banking services to Management Subsidiary and any of the Company and its subsidiaries as Management Subsidiary may designate to the Advisor from time to time (collectively "Advisees") (the "Investment Banking Services").

1.2 General Services. Subject to the terms and conditions of this Agreement, Management Subsidiary hereby retains the Advisor, and the Advisor hereby agrees to be retained by Management Subsidiary, to provide management, consulting and financial planning services to Management Subsidiary and the other Advisees on an ongoing basis in connection with the operation and growth of Management Subsidiary and the other Advisees in the ordinary course of their business during the term of this Agreement (the "General Services").

1.3 Major Transaction Services. Subject to the terms and conditions of this Agreement, Management Subsidiary hereby retains the Advisor, and the Advisor hereby agrees to be retained by Management Subsidiary, to provide financial advisory and investment banking services to the Advisees in connection with major financial transactions that may be undertaken from time to time in the future by Management Subsidiary or the other Advisees ("Major

Transaction Services" and, together with the Investment Banking Services and General Services, the "Services").

2. Compensation

2.1 General Services Fee. In consideration of the General Services, Management Subsidiary shall pay the Advisor (or its designee or designees) an annual fee (the "Annual Fee") payable in cash equal to $1,000,000 less any costs and expenses charged to Management Subsidiary or any of its Affiliates (as defined in the Merger Agreement) by any third party service provider the Advisor selects or requests to be retained by Management Subsidiary or any of its Affiliates (a) to provide substantially similar services as another third party service provider then retained by Management Subsidiary or any of its Affiliates or (b) to monitor Management Subsidiary's or any of its Affiliates compliance with applicable legal requirements. The Annual Fee shall be payable by Management Subsidiary in monthly installments, in arrears, on the first business day of each month, commencing on January 3, 2011, without regard to the amount of services actually performed by the Advisor.

2.2 Major Transaction Services Fee. Subject to the terms and provisions of Section 9.10 of the Stockholders Agreement dated the date hereof by and among the Company, Green Equity Investors V, L.P., a Delaware limited partnership ("GEI"), Green Equity Investors Side V, L.P., a Delaware limited partnership ("GEI Side"), Samuel Lee, The David and Alexa Topper Family Trust, Mike Heather, Dr. Jeereddi Prasad and the other parties thereto, in consideration of any Major Transaction Services provided by the Advisor from time to time, Management Subsidiary shall pay the Advisor normal and customary fees for services of like kind as agreed by the Advisor and unanimously approved by the Board of Directors of Management Subsidiary, taking into consideration all relevant factors, including, but not limited to, the complexity of the subject transaction, the time devoted to providing such services and the value of the Advisor's investment banking expertise and relationships within the business and financial community.

2.3 Structuring Fee. In connection with the services provided for the Company and its subsidiaries in connection with the transactions contemplated by the Merger Agreement, Management Subsidiary shall pay to the Advisor in cash concurrently with the closing of the transactions contemplated by the Merger Agreement a structuring fee of $4,000,000.

2.4 Expenses. In addition to the fees to be paid to the Advisor pursuant to this Agreement, Management Subsidiary shall pay to, or on behalf of, the Advisor, promptly when billed, all reasonable and documented out-of-pocket expenses incurred by the Advisor (or submitted by the Advisor on behalf of other persons that incurred such expenses) in connection with the Services rendered pursuant to this Agreement, such expenses not to exceed $50,000 per annum. Such expenses shall include, among other things, travel expenses (including all airplane travel expenses), messenger and duplicating services, telephone and facsimile expenses and other customary expenditures, but shall not include the fees and disbursements of counsel, accountants or other advisors or any word processing charges. Notwithstanding anything to the contrary contained herein, Management Subsidiary shall accrue but not pay the Annual Fee if and for so long as and to the extent that the Advisor instructs Management Subsidiary not to pay all or any portion of the Annual Fee during any fiscal year, or portion thereof.

3. Term

3.1 Termination. This Agreement shall terminate on the tenth anniversary of the date of this Agreement; provided, however, that on each anniversary of the date of this Agreement, the term of this Agreement shall be extended automatically for one additional year, unless at least three months prior to such anniversary the Advisor or Management Subsidiary have delivered to the other party written notice of its desire not to extend the term of this Agreement.

3.2 Survival of Certain Obligations. Notwithstanding any other provision of this Agreement, the obligations of Management Subsidiary to pay amounts due pursuant to Section 2 of this Agreement with respect to periods prior to the termination of this Agreement and the provisions of Sections 4 and 5 of this Agreement shall survive any termination of this Agreement.

4. Decisions/Authority of the Advisor

4.1 Limitation on the Advisor's Liability. Management Subsidiary reserves the right to make all decisions with regard to any matter upon which the Advisor has rendered its advice and consultation, and there shall be no liability to the Advisor for any such advice accepted by Management Subsidiary or any other Advisee.

4.2 Independent Contractor. The Advisor shall act solely as an independent contractor and shall have complete charge of its respective personnel engaged in the performance of the Services or any other advice or services contemplated by this Agreement. As an independent contractor, the Advisor shall have authority only to act as an advisor to Management Subsidiary and the other Advisees and shall have no authority to enter into any agreement or to make any representation, commitment or warranty binding upon any of Management Subsidiary or any of the other Advisees or to obtain or incur any right, obligation or liability on behalf of any of Management Subsidiary or any of the other Advisees. Nothing contained in this Agreement shall cause the Advisor or any of its partners or members or any of their affiliates, investment managers, investment advisors or partners to be deemed a partner of or joint venturer with Management Subsidiary or any of the other Advisees.

5. Indemnification

5.1 Indemnification/Reimbursement of Expenses. Management Subsidiary shall (i) indemnify the Advisor and its partners and members and any of their affiliates, and the partners, directors, officers, employees, agents and controlling persons of the Advisor and its partners and members and any of their respective affiliates (each an "Indemnified Party" and collectively, the "Indemnified Parties"), to the fullest extent permitted by law, from and against any and all losses, claims, damages and liabilities, joint or several, to which any Indemnified Party may become subject, caused by, related to or arising out of the Services or any other advice or services contemplated by this Agreement or the engagement of the Advisor pursuant to, and the performance by the Advisor of the Services or any other advice or services contemplated by this Agreement, and (ii) promptly reimburse each Indemnified Party for all reasonable costs and expenses (including reasonable and documented attorneys' fees and expenses), as incurred, in connection with the investigation of, preparation for or defense of any pending or threatened

claim or any action or proceeding arising therefrom, whether or not such Indemnified Party is a party and whether or not such claim, action or proceeding is initiated or brought by or on behalf the Company and whether or not resulting in any liability.

5.2 Limited Liability. Management Subsidiary shall not be liable under the indemnification contained in Section 5.1 of this Agreement to the extent that such loss, claim, damage, liability, cost or expense is found in a final non-appealable judgment by a court of competent jurisdiction to have resulted from the Advisor's gross negligence or willful malfeasance. Management Subsidiary further agrees that no Indemnified Party shall have any liability (whether direct or indirect, in contract, tort or otherwise) to any of Management Subsidiary , holders of its securities or its creditors related to or arising out of the engagement of the Advisor pursuant to, or the performance by the Advisor of the Services or any other advice or services contemplated by, this Agreement, except to the extent that any loss, claims, damage, liability, cost or expense is found in a non-appealable judgment by a court of competent jurisdiction to have resulted from the Advisor's gross negligence or willful malfeasance.

5.3 No Recourse. Advisor shall have no recourse against PMH or any of PMH's Restricted Subsidiaries (as defined in the Indenture) in respect of any obligation of Management Subsidiary under this Agreement.

6. Miscellaneous

6.1 Assignment. None of the parties hereto shall assign this Agreement or the rights and obligations hereunder, in whole or in part, without the prior written consent of the other parties; provided, however, that, without obtaining such consent, the Advisor may assign this Agreement or its rights and obligations hereunder to (i) any affiliate of the Advisor; (ii) any investment manager, investment advisor or partner of the Advisor or any principal or beneficial owner of any of the foregoing; or (iii) any investment fund, investment account or investment entity whose investment manager, investment advisor or partner, or any principal or beneficial owner of any of the foregoing, is the Advisor or any person identified in clauses (i) or (ii) above. Subject to the foregoing, this Agreement will be binding upon and inure solely to the benefit of the parties hereto and their respective successors and assigns, and no other person shall acquire or have any right hereunder or by virtue of this Agreement.

6.2 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware as applied to contracts made and performed within the State of Delaware without regard to principles of conflict of laws.

6.3 Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their best efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any

such term, provision, covenant or restriction which may be hereafter declared invalid, illegal, void or unenforceable.

6.4 Entire Agreement. This Agreement contains the entire agreement between the parties with respect to the subject matter of this Agreement and supersedes all written or verbal representations, warranties, commitments and other understandings with respect to the subject matter of this Agreement prior to the date of this Agreement.

6.5 Further Assurances. Each party hereto agrees to use all reasonable efforts to obtain all consents and approvals and to do all other things necessary to consummate the transactions contemplated by this Agreement. The parties agree to take such further action and to deliver or cause to be delivered any additional agreements or instruments as any of them may reasonably request for the purpose of carrying out this Agreement and the agreements and transactions contemplated hereby.

6.6 Attorneys' Fees. In any action or proceeding brought to enforce any provision of this Agreement, or where any provision of this Agreement is validly asserted as a defense, the prevailing party, as determined by a court of competent jurisdiction, shall be entitled to recover reasonable and documented attorneys' fees in addition to any other available remedy.

6.7 Headings. The headings in this Agreement are for convenience and reference only and shall not limit or otherwise affect the meaning of this Agreement.

6.8 Amendment and Waiver. This Agreement may be amended, modified or supplemented, and waivers or consents to departures from the provisions of this Agreement may be given, provided that the same are in writing and signed by each of the parties hereto.

6.9 Counterparts. This Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

IN WITNESS WHEREOF, the parties have executed this Management Services Agreement as of the date first appearing above.

PROSPECT GREEN MANAGEMENT, LLC

By: _____
Name: Samuel Lee
Title: Chief Executive Officer

LEONARD GREEN & PARTNERS, L.P.
By: LGP Management, Inc., its General Partner

By: _____
Name: John Baumer
Title:

All obligations of Management Subsidiary to the Advisor and the Indemnified Parties hereunder are fully and unconditionally guaranteed by the undersigned.

IVY HOLDINGS INC.

By: _____
Name: Samuel S. Lee
Title: President

IVY INTERMEDIATE HOLDING INC.

By: _____
Name: Samuel S. Lee
Title: President

[Signature Page to Management Services Agreement]

IN WITNESS WHEREOF, the parties have executed this Management Services Agreement as of the date first appearing above.

PROSPECT GREEN MANAGEMENT, LLC

By: _____
Name:
Title:

LEONARD GREEN & PARTNERS, L.P.
By: LGP Management, Inc., its General Partner

By: _____
Name: John Baumer
Title:

All obligations of Management Subsidiary to the Advisor and the Indemnified Parties hereunder are fully and unconditionally guaranteed by the undersigned.

IVY HOLDINGS INC.

By: _____
Name:
Title:

IVY INTERMEDIATE HOLDING INC.

By: _____
Name:
Title:

CONFIDENTIAL BUSINESS INFORMATION

IVY HOLDINGS INC.

STOCKHOLDERS AGREEMENT

December 15, 2010

CONFIDENTIAL BUSINESS INFORMATION

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Exhibit A - Form of Joinder Agreement

STOCKHOLDERS AGREEMENT

Stockholders Agreement (this "Agreement"), dated as of December 15, 2010, by and among Ivy Holdings Inc., a Delaware corporation (the "Company"), Green Equity Investors V, L.P., a Delaware limited partnership ("GEI"), Ivy LGP Coinvest LLC, a Delaware limited liability company ("GEI Co-Invest"), Green Equity Investors Side V, L.P., a Delaware limited partnership ("GEI Side", and together with GEI, GEI Co-Invest and any transferee controlled directly or indirectly by Leonard Green & Partners, L.P. or any of its Affiliates or any GEI Affiliate (as hereinafter defined), the "GEI Parties"), Samuel Lee ("SL"), The David and Alexa Topper Family Trust ("DT"), Mike Heather ("MH") and Dr. Jeereddi Prasad ("JP" and together with SL, DT and MH, the "Initial Management Investors") and together with any other management investor who becomes party to this Agreement at or following the Effective Time by execution of a signature page to this Agreement in the form of Exhibit A of this Agreement (as defined in the Merger Agreement) (the "Other Management Investors" and collectively with the Initial Management Investors, the "Management Investors").

RECITALS

WHEREAS, the Company has entered into an Agreement and Plan of Merger, dated as of August 16, 2010 (the "Merger Agreement"), with Ivy Merger Sub Corp., an indirect, wholly-owned subsidiary of the Company (the "Buyer"), and Prospect Medical Holdings, Inc., a Delaware corporation ("Ivy"), pursuant to which Buyer will merge with and into Ivy and Ivy will survive such merger as a wholly owned subsidiary of the Company (the "Surviving Corporation") on the terms and conditions set forth in the Merger Agreement;

WHEREAS, pursuant to a Contribution and Subscription Agreement, dated as of August 16, 2010 (the "Initial Contribution Agreement"), as amended, by and among the Company and each Initial Management Investor, immediately prior to the Effective Time the Initial Management Investors shall acquire shares of common stock of the Company, par value $0.01 per share ("Common Stock");

WHEREAS, pursuant to Contribution and Subscription Agreements, dated as of November 1, 2010 (the "Other Contribution Agreements" and together with the Initial Contribution Agreement, the "Contribution Agreements"), as amended, by and among the Company and each Other Management Investor, immediately prior to the Effective Time the Other Management Investors shall acquire shares of Common Stock;

WHEREAS, immediately following the Effective Time, GEI, GEI Side and GEI Co-Invest shall beneficially own shares of the Company's 13.5% Cumulative Senior Preferred Stock (the "Preferred Stock") and Common Stock. The Common Stock and Preferred Stock (together with any other class of capital stock of the Company that may be issued from time to time) are sometimes collectively referred to herein as the "Capital Stock"; and

WHEREAS, immediately following the Effective Time, GEI and each respective Management Investor shall beneficially own the number of shares of Capital Stock set forth opposite such Person's name on Schedule A hereto. The Secretary of the Company shall amend Schedule A from time to time to reflect any Other Management Investors, the issuance of

additional shares of Capital Stock that are subject to this Agreement to any Person or the Transfer of any shares of Capital Stock that are subject to this Agreement to any Person; provided, that such Transfer is made in accordance with the provisions of this Agreement.

NOW, THEREFORE, in consideration of the foregoing premises and for other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties hereto agree as follows:

ARTICLE I.

RESTRICTIONS ON TRANSFER

Section 1.1 General Restrictions on Transfer.

(a) Each Management Investor and each other Person (other than the GEI Parties or any GEI Transferees) who becomes a party hereto or agrees to be bound by the terms hereof after the date hereof (collectively with the Management Investors, the "Non-GEI Holders") agrees that, until the earlier of (i) the consummation of a Public Offering Event and (ii) the date that more than 50% of the number of shares of Common Stock collectively held by the GEI Parties immediately following the Effective Time have been Transferred by the GEI Parties or GEI Transferees to any Person or Persons (other than to any GEI Affiliate), taking into account the effect of any stock splits, reverse stock splits or other relevant events occurring after the Effective Time (such period, the "Lock Up Period"), it will not, directly or indirectly, sell, hypothecate, give, convey, bequeath, transfer, assign, pledge or in any other way whatsoever encumber or dispose of (any such event, a "Transfer") any shares of Capital Stock now owned or hereafter acquired by such Non-GEI Holder (or any interest therein) to any other Person, except as expressly permitted by this Agreement or with the prior written consent of GEI; provided, the restrictions on Transfer set forth in this Article I shall not apply to any shares of Capital Stock acquired by a Non-GEI Holder for value after the Closing from the Company (other than, for the avoidance of doubt, any shares of Capital Stock acquired pursuant to an Employee Compensation Arrangement), unless such Transfer restrictions are expressly agreed to at or after the time such shares are acquired (any such after-acquired shares of Capital Stock, "For Value Shares"). Nothing in this Section 1.1 shall be deemed to limit the ability of any GEI Party or any GEI Transferee to Transfer any of its Capital Stock, provided such GEI Party complies with all applicable terms and conditions of this Agreement.

(b) Any GEI Party or GEI Transferee may Transfer Capital Stock provided that (i) such GEI Party or GEI Transferee complies with the other terms and conditions of this Agreement; and (ii) in the event of any Transfer by any GEI Party or GEI Transferee to another Person, the transferee executes and delivers to the Company and each Non-GEI Holder an agreement agreeing to be bound by the terms of this Agreement to the same extent applicable to such GEI Party or GEI Transferee.

Section 1.2 Permitted Transfers. Until the end of the Lock Up Period, and subject to the proviso in Section 1.1(a) above, no Management Investor may Transfer any of its shares of Capital Stock to any Person other than a Permitted Transferee (as hereinafter defined) or with the prior written consent of GEI. A "Permitted Transferee" of a Management Investor or

a Permitted Transferee thereof means (i) any Initial Management Investor or its Permitted Transferees, (ii) any heir or legal successor by death to such Management Investor or its applicable Permitted Transferees, (iii) any trust, partnership, limited liability company or custodianship established for the primary benefit of any one or more Management Investors or its Permitted Transferees or the Family Members of any Management Investor or a Permitted Transferee thereof (provided that a Management Investor or its Permitted Transferee serves as the trustee, general partner, managing member or custodian thereof), and (iv) GEI, in the event of any acquisition by GEI of its Capital Stock from such Management Investor pursuant to Section 2.2; provided, however, that each such Transfer shall be subject to the Permitted Transferee's delivery to the Company and GEI of a duly executed agreement (x) to be bound by the terms of this Agreement to the same extent applicable to such Transferring Management Investor and the shares of Capital Stock subject to such Transfer, including notice information for such Permitted Transferee to receive any notice or other document required to be delivered to a Permitted Transferee pursuant to this Agreement with respect to the Capital Stock Transferred to such Permitted Transferee and (y) to Transfer the Transferred Capital Stock back to the original owner (or another designated Permitted Transferee of the original owner) if the Permitted Transferee ceases to be a Permitted Transferee of such Management Investor. For purposes of this Agreement, (i) a "Family Member" of any Management Investor or Permitted Transferee who is an individual shall include any member of the class consisting of that individual's spouse, descendants (whether by blood, marriage or adoption, and their respective descendants by blood, marriage or adoption), parents (including adoptive parents or in-laws), siblings (whether by blood, marriage or adoption), or the spouse of any such descendant, parent or sibling and (ii) upon the occurrence of a Call Event with respect to an Initial Management Investor, such Initial Management Investor shall not be deemed to be an Initial Management Investor for the purposes of this Agreement and shall not be entitled to the rights and benefits that accrue to the Initial Management Investors, including, but not limited to, those set forth in Article IX; provided, however, for the avoidance of doubt, such Initial Management Investor shall still be considered a Management Investor for the purposes of this Agreement.

Section 1.3 Compliance with Securities Laws.

(a) No party may Transfer any Capital Stock, and the Company shall not transfer on its books any shares of Capital Stock, unless such Transfer is permitted hereunder, and (i) is pursuant to an effective registration statement under the Securities Act of 1933, as amended (together with the rules and regulations promulgated thereunder, the "Securities Act"), and otherwise is in compliance with any applicable state securities or blue sky laws, or (ii) such party shall have furnished the Company with an opinion of counsel, which opinion and counsel shall be reasonably satisfactory to the Company (it being acknowledged that Latham & Watkins LLP or Bingham McCutchen LLP shall be deemed to be counsel reasonably satisfactory to the Company), to the effect that no such registration is required because of the availability of an exemption from registration under the Securities Act and any applicable state securities or blue sky laws.

(b) All certificates representing the shares of Capital Stock subject to the terms of this Agreement shall bear the following legend (or one to substantially similar effect):

"THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT AND SAID LAWS OR AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS THEREOF.

THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO RESTRICTIONS CONTAINED IN A STOCKHOLDERS AGREEMENT, DATED AS OF DECEMBER 15, 2010 (AS SUCH AGREEMENT MAY BE AMENDED FROM TIME TO TIME, THE "STOCKHOLDERS AGREEMENT"). THE STOCKHOLDERS AGREEMENT CONTAINS, AMONG OTHER THINGS, CERTAIN PROVISIONS RELATING TO THE TRANSFER OF THE SECURITIES SUBJECT TO SUCH AGREEMENT. NO TRANSFER, SALE, ASSIGNMENT, PLEDGE, HYPOTHECATION OR OTHER DISPOSITION OF THE SHARES REPRESENTED BY THIS CERTIFICATE, DIRECTLY OR INDIRECTLY, MAY BE MADE EXCEPT IN ACCORDANCE WITH THE PROVISIONS OF SUCH STOCKHOLDERS AGREEMENT. THE HOLDER OF THIS CERTIFICATE, BY ACCEPTANCE OF THIS CERTIFICATE, AGREES TO BE BOUND BY ALL OF THE PROVISIONS OF SUCH STOCKHOLDERS AGREEMENT APPLICABLE TO THE SECURITIES REPRESENTED BY THIS CERTIFICATE."

(c) Notwithstanding the foregoing, the restrictions set forth in this Section 1.3 shall not apply to any sale of Capital Stock pursuant to (x) an effective registration statement under the Securities Act, or (y) Rule 144 promulgated under the Securities Act, as such Rule may be amended from time to time ("Rule 144"); provided, that such sale pursuant to Rule 144 is (i) not to an Affiliate of the Company and (ii) not made prior to a Public Offering Event.

Section 1.4 Improper Transfer. Any attempt to Transfer or otherwise encumber any Capital Stock in violation of this Agreement shall be null and void and neither the Company nor any registrar or transfer agent of such Capital Stock shall give any effect to such attempted Transfer or encumbrance in its stock records.

Section 1.5 Involuntary Transfer. In the case of any Transfer of title or beneficial ownership of Capital Stock upon default, foreclosure, forfeit, court order or otherwise than by a voluntary decision on the part of a party hereto (an "Involuntary Transfer"), the applicable holder shall promptly (but in no event later than five (5) days after such Involuntary Transfer) furnish written notice to the Company indicating that the Involuntary Transfer has occurred, specifying the name of the Person to whom such Capital Stock has been Transferred, giving a detailed description of the circumstances giving rise to, and stating the legal basis for, the Involuntary Transfer. Nothing in this Section 1.5 shall be deemed to constitute a consent to or waiver of any rights with respect to such an Involuntary Transfer or to vest any Person who

may purport to become a holder of Capital Stock pursuant to an Involuntary Transfer with any rights under this Agreement.

Section 1.6 Certain Definitions. For purposes of this Agreement:

(a) An "Affiliate" of a specified Person means any other Person directly or indirectly controlling, controlled by or under common control with such specified Person.

(b) The term "control" (including, with correlative meanings, the terms "controlling", "controlled by" and "under common control with"), as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by contract or otherwise. For the avoidance of doubt, a natural person cannot be "controlled by" another Person, and no Management Investor nor any Permitted Transferee thereof shall be deemed an Affiliate of any GEI Party and no employee, partner or Affiliate of any GEI Party shall be deemed an Affiliate of any Management Investor.

(c) "Person" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

ARTICLE II.

CALL RIGHT

Section 2.1 Call Event.

For purposes of this Agreement, a "Call Event" shall be deemed to occur with respect to (A) an Initial Management Investor if (x) such Initial Management Investor's employment (or in the case of a trust whose beneficiary or trustee is an employee of the Company or a subsidiary thereof, the employment of such beneficiary or trustee, as applicable) is terminated by the Company, or a subsidiary of the Company, as applicable, under circumstances constituting "Cause" (as such term is defined in such Management Investor's then-current employment agreement with the Company, or a subsidiary of the Company, as applicable) or (y) an Initial Management Investor terminates (or in the case of a trust, whose beneficiary or trustee is an employee of the Company or a subsidiary thereof who terminates) his employment with the Company, or a subsidiary of the Company, as applicable, in the absence of circumstances constituting "Good Reason" (as such term is defined in such Management Investor's then-current employment agreement with the Company, or a subsidiary of the Company, as applicable) or (B) an Other Management Investor if such Other Management Investor's employment with the Company, or a subsidiary of the Company, as applicable, is terminated for any reason, with or without cause, including, but not by way of limitation, a termination by resignation, discharge, disability, death or retirement, but excluding a termination where there is a simultaneous reemployment by the Company or one of its subsidiaries. Upon agreement (the "Call Option Approval") of the (i) GEI Parties and (ii) those Initial Management Investors (other than any Initial Management Investor who has (or in the case of a trust, whose beneficiary or trustee is an employee of the Company or a subsidiary thereof who has) then experienced a Call Event) and

their respective Permitted Transferees holding a majority of the then outstanding shares of Common Stock held by all Initial Management Investors (other than any Initial Management Investor who has (or in the case of a trust, whose beneficiary or trustee is an employee of the Company or a subsidiary thereof who has) then experienced a Call Event) and their respective Permitted Transferees, the Company shall give prompt written notice (such notice, a "Call Right Notice") of any such Call Event to GEI and each Initial Management Investor who has not (or in the case of a trust, whose beneficiary or trustee is an employee of the Company or a subsidiary thereof who has not) then experienced a Call Event (GEI and such Initial Management Investors, the "Call Right Optionees"), including the number of Available Shares, the pro rata allotment of such Available Shares among the Call Right Optionees, the notice address (based on the Company's records) for the applicable Management Investor who has experienced the Call Event, and the deadline for submitting a Call Right Election Notice (which shall be at the end of the applicable Call Period as described in Section 2.2(a) (the "Call Right Election Deadline")). In addition, the Management Investor who has so experienced such Call Event (and each of its applicable Permitted Transferees) shall promptly deliver to the Company all stock certificates representing its Available Shares, to be held in trust by the Company pending completion of the process described in this Article II. For the avoidance of doubt, "Cause" and "Good Reason" for MH will be the same as is defined in SL's employment agreement. In the event that there is a dispute between an Initial Management Investor and the Company as to whether "Cause" for termination exists or whether a resignation was for "Good Reason", (x) such dispute shall be definitively resolved in accordance with the dispute resolution procedures in such Initial Management Investor's employment agreement or, if such Initial Management Investor does not have a current employment agreement or no such dispute resolution procedures are specified, in a proceeding before a court of competent jurisdiction (unless the Initial Management Investor and the Company agree to some other means to resolve such dispute) and (y) the application of this Article II shall be deferred until such dispute is definitively so determined.

Section 2.2 Call Rights.

(a) Upon the occurrence of a Call Event with respect to a Management Investor and so long as a Call Option Approval has been received, the Call Right Optionees shall have an option (the "Call Option"), but not an obligation, to purchase from such Management Investor its pro rata portion (based on the relative percentages of the Common Stock then owned by each Call Right Optionee out of the total number of shares of Common Stock then owned by all Call Right Optionees) of all or a portion of the Available Shares then owned by such Management Investor and its Permitted Transferees, unless one or more of the Initial Management Investors who are Call Right Optionees agree to purchase (a "Pre-Emptive Purchase") some or all of such Available Shares at a price greater than Fair Market Value (for the avoidance of doubt and notwithstanding the foregoing, a Pre-Emptive Purchase shall not be contingent on the receipt of a Call Option Approval) and such Call Right Optionee and the Management Investor who has experienced such Call Event provide written notice of the Pre-Emptive Purchase to the Company (including the price proposed to be paid per Available Share) prior to the Call Right Election Deadline (in which case, such Pre-Emptive Purchase shall be deemed a Transfer to a Permitted Transferee subject to Article I). The Call Right Optionees also shall have oversubscription rights, to the extent all Call Right Optionees do not elect to purchase their full pro rata portion of the Available Shares or all Available Shares are not purchased in a Pre-Emptive Purchase. For purposes of this Article II, "Available Shares"

of a Management Investor means all shares of Common Stock then held by such Management Investor and its Permitted Transferees other than For Value Shares; provided, that solely with respect to the Initial Management Investors and their Permitted Transferees, (i) with respect to any shares of Common Stock held of record by an Initial Management Investor or its Permitted Transferees as of the Effective Time that would otherwise constitute Available Shares, the Call Option shall expire as to 50% of such shares of Common Stock on the first anniversary of the Effective Time, with the Call Option expiring as to an additional 16.667% of such shares of Common Stock on each of the next three anniversaries of the Effective Time (and upon such expiration, such shares shall no longer constitute Available Shares), (ii) with respect to any shares of Common Stock acquired by an Initial Management Investor after the date hereof that would otherwise constitute Available Shares (the "After Acquired Shares"), the Call Option shall expire as to 50% of any After Acquired Shares on the first anniversary of the date such After Acquired Shares were acquired, with the Call Option expiring as to an additional 16.667% of the After Acquired Shares on each of the next three anniversaries of the date such After Acquired Shares were acquired by such Initial Management Investor, and (iii) no shares of Common Stock held by an Initial Management Investor or its Permitted Transferees shall be Available Shares after the expiration of the deadline for those Call Right Optionees who elect to purchase Available Shares to deliver payment for those Available Shares, as provided below. For the avoidance of doubt, the Call Right Optionees shall be entitled to deliver multiple Call Notices from time to time prior to the expiration of the relevant Call Periods described in this Section 2.2. "Call Period" means (x) with respect to any shares of Capital Stock that have not been held for at least six months at the time of the Call Event, nine months from the date of the Call Event, (y) with respect to any shares acquired pursuant to the exercise of options to purchase Capital Stock acquired after the Call Event, nine months from the date of exercise of the last option to have been so exercised and (z) in any other case, 30 days from the occurrence of the Call Event; provided, that if the Company fails to give a notice specified in Section 2.1, and the Call Period would otherwise expire less than 30 days following the date on which the Call Right Optionees have actual knowledge of the occurrence of the relevant Call Event, then the Call Period shall be extended until the 30th day following the first day on which the Call Right Optionees have actual knowledge of the occurrence of such Call Event; provided, further, that in no event shall any Call Right Optionees purchase any shares of Capital Stock on or prior to the expiration of six months following the date such shares were first acquired by the Management Investor if the Call Period would otherwise expire less than 30 days after the expiration of such six-month period, in which case the Call Period shall be extended until the 60th day following the expiration of such six-month period.

(b) The consideration to be paid per Available Share shall be equal to the Fair Market Value of the Common Stock as of the expiration of the Call Period.

(c) Any Call Right Optionee who desires to exercise the Call Option shall deliver a written notice (a "Call Right Election Notice") on or before the Call Right Election Deadline to the applicable Management Investor and the Company, specifying (i) the number of Available Shares the Call Right Optionee elects to acquire, (ii) whether the Call Right Optionee would like to purchase additional Available Shares to the extent the full pro rata allotment is not purchased by all Call Right Optionees, and (iii) whether the election is unconditional or conditioned on the Common Stock having a Fair Market Value of no more

than a specified dollar amount. All elections made in a Call Right Election Notice shall be deemed irrevocable, subject to any conditions specified thereon. Within five calendar days after the Call Right Election Deadline, the Company shall send written notice to each Call Right Optionee who timely submitted a Call Right Election Notice, specifying which Call Right Optionees have elected to purchase Available Shares, whether any Call Right Optionee provided notice of a Pre-Emptive Purchase, and the amounts allocated to each Call Right Optionee, based on such elections and any such Pre-Emptive Purchase. Thereafter, the electing Call Right Optionees and each Call Right Optionee who has given notice of a Pre-Emptive Purchase shall have 15 calendar days to deliver to the Company payment for the Available Shares it has elected to purchase (to be held in trust and promptly remitted to the Management Investor (and its applicable Permitted Transferees) whose Available Shares are acquired at the closing described in Section 2.3), and the Company shall deliver (or cause to be delivered) to each electing Call Right Optionees against such payment, stock certificates representing the Available Shares acquired by such Call Right Optionee (which, for avoidance of doubt, shall be held by the acquiring Call Right Optionee subject to the terms of this Agreement otherwise applicable to such Call Right Optionee). To the extent that not all Available Shares are acquired, the Company shall promptly deliver (or cause to be delivered) to the Management Investor who experienced the Call Event (and its applicable Permitted Transferees) stock certificates representing the Available Shares not acquired, it being understood that to the extent only a portion of the Available Shares are acquired, they will be allocated pro rata among the Available Shares held by the Management Investor in question and its applicable Permitted Transferees, unless otherwise agreed by such Management Investor and such Permitted Transferees.

Section 2.3 Obligation to Purchase and Sell; Closing. Any Call Right Optionee who timely delivers a Call Right Election Notice or provides written notice of a Pre-Emptive Purchase pursuant to the terms of this Article II shall be obligated to purchase, and the relevant Management Investor (and its applicable Permitted Transferees) shall be obligated to sell, the Available Shares elected to be so purchased at the price per share equal to the Fair Market Value (or at such greater value as is agreed in a Pre-Emptive Purchase). The closing of all purchases and sales of Capital Stock pursuant to this Article II shall be held at 11:00 a.m., local time, at the principal executive offices of the Company, no later than the fifth business day after final determination of the Fair Market Value of the Available Shares in accordance with Section 2.4.

Section 2.4 Fair Market Value. For purposes of this Article II, the "Fair Market Value" of each share of Capital Stock shall mean the fair market value of such share as of the time of the Call Event, as determined by mutual agreement of the Management Investor who experienced the Call Event and the Call Right Optionees who timely submit a Call Right Election Notice holding a majority of the shares of Capital Stock then held by such Call Right Optionees; provided, however, that such determination (and any determination of any independent investment banking firm or valuation firm selected pursuant to the following sentence) shall not discount the value of such shares because of (i) any minority equity discount, (ii) the fact that such Available Shares are and will be subject to the restrictions set forth in this Agreement or (iii) the lack of a public market or other alternatives for liquidity with respect to such Available Shares. If no such mutual agreement as to Fair Market Value is reached by the Call Right Election Deadline, the Company shall engage a nationally recognized, independent investment banking firm or valuation

expert mutually acceptable to the Management Investor who has experienced the Call Event and the Call Right Optionees to determine the Fair Market Value of the Available Shares. The determination of such firm or appraiser shall be final and binding upon the Management Investor who experienced the Call Event and the Call Right Optionees, and shall not be subject to appeal or arbitration. The costs and expenses incurred in connection with the determination made by the investment banking firm or independent appraiser shall be borne by the Company.

Section 2.5 Termination of Call Rights. The provisions of this Article II shall expire upon the occurrence of a Public Offering Event or any GEI Distribution.

ARTICLE III.

TAG-ALONG RIGHTS

Section 3.1 Right to Participate in Sale. Subject to the provisions hereof, if any GEI Party or any GEI Transferee desires to Transfer for value any shares of Common Stock (each such proposed Transfer being referred to herein as a "Tag-Along Sale"), then the GEI Party or applicable GEI Transferee shall afford each Management Investor (and its Permitted Transferees) the opportunity (but not the obligation) to participate proportionately in such Tag-Along Sale in accordance with this Article III. The number of shares of Common Stock (the "Tag-Along Allotment"), that each Management Investor will be entitled to elect to include in such Tag-Along Sale shall be determined by multiplying (a) the number of shares of Common Stock held by such Management Investor (or their respective Permitted Transferees) as of the close of business on the day immediately prior to the Tag-Along Notice Date by (b) a fraction, the numerator of which shall equal the number of shares of Common Stock proposed by the GEI Parties and/or GEI Transferees participating in the Tag Along Sale to be sold or otherwise disposed of pursuant to the Tag-Along Sale and the denominator of which shall equal the total number of shares of Common Stock that are beneficially owned by the GEI Parties and any GEI Transferees participating in the Tag Along Sale as of the close of business on the day immediately prior to the Tag-Along Notice Date.

Section 3.2 Sale Notice. GEI shall provide each Management Investor with written notice (the "Tag-Along Sale Notice") not more than sixty (60) nor less than twenty (20) days prior to the proposed date of the Tag-Along Sale (the "Tag-Along Sale Date"). Each Tag-Along Sale Notice shall set forth: (i) the number of shares proposed to be transferred or sold by the GEI Parties and any GEI Transferee participating in such Tag-Along Sale; (ii) the proposed amount and form of consideration to be paid for such shares and the terms and conditions of payment offered by each proposed purchaser; (iii) the aggregate number of shares of Common Stock held of record by the GEI Parties or any GEI Transferees participating in the Tag-Along Sale as of the close of business on the day immediately preceding the date of the Tag-Along Notice (the "Tag-Along Notice Date"); (iv) such Management Investor's (and its applicable Permitted Transferees') Tag-Along Allotment assuming such Management Investor (and its applicable Permitted Transferees) elected to sell the maximum number of shares of Common Stock as possible; (v) notice information for GEI for purposes of sending any Tag-Along Notice; (vi) confirmation that the proposed purchaser or transferee has been informed of the "Tag-Along Rights" provided for in this Article III and has agreed to purchase the Common Stock in accordance with the terms hereof and (vii) the Tag-Along Sale Date.

Section 3.3 Tag-Along Notice.

(a) If a Management Investor (and its Permitted Transferees) wishes to participate in the Tag-Along Sale, such Management Investor (and its Permitted Transferees) shall provide written notice (the "Tag-Along Notice") to GEI within ten (10) days following the receipt of the Tag-Along Sale Notice. The Tag-Along Notice shall set forth the number of shares of Common Stock that such holder elects to include in the Tag-Along Sale, which shall not exceed such Management Investor's (and its applicable Permitted Transferees') Tag-Along Allotment. During such ten (10) day period, the Company shall provide the Management Investor (and its applicable Permitted Transferees) with such financial data and information relating to the Company as the Management Investor (and its applicable Permitted Transferees) shall reasonably request; provided, however, that any such Management Investor (and its applicable Permitted Transferees) shall agree to hold in confidence and trust all confidential or proprietary information so provided; and, provided, further, that the Company may withhold any such financial data and information as may be reasonably necessary (in the Company's sole discretion) to preserve the attorney-client privilege between the Company and its counsel or to protect confidential proprietary information. The Tag-Along Notice given by each Management Investor (and its applicable Permitted Transferees) shall constitute such Management Investor's (and its applicable Permitted Transferees') binding agreement to sell the Common Stock specified in such Tag-Along Notice on the terms and conditions applicable to the Tag-Along Sale, subject to the provisions of Section 3.4; provided, however, that in the event that there is any material change in the terms and conditions of such Tag-Along Sale applicable to any Management Investor (and its applicable Permitted Transferees) after delivery of a Tag-Along Notice or in the event that the GEI Parties change the number of shares which they intend to Transfer in the Tag-Along Sale, then, each Management Investor (and its applicable Permitted Transferees) shall be promptly provided reasonable prior written notice describing such changes, and notwithstanding anything herein to the contrary, such Management Investor (and its applicable Permitted Transferees) shall have the right in its discretion to withdraw from (or adjust its level of) participation in the Tag-Along Sale accordingly.

(b) If a Tag-Along Notice is not received by GEI from a Management Investor (and any of its applicable Permitted Transferees) within the 10-day period specified above (or if there has been a change as described in the proviso in the preceding subparagraph and within five (5) days after receiving the notice required in such proviso a Management Investor (and any of its applicable Permitted Transferees) has provided notice of its desire to withdraw from the Tag-Along Sale), the GEI Parties shall have the right to sell or otherwise transfer the number of shares specified in the Tag-Along Notice to the proposed purchaser or transferee without any participation by such Management Investor, but only on the terms and conditions which are no more favorable in any material respect to the GEI Parties than as stated in the Tag-Along Notice (after giving effect to any changes described in the proviso in the preceding subparagraph) and only if such Tag-Along Sale is completed within sixty (60) business days of the Tag-Along Sale Date. If such Tag-Along Sale does not occur within such sixty business day period, the Common Stock that was to be subject to such Tag-Along Sale thereafter shall continue to be subject to all of the provisions of this Article III.

Section 3.4 Terms of Tag-Along Sale; Cooperation. Any sale of Common Stock by a Management Investor (and its applicable Permitted Transferees) as a result of the "Tag-Along Rights" provided under this Article III shall be on the same terms and conditions as the proposed Tag-Along Sale by the GEI Parties and any GEI Transferee proposing to participate in such Tag-Along Sale. It is acknowledged that each Management Investor (and its applicable Permitted Transferees) participating in such Tag-Along Sale will be entitled to receive the same amount and form of consideration for each of its shares of Common Stock as is received by the GEI Parties or any GEI Transferee proposing to participate in such Tag-Along Sale, unless any GEI Party or any GEI Transferee proposing to participate in such Tag-Along Sale, is given an option as to the form and amount of consideration to be received in connection with such Tag-Along Sale, in which case each Management Investor (and its applicable Permitted Transferees) will be given the same such option. Each Management Investor (and its applicable Permitted Transferees) participating in any Tag-Along Sale shall cooperate in good faith with the GEI Parties and the Company in connection with the consummation of such Tag-Along Sale, including, without limitation, by executing a document containing customary representations, warranties, indemnities and agreements as requested by the purchaser in connection with such Tag-Along Sale, which shall be in substantially the same form that is executed by the GEI Parties (and any GEI Transferee) in connection with such Tag-Along Sale; provided, however, that no Management Investor (or its Permitted Transferees) participating in such Tag-Along Sale shall be required to make any representations or warranties other than representations as to its due authorization, due execution, enforceability, lack of conflicts, title to shares of Common Stock being sold in the Tag-Along Sale and investment qualifications (to the extent securities are being issued in exchange for the Common Stock); provided, further, that, to the extent any indemnification is required of the GEI Parties and any Management Investor (or its participating Permitted Transferees) in connection with any Tag-Along Sale, the Management Investors (or its participating Permitted Transferees) shall receive the same or better terms as the GEI Parties (and any GEI Transferee) and in all cases, the liability for any indemnity obligations of any Management Investor (or its participating Permitted Transferees) under such document shall be several and not joint and several and, with respect to representations and warranties, shall not exceed the aggregate cash value of the consideration received by such Management Investor (or its participating Permitted Transferees) in connection with such transaction except with respect to claims related to (a) fraud or willful breach by such Management Investor (or its participating Permitted Transferees) and (b) a breach of any representation or warranty of a Management Investor (or its participating Permitted Transferees) relating to due authorization, due execution, enforceability, lack of conflicts, title to shares of Capital Stock and investment qualifications (but solely to the extent the GEI Parties and each GEI Transferee (i) make substantially the same representations and warranties, (ii) are required to provide substantially the same indemnification for the same matters, and (iii) are subject to substantially the same exceptions from otherwise applicable limitations on liabilities).

Section 3.5 Authority to Record Transfer/Delivery of Certificates. Each Management Investor participating in a Tag-Along Sale (a) authorizes the Company (or the Company's transfer agent, if any) to record in the Company's books and records the transfer of any shares of such Management Investor's Common Stock included in such Tag-Along Sale from the Management Investor to the purchaser in the Tag-Along Sale and (b) shall deliver all certificates, if any, which represent shares of Common Stock owned by such Management Investor included in such Tag-Along Sale, duly endorsed for transfer with signatures guaranteed,

to the purchaser in the Tag-Along Sale, in the manner and at the address indicated in the Tag-Along Notice, in each case against delivery of the purchase price for such shares.

Section 3.6 Exempt Transfers. The provisions of this Article III shall not apply to (a) any sale of Capital Stock by a GEI Party or a GEI Transferee in a bona fide underwritten offering of Capital Stock pursuant to an effective registration statement under the Act or, if the Common Stock is listed or traded on The New York Stock Exchange, NYSE AMEX or the Nasdaq Global Market, any bona fide public distribution of Capital Stock by a GEI Party or a GEI Transferee pursuant to Rule 144 thereunder; (b) any bona fide pledge by a GEI Party or a GEI Transferee of Capital Stock to a commercial bank, savings and loan institution or any other similar lending institution as security for any indebtedness to such lender or any sale upon foreclosure of any such pledge; (c) any Transfer of Capital Stock by a GEI Party or a GEI Transferee to any other Person controlled directly or indirectly by Leonard Green & Partners, L.P. or any of its Affiliates (such party, a "GEI Affiliate"); provided, that such Transfer otherwise complies with the provisions of Section 1.1(b) and 1.3 hereof; (d) any redemption or exchange by the Company of the Preferred Stock in accordance with its terms; or (e) any GEI Distribution (as defined in Section 8.1).

Section 3.7 Termination of Tag-Along Rights. The provisions of this Article III shall expire upon the occurrence of a Public Offering Event or any GEI Distribution.

ARTICLE IV.

DRAG-ALONG SALES

Section 4.1 Right to Require Sale. Notwithstanding any other provision of this Agreement, if any GEI Party (a) desires or proposes to sell to any third Person(s) who are not GEI Affiliates (a "Third Party") (i) 100% of the shares of Common Stock held by the GEI Parties; or (ii) 50% or more of the total outstanding shares of Common Stock; or (b) to effect a business combination of the Company with such Third Party or the purchase or other acquisition of all or substantially all the assets of the Company by such Third Party, (any of the transactions described in clauses (a) and (b), an "Acquisition Proposal"), then, upon the demand of GEI and subject to the GEI Parties' participation in such Acquisition Proposal on substantially the same terms and conditions as those applicable to the Non-GEI Holders, each Non-GEI Holder shall be required, as the case may be (x) to sell to such Third Party a number of shares of Common Stock (excluding any For Value Shares that were not acquired subject to this Agreement) equal to the number of shares specified in the applicable Drag-Along Notice (as defined below) (it being expressly agreed and understood that in connection with any Acquisition Proposal for less than 100% of the total outstanding shares of Common Stock, as applicable, each Non-GEI Holder shall be required to sell that percentage of its shares of Common Stock equal to the percentage of shares of Common Stock then held by the GEI Parties that are being sold by the GEI Parties in connection with such Acquisition Proposal), for the same consideration and on substantially the same terms and conditions as the GEI Parties have agreed to with such Third Party; provided, that in the event the GEI Parties are Transferring shares of Preferred Stock in such Acquisition Proposal, in no event shall the GEI Parties receive consideration for such shares of Preferred Stock that is in excess of the then liquidation preference (plus accrued and unpaid dividends and any applicable redemption premium), (y) to vote all of the Common Stock beneficially owned by

such Non-GEI Holder in favor of such Acquisition Proposal and (z) take all other actions within such Non-GEI Holder's reasonable control (including, without limitation, by attending stockholder meetings in person or by proxy for the purpose of obtaining a quorum, executing written consents in lieu of meetings and refraining from exercising appraisal rights with respect to any such Acquisition Proposal), to cause the approval of such Acquisition Proposal.

Section 4.2 Drag-Along Notice. Prior to consummating any transaction pursuant to an Acquisition Proposal (a "Drag-Along Sale"), if GEI elects to exercise the option described in this Article IV, GEI shall provide each Non-GEI Holder with written notice (the "Drag-Along Notice") not more than sixty (60) nor less than twenty (20) days prior to the proposed closing date for the Drag-Along Sale (the "Drag-Along Sale Date"). The Drag-Along Notice shall be accompanied by a copy of any written agreement relating to the Acquisition Proposal and shall set forth, as applicable: (i) the proposed amount and form of consideration to be paid per share of Common Stock and/or Preferred Stock and the terms and conditions of payment offered by the Third Party; (ii) the aggregate number of shares of Common Stock and/or Preferred Stock held by the GEI Parties as of the close of business on the day prior to the date of the Drag-Along Notice, and the number(s) of shares proposed to be sold in the Drag-Along Sale; (iii) the Drag-Along Sale Date and (iv) confirmation that the Third Party has agreed to purchase the Non-GEI Holders' Common Stock in accordance with the terms hereof.

Section 4.3 Authority to Record Transfer/Delivery of Certificates. Upon the closing of a Drag-Along Sale, each Non-GEI Holder, if a participant in such Drag-Along Sale, (a) authorizes the Company (or the Company's transfer agent, if any) to record in the Company's books and records the transfer of all of such Non-GEI Holder's Capital Stock included in such Drag-Along Sale, from such Non-GEI Holder to the purchaser in the Drag-Along Sale and (b) shall deliver all certificates, if any, which represent the Common Stock owned by such Non-GEI Holder included in such Drag-Along Sale, duly endorsed for transfer with signatures guaranteed, to the purchaser in the Drag-Along Sale, in the manner and at the address indicated in the Drag-Along Notice, in each case against delivery to the Non-GEI Holder of the purchase price for such shares. In addition, each Non-GEI Holder, if a participant in the applicable Drag-Along Sale, shall take all action as GEI or the purchaser in the Drag-Along Sale shall reasonably request as necessary to vest in the purchaser in the Drag-Along Sale all Common Stock owned by such Non-GEI Holder included in such Drag-Along Sale, whether in certificated or uncertificated form, free and clear of all liens, charges and encumbrances of any kind. For purposes of this Agreement, "Marketable Securities" means any securities that are freely tradeable by the holder thereof on one or more established public markets, including, but not limited to, any securities (a) which are listed or traded on a United States national securities exchange or the NASDAQ Stock Market or (b) quoted on an established quotation system within or outside the United States that supports sufficient trading activity and volume to allow for the orderly disposition of such securities by the holders thereof.

Section 4.4 Consideration. It is acknowledged that each Non-GEI Holder will be entitled to receive the same amount and form of consideration for each of its shares of Common Stock as is received by the GEI Parties in connection with such Drag-Along Sale, unless any GEI Party is given an option as to the form and amount of consideration to be received in connection with such Drag-Along Sale, in which case all Non-GEI Holders of Capital Stock will be given the same such option. Notwithstanding anything to the contrary

herein, the Non-GEI Holders shall not be required to accept as consideration, and the Drag-Along rights and obligations set forth in this Article IV shall not apply, to any Drag-Along Sale in which the consideration consists of anything other than cash or Marketable Securities.

Section 4.5 Cooperation. The Non-GEI Holders shall cooperate in good faith with the GEI Parties in connection with the consummation of the Drag-Along Sale, including, without limitation, by executing a document containing customary representations, warranties, indemnities and agreements as requested by any Third Party in connection with the Drag-Along Sale; provided, however, that no Non-GEI Holder shall be required to make any representations and warranties other than representations as to its, his or her due authorization, due execution, enforceability, lack of conflicts, title to its shares of Common Stock included in such Drag-Along Sale and investment qualifications (to the extent securities are issued as consideration in the Drag-Along Sale); and provided, further, that, to the extent any indemnification is required of the GEI Parties and any Non-GEI Holder in connection with any Drag-Along Sale, the Non-GEI Holders shall receive the same or better terms as the GEI Parties, and in all cases the liability for any indemnity obligations of any Non-GEI Holder under such document shall be several and not joint and several and, with respect to liabilities for breaches of representations and warranties, shall not exceed the aggregate value of the consideration received by such Non-GEI Holder in connection with such Drag-Along Sale, except with respect to claims related to (a) fraud or willful breach by such Non-GEI Holder and (b) a breach of any representation or warranty relating to due authorization, due execution, enforceability, lack of conflicts, title to its, his or her shares of Capital Stock and investment qualifications (but solely to the extent the GEI Parties and each GEI Transferee participating in the Drag-Along Sale (i) make substantially the same representations and warranties, (ii) are required to provide substantially the same indemnification for the same matters, and (iii) are subject to substantially the same exceptions from otherwise applicable limitations on liabilities).

Section 4.6 Termination of Drag-Along Rights. The provisions of this Article IV shall expire at the end of the Lock Up Period or upon any GEI Distribution.

ARTICLE V.

REGISTRATION RIGHTS

Section 5.1 Definitions. For purposes of this Agreement:

(a) "Commission" means the United States Securities and Exchange Commission or any other federal agency at the time administering the Securities Act.

(b) "Company Securities" means Other Securities sought to be included in a registration for the Company's account.

(c) "Exchange Act" means the Securities Exchange Act of 1934, as amended, together with the rules and regulations promulgated by the Commission thereunder.

(d) "GEI Transferee" means any Person to whom GEI transfers Registrable Securities (in compliance with the applicable terms and conditions of this Agreement).

(e) "Holders" means the GEI Parties, the GEI Transferees, the Management Investors (and their Permitted Transferees, if any) and the Management Transferees.

(f) "Management Transferee" means any Person to whom a Management Investor has transferred Registrable Securities (in compliance with the applicable terms and conditions of this Agreement) together with the right to participate in the exercise of Management Investor Demands pursuant to Section 5.2 and/or to participate in registrations affected by the Company pursuant to Section 5.3.

(g) "Other Securities" means securities of the Company sought to be included in a registration other than Registrable Securities.

(h) "Public Offering Event" means the consummation of the first public offering of Common Stock of the Company (or any successor thereto); provided that for the purposes of Article V, such offering must result in net proceeds to the Company of at least $100,000,000.

(i) "Registrable Securities" means the shares of Common Stock from time to time held by the Holders, including shares issued upon exercise of options, warrants or other securities exercisable or exchangeable for or convertible into Common Stock.

(j) "Registration Expenses" means any and all expenses incurred in connection with or incident to performance of or compliance with any registered public offering which includes Registrable Securities pursuant to this Article IV, including, without limitation, (i) the fees, disbursements and expenses of the Company's counsel and accountants; (ii) all expenses, including filing fees, in connection with the preparation, printing and filing of the registration statement, any preliminary prospectus or final prospectus, any other offering document and amendments and supplements thereto and the mailing and delivering of copies thereof to any underwriters and dealers; (iii) the cost of printing or producing any underwriting agreements and blue sky or legal investment memoranda and any other documents in connection with the offering, sale or delivery of the securities to be disposed of; (iv) all expenses in connection with the qualification of the securities to be disposed of for the offering and sale thereof under state securities laws, including the fees and disbursements of counsel for the underwriters and the Selling Holders in connection with such qualification and in connection with any blue sky and legal investment surveys; (v) the filing fees incident to securing any required review by the Financial Industry Regulatory Authority ("FINRA") or other applicable governmental or regulatory authorities of the terms of the sale of the securities to be disposed of; (vi) transfer agents' and registrars' fees and expenses and the fees and expenses of any other agent or trustee appointed in connection with such offering; (vii) all security engraving and security printing expenses; (viii) all fees and expenses payable in connection with the listing of the securities on any securities exchange or automated interdealer quotation system or the rating of such securities; (ix) all expenses with respect to road shows that the Company is obligated to pay pursuant to Section 5.7(p); (x) the reasonable fees and expenses of one counsel for GEI and the other Holders, as the case may be, incurred in connection with any registration hereunder, such counsel to be selected by GEI (or, if GEI is not a Selling Holder, by the two Selling Holders who have requested the largest number of Registrable Securities to be

included in the registration; provided, that selection of such counsel shall be reasonably satisfactory to the Company) and (xi) any other fees and disbursements of investment bankers, accountants, underwriters or other professionals customarily paid by the sellers of securities, but excluding underwriting discounts and commissions and transfer taxes, if any (which underwriting discounts and commissions and transfer taxes shall be borne by each participant in a particular offering and, if selling securities in such offering, the Company, pro rata in accordance with the total amount of securities sold in such offering by each such Person in accordance with Section 5.6(b)).

(k) "Selling Holders" means, with respect to any registration statement, any Holder whose Registrable Securities are included therein.

(l) "Shelf Underwritten Offering" means an underwritten offering of Registrable Securities by a Holder pursuant to a take-down from a Shelf Registration Statement in accordance with Section 5.4(e).

Section 5.2 GEI and Initial Management Investors Demand Rights.

(a) Subject to the terms and conditions of this Agreement, upon written notice by a GEI Party (a "Demand") at any time requesting that the Company effect the registration (a "Demand Registration") under the Securities Act of any or all of the Registrable Securities held by a GEI Party, which Demand shall specify the number of such Registrable Securities to be registered and the intended method or methods of disposition of such Registrable Securities, the Company shall use its commercially reasonable best efforts to effect the registration of such Registrable Securities under the Securities Act and applicable state securities laws, and to keep such registration effective for so long as is necessary to permit the disposition of such Registrable Securities, in accordance with the intended method or methods of disposition stated in such Demand. There shall be no limit to the number of occasions on which the GEI Parties may make Demands, including with respect to requests for the filing of a Shelf Registration Statement and for the Company to effect a Public Offering Event. In connection with the sale or transfer of the beneficial ownership of Registrable Securities to a GEI Transferee, a GEI Party may assign (subject to such limitations or qualifications as GEI may determine) (x) the right to exercise any number of Demands pursuant to this Section 5.2(a), and (y) the right to participate in any registration pursuant to the terms of Section 5.3 with respect to the Registrable Securities so transferred. In the event of any such assignment, references to a GEI Party in this Section 5.2(a) and in Section 5.4(a) shall be deemed to refer to the GEI Transferee, as appropriate. The GEI Party shall give prompt written notice of any such assignment to the Company. Upon receipt of a Demand, the Company shall promptly give written notice of such Demand to each Management Investor who shall have piggyback registration rights with respect to such Demand, and the Company shall use its best efforts to effect the registration under the Securities Act and applicable state securities laws of:

(i) the Registrable Securities which the Company has been so requested to register by the GEI Parties; and

(ii) all other Registrable Securities which the Company has been requested to register by the Holders thereof by written request given to the Company within thirty (30) days after the giving of such written notice by the Company (which request shall specify the intended method of disposition of such Registrable Securities),

in each case, to the extent required to permit the disposition (in accordance with such intended methods of disposition) of the Registrable Securities to be so registered.

(b) Commencing on the earliest of (i) the date on which the Company and the Management Investors are released from any underwriter's "lockup" agreement entered into in connection with a Public Offering Event; (ii) six (6) months after a Public Offering Event, subject to the terms and conditions of this Agreement, and (iii) the seventh anniversary of the Effective Time upon written notice delivered by the Initial Management Investors who, together with their Permitted Transferees, then hold a majority of the Registrable Securities then held by the Initial Management Investors and their Permitted Transferees (a "Management Investor Demand") requesting that the Company effect the registration (a "Management Investor Demand Registration") under the Securities Act of any or all of the Registrable Securities held by the Initial Management Investors and their respective Permitted Transferees, which Management Investor Demand shall specify the number and type of such Registrable Securities to be registered and the intended method or methods of disposition of such Registrable Securities, the Company shall promptly give written notice of such Management Investor Demand to all Persons, including, without limitation, each GEI Party and GEI Transferee who shall have piggyback registration rights with respect to such Management Investor Demand Registration, and shall use its best efforts to effect the registration under the Securities Act and applicable state securities laws of such Registrable Securities, and to keep such registration effective for so long as is necessary to permit, the disposition in accordance with the intended method or methods of disposition stated in such Demand, of:

(i) the Registrable Securities which the Company has been so requested to register by such Persons in the Management Investor Demand; and

(ii) all other Registrable Securities which the Company has been requested to register by the Holders thereof by written request given to the Company within thirty (30) days after the giving of such written notice by the Company (which request shall specify the intended method of disposition of such Registrable Securities),

in each case, to the extent required to permit the disposition (in accordance with such intended methods of disposition) of the Registrable Securities to be so registered.

The Initial Management Investors may make not more than two (2) Management Investor Demands in the aggregate (plus one (1) additional Management Investor Demand, to the extent there has not been a Public Offering Event prior to the seventh anniversary of the Effective Time); provided, that not more than one (1) Management Investor Demand may be made in any six (6) month period. In connection with the Transfer of Registrable Securities to a Management

Transferee, an Initial Management Investor may assign (subject to such limitations or qualifications as are set forth in this Agreement) (x) the right to participate in the exercise of the Management Investor Demand rights pursuant to this Section 5.2(b) and (y) the right to participate in any registration pursuant to the terms of Section 5.3. In the event of any such assignment, references to an Initial Management Investor in this Section 5.2(b) and in Section 5.4(a) shall be deemed to refer to the Management Transferee, as appropriate. The Initial Management Investors shall give prompt written notice of any such assignment to the Company and the GEI Parties.

(c) Company Blackout Rights. With respect to any registration statement filed, or to be filed, pursuant to this Section 5.2, if (a) the Company determines in good faith that the filing or effectiveness of such registration would require the Company to disclose material non-public information which disclosure (x) would be required so that such registration statement would not be materially misleading, (y) would not be required to be made at such time but for the filing or effectiveness of such registration statement and (z) would be materially detrimental to the Company or would materially interfere with any material financing, acquisition, corporate reorganization or merger involving the Company and any of its subsidiaries, and in light of such potential disclosure or interference, it is in the best interests of the Company to defer the filing or effectiveness of such registration statement at such time, and (b) the Company promptly furnishes to each Selling Holder a certificate signed by the chief executive officer of the Company to that effect, then the Company shall have the right to defer such filing or effectiveness for the period necessary, as determined by the Board of Directors of the Company in good faith; provided, that such deferral, together with any other deferral or suspension of the Company's obligations under Section 5.2 or Section 5.4, shall not be for a period of more than ninety (90) days, in the aggregate, for all such deferrals or suspensions over any twelve-month period. The Company shall promptly notify the Selling Holders of the expiration of any period during which it exercised its rights under this Section 5.2(c). The Company agrees that, in the event it exercises its rights under this Section 5.2(c), it shall, as promptly as practicable following the expiration of the applicable deferral period, file or update and use its best efforts to cause the effectiveness of, as applicable, the applicable deferred registration statement.

(d) Fulfillment of Registration Obligations. Notwithstanding any other provision of this Agreement, a registration requested pursuant to this Section 5.2 shall not be deemed to have been effected (i) unless it has become effective, (ii) if after it has become effective such registration is interfered with by any stop order, injunction or other order or requirement of the Commission or other governmental agency or court for any reason other than (x) in the case of a Demand Registration, as a result of a misrepresentation or an omission by a GEI Party or a GEI Transferee or another reason attributable to a GEI Party or a GEI Transferee or (y) in the case of a Management Investor Demand Registration, as a result of a misrepresentation or an omission by a Management Investor or a Management Transferee or another reason attributable to a Management Investor or a Management Transferee, the Registrable Securities requested to be registered cannot legally be distributed pursuant to the applicable registration statement; provided, that if such registration is a shelf registration pursuant to Section 5.4, such registration shall be deemed to have been effected if such registration statement remains effective for the period specified in Section 5.4, (iii) if not a

shelf registration and the registration does not contemplate an underwritten offering, if such registration does not remain effective for at least one hundred eighty (180) days (or such shorter period as will terminate when all securities covered by such registration statement have been sold or withdrawn); (iv) or if not a shelf registration and such registration statement contemplates an underwritten offering, if it does not remain effective for at least one hundred eighty (180) days plus such longer period as, in the opinion of counsel for the underwriter or underwriters, a prospectus is required by law to be delivered in connection with the sale of Registrable Securities by an underwriter or dealer; or (v) in the event of an underwritten offering, if the conditions to closing specified in the purchase agreement or underwriting agreement entered into in connection with such registration are not satisfied or waived, other than by reasons primarily attributable (x) in the case of a Demand Registration, to a GEI Party or a GEI Transferee or (y) in the case of a Management Investor Demand Registration, to a Management Investor or a Management Transferee.

(e) Other Limitations. The Company shall have no obligation to effect a Demand Registration or a Management Investor Demand Registration (i) if a Shelf Registration Statement is then effective covering the Registrable Securities that are the subject of the applicable Demand or Management Investor Demand or (ii) if the Company gives notice to the Holders that it proposes to register Capital Stock for its own account during the period (x) commencing on the date the Company gives such notice to the Holders (which date may not be more than sixty (60) days prior to the date on which the Company reasonable anticipates that the applicable registration statement filed by the Company will be declared effective by the Commission) and (y) ending on the earlier to occur of (1) one hundred eighty (180) days after the applicable registration statement filed by the Company is declared effective by the Commission and (2) the date on which the Company is released from any underwriter's "lockup" agreement entered into in connection with such sale of Capital Stock for the Company's own account.

Section 5.3 Piggyback Registration Rights.

(a) In the event that the Company at any time proposes or is required to register any of its Capital Stock or any other securities under the Securities Act (including pursuant to Section 5.2 hereof, and other than in connection with a Public Offering Event), whether or not for sale for its own account, in a manner and in a form that would permit registration of Registrable Securities for sale for cash to the public under the Securities Act, subject to the last sentence of this Section 5.3(a), it shall at each such time give prompt written notice (the "Piggyback Notice") to each Holder of its intention to do so. Upon the written request of any Holder made within fifteen (15) business days after receipt of the Piggyback Notice by such Holder (which request shall specify the number of Registrable Securities intended to be disposed of), subject to the other provisions of this Article V, the Company shall effect, in connection with the registration of such Capital Stock or other securities, the registration under the Securities Act of all Registrable Securities (of the same class of Capital Stock as is proposed to be registered) which the Company has been so requested to register. Notwithstanding anything to the contrary contained in this Section 5.3, the Company shall not be required to effect any registration of Registrable Securities under this Section 5.3 incidental to the registration of any of its securities on Forms S-4 or S-8 (or any similar or successor form providing for the registration of securities in connection with mergers, acquisitions,

exchange offers, subscription offers, dividend reinvestment plans or stock option or other executive or employee benefit or compensation plans) or any other form that would not be available for registration of Registrable Securities.

(b) Determination Not to Effect Registration. If at any time after giving such Piggyback Notice and prior to the effective date of the registration statement filed in connection with such registration the Company shall determine for any reason (including the withdrawal by any Holder exercising a Demand or a Management Investor Demand) not to register the securities originally intended to be included in such registration, the Company may, at its election, give written notice of such determination to the Selling Holders and thereupon the Company shall be relieved of its obligation to register such Registrable Securities in connection with the registration of securities originally intended to be included in such registration, without prejudice, however, to any rights to request that such registration be effected as a registration under Section 5.2 (including a shelf registration under Section 5.4) to the extent permitted thereunder.

(c) Cutbacks in Company Offering. If the registration referred to in the first sentence of Section 5.3(a) is to be an underwritten registration on behalf of the Company, and the lead underwriter or managing underwriter advises the Company in writing (with a copy to each Person participating in such registration) that, in such firm's good faith view, the number of Other Securities and Registrable Securities requested to be included in such registration exceeds the number which can be sold in such offering without being likely to have a significant adverse effect upon the price, timing or distribution of the offering and sale of the Other Securities and Registrable Securities then contemplated, the Company shall include in such registration:

(i) first, all Company Securities;

(ii) second, all Registrable Securities that are requested to be included in such registration pursuant to this Section 5.3 that can be sold without having the adverse effects on the proposed offering referred to above, pro rata on the basis of the relative number of such Registrable Securities owned by the respective Holders requesting to register their Registrable Securities in such registration; and

(iii) third, Other Securities which are required to be registered pursuant to the terms of any other registration rights agreement to which the Company is a party that can be sold without having the adverse effects on the proposed offering referred to above, pro rata on the basis of the relative number of such Other Securities owned by the respective holders thereof requesting to register Other Securities included in such registration.

(d) Cutbacks in Other Offerings. If the registration referred to in the first sentence of Section 5.3(a) is to be an underwritten registration other than on behalf of the Company, or in the case of a Demand Registration or a Management Investor Demand Registration, and the lead underwriter or managing underwriter advises the Persons participating in such registration (with a copy to the Company) that, in such firm's good faith

view, the number of Registrable Securities and Other Securities requested to be included in such registration exceeds the number which can be sold in such offering without being likely to have a significant adverse effect upon the price, timing or distribution of the offering and sale of the Registrable Securities and Other Securities then contemplated, the Company shall include in such registration:

(i) first, all Registrable Securities that are requested to be included in such registration pursuant to Section 5.2 or Section 5.3, pro rata on the basis of the relative number of such Registrable Securities owned by the respective Selling Holders requesting to register Registrable Securities in such registration; and

(ii) second, Other Securities (including Company Securities) that are requested to be included in such registration pursuant to this Section 5.3 and the terms of any other registration rights agreement to which the Company is a party that can be sold without having the adverse effects on the proposed offering referred to above, pro rata on the basis of the relative number of such Other Securities owned by the respective holders thereof requesting to register Other Securities in such registration.

(e) Expiration. Notwithstanding any other provision of this Agreement, the right of any Holder to participate in a registration pursuant to this Section 5.3 shall expire at such time as all Registrable Securities held by such Holder are eligible to be sold to the public pursuant to Rule 144 without limitation as a result of the volume restrictions set forth therein.

Section 5.4 Shelf Registration.

(a) General; Duration. The GEI Parties and the Initial Management Investors who (together with their Permitted Transferees) then hold a majority of the shares of Common Stock then collectively held by the Initial Management Investors and their Permitted Transferees shall have the right at any time, and from time to time, to request, in connection with the delivery of a Demand or a Management Investor Demand in accordance with Section 5.2, that the Company prepare and file with the Commission a "shelf" registration statement (the "Shelf Registration Statement") on the appropriate form for an offering to be made, covering the Registrable Securities requested to be included therein, on a continuous or delayed basis pursuant to Rule 415 under the Securities Act (or any successor rule or similar provision then in effect) in the manner or manners designated by the GEI Party or the Initial Management Investors (including, without limitation, one or more underwritten offerings). Subject to Section 5.7(b), the Company shall use its best efforts to file and have the Shelf Registration Statement declared effective by the Commission as soon as practicable and to keep such Shelf Registration Statement continuously effective and free of material misstatements or omissions (including the preparation and filing of any amendments and supplements necessary for that purpose) until the date on which the GEI Party or the Initial Management Investors (as applicable) and all other Holders whose Registrable Securities are registered thereunder have consummated the sale of all Registrable Securities registered under the Shelf Registration Statement.

(b) Company Blackout Rights.

(i) Prior to Effectiveness. With respect to any Shelf Registration Statement filed, or to be filed, pursuant to this Section 5.4, (x) if the Company determines in good faith that the filing or effectiveness of such registration would require the Company to disclose material non-public information which disclosure (i) would be required so that such registration statement would not be materially misleading, (ii) would not be required to be made at such time but for the filing or effectiveness of such registration statement and (iii) would be materially detrimental to the Company or would materially interfere with any material financing, acquisition, corporate reorganization or merger involving the Company and any of its subsidiaries and that, as a result of such potential disclosure or interference, it is in the best interests of the Company to defer the filing or effectiveness of such Shelf Registration Statement at such time, and (y) the Company promptly furnishes to the GEI Party and the Management Investors (as applicable) and any other Selling Holders participating in such registration a certificate signed by the chief executive officer of the Company to that effect, then the Company shall have the right to defer such filing or effectiveness, provided, that such deferral, together with any other deferral or suspension of its obligations under Section 5.2 or Section 5.4, shall not be effected for a period of more than ninety (90) days, in the aggregate, for all such deferrals or suspensions over any twelve-month period. The Company shall promptly notify the Selling Holders of the expiration of any period during which it exercised its rights under this Section 5.4(b)(i). The Company agrees that, in the event it exercises its rights under this Section 5.4(b)(i), it shall, as promptly

as practicable following expiration of the applicable deferral period, file or update and use its best efforts to cause the effectiveness of, as applicable, the applicable deferred Shelf Registration Statement.

(ii) Following Effectiveness. Following effectiveness of any Shelf Registration Statement pursuant to this Section 5.4, (x) if the Company determines in good faith that the availability of the Shelf Registration Statement for use would cause the Company to disclose material non-public information which disclosure (i) would be required to be made in any registration statement so that such registration statement would not be materially misleading, (ii) would not be required to be made at such time but for the continued use of such registration statement and (iii) would be materially detrimental to the Company or would materially interfere with any material financing, acquisition, corporate reorganization or merger involving the Company and any of its subsidiaries and that, as a result of such potential disclosure or interference, it is in the best interests of the Company to suspend the use of such Shelf Registration Statement at such time, and (y) the Company promptly furnishes to the GEI Party and the Management Investors (as applicable) and each other Selling Holder participating in such Shelf Registration Statement a certificate signed by the chief executive officer of the Company to that effect, then the Company shall have the right to suspend the use of such Shelf Registration Statement, provided, that such suspension, together with any other suspension or deferral of its obligations under Section 5.2 or Section 5.4, shall not be effected for a period of more than ninety (90) days, in the aggregate, for all such suspensions or deferrals over any twelve-month period. The Company agrees that, in the event it exercises its rights under this Section 5.4(b)(ii), it shall, as promptly as practicable following expiration of the applicable suspension period, update the suspended Shelf Registration Statement as may be necessary to permit the Selling Holders to resume use thereof in connection with the offer and sale of their Registrable Securities in accordance with applicable law.

(c) Supplements and Amendments. The Company agrees, if necessary, to supplement or amend the Shelf Registration Statement, as required by the rules, regulations or instructions applicable to the registration form used by the Company for such Shelf Registration Statement or by the Securities Act or as otherwise required by this Agreement, and shall use its best efforts to have such supplements and amendments declared effective, if required, as soon as practicable after filing, subject in all cases to Section 5.4(b).

(d) Fulfillment of Registration Obligations. A registration will not be deemed to have been effected pursuant to a Shelf Registration Statement unless the provisions of Section 5.4(a) are fulfilled with respect to such Shelf Registration Statement (including that such Shelf Registration Statement remains effective for the minimum period of time required by Section 5.4(a)).

(e) Shelf Underwritten Offerings. At any time that a Shelf Registration Statement is effective, if a Holder delivers a notice to the Company (a "Shelf Underwriting Notice") stating that it intends to effect a Shelf Underwritten Offering of all or part of its

Registrable Securities by utilizing the Shelf Registration Statement and stating the aggregate offering price and/or number of the Registrable Securities to be included in the Shelf Underwritten Offering, then the Company shall amend or supplement the Shelf Registration Statement as may be necessary in order to enable such Registrable Securities to be distributed pursuant to the Shelf Underwritten Offering (taking into account the inclusion of Registrable Securities and Other Securities by any Holders or holders of Other Securities pursuant to this Section 5.4(e) or the terms of any other registration rights agreement to which the Company may be a party). In connection with any Shelf Underwritten Offering:

(i) the Company shall deliver a copy of the Shelf Underwriting Notice to all Holders and permit each such Holder to include its Registrable Securities on the Shelf Registration Statement in the Shelf Underwritten Offering if such Holder seeking to so include Registrable Securities notifies the other Holders and the Company of such request, specifying the aggregate amount of Registrable Securities to be included, within five business days after receipt of the Shelf Underwriting Notice thereby; and

(ii) if the lead or managing underwriter of a proposed Shelf Underwritten Offering informs in writing the applicable Holders participating in such offering (with a copy to the Company) that, in its good faith view, the number of securities of such class requested to be included in such offering exceeds the number which can be sold in such offering without being likely to have a significant adverse effect on the price, timing or distribution of the offering and sale of the Registrable Securities and Other Securities to be sold in such offering, then (a) the number of Registrable Securities and Other Securities which will be included in the Shelf Underwritten Offering shall only be that number which, in the good faith opinion of such lead or managing underwriter, can be included without being likely to have a significant adverse effect on the price, timing or distribution of the class of securities offered or the market for the class of securities offered or the Common Stock, and (b) each Holder shall be entitled to include Registrable Securities or Other Securities in the Shelf Underwritten Offering in the manner and priority set forth in Section 5.3(d) with respect to allocations in a requested registration.

Section 5.5 Selection of Underwriters. In the event that any registration pursuant to Section 5.2 or offering under a registration pursuant to Section 5.4 shall involve, in whole or in part, an underwritten offering, the Selling Holders holding the majority of the Registrable Securities to be registered in such offering shall have the right to designate the underwriter or underwriters; provided, that such underwriters shall be reasonably satisfactory to the Company.

Section 5.6 Withdrawal Rights; Expenses.

(a) A Holder may withdraw all or any part of its Registrable Securities from any registration (including a registration effected pursuant to Section 5.2) by giving written notice to the Company of its request to withdraw at any time. Except in the case of a withdrawal of Registrable Securities made within thirty (30) days of receipt by such Holder of

a certificate or notice from the Company that it will defer the filing or effectiveness of a registration statement pursuant to Section 5.2(d) or Section 5.4(b), the Company shall be entitled to reimbursement for any Commission registration fees incurred by the Company in connection with the registration of the Registrable Securities so withdrawn (unless such registration fees can be used in connection with the registration of other securities by the Company, including in connection with a future registration). In the case of a withdrawal prior to the effective date of a registration statement, the Company shall include any Registrable Securities or Other Securities that were requested to be included in such registration but were cut back to the extent provided herein, such that such previously excluded Registrable Securities and Other Securities shall be included in such registration to the extent they otherwise would have been had the withdrawn Registrable Securities not been included in the registration in the first place.

(b) The Company shall pay all Registration Expenses with respect to a particular offering (or proposed offering). Except as provided herein, each Holder shall be responsible for its own fees and expenses of its own independent counsel and financial advisors and their internal administrative and similar costs, as well as their respective pro rata shares of underwriters' commissions and discounts, which shall not constitute Registration Expenses.

Section 5.7 Registration and Qualification. If and whenever the Company is required to effect the registration of any Registrable Securities under the Securities Act as provided in this Article V, the Company shall as promptly as practicable:

(a) Registration Statement. Prepare and file a registration statement under the Securities Act relating to the Registrable Securities to be offered and use its best efforts to cause such registration statement to become effective as promptly as practicable thereafter; furnish to the lead underwriter or underwriters, if any, and to the Holders who have requested that Registrable Securities be covered by such registration statement, prior to the filing thereof with the Commission, a copy of the registration statement, and each amendment thereof, and a copy of any prospectus, and each amendment or supplement thereto (excluding amendments caused by the filing of a report under the Exchange Act), and shall use its reasonable best efforts to reflect in each such document, when so filed with the Commission, such comments as such Persons reasonably may on a timely basis propose;

(b) Amendments; Supplements. Prepare and file with the Commission such amendments and supplements to such registration statement and the prospectus used in connection therewith as may be (i) reasonably requested by any Selling Holder (to the extent such request relates to information relating to such Selling Holder), or (ii) necessary to keep such registration statement effective and to comply with the provisions of the Securities Act with respect to the disposition of all Registrable Securities until the earlier of (a) such time as all of such Registrable Securities have been disposed of in accordance with the intended methods of disposition set forth in such registration statement and (b) if a shelf registration, the expiration of the applicable period specified in Section 5.4(a) and, if not a shelf registration, the applicable period specified in Section 5.2(d)(iii); provided, that any such required period provided for in this Section 5.7(b) shall be extended for such number of days (x) during any period from and including the date any written notice contemplated by

paragraph (f) below is given by the Company until the date on which the Company delivers to the Selling Holders the supplement or amendment contemplated by paragraph (f) below or written notice that the use of the prospectus may be resumed, as the case may be, and (y) during which the offering of Registrable Securities pursuant to such registration statement is interfered with by any stop order, injunction or other order or requirement of the Commission or any other governmental agency or court or by actions taken by the Company pursuant to Section 5.2(c) or 5.4(b); provided, further, that the Company will have no obligation to a Selling Holder participating on a "piggyback" basis in a registration statement that has become effective to keep such registration statement effective for a period beyond one hundred twenty (120) days from the effective date of such registration statement.

(c) Copies. Furnish to the Selling Holders and to any underwriter of such Registrable Securities such number of conformed copies of such registration statement and of each such amendment and supplement thereto (in each case including all exhibits), such number of copies of the prospectus included in such registration statement (including each preliminary prospectus and any summary prospectus), in conformity with the requirements of the Securities Act, such documents incorporated by reference in such registration statement or prospectus, and such other documents, as such Selling Holders or such underwriter may reasonably request, and upon request a copy of any and all transmittal letters or other correspondence to or received from, the Commission or any other governmental agency or self-regulatory body or other body having jurisdiction (including any domestic or foreign securities exchange) relating to such offering;

(d) Blue Sky. Use its reasonable best efforts to register or qualify all Registrable Securities covered by such registration statement under the securities or blue sky laws of such U.S. jurisdictions as any Selling Holder or any underwriter of such Registrable Securities shall request, and use its reasonable best efforts to obtain all appropriate registrations, permits and consents in connection therewith, and do any and all other acts and things which may be necessary or advisable to enable the Selling Holders or any such underwriter to consummate the disposition in such jurisdictions of its Registrable Securities covered by such registration statement; provided, that the Company shall not for any such purpose be required to qualify generally to do business as a foreign corporation in any such jurisdiction wherein it is not so qualified or to consent to general service of process in any such jurisdiction;

(e) Delivery of Certain Documents. (i) Furnish to each Selling Holder and to any underwriter of such Registrable Securities an opinion of counsel for the Company (which opinion (in form, scope and substance) shall be reasonably satisfactory to the managing underwriters, if any, or, in the case of a non-underwritten offering, to the Selling Holders) addressed to each Selling Holder and any underwriter of such Registrable Securities and dated the date of the closing under the underwriting agreement (if any) (or if such offering is not underwritten, dated the effective date of the applicable registration statement) covering the matters customarily covered in opinions requested in sales of securities or underwritten offerings, (ii) furnish to each Selling Holder and any underwriter of such Registrable Securities a "cold comfort" and "bring-down" letter addressed to each Selling Holder and any underwriter of such Registrable Securities and signed by the independent public accountants who have audited the financial statements of the Company included in such registration

statement, in each such case covering substantially the same matters with respect to such registration statement (and the prospectus included therein) as are customarily covered in opinions of issuer's counsel and in accountants' letters delivered to underwriters in underwritten public offerings of securities and such other matters as any Selling Holder may reasonably request and, in the case of such accountants' letter, with respect to events subsequent to the date of such financial statements and (iii) cause such authorized officers of the Company to execute customary certificates as may be requested by any Selling Holder or any underwriter of such Registrable Securities;

(f) Notification of Certain Events; Corrections. Promptly notify the Selling Holders and any underwriter of such Registrable Securities in writing (i) of the occurrence of any event as a result of which the registration statement or the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, (ii) of any request by the Commission or any other regulatory body or other body having jurisdiction for any amendment of or supplement to any registration statement or other document relating to such offering and (iii) if for any other reason it shall be necessary to amend or supplement such registration statement or prospectus in order to comply with the Securities Act and, in any such case as promptly as reasonably practicable thereafter, prepare and file with the Commission an amendment or supplement to such registration statement or prospectus (and provide copies of the same to each Selling Holder and applicable underwriter) which will correct such statement or omission or effect such compliance;

(g) Notice of Effectiveness. Notify the Selling Holders and the lead underwriter or underwriters, if any, and (if requested) confirm such advice in writing, as promptly as reasonably practicable after notice thereof is received by the Company (i) when the applicable registration statement or any amendment thereto has been filed or becomes effective and when the applicable prospectus or any amendment or supplement thereto has been filed, (ii) of any written comments by the Commission, (iii) of the issuance by the Commission of any stop order suspending the effectiveness of such registration statement or any order preventing or suspending the use of any preliminary or final prospectus or the initiation or threat of any proceedings for such purposes and (iv) of the receipt by the Company of any notification with respect to the suspension of the qualification of the Registrable Securities for offering or sale in any jurisdiction or the initiation or threat of any proceeding for such purpose;

(h) Stop Orders. Use its reasonable best efforts to prevent the entry of, and use its best efforts to obtain as promptly as reasonably practicable the withdrawal of, any stop order with respect to the applicable registration statement or other order suspending the use of any preliminary or final prospectus;

(i) Plan of Distribution. Promptly incorporate in a prospectus supplement or post-effective amendment to the applicable registration statement such information as the lead underwriter or underwriters, if any, and the Selling Holders holding a majority of the Registrable Securities being sold agree should be included therein relating to the plan of distribution with respect to such Registrable Securities and make all required filings of such

prospectus supplement or post-effective amendment as promptly as reasonably practicable after being notified of the matters to be incorporated in such prospectus supplement or post-effective amendment;

(j) Other Filings. Use its reasonable best efforts to cause the Registrable Securities covered by the applicable registration statement to be registered with or approved by such other governmental agencies or authorities as may be necessary to enable the seller or sellers thereof or the underwriter or underwriters, if any, to consummate the disposition of such Registrable Securities;

(k) FINRA Compliance. Cooperate with each Selling Holder and each underwriter or agent, if any, participating in the disposition of such Registrable Securities and their respective counsel in connection with any filings required to be made with the FINRA;

(l) Shelf Amendments. Upon the request of any Selling Holder, promptly amend any Shelf Registration Statement or take such other action as may be necessary to de-register, remove or withdraw all or a portion of the Selling Holder's Registrable Securities from a Shelf Registration Statement, as requested by such Selling Holder;

(m) Listing. Use its reasonable best efforts to cause all such Registrable Securities registered pursuant to such registration to remain and be listed on each securities exchange and automated interdealer quotation system on which identical securities issued by the Company are then listed;

(n) Transfer Agent; Registrar; CUSIP Number. Provide a transfer agent and registrar for all Registrable Securities registered pursuant to such registration and a CUSIP number for all such Registrable Securities, in each case not later than the effective date of the applicable registration statement;

(o) Compliance; Earnings Statement. Otherwise use its reasonable best efforts to comply with all applicable rules and regulations of the Commission, and make available to each Selling Holder, as soon as reasonably practicable, an earnings statement covering the period of at least twelve months, but not more than eighteen months, beginning with the first month after the effective date of the applicable registration statement, which earnings statement shall satisfy the provisions of Section 11(a) of the Securities Act;

(p) Road Shows. To the extent reasonably requested by the lead or managing underwriters in connection with an underwritten offering pursuant to Section 5.2 (including a Shelf Underwritten Offering pursuant to Section 5.4), send appropriate officers of the Company to attend any "road shows" scheduled in connection with any such underwritten offering, with all out-of-pocket costs and expenses incurred by the Company or such officers in connection with such attendance to be paid by the Company;

(q) Stock Certificates. Unless the relevant securities are issued in book-entry form, furnish for delivery in connection with the closing of any offering of Registrable Securities pursuant to a registration effected pursuant to this Article V unlegended certificates representing ownership of the Registrable Securities being sold in such denominations as shall be requested by any Selling Holder or the underwriters of such Registrable Securities (it being

understood that the Selling Holders will use their reasonable best efforts to arrange for delivery to the Depository Trust Company); and

(r) Reasonable Best Efforts. Use its reasonable best efforts to take all other steps necessary to effect the registration of the Registrable Securities contemplated hereby.

Section 5.8 Underwriting; Due Diligence.

(a) If requested by the underwriters for any underwritten offering of Registrable Securities pursuant to a registration requested under this Article V, the Company shall enter into an underwriting agreement with such underwriters for such offering, which agreement will contain such representations and warranties by the Company and such other terms and provisions as are customarily contained in underwriting agreements generally with respect to secondary distributions to the extent relevant, including, without limitation, indemnification and contribution provisions substantially to the effect and to the extent provided in Section 5.9, and agreements as to the provision of opinions of counsel and accountants' letters to the effect and to the extent provided in Section 5.7(e). The Selling Holders on whose behalf the Registrable Securities are to be distributed by such underwriters shall be parties to any such underwriting agreement, and the representations and warranties by, and the other agreements on the part of, the Company to and for the benefit of such underwriters, shall also be made to and for the benefit of such Selling Holders and the conditions precedent to the obligations of such underwriters under such underwriting agreement shall also be conditions precedent to the obligations of such Selling Holders to the extent applicable. Subject to the following sentence, such underwriting agreement shall also contain such representations and warranties by such Selling Holders and such other terms and provisions as are customarily contained in underwriting agreements with respect to secondary distributions, when relevant. No Selling Holder shall be required in any such underwriting agreement or related documents to make any representations or warranties to or agreements with the Company or the underwriters other than customary representations, warranties or agreements regarding such Selling Holder's title to Registrable Securities and any written information provided by the Selling Holder to the Company expressly for inclusion in the related registration statement.

(b) In connection with the preparation and filing of each registration statement registering Registrable Securities under the Securities Act pursuant to this Article V, the Company shall make available upon reasonable notice at reasonable times and for reasonable periods for inspection by each Selling Holder, by any managing underwriter or underwriters participating in any disposition to be effected pursuant to such registration statement, and by any attorney, accountant or other agent retained by any Selling Holder or any managing underwriter, all pertinent financial and other records, pertinent corporate documents and properties of the Company, and cause all of the Company's officers, directors and employees and the independent public accountants who have certified the Company's financial statements to make themselves available to discuss the business of the Company and to supply all information reasonably requested by any such Selling Holders, managing underwriters, attorneys, accountants or agents in connection with such registration statement as shall be necessary to enable them to exercise their due diligence responsibility (subject to

entry by each party referred to in this clause (b) into customary confidentiality agreements in a form reasonably acceptable to the Company);

(c) In the case of an underwritten offering requested by a GEI Party or a GEI Transferee pursuant to Section 5.2 or Section 5.4, the price, underwriting discount and other financial terms for the Registrable Securities of the related underwriting agreement shall be determined by the applicable GEI Party or GEI Transferees. In the case of any underwritten offering of securities by the Company pursuant to Section 5.3, such price, discount and other terms shall be determined by the Company, subject to the right of Selling Holders to withdraw their Registrable Securities from the registration pursuant to Section 5.6(a). In the case of an underwritten offering requested by the Initial Management Investors or their Permitted Transferees pursuant to Section 5.2 or Section 5.4, the price, underwriting discount and other financial terms for the Registrable Securities of the related underwriting agreement shall be determined by the holders of a majority of the Registrable Securities included in such underwritten offering.

(d) Subject to Section 5.8(a), no Person may participate in an underwritten offering unless such Person (i) agrees to sell such Person's securities on the basis provided in any underwriting arrangements approved by the Persons entitled to approve such arrangements and (ii) completes and executes all customary questionnaires, powers of attorney, indemnities, underwriting agreement and other documents reasonably required under the terms of such underwriting arrangements.

Section 5.9 Indemnification and Contribution.

(a) Indemnification by the Company. In the case of each offering of Registrable Securities made pursuant to this Article V, the Company agrees to indemnify and hold harmless, to the extent permitted by law, each Selling Holder, each underwriter of Registrable Securities so offered and each Person, if any, who controls or is alleged to control (within the meaning set forth in the Securities Act) any of the foregoing Persons, the Affiliates of each of the foregoing, and the officers, directors, partners, employees and agents of each of the foregoing, against any and all losses, liabilities, costs (including reasonable attorney's fees and disbursements), claims and damages, joint or several, to which they or any of them may become subject, under the Securities Act or otherwise, including any amount paid in settlement of any litigation commenced or threatened, insofar as such losses, liabilities, costs, claims and damages (or actions or proceedings in respect thereof, whether or not such indemnified Person is a party thereto) arise out of or are based upon any untrue statement by the Company or alleged untrue statement by the Company of a material fact contained in the registration statement (or in any preliminary, final or summary prospectus included therein) or in any offering memorandum or other offering document relating to the offering and sale of such Registrable Securities prepared by the Company or at its direction, or any amendment thereof or supplement thereto, or in any document incorporated by reference therein, or any omission by the Company or alleged omission by the Company to state therein a material fact required to be stated therein or necessary to make the statements therein (in the case of a prospectus or preliminary prospectus, in light of the circumstances under which they were made) not misleading; provided, however, that the Company shall not be liable to any Person in any such case to the extent that any such loss, liability, cost, claim or damage arises out of

or relates to any untrue statement or alleged untrue statement, or any omission, if such statement or omission shall have been made in reliance upon and in conformity with information relating to such Person furnished in writing to the Company by or on behalf of such Person expressly for inclusion in the registration statement (or in any preliminary, final or summary prospectus included therein), offering memorandum or other offering document, or any amendment thereof or supplement thereto. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of any such Person, Selling Holder, or any underwriter and shall survive the transfer of such securities.

(b) Indemnification by Selling Holders. In the case of each offering made pursuant to this Agreement, each Selling Holder, by exercising its registration rights hereunder, agrees to indemnify and hold harmless, to the extent permitted by law, the Company, each other Selling Holder, and each Person, if any, who controls or is alleged to control (within the meaning set forth in the Securities Act) any of the foregoing, any Affiliate of any of the foregoing, and the officers, directors, partners, employees and agents of each of the foregoing, against any and all losses, liabilities, costs (including reasonable attorney's fees and disbursements), claims and damages to which they or any of them may become subject, under the Securities Act or otherwise, including any amount paid in settlement of any litigation commenced or threatened, insofar as such losses, liabilities, costs, claims and damages (or actions or proceedings in respect thereof, whether or not such indemnified Person is a party thereto) arise out of or are based upon any untrue statement made by such Selling Holder of a material fact contained in the registration statement (or in any preliminary, final or summary prospectus included therein) relating to the offering and sale of such Selling Holder's Registrable Securities prepared by the Company or at its direction, or any amendment thereof or supplement thereto, or any omission by such Selling Holder of a material fact required to be stated therein or necessary to make the statements therein (in the case of a prospectus or preliminary prospectus, in light of the circumstances under which they were made) not misleading, but in each case only to the extent that such untrue statement of a material fact is contained in, or such material fact is omitted from, information relating to such Selling Holder furnished in writing to the Company by or on behalf of such Selling Holder expressly for inclusion in such registration statement (or in any preliminary, final or summary prospectus included therein), or any amendment thereof or supplement thereto. The liability of each applicable Selling Holder hereunder shall be several and not joint and in no event shall the liability of any Selling Holder hereunder be greater in amount than the dollar amount of the net proceeds received by such Selling Holder from the sale of its Registrable Securities in the offering giving rise to such indemnification obligation.

(c) Indemnification Procedures. Each party entitled to indemnification under this Section 5.9 shall give notice to the party required to provide indemnification promptly after such indemnified party has actual knowledge that a claim is to be made against the indemnified party as to which indemnity may be sought, and shall permit the indemnifying party to assume the defense of such claim or litigation resulting therefrom and any related settlement and settlement negotiations, subject to the limitations on settlement set forth below; provided, that counsel for the indemnifying party, who shall conduct the defense of such claim or any litigation resulting therefrom, shall be approved by the indemnified party (whose approval shall not unreasonably be withheld), and the indemnified party may participate in such defense at such party's expense; and provided, further, that the failure of any indemnified party to give notice as provided herein shall not relieve the indemnifying party of its obligations under this Section 5.9,

except to the extent the indemnifying party is actually prejudiced by such failure to give notice. Notwithstanding the foregoing, an indemnified party shall have the right to retain one (1) separate counsel (plus local counsel), with the reasonable fees and expenses of such counsel being paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential differing interests between such indemnified party and any other party represented by such counsel or if the indemnifying party has failed to assume the defense of such action. No indemnified party shall enter into any settlement of any litigation commenced or threatened with respect to which indemnification is or may be sought without the prior written consent of the indemnifying party (such consent not to be unreasonably withheld). No indemnifying party, in the defense of any such claim or litigation, shall, except with the consent of each indemnified party, consent to entry of any judgment or enter into any settlement that does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release, reasonably satisfactory to the indemnified party, from all liability in respect to such claim or litigation. Each indemnified party shall furnish such information regarding itself or the claim in question as an indemnifying party may reasonably request in writing and as shall be reasonably required in connection with defense of such claim and litigation resulting therefrom.

(d) Contribution. If the indemnification provided for in this Section 5.9 shall for any reason be unavailable (other than in accordance with its terms) to an indemnified party in respect of any loss, liability, cost, claim or damage referred to therein, then each indemnifying party shall, in lieu of indemnifying such indemnified party, contribute to the amount paid or payable by such indemnified party as a result of such loss, liability, cost, claim or damage in such proportion as shall be appropriate to reflect the relative fault of the indemnifying party on the one hand and the indemnified party on the other with respect to the statements or omissions which resulted in such loss, liability, cost, claim or damage as well as any other relevant equitable considerations. The relative fault shall be determined by reference to whether the untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the indemnifying party on the one hand or the indemnified party on the other, the intent of the parties and their relative knowledge, access to information and opportunity to correct or prevent such statement or omission. The amount paid or payable by an indemnified party as a result of the loss, cost, claim, damage or liability, or action in respect thereof, referred to above in this paragraph (d) shall be deemed to include, for purposes of this paragraph (d), any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. Notwithstanding anything in this Section 5.9(d) to the contrary, no indemnifying party (other than the Company) shall be required pursuant to this Section 5.9 to contribute any amount in excess of the amount of the net proceeds received by such indemnifying party from the sale of its Registrable Securities in the offering to which the losses of the indemnified parties relate (in all cases, less any amounts paid with respect to such offering pursuant to Section 5.2(d)). The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 5.9(d) were determined by pro rata allocation or by any other method of allocation which does not take into account the equitable considerations referred to in this Section.

(e) Indemnification/Contribution under State Law. Indemnification and contribution similar to that specified in the preceding paragraphs of this Section 5.9 (with appropriate modifications, but subject to the same limitations on liabilities) shall be given by the Company and the Selling Holders and underwriters with respect to any required registration or other qualification of securities under any state law or regulation or governmental authority.

(f) Obligations Not Exclusive. The obligations of the parties under this Section 5.9 shall be in addition to any liability which any party may otherwise have to any other Person.

(g) Survival. For the avoidance of doubt, the provisions of this Section 5.9 shall survive any termination of this Agreement.

Section 5.10 Cooperation; Information by Selling Holder.

(a) It shall be a condition of each Selling Holder's rights under this Article V that such Selling Holder cooperate with the Company by entering into any undertakings and taking such other action relating to the conduct of the proposed offering which the Company or the underwriters may reasonably request as being necessary to insure compliance with federal and state securities laws and the rules or other requirements of the FINRA or which the underwriters may reasonably request to effectuate the offering.

(b) Each Selling Holder shall furnish to the Company such information regarding such Selling Holder and the distribution proposed by such Selling Holder as is reasonably required for the Company to comply with its registration, qualification and compliance obligations referred to in this Article V. The Company shall have the right to exclude from any registration any Selling Holder that does not reasonably comply with this Section 5.10.

(c) At such time as an underwriting agreement with respect to a particular underwriting is entered into, the terms of any such underwriting agreement shall govern with respect to the matters set forth therein to the extent inconsistent with this Article V; provided, however, that the indemnification provisions of such underwriting agreement as they relate to the Selling Holders must be customary for registrations of the type then proposed and provide for indemnification by such Selling Holders only with respect to written information furnished by such Selling Holders specifically for inclusion in the applicable registration statement, and all indemnification and contribution obligations must be limited in the aggregate to no more than the amount of the net proceeds received by such indemnifying (or contributing) party from the sale of its Registrable Securities in the applicable underwritten offering.

Section 5.11 Rule 144 and Rule 145. Following a Public Offering Event, the Company shall use its best efforts to ensure that the conditions to the availability of Rule 144 and Rule 145 set forth in paragraph (c) of Rule 144 shall be satisfied. The Company agrees to use its best efforts to file with the Commission in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act at any time after it has become subject to such reporting requirements. Upon the request of a GEI Party or

any Management Investor, for so long as such information is a necessary element of such Person's ability to avail itself of Rule 144 or Rule 145, the Company will deliver to such Person (i) a written statement as to whether it has complied with such requirements and (ii) a copy of the most recent annual or quarterly report of the Company, and such other reports and documents so filed as such Person may reasonably request in availing itself of any rule or regulation of the Commission allowing such Person to sell any such securities without registration.

Section 5.12 Holdback Agreement. Each of the Company and each Holder (whether or not such Registrable Securities are covered by a registration statement filed pursuant to Section 5.2, 5.3 or 5.4 hereof) agrees, if requested (pursuant to a timely written notice) by the managing underwriter or underwriters in an underwritten offering, not to effect any public sale or distribution of any of the Registrable Securities, including a sale pursuant to Rule 144 (except as part of such underwritten offering), for a customary period (which period shall be the same for all Holders), as reasonably determined by the managing underwriter or underwriters in consultation with the GEI Parties, after the closing date of the underwritten offering made pursuant to such registration statement. No waiver of any such agreement shall be effective with respect to any Holder unless such waiver applies uniformly to all such Holders. The foregoing provisions shall not apply to any Person if such Person is prevented by applicable statute or regulation from entering into any such agreement; provided, however, that any such Person shall undertake not to effect any public sale or distribution of the class of securities covered by such registration statement (except as part of the underwritten offering) during such period unless it has provided sixty (60) days' prior written notice of such sale or distribution to the managing underwriter.

Section 5.13 Suspension of Sales. Each Selling Holder participating in a registration agrees that, upon receipt of notice from the Company pursuant to Section 5.7(f), such Selling Holder will discontinue disposition of its Registrable Securities pursuant to such registration statement until receipt of the copies of the supplemented or amended prospectus contemplated by Section 5.7(f), or until advised in writing by the Company that the use of the prospectus may be resumed, as the case may be, and, if so directed by the Company, such Selling Holder will deliver to the Company (at the Company's expense) all copies, other than permanent file copies then in such Selling Holder's possession, of the prospectus covering such Registrable Securities which are current at the time of the receipt of the notice of the event described in Section 5.7(f).

ARTICLE VI.

SPECIFIC PERFORMANCE

Due to the fact that the securities of the Company cannot be readily purchased or sold in the open market and for other reasons, the parties will be irreparably damaged in the event that the terms of this Agreement are not specifically enforced and complied with. In the event of a breach or threatened breach of the terms, covenants and/or conditions of this Agreement by any of the parties hereto, the other parties shall, in addition to all other remedies, be entitled (without any bond or other security being required) to a temporary and/or permanent injunction, without showing any actual damage or that monetary damages would not provide an adequate remedy, and/or a decree for specific performance, in accordance with the provisions hereof.

ARTICLE VII.

PREEMPTIVE RIGHTS

Section 7.1 Preemptive Rights. Except for Excluded Issuances, if the Company (or any subsidiary of the Company) wishes to issue and sell any shares of capital stock or any security convertible into or exercisable or exchangeable for capital stock (the "New Securities") to any Person or Persons (collectively, the "Subject Purchasers") prior to the consummation of a Public Offering Event, then the Company shall also offer such New Securities to the GEI Parties and the Initial Management Investors and their Acceptable Transferees (and for the avoidance of doubt, not such Initial Management Investors' other respective Permitted Transferees) (each, a "Stockholder") by sending written notice (the "New Issuance Notice") to such Stockholders at least fifteen (15) days prior to the issuance and sale of the New Securities. The New Issuance Notice shall state (a) the number of shares of New Securities proposed to be issued and sold and the terms of such New Securities (including a copy of any Certificate of Designations or other document or instrument establishing or governing the rights thereof), (b) the proposed purchase price per share of the New Securities (the "Proposed Price") and the terms and conditions of the purchase of such New Securities, (c) the proposed date on which the New Securities will be sold (the "New Issuance Closing Date"), and (d) each Stockholder's Proportionate Percentage. For purposes hereof, each Stockholder's "Proportionate Percentage" means, with respect to any Stockholder, the percentage of the New Securities allocated to such Stockholder, determined as follows:

(i) with respect to New Securities which are of the same class as other Capital Stock outstanding on the date of the New Issuance Notice, by dividing (a) the total number of shares of the same class of Capital Stock as the New Securities that are then owned by the respective Stockholder, by (b) the total number of shares of the same class of Capital Stock as such New Securities outstanding on such date; or

(ii) with respect to New Securities which are of a new class of Capital Stock different from any class of Capital Stock outstanding on the date of the New Issuance Notice, by dividing (a) the total number of shares of Common Stock held by the respective Stockholder on the New Issuance Closing Date, by (b) the total number of shares of Common Stock outstanding on the New Issuance Closing Date.

Section 7.2 Option. For a period of fifteen (15) days after the giving of the New Issuance Notice pursuant to Section 7.1, each Stockholder shall have the right to elect to purchase any or all of its Proportionate Percentage of each or any class of the New Securities at a purchase price equal to the Proposed Price and upon the terms and conditions set forth in the New Issuance Notice.

Section 7.3 Exercise of Options. The right of each Stockholder to purchase the New Securities under Section 7.1 shall be exercisable by delivering written notice of the exercise thereof, prior to the expiration of the 15-day period referred to in Section 7.2, to the Company, which notice shall state the amount of each class of New Securities that such

Stockholder elects to purchase. Subject to Section 7.5, the failure to respond within such 15-day period shall be deemed to be a waiver of such Stockholder's rights under Section 7.2 with respect to the issuance of such New Securities (but not future issuances).

Section 7.4 Closing. The closing of the purchase of New Securities subscribed for by the Stockholders under this Article VII shall be held at the principal office of the Company at the time specified by the Company on the New Issuance Closing Date or at such other time and place as the parties to the transaction may agree. Each Stockholder purchasing the New Securities shall deliver at the closing payment in full in immediately available funds for the New Securities purchased by him, her or it and shall agree to the same terms and conditions, as agreed to by the Subject Purchasers, including, but not limited to, with respect to representations, warranties and covenants. At such closing, all purchasers of New Securities shall execute such additional documents as are otherwise necessary or appropriate to consummate the purchase and sale of such New Securities.

Section 7.5 Sale to Subject Purchaser. To the extent the Stockholders do not elect to purchase all of the New Securities pursuant to this Article VII, the Company may sell to the Subject Purchasers the New Securities not so purchased pursuant to this Article VII on the terms and conditions that are not materially more favorable to the Subject Purchaser than those set forth in the New Issuance Notice; provided, however, that such sale is made pursuant to a contract entered into within 90 days of the earlier to occur of (a) the waiver by the respective Stockholders of their option to purchase the New Securities and (b) the expiration of the 15-day election period referred to in Section 7.2. If such sale is not consummated on such terms within such 90 day period, then the restrictions provided for herein shall again become effective, and no issuance and sale of such New Securities may be made by the Company without again complying with this Article VII.

Section 7.6 Subject to Stockholders Agreement. Any New Securities acquired by Stockholders pursuant to this Article VII shall be deemed For Value Shares and shall not be subject to the provisions of this Agreement unless the terms of such issuance requires all purchasers to be bound by this Agreement.

Section 7.7 Definitions. For the purposes of this Article VII, (x) "Excluded Issuances" means any issuance of capital stock of the Company (i) to an employee, officer, director, consultant, agent, customer or vendor of the Company or any of its subsidiaries pursuant to a stock option plan, employee benefit plan or other compensation arrangement or agreement (such plan, arrangement or agreement, an "Employee Compensation Arrangement") approved by the Board of Directors, (ii) pursuant to a stock split, subdivision or similar transaction or dividend applicable to all of the Common Stock or Preferred Stock, as applicable, (iii) as payment-in-kind interest; (iv) pursuant to a public offering of securities, (v) pursuant to a share reclassification, (vi) pursuant to the exercise, conversion or exchange of preferred stock, debt securities or any other convertible or exchangeable instruments approved by the Board of Directors, (vii) pursuant to the exercise of any option, warrant or other derivative securities outstanding on the date hereof or issued pursuant to clause (i) above, (viii) as consideration for an acquisition, merger or reorganization approved by the Board of Directors, or (ix) to any lender that is not a GEI Affiliate in connection with any debt financing by the Company or its subsidiaries approved by the Board of Directors and (y) "Acceptable Transferees" shall mean

any trust, partnership, limited liability company or custodianship established for the primary benefit of any one or more Initial Management Investors (provided that a Initial Management Investor or its Permitted Transferee serves as the trustee, general partner, managing member or custodian thereof).

ARTICLE VIII.

DISTRIBUTIONS EXEMPT; TREATMENT OF SPVS AND TRUSTS

Section 8.1 GEI. It is expressly understood and agreed that any GEI Party (other than any GEI Party that is an SPV (as defined below)) may distribute to its partners, members or other equity participants, in accordance with the terms of its limited partnership agreement, limited liability company agreement or other constituent documents, all (but not less than all) of the shares of the Capital Stock or other Company securities held by it in connection with the expiration or involuntary dissolution or winding down of such GEI Party (any such distribution, a "GEI Distribution"). Notwithstanding anything to the contrary contained in this Agreement, any GEI Distribution shall not constitute a "Transfer" for any purpose under this Agreement and shall be exempt in all respects from the terms and conditions of this Agreement. As an example, and without limiting the generality of the foregoing, it is expressly understood and agreed that a GEI Distribution shall not constitute a Tag-Along Sale. Further, it is also expressly understood and agreed that, following a GEI Distribution, (i) the shares of the Capital Stock or other Company securities distributed to the partners or equity participants of such GEI Party shall in no way be subject to this Agreement and (ii) any partner or equity participant of such GEI Party which receives shares of the Capital Stock or other Company securities pursuant to a GEI Distribution shall not be required or deemed to become a party to this Agreement or otherwise be subject to this Agreement; provided, however, that as a condition to such GEI Distribution each partner, member or other equity participant to whom a GEI Party proposes to distribute such Capital Stock shall agree to vote its shares of Common Stock in order to implement the Board of Directors representation rights set forth in Article IX to the extent applicable.

Section 8.2 SPV's Generally. Notwithstanding the foregoing, each Person that is an entity that does not hold any substantial assets other than shares of Capital Stock (each, an "SPV") agrees that (i) certificates for shares of its common stock or other instruments reflecting equity interests in such entity (and the certificates for shares of common stock or other equity interests in any similar entities controlling such entity) will note the restrictions contained in this Agreement on the restrictions on transfer of shares as if such common stock or other equity interests were shares of Capital Stock, (ii) no shares of such common stock or other equity interests may be transferred to any Person other than in accordance with the terms and provisions of this Agreement as if such common stock or other equity interests were shares of Capital Stock and (iii) any Transfer of such common stock or other equity interests shall be deemed to be a transfer of a pro rata number of shares of Capital Stock hereunder and subject to the provisions of this Agreement.

ARTICLE IX.

BOARD OF DIRECTORS; INFORMATION RIGHTS

Section 9.1 Director Designation Rights. The Board of Directors of the Company (the "Board of Directors") shall consist of five (5) directors as follows:

(a) So long as the GEI Parties in the aggregate beneficially own a number of shares of Common Stock equal to:

(i) at least 50% of the number of shares of Common Stock beneficially owned by the GEI Parties immediately following the Effective Time, GEI (on behalf of the GEI Parties) will be entitled to designate three (3) individuals to serve on the Board of Directors of the Company (the "GEI Directors");

(ii) at least 35% but less than 50% of the number of shares of Common Stock beneficially owned by the GEI Parties immediately following the Effective Time, GEI (on behalf of the GEI Parties) will be entitled to designate two (2) GEI Directors;

(iii) at least 15% but less than 35% of the number of shares of Common Stock beneficially owned by the GEI Parties immediately following the Effective Time, GEI (on behalf of the GEI Parties) will be entitled to nominate one (1) GEI Director; and

(iv) The initial GEI Directors shall be John Baumer, Alyse Wagner and Michael Solomon; provided that, in each case, for so long as the Initial Management Investors are entitled to designate at least one Management Director (as defined below) each GEI Director (and any replacement therefore or successor thereto designated by GEI) shall be an employee or partner of a GEI Affiliate, unless otherwise consented to by the holders of a majority of the shares of Common Stock then held by the Initial Management Investors (and their Permitted Transferees) collectively.

(b) So long as the Initial Management Investors (together with their respective Permitted Transferees) collectively beneficially own a number of shares of Common Stock equal to:

(i) at least 50% of the number of shares of Common Stock beneficially owned by the Initial Management Investors collectively immediately following the Effective Time, the Initial Management Investors (acting by majority vote based on the number of shares of Common Stock then beneficially owned by each of the them and their respective Permitted Transferees) will be entitled to designate two (2) individuals to serve as directors of the Company (the "Management Directors" and together with the GEI Directors, the "Director Designees");

(ii) at least 15% but less than 50% of the number of shares of Common Stock beneficially owned by the Initial Management Investors collectively immediately following the Effective Time, the Initial Management Investors (acting by majority vote based on the number of shares of Common Stock then beneficially owned by each of the them and their respective Permitted Transferees) will be entitled to designate one (1) Management Director; and

(iii) The initial Management Directors shall be Samuel Lee and Dr. Jeereddi A. Prasad.

In calculating the percentage ownership numbers applicable to this Section 9.1, (x) all share numbers shall take into account any stock splits, reverse stock splits, or other applicable events affecting the Common Stock that occur after the Effective Time and (y) no shares of Common Stock then held by a Management Investor who has experienced a Call Event shall be included for purposes of calculating the percentage of shares of Common Stock owned collectively by the Initial Management Investors and their Permitted Transferees, nor may any such shares be voted by the Management Investor who has experienced a Call Event in determining who from time to time shall be designated as a Management Director.

Section 9.2 Election of Director Designees. The Company hereby agrees to (i) include each of the Director Designees on each slate of nominees for election to the Board of Directors proposed by the Company and (ii) recommend the election of the Director Designees to the stockholders of the Company. Without limiting the generality of the foregoing, each party hereto will use its respective best efforts (including voting or causing to be voted all shares of Common Stock or other voting securities then directly or indirectly beneficially owned by them) (i) to cause the Director Designees to be elected in any and all elections of directors of the Company held during the term of this Agreement, subject to the terms hereof and (ii) to cause the removal of any Director Designee whose removal is required pursuant to Sections 9.5 and 9.6.

Section 9.3 Action by Board; Amendments.

(a) Each member of the Board of Directors shall have one (1) vote with respect to any matters that come before the Board of Directors. All acts of the Board of Directors shall require the approval of at least a majority of the members of the Board of Directors, in addition to any specific votes of the Board of Directors provided herein.

(b) The Company shall not amend the Company's Certificate of Incorporation or By-Laws in any manner that impairs the rights granted to the GEI Parties and the Management Investors (and their Permitted Transferees) pursuant to Sections 9.1, 9.2, 9.4 and 9.5 of this Agreement.

Section 9.4 Vacancies.

(a) Each GEI Director will hold his or her office as a director of the Company for such term as is provided in the Company's organizational documents and applicable law or until his or her death, resignation, incapacity or removal from the Board of Directors or until his or her successor has been duly elected and qualified in accordance with

the provisions of this Agreement. If a GEI Director ceases to serve as a director of the Company for any reason during his or her term (a "GEI Terminating Director"), a nominee for the vacancy resulting therefrom will be designated by GEI, so long as GEI is then entitled to designate enough GEI Directors to fill such vacancy pursuant to Section 9.1(a).

(b) Each Management Director will hold his or her office as a director of the Company for such term as is provided in the Company's organizational documents and applicable law or until his or her death, resignation, incapacity or removal from the Board of Directors or until his or her successor has been duly elected and qualified in accordance with the provisions of this Agreement. If a Management Director ceases to serve as a director of the Company for any reason during his or her term (a "Management Terminating Director" and together with the GEI Terminating Directors, the "Terminating Directors"), a nominee for the vacancy resulting therefrom will be designated by the Initial Management Investors, so long as the Initial Management Investors are then entitled to designate enough Management Directors to fill such vacancy pursuant to Section 9.1(b).

(c) If GEI or the Initial Management Investors, respectively, fails at any time to designate a person for election to the Board of Directors that GEI (on behalf of the GEI Parties) or the Initial Management Investors is entitled to designate pursuant to this Agreement, then such directorship(s) will remain vacant unless such vacancy results in there being fewer than the minimum number of directors required by the Company's Certificate of Incorporation or By-laws or applicable law, in which case the members of the Board of Directors then in office will appoint a nominee to fill such vacancy or vacancies until GEI or the Initial Management Investors, as applicable, invokes its rights to designate a Director Designee to replace such temporary appointee.

Section 9.5 Removal of Nominees.

(a) GEI or the Initial Management Investors, as applicable, at any time may remove their respective Director Designees from the Board of Directors, with or without cause, upon written notice to the Company and the Board of Directors. Each party hereto shall thereafter take or cause to be taken all such action as may be requested or required to remove the applicable Director Designee(s) from the Board of Directors and to replace such Director Designee(s) pursuant to Section 9.1. Notwithstanding this Section 9.5, if a vacancy on the Board of Directors is filled by an appointment pursuant to Section 9.4 due to the failure of GEI or the Initial Management Investors to nominate a Director Designee, GEI or the Initial Management Investors, as applicable, may request that such temporary appointee be removed and replaced and, if so, each party hereto shall take or cause to be taken all such action as may be requested or required to remove such person from the Board of Directors. Except pursuant to Section 9.5(b), each party hereto acknowledges and agrees that only the party who is entitled to designate a specific Director Designee may elect the removal of that Director Designee for any reason.

(b) If from time to time the number of GEI Directors which the GEI Parties have a right to designate to the Board of Directors pursuant to Section 9.1(a) is reduced, or the number of Management Directors which the Initial Management Investors have a right to designate to the Board of Directors pursuant to Section 9.1(b) is reduced, a corresponding

number of GEI Directors or Management Directors, as applicable, promptly shall be removed from office (even if in the Director Designee is in the middle of the term of office or if no election is then scheduled), and each party hereto shall comply with Section 9.5(a) to implement such removal as promptly as reasonably practicable.

Section 9.6 Removal in the Event of a Call Event. Upon the occurrence of a Call Event involving a Management Investor who then serves on the Board of Directors as a Management Director, such Management Investor shall be removed from the Board of Directors of the Company and each subsidiary of the Company, and each party hereto shall use its best efforts to take or cause to be taken all actions as may be required to promptly effect the removal of such person from the Board of Directors of the Company and each subsidiary of the Company. The remaining Initial Management Investors shall be entitled to designate a replacement Management Director, so long as (a) after giving effect to the Call Event in question the Initial Management Investors are then entitled to designate a replacement Management Director pursuant to Section 9.1(b) and (b) the replacement Management Director is not the same Management Investor so removed from the Board of Directors.

Section 9.7 Compensation and Indemnification.

(a) The members of the Board of Directors shall not receive any fees or other compensation for their services as directors, but shall be entitled to be reimbursed for reasonable and documented, out-of-pocket expenses incurred in connection with serving as a director (including serving on any committee of the Board of Directors), including without limitation all reasonable and documented travel, lodging and meal expenses. The foregoing shall not limit the type or amount of consideration or benefits paid to any Director who is an employee of the Company or any subsidiary thereof in connection with employment or consulting services provided thereto.

(b) The Certificate of Incorporation and By-laws of the Company shall at all times provide for indemnification and contribution rights and limitations on the liability of directors of the Company to the fullest extent permitted by law, and at least as favorable as set forth in the Company's Certificate of Incorporation and By-Laws in effect as of the Effective Time. The Company shall obtain and at all times shall maintain directors' and officers' liability insurance coverage for all directors and executive officers of the Company and its subsidiaries with coverage amounts and terms as are reasonable and appropriate for a business such as the Company, and in any case with terms at least as favorable as the insurance to be provided by the Surviving Corporation to current and former directors and officers pursuant to the Merger Agreement.

(c) The Company and each party hereto agrees, without the prior written consent of each Initial Management Investor who is a beneficiary thereof, not to terminate, amend or waive the indemnification provisions of the Company's Certificate of Incorporation, By-laws or this Agreement.

Section 9.8 Subsidiary Boards; Committees.

(a) The board of directors of each subsidiary of the Company shall be comprised of the same persons as the Board of Directors of the Company, unless otherwise required by law or otherwise determined by a majority of the Board of Directors, including the approval of at least one Management Director.

(b) The Board of Directors may, by duly adopted action, designate one or more committees of the Board of Directors. The composition of each such committee (and on each committee of the Board of Directors of each material subsidiary of the Company) shall be comprised of GEI Directors and Management Directors that, as nearly as is practicable, are in proportion to the number of the GEI Directors and the Management Directors on the Board of Directors of the Company.

Section 9.9 Affiliate Transactions. Except for the Management Services Agreement between Prospect Green Management, LLC and Leonard Green & Partners, L.P. ("Management Services Agreement") to be entered into upon the Effective Time, substantially in the form attached hereto as Schedule D, and except for (a) ordinary course transactions between or among the Company and its wholly-owned subsidiaries and (b) transactions between or among the Company, its subsidiaries and the entities listed on Schedule 9.9 in the ordinary course of business, any contracts or transactions between the Company or any of its subsidiaries, on the one hand, and the Company's Affiliates, a GEI Affiliate or a Non-GEI Holder (or their respective Affiliates), on the other hand, shall require the prior approval of a majority of the unaffiliated directors on the Board of Directors; provided, however, this Section 9.9 shall not apply to any issuances of New Securities in compliance with Article VII, or to any redemption or exchange of the Preferred Stock in accordance with its terms.

Section 9.10 Management Approval Rights. For so long as (x) the Initial Management Investors (together with their Permitted Transferees) collectively own at least 50% of the number of shares of the Common Stock beneficially owned by them immediately following the Effective Time and (y) the annual adjusted EBITDA of the Surviving Corporation in any fiscal year (without taking into effect the positive or negative impact of any acquisitions (whether by stock or asset purchase, business combination, joint venture arrangement, or otherwise) undertaken by the Company or any of its subsidiaries after the date of execution of the Merger Agreement) is equal to or greater than the adjusted EBITDA set forth under the column "Minimum Threshold" for such fiscal year contained on Schedule C attached hereto, the following actions may only be taken by the Company with the approval of the Board of Directors including the approval of at least one (1) Management Director:

(a) any change in the size of the Board of Directors or method of selecting directors as set forth in this Article IX;

(b) any change in the executive officers of the Company (other than in connection with a termination for "Cause" (as defined in the applicable employment agreement or if the executive officer does not have a current employment agreement, "Cause" will be the same as defined in SL's employment agreement) or as a result of the voluntary resignation of any such executive officer);

(c) other than in the ordinary course of business consistent with past practice or as contemplated by an annual budget approved by the Board of Directors, the making of any capital expenditures greater than $2 million by the Company and its subsidiaries, on a consolidated basis, in any fiscal year;

(d) other than in the ordinary course of business consistent with past practice, the sale, assignment, transfer, lease, exclusive license, or purchase or other acquisition in any fiscal year of assets greater in value than $1 million in the aggregate;

(e) other than in the ordinary course of business consistent with past practice, the entry into any contract, lease or license that would require or which could reasonably result in payments to or from the Company (or any subsidiary thereof) in excess of $1 million in any fiscal year;

(f) any material change in the Company's or the Surviving Corporation's or their respective subsidiaries' lines of business conducted as of the Effective Time, or any entry into any line of business materially different from those conducted by the Company and its subsidiaries as of the Effective Time;

(g) without limiting Section 9.9 above and other than (w) issuances of New Securities in compliance with Article VII, (x) entry into ordinary course employment arrangements, (y) payments pursuant to the Management Services Agreement or (z) the redemption or exchange of the Preferred Stock in accordance with its terms, any transaction with any stockholder of the Company, or any Affiliate of any such stockholder, with a value in excess of $1 million;

(h) other than in the ordinary course of business consistent with past practice, any settlement, compromise or waiver of any material claims, rights or litigation with a value, or reasonably expected value, in excess of $1 million;

(i) the liquidation, dissolution, voluntary bankruptcy of or act of bankruptcy by the Company or any material subsidiary thereof;

(j) any significant change in the tax or accounting policy or principles of the Company, the Surviving Corporation, or any material subsidiary thereof, except as required by or resulting from a change in generally accepted accounting principles or applicable law;

(k) any certificate of incorporation or bylaw amendment that would violate any rights of the Management Investors set forth herein;

(l) the appointment of legal and investment banking advisors to assist the Company with regulatory, compliance, financing and other matters that do not constitute Fundamental Transactions;

(m) the conduct of the business of the Company and its subsidiaries relating to regulatory and compliance matters; and

(n) any amendment of the Management Services Agreement.

In addition, for so long as the GEI Parties, in the aggregate, beneficially own at least 50% of the number of shares of the Capital Stock beneficially owned by the GEI Parties immediately following the Effective Time, the approval of a majority of the members of the Board of Directors shall be required to retain any investment banking firm, financial advisor or legal counsel to represent the Company or any of its subsidiaries in connection with the issuance by the Company or any of its subsidiaries of securities in a transaction subject to the registration requirements of the Securities Act or exempt from the registration requirements of the Securities Act pursuant to Rule 144A promulgated thereunder, the sale of more than twenty-five percent (25%) of (i) any class of Capital Stock or (ii) the assets, of the Company or any of its subsidiaries, or any leveraged recapitalization of the Company or any of its subsidiaries (collectively, the "Fundamental Transactions"); provided, however, that the approval of a majority of the members of the Board of Directors including the approval of at least one (1) Management Director shall be required to retain Leonard Green & Partners, L.P. or any Affiliate thereof as an investment banking firm or financial advisor in connection with a Fundamental Transaction. For the avoidance of doubt, this Section 9.10 shall apply equally to matters affecting any material subsidiary of the Company, which shall include the Surviving Corporation.

Section 9.11 Information Rights.

(a) The Company shall provide to each GEI Party and each Initial Management Investor (and its applicable Permitted Transferees), for so long as such GEI Party or Initial Management Investor (or its Permitted Transferees), as the case may be, owns any shares of Capital Stock, the following information:

(i) as soon as available, but no later than forty-five (45) days after the end of each quarterly accounting period in each fiscal year of the Company (other than any quarterly accounting period ending on the last day of a fiscal year of the Company), unaudited consolidated statements of income and cash flows of the Company and its consolidated subsidiaries for such quarterly period (as well as unaudited consolidated statements of income of the Company and its consolidated subsidiaries for the period from the beginning of the fiscal year to the end of such quarter) and unaudited consolidated balance sheets of the Company and its consolidated subsidiaries as of the end of such quarterly period (and such financial statements shall set forth in each case comparisons to the Company's and its consolidated subsidiaries' corresponding period in the preceding fiscal year, with an explanation of any material differences between them). Such financial statements shall be prepared in accordance with GAAP, subject to the absence of footnote disclosures and to normal year-end adjustments;

(ii) as soon as available, but no later than ninety (90) days after the end of each fiscal year of the Company, audited consolidated statements of income and cash flows of the Company and its consolidated subsidiaries for such fiscal year, and audited consolidated balance sheets of the Company and its

consolidated subsidiaries as of the end of such fiscal year (and such financial statements shall set forth in each case comparisons to the Company's and its consolidated subsidiaries' corresponding period in the preceding fiscal year), and accompanied by the report of the Company's independent certified public accountants. Such financial statements shall be prepared in accordance with GAAP, but also shall be accompanied by calculations of adjusted EBITDA for such fiscal year, reflecting the same types of adjustments historically reflected in the adjusted EBITDA and related reconciliations in Ivy's earnings releases and related Form 8-K filings, and otherwise excluding the positive or negative impact of any acquisitions effected after the execution of the Merger Agreement, as described in Section 9.10;

(iii) as soon as available, but no later than thirty (30) days after the date of such event, copies of all (i) minutes of the meetings of the Board of Directors of the Company and each of its material subsidiaries (and each committee thereof) and any special or annual meeting of the stockholders of the Company or its material subsidiaries and (ii) actions taken by written consent of the stockholders or the Board of Directors of the Company or its material subsidiaries (and any committees thereof);

(iv) as soon as available, but in no event later than ninety (90) days after the end of each fiscal year of the Company, an annual report of the Company setting forth any payments made (or accrued) with respect to the Preferred Stock, including the then-current liquidation preference of the Preferred Stock and the date and amount of payment of dividends, redemptions or exchanges in accordance with the terms thereof, if any;

(v) upon the reasonable request of a GEI Party or an Initial Management Investor (or its applicable Permitted Transferees), as soon as reasonably practicable, the Company shall provide or grant access to any employee of the Company or its material subsidiaries to respond to the information requests by the requesting party regarding the business or operations of the Company or any of its material subsidiaries; and

(vi) within a reasonable time after such request, such other financial and other information as any GEI Party or an Initial Management Investor (or its applicable Permitted Transferees) may from time to time reasonably request.

(b) All information disclosed by the Company to any GEI Party (or GEI Transferee) or Management Investor (or Permitted Transferee thereof) pursuant to this Agreement shall be confidential information of the Company (other than information which is not proprietary or otherwise is publicly available) and, unless as otherwise provided in this Agreement or consented to by the Board of Directors in writing in advance, shall not be used by the recipients thereof in their respective capacities as stockholders for any purpose other than to monitor and manage their investment in the Company, and shall not be disclosed to any third party other than (i) employees, accountants and attorneys of such recipient to the extent that they are bound by similarly restrictive confidentiality obligations with respect to

such information or (ii) as otherwise permitted pursuant to any other written agreement by and between the Company and the recipient of such confidential information; provided, that the foregoing shall not limit the ability of any such recipient who also is an officer or director of the Company or any subsidiary or Affiliate thereof from receiving and using such information for any proper purpose in such other capacity(ies). The confidentiality and non-disclosure obligations of the parties hereunder shall not apply to the extent that the disclosure of information otherwise determined to be confidential is required by applicable law, regulations, subpoena, civil investigative demand or other process or compulsion, provided, that: (x) to the extent legally permissible or reasonably practicable, prior to disclosing such confidential information, a party shall notify the Company thereof, which notice shall include the basis upon which such party believes the information is required to be disclosed and (y) such party shall, if requested by the Company and at the sole cost and expense of the Company, provide reasonable cooperation with the Company to seek to protect the continued confidentiality thereof.

Section 9.12 Termination. The provisions of this Article IX (other than Section 9.11(b)) shall terminate effective upon a Public Offering Event.

ARTICLE X.

NOTICES

All notices or other communications under this Agreement shall be given in writing and shall be deemed duly given and received on the third full business day following the day of the mailing thereof by registered or certified mail or when delivered personally or sent by facsimile transmission as follows:

(i) if to the Company, at its principal executive offices at the time of the giving of such notice, or at such other address as the Company shall have designated by notice as herein provided to the GEI Parties and the Non-GEI Holders, Attention: Chief Executive Officer;

with a copy to (which copy shall not constitute notice):
Bingham McCutchen LLP
Redacted
Attention: Redacted
Facsimile No.: Redacted

(ii) if to any Non-GEI Holder, at the address of such Non-GEI Holder as set forth on Schedule A hereto or at such other address as such Non-GEI Holder shall have designated by notice as herein provided to the Company, the GEI Parties and the other Non-GEI Holders; and

(iii) if to any GEI Party, to:

Green Equity Investors V, L.P.
[redacted]
Suite 2000
Los Angeles, CA 90025
Attention: John Baumer
Facsimile No.: Redacted

with a copy to (which copy shall not constitute notice):

Latham & Watkins LLP
Redacted
New York, New York 10022
Attention: Redacted
Facsimile No.: Redacted

or at such other place as the GEI Party shall have designated by notice as herein provided to the Company and the Non-GEI Holders.

ARTICLE XI.

MISCELLANEOUS

Section 11.1 Entire Agreement; Amendments. This Agreement (together with the Voting Agreement and the Contribution Agreements) constitutes the entire agreement of the parties with respect to the collective subject matter hereof and thereof and may not be modified or amended except by a written agreement signed by the Company, the GEI Parties and the Non-GEI Holders from time to time party hereto; provided, however, that any of the provisions of this Agreement (except as hereinafter provided) may be modified, amended or eliminated by agreement of the Company, the GEI Parties and a majority in interest (on the basis of the number of shares of Common Stock then collectively owned by the Management Investors and their respective Permitted Transferees) of all the Management Investors, which agreement shall bind each Non-GEI Holder whether or not such Non-GEI Holder has agreed thereto; provided, further, that no modification or amendment which would materially, adversely and disproportionately change the rights or obligations of any Non-GEI Holder under Articles I, III, IV, V, VII, X or Section 11.1 of this Agreement shall be effective as to such Non-GEI Holder if such Non-GEI Holder shall not have consented in writing thereto. Anything in this Agreement to the contrary notwithstanding, any modification or amendment of this Agreement by a written agreement signed by, or binding upon, any Person shall be valid and binding upon any and all Persons who may, at any time thereafter, have or claim any rights under or pursuant to this Agreement in respect of Capital Stock thereafter acquired from such first Person. Nothing in this Section 11.1 shall be deemed to limit the ability of any party (or its Permitted Transferees) to assign its rights hereunder in the manner and to the extent authorized or permitted hereunder.

Section 11.2 No Waiver. No waiver of any breach or default hereunder shall be considered valid unless in writing, and no such waiver shall be deemed a waiver of any subsequent breach or default of the same or similar nature or in another context. Anything in this

Agreement to the contrary notwithstanding, any waiver, consent or other instrument under or pursuant to this Agreement signed by, or binding upon, any Person shall be valid and binding upon any and all Persons who may, at any time thereafter, have or claim any rights under or pursuant to this Agreement in respect of Capital Stock thereafter acquired from such Person.

Section 11.3 Successors and Assigns; No Third Party Beneficiaries. Except as otherwise expressly provided herein, this Agreement shall be binding upon and inure to the benefit of the Company, the GEI Parties, the Non-GEI Holders and their respective heirs, personal representatives, successors and assigns; provided, however, that nothing contained herein shall be construed as granting to any Person the right to Transfer any Capital Stock except in accordance with this Agreement. Except as otherwise provided herein, no party hereto may assign its rights or obligations hereunder except in compliance with all applicable terms hereof and, in the case of an assignment by a Non-GEI Holder (or its Permitted Transferee(s)) that is not otherwise expressly permitted hereunder, without the consent of the GEI Parties for so long as they hold at least 15% of the number of shares of Common Stock beneficially owned by the GEI Parties immediately following the Effective Time. Nothing in this Agreement, express or implied, is intended to or shall confer upon any other Person other than the parties and their respective successors and permitted assigns any legal or equitable right, benefit or remedy of any nature under or by reason of this Agreement.

Section 11.4 Severability. If any provision of this Agreement shall be invalid or unenforceable, such invalidity or unenforceability shall attach only to such provision and shall not in any manner affect or render invalid or unenforceable any other severable provision of this Agreement, and this Agreement shall be carried out as if any such invalid or unenforceable provision were not contained herein.

Section 11.5 Arbitration. Except as otherwise set forth herein, arbitration shall be the exclusive remedy for resolving any dispute or controversy under or pursuant to this Agreement between or among the Company, any of its subsidiaries, any GEI Party, any Management Investor and any other Non-GEI Holder. Such arbitration shall be conducted in Los Angeles, California and accordance with the then most applicable rules of the American Arbitration Association. The arbitrator shall be empowered to grant only such relief as would be available in a court of law. In the event of any conflict between this Agreement and the rules of the American Arbitration Association, the provisions of this Agreement shall be determinative. If the parties are unable to agree upon an arbitrator, they shall select a single arbitrator from a list of seven arbitrators designated by the office of the American Arbitration Association having responsibility for the city in which the Company has its executive office, all of whom shall be retired judges who are actively involved in hearing private cases or members of the National Academy of Arbitrators. If the parties are unable to agree upon an arbitrator from such list, they shall each strike names alternatively from the list, with the first to strike being determined by coin flip or lot. After each party has used three strikes, the remaining name on the list shall be the arbitrator. The fees and expenses of the arbitrator shall initially be borne equally by the parties; provided, however, that each party shall initially be responsible for the fees and expenses of its own representatives and witnesses. Judgment may be entered on the award of the arbitrator in any court having jurisdiction. The prevailing party in the arbitration proceeding, as determined by the arbitrator, and in any enforcement or other court proceedings, shall be entitled to the extent provided by law to reimbursement from the other party for all of the prevailing

party's reasonably incurred costs (including, but not limited to, the arbitrator's compensation), expenses and reasonable attorneys' fees.

Section 11.6 Litigation Expenses. Should any party to this Agreement commence any litigation concerning any provision of this Agreement or the rights and duties of the parties hereunder, the prevailing party in such proceeding shall be entitled, in addition to such other relief as may be granted, to the reasonable attorneys' fees and court costs reasonably incurred by such prevailing party by reason of such litigation.

Section 11.7 Headings; Interpretation. When a reference is made in this Agreement to a Section, Schedule, Article or Exhibit such reference shall be to a Section, Schedule, Article or Exhibit of this Agreement unless otherwise indicated. The headings contained in this Agreement or in any Exhibit are for convenience of reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. All words used in this Agreement will be construed to be of such gender or number as the circumstances require. Any capitalized terms used in any Exhibit or Schedule but not otherwise defined therein shall have the meaning as defined in this Agreement. All Exhibits and Schedules annexed hereto or referred to herein are hereby incorporated in and made a part of this Agreement as if set forth herein. The word "including" and words of similar import when used in this Agreement will mean "including, without limitation," unless otherwise specified.

Section 11.8 Business Day. For purposes of this Agreement, "business day" means any day other than Saturday, Sunday or a day on which banks in are authorized by law to be closed in Los Angeles, California. In the event any deadline for the taking of any action or delivery of any notice hereunder falls on a day that is not a business day, then such deadline shall be deemed to be extended until 5:00 p.m., Los Angeles, California time, on the next business day.

Section 11.9 Further Actions. Each party hereto shall cooperate and shall take such further action and shall execute and deliver such further documents as may be reasonably requested by any other party in order to carry out the provisions and purposes of this Agreement.

Section 11.10 Spousal Consent. Each individual party hereto who resides in a state that recognizes community property interests or similar marital property interests agrees to cause his or her spouse (and any subsequent spouse) to execute and deliver, upon the request of the Company, a counterpart of this Agreement or an Acknowledgment and Agreement of Spouse attached as Schedule B hereto, or a reasonably equivalent document whereby such spouse acknowledges and agrees to the terms of this Agreement and agrees that such spouse's rights (including any community property rights) shall be subject to the terms of this Agreement.

Section 11.11 Counterparts. This Agreement may be executed by facsimile or PDF signature and in two or more counterparts, all of which when taken together shall be deemed one original.

Section 11.12 Governing Law. This Agreement, and the rights and obligations of the parties hereunder, shall be governed by, and construed and enforced in

accordance with, the laws of the State of Delaware, without regard to the laws of any other jurisdiction that might be applied because of the conflicts or choice of laws principles of the State of Delaware.

Section 11.13 Certain Tax Issues. Each party hereto has reviewed with his, her or its own tax and legal advisors the federal, state, local and foreign tax consequences of acquiring and holding shares of Capital Stock and the transactions contemplated by this Agreement, the Contribution Agreements and the Merger Agreement, each as applicable. Each such party represents that he, she or it is relying solely on such advisors and not on any statements of any other party hereto, the Company or any of their respective agents, employees, representatives or advisors. Each party understands that he, she or it (and not any other party hereto or the Company or any of its subsidiaries or Affiliates) shall be responsible for his, her or its income, capital gains or other tax liability that may arise as a result of such acquiring, holding or disposing of shares of Capital Stock or the transactions contemplated by this Agreement, the Contribution Agreements and the Merger Agreement, each as applicable.

Section 11.14 Employees. Neither the ownership of Capital Stock nor any provision contained in this Agreement shall entitle any Person to obtain employment with or remain in the employment of the Company or any of its subsidiaries or Affiliates or affect any right the Company or any subsidiary or Affiliate of the Company otherwise may have to terminate the Person's employment, pursuant to an applicable employment agreement or as otherwise may be permitted under applicable law.

Section 11.15 No Presumption Against Drafting Party. Each of the parties hereto acknowledges that it has been represented by counsel in connection with this Agreement and the transactions contemplated by this Agreement, that it and its advisors have had the opportunity to review, comment upon, and otherwise participate materially in the drafting of this Agreement. Accordingly, any rule of law or any legal decision that would require interpretation of any claimed ambiguities in this Agreement against the drafting party has no application and is expressly waived.

Section 11.16 Indemnification.

Any director, officer, employee or agent of the Company entitled to indemnification, advancement of expenses and/or insurance, pursuant to this Agreement, the Certificate of Incorporation of the Company or the By-Laws of the Company and that is an officer, employee, partner or advisor of Leonard Green & Partners, L.P., GEI, GEI Side or their affiliates (collectively "LGP" and each such person, a "LGP Indemnitee"), may have certain rights to indemnification, advancement of expenses and/or insurance provided by or on behalf of LGP and/or their Affiliates (collectively, the "Fund Indemnitors"). Notwithstanding anything to the contrary in this Agreement, the Certificate of Incorporation of the Company or the By-Laws of the Company or otherwise: (i) the Company is the indemnitor of first resort (i.e., the Company's obligations to each LGP Indemnitee are primary and any obligation of the Fund Indemnitors to advance expenses or to provide indemnification for the same expenses or liabilities incurred by each LGP Indemnitee are secondary), (ii) the Company will be required to advance the full amount of expenses incurred by each LGP Indemnitee and will be liable for the full amount of all liabilities, expenses, judgments, penalties, fines and amounts paid in settlement to the extent

legally permitted and required by this Agreement, without regard to any rights each LGP Indemnitee may have against the Fund Indemnitors, and (iii) the Company irrevocably waives, relinquishes and releases the Fund Indemnitors from any and all claims against the Fund Indemnitors for contribution, subrogation or any other recovery of any kind in respect thereof. Notwithstanding anything to the contrary in this Agreement, the Certificate of Incorporation of the Company or the By-Laws of the Company or otherwise, no advancement or payment by the Fund Indemnitors on behalf of a LGP Indemnitee with respect to any claim for which such LGP Indemnitee has sought indemnification or advancement of expenses from the Company will affect the foregoing and the Fund Indemnitors will have a right of contribution and/or be subrogated to the extent of such advancement or payment to all of the rights of recovery of such LGP Indemnitee against the Company. The Fund Indemnitors are express third-party beneficiaries of the terms of this Section 11.16.

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the first date written above.

IVY HOLDINGS INC.

By: _____
Name: Alyse Wagner
Title: Vice President, Treasurer and Secretary

GREEN EQUITY INVESTORS V, L.P.
By: GEI Capital V, LLC, its general partner

By: _____
Name: John Baumer
Title: Senior Vice President

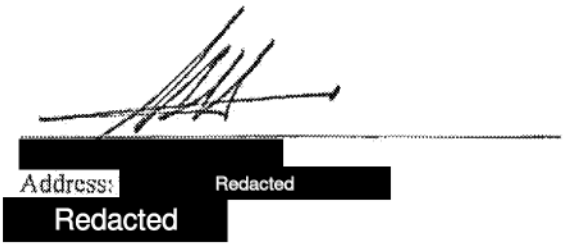
GREEN EQUITY INVESTORS SIDE V, L.P.
By: GEI Capital V, LLC, its general partner

By: _____
Name: John Baumer
Title: Senior Vice President

CONFIDENTIAL BUSINESS INFORMATION

SAMUEL S. LEE
Address: c/o Prospect Medical Holdings, Inc.
Redacted
Los Angeles, CA 90025

[Signature Page to Stockholders Agreement]



Address: Redacted

Redacted

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DAVID & ALEXA TOPPER FAMILY TRUST
Address: c/o Prospect Medical Holdings, Inc.
Redacted
Los Angeles, CA 90025

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DR. JEEREDDI PRASAD

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ELLEN SHIN

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Schedule A

Name and Address	Shares of Common Stock	Shares of Preferred Stock
Green Equity Investors V, L.P. [redacted] Los Angeles, CA 90025	642,056.99	51,950.296
Green Equity Investors Side V, L.P. [redacted] Los Angeles, CA 90025	192,601.66	15,583.839
Ivy LGP Coinvest LLC [redacted] Los Angeles, CA 90025	20,341.35	1,645.865
Sam Lee c/o Prospect Medical Holdings, Inc. [redacted] Los Angeles, CA 90025	281,695	0
Mike Heather [redacted]	22,260	0
The David & Alexa Topper Family Trust c/o Prospect Medical Holdings, Inc. [redacted] Los Angeles, CA 90025	208,600	0
Dr. Jeereddi Prasad [redacted]	16,810	0
[redacted]	200	0
[redacted]	100	0
[redacted]	400	0

Redacted			
		1,000	0
		250	0
		425	0
		250	0
		3,000	0
		2,000	0
		2,000	0
		2,000	0

Schedule B

Acknowledgment and Agreement of Spouse

Reference is made to the Stockholders Agreement (the "Agreement"), dated as of December [15], 2010, by and among Ivy Holdings Inc., a Delaware corporation (the "Company"), Green Equity Investors V, L.P., a Delaware limited partnership, Green Equity Investors Side V, L.P., a Delaware limited partnership and the Management Investors (as defined therein). The undersigned, being the spouse of _____, hereby agrees to be bound by the provisions of the Agreement to the same extent as [his/her] spouse.

By: _____
Name: _____

Schedule C

ANNUAL ADJUSTED EBITDA

Minimum Adjusted EBITDA Thresholds ($ in US Dollars in millions):

	DATE	Minimum Adjusted EBITDA Threshold
	9/30/2010	NA
1	9/30/2011	$55.0
2	9/30/2012	$58.0
3	9/30/2013	$62.0
4	9/30/2014	$65.0
5	9/30/2015 & Thereafter	$65.0

Minimum Adjusted EBITDA Thresholds shall be measured based on the businesses Ivy operates at the Closing Date (as defined in the Merger Agreement) and shall not give effect to the positive or negative impact of acquisitions completed after the Closing Date. Minimum Adjusted EBITDA Thresholds shall be calculated by taking into account the same methodology and adjustments as were utilized in the adjusted EBITDA calculations and related reconciliations in Ivy's historical earnings announcements and related Form 8-K filings.

Schedule 9.9

Excluded Affiliates

1. **Chaparral Medical Group, Inc.**

   - Jeereddi Prasad, M.D. is the majority shareholder.
   - The entity is a party to certain provider agreements with Pomona Valley Medical Group, Inc. and Upland Medical Group, a Professional Medical Corporation.

2. **Internal Medicine Medical Group**

   - Jeereddi Prasad, M.D. is the majority shareholder.
   - The entity is a party to certain provider agreements with Pomona Valley Medical Group, Inc. and Upland Medical Group, a Professional Medical Corporation.

3. **Acurus Solutions, Inc.**

   - Jeereddi Prasad, M.D. is the majority shareholder.
   - The entity functions as the outsourced billing service for Chaparral Medical Group, Inc. and Internal Medicine Medical Group.

4. **CMG Clinical Laboratory and Ancillary Services, Inc.**

   - Jeereddi Prasad, M.D. is the majority shareholder.
   - The entity from time to time may enter into one or more agreements relating to clinical laboratory services with, or otherwise do business with, one or more "ProMed Entities" and/or Chaparral Medical Group, Inc.

5. **Internal Medicine Associates - Pomona, LP**

   - Jeereddi Prasad, M.D. is the majority partner.
   - The entity owns certain real estate and leases space to Chaparral Medical Group, Inc.

6. **Haven Hospital, LLC**

   - Jeereddi Prasad, M.D. is a majority member.
   - The entity from time to time may enter into one or more agreements relating to construction of a hospital, nursing home or other care facility with, or otherwise do business with, one or more "ProMed Entities" and/or Chaparral Medical Group, Inc.

7. **Haven Medical Center Inc.**

   - Jeereddi Prasad, M.D. is a major shareholder.

- The entity from time to time may enter into one or more agreements relating to construction of a medical campus in Ontario with, or otherwise do business with, one or more of the Company, "ProMed Entities" and/or Chaparral Medical Group, Inc. The medical campus is currently in the preliminary stages of development and nothing has been built yet.

8. Bonita Properties LP, Ramprasad Properties LP and Havenplaza, LP

- Jeereddi Prasad, M.D. is an equity holder in each of these entities.
- These entities lease space to Chaparral Medical Group, Inc.

9. Jeereddi A Prasad MD Inc.

- Jeereddi Prasad, M.D. owns this entity. It is his professional medical corporation.
- The entity from time to time may enter into one or more agreements relating to diabetes, metabolism, endocrinology and internal medicine consultations and other related services with, or otherwise do business with, one or more "ProMed Entities" and/or Chaparral Medical Group, Inc.

10. Southern California Hospitalist Network Management Services, Inc. (as a management services organization, the "MSO")

- Redacted is a principal shareholder.
- Another minor shareholder of the entity is Redacted is a principal of Primary and Multi-Specialty Medical Clinics of Anaheim, Inc. ("PMSMCA"). On March 31, 2004, PMSMCA purchased three medical clinics from the Company. Additionally, as set forth in Section 5.1(e) of the Company's Disclosure Schedule, the Company is currently evaluating a possible acquisition of PMSMCA.
- The MSO provides management services to Southern California Hospitalist Network Medical Group, Inc.

11. Redacted has an interest in an independent consulting practice that provides consulting services to various physicians and physician groups, principally within the Orange County, California area (including the Orange County Heart Institute). The Company does not currently, but may from time to time in the future, do business with a recipient of such consulting services.

12. Revenue Management Consultants, Inc. ("RMC")

- Redacted s a shareholder. RMC provides billing services to various physician practices. RMC does not currently do business with the Company.

EXHIBIT A

SIGNATURE PAGE
TO THE
STOCKHOLDERS AGREEMENT

By execution of this signature page, _____ hereby agrees to become a party to, to be bound by the obligations under and receive the benefits of that certain Stockholders Agreement dated as of December 15, 2010, by and among Ivy Holdings Inc., a Delaware corporation, the GEI Parties as defined therein and the Management Investors as defined therein, as amended from time to time thereafter, and shall be deemed to be an "Other Management Investor," for all purposes thereunder.

By: _____
Name:
Title:

Notice Address:

CONFIDENTIAL BUSINESS INFORMATION PMH00006517

ASSET PURCHASE AGREEMENT

BY AND AMONG

CROZER-KEYSTONE HEALTH SYSTEM

AND

PROSPECT CROZER, LLC

AND

PROSPECT MEDICAL HOLDINGS, INC.

January 8, 2016

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Exhibit E	Lease Assignment and Assumption Agreement
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Defined Term	Location of Definition
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Accounts Receivable	Section 1.1(c)
Act 2	Section 11.26(b)
Advisory Board	Section 11.12
Affiliates	Section 14.16
Agreement	Heading
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Defined Term	Location of Definition
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Defined Term	Location of Definition
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Prospect Members	Heading
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ASSET PURCHASE AGREEMENT

THIS ASSET PURCHASE AGREEMENT (the "Agreement") is made and entered into as of January 8, 2016 (the "Execution Date"), by and among **CROZER-KEYSTONE HEALTH SYSTEM**, a Pennsylvania nonprofit corporation ("Crozer"), on behalf of itself and its health system members listed on Exhibit A hereto ("Crozer Members" with Crozer and the Crozer Members collectively referred to as "Sellers" and with each Crozer Member and Crozer individually referred to as a "Seller"), **PROSPECT MEDICAL HOLDINGS, INC.,** a Delaware corporation ("PMH"), and **PROSPECT CROZER, LLC**, a Pennsylvania limited liability company ("Prospect") on behalf of itself and its wholly-owned affiliates listed on Exhibit B hereto ("Prospect Members") (PMH, Prospect, and Prospect Members are collectively referred to as "Buyers" and individually referred to as a "Buyer"). (Sellers and Buyers shall each be referred to individually herein as a "Party" and, collectively, as the "Parties.")

RECITALS:

A. Sellers operate an integrated health care delivery system which includes two (2) licensed hospitals (the "Hospitals") with multiple campuses, multiple outpatient centers, a fully integrated network of employed primary care physicians, specialist physicians and other providers, medical office buildings and other facilities and interests in various other organizations and joint ventures (collectively, the "System") in furtherance of its mission of providing health care services to the members of its community located primarily in Delaware County, Pennsylvania.

B. Crozer-Chester Foundation, a Pennsylvania nonprofit corporation ("Crozer Foundation") and Delco Memorial Foundation, a Pennsylvania nonprofit corporation ("Delco Foundation") accept gifts and bequests, receive grants and engage in fundraising activities for the sole benefit of the Hospitals, and, prior to closing, Sellers will cause Delco Foundation to merge with and into Crozer Foundation, with Crozer Foundation to be the surviving organization and renamed "Crozer-Keystone Community Foundation" (the "Foundation.")

C. PMH operates a comprehensive network of hospitals, outpatient centers, clinics and affiliated medical groups in several parts of the country and provides coordinated regional health care services designed to meet the needs of its patients.

D. Sellers desire to sell to Buyers and Prospect and the Prospect Members have been formed by PMH to purchase from Sellers all of the business and assets owned by Sellers (other than the Excluded Assets) on the terms and conditions set forth in this Agreement.

E. The Parties seek to enter into the above-described transaction to support their shared vision to deliver patient-centered, quality care in an efficient, cost-effective and caring manner, meeting the health needs of the community. Specifically, the Parties intend to:

i. Continue the mission and commitment of Sellers by providing key services to vulnerable populations, extending community benefits, and supporting medical education;

ii. Deliver high value care to the community through a commitment to practicing evidence-based medicine and protocols;

iii. Provide exceptional growth and leadership opportunities for Sellers' existing employees;

iv. Support strategic needs and initiatives to ensure future growth and sustainability;

v. Continue strong medical staff relationships, improve physician practice management, further clinical and economic alignment with physicians, and improve physician access;

vi. Grow healthcare service offerings in the community;

vii. Further value-based accountable care infrastructure and capabilities; and

viii. Ensure ongoing input from the community in the strategic direction of the delivery of healthcare.

NOW, THEREFORE, in consideration of the premises and the agreements, covenants, representations, and warranties hereinafter set forth, and intending to be legally bound hereby, the Parties agree as follows:

1. ASSET PURCHASE.

1.1. Assets. Subject to the terms and conditions of this Agreement, as of the Closing (as defined in Section 3.1 hereof), each Seller agrees to sell, convey, transfer, assign and deliver (and to cause Foundation to sell, convey, transfer, assign and deliver, as applicable) to the respective Buyer, as designated on Exhibit B hereto, and each such Buyer agrees to purchase, acquire and accept, all of such Seller's (or Foundation's, as applicable) right, title and interest in and to all of the assets owned or used by such Seller (or Foundation, as applicable), other than the Excluded Assets (hereinafter defined) (the "Assets"), which Assets shall include, without limitation, the following:

(a) the owned real property described on Schedule 1.1(a) hereto, including all buildings, structures and facilities thereon, together with all improvements and fixtures, any construction in progress, and all rights, privileges and easements appurtenant thereto (collectively, the "Owned Real Property"); the real property, buildings, structures and/or facilities which are leased by any of the Sellers as the tenant (or subtenant or equivalent) thereof and described on Schedule 4.11(e) hereto (the "Tenant Leased Real Property"); and the real property, buildings, structures and/or facilities which are leased by any of the Sellers as the landlord (or sublandlord or equivalent) thereof and described on Schedule 4.11(f) hereto (the "Landlord Leased Real Property" and collectively with the Owned Real Property and the Tenant Leased Real Property, the "Real Property");

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(b) all personal property of Sellers, including all items of fixed or movable medical equipment, information systems (including computers, servers, data storage centers, telecommunications systems (including all switches, telephones and related equipment), office equipment (including copiers and printers), furniture, furnishings, Sellers' inventory of medical and office supplies, and vehicles, the current list and general location of which are set forth on Schedule 1.1(b) hereto;

(c) all accounts receivable (including patient receivables arising from rendering of services to System patients, and other receivables, including "disproportionate share payments," "meaningful use" payments, graduate medical education payments, periodic interim payments and other forms of governmental, payor and other third party reimbursement or subsidies, including, without limitation, capitation payments, incentive payments under managed care contracts and cost report receivables), billed and unbilled, recorded or unrecorded, with collection agencies or otherwise, accrued and existing in respect of items or services rendered up to the Effective Time (collectively, the "Accounts Receivable") and all bank accounts, depository accounts, safety deposit boxes, post office boxes or lockboxes associated therewith (but not including cash or investment assets as excluded by Section 1.2(a));

(d) all prepaid expenses and deposits related to the System, including prepaid lease expense, lease/security deposits, utility deposits, all medical staff fund balances (to be held for the benefit of and/or transferred to the medical staffs of the Hospitals), and all other assumable deposits and claims for refunds in connection with the System, a list of which is attached hereto as Schedule 1.1(d);

(e) all present and future claims, causes of action, and judgments in favor of each Seller relating to the Assets and, to the extent assignable by Sellers, all manufacturers and vendors' warranties (express or implied) and rights and claims assertable by (but not against) Sellers related to the Assets;

(f) all rights and interests of the applicable Seller in the contracts, commitments, leases and agreements listed on Schedule 1.1(f) or otherwise listed on Schedule 4.11(e) or Schedule 4.11(f) hereto (the "Contracts");

(g) all patient lists, demographic information, patient credit information and histories, charts, files, medical records (whether maintained in hard copy or via electronic health record ("EHR") system), X-rays and other imaging records (regardless of medium) and other documents and records generated in connection with the System's patients (the "Patient Records");

(h) all books, records, files, reports, minute books and other documents of Sellers of whatever nature and wherever located (whether in hard copy or stored or maintained electronically) that relate to the Assets or the operation of the System, including financial, business and accounting records, medical staff records, personnel records, only the records of those Benefit Plans that are expressly assumed hereunder by Buyer, records relating to union collective bargaining agreements, records relating to System physicians and other providers and the System's suppliers or vendors, equipment records, medical and administrative libraries,

catalogs, operating manuals, and policies and procedures (the "Books and Records," and collectively with the Patient Records, the "Records");

(i) to the extent assignable or transferable, all Licenses (as that term is defined in Section 4.6 hereof) held by any Seller relating to the ownership, development, or operation of the Assets or the System (including any pending governmental approvals);

(j) to the extent assignable, all Medicare participation agreements and related provider numbers of Sellers;

(k) all of Sellers' intellectual property, including the tradename, "Crozer-Keystone Health System," and each other Seller's trade name, and any variations thereof, together with all other trademarks, service marks, logos or symbols, trade secrets, know-how, processes and all inventions, patents, copyrights, research results, discoveries, and any royalties therefrom, and website domain names, telephone and facsimile numbers, and all applications and registrations with respect to any of the foregoing, all computer programs and software, including source codes (where transferrable) and access codes thereto, and all other items of intellectual property owned or registered by the Sellers, including the intellectual property listed on Schedule 1.1(k) hereto (the "Intellectual Property");

(l) to the extent not included above, the "deferred tax asset (Healthplex)" and all other assets reflected on the Sellers' Financial Statements (as defined in Section 4.4), and any additions thereto up through the Effective Time, less assets sold or consumed in the ordinary course of business;

(m) all research and other grants from any governmental entity or third party, including those of the Foundation, except those that require non-profit status or other requirements imposed by the grantor that Buyer cannot satisfy, all as set forth on Schedule 1.1(m);

(n) the interest of any Seller in all property of the foregoing types, arising or acquired in the ordinary course of the business of Sellers between the date hereof and the Effective Time;

(o) all of the stock, limited liability company ("LLC") membership, partnership or other ownership, control or beneficial interests held by one or more of the Sellers in Sellers' for profit Affiliates (as defined in Section 14.16 below), joint ventures with third parties or other non-wholly owned affiliated organizations all as specifically listed on Schedule 1.1(o), which shall include any stock or other rights or interests in Cassatt Insurance Company, Ltd. and Cassatt RRG Holding Company (collectively "Cassatt");

(p) to the extent assignable, all rights and interests of any Seller under the Environmental Permits (defined below) listed in Schedule 4.15 and all pending applications therefor or renewals thereof issued to any Seller by any Government Entity (defined below) or other jurisdiction or instrumentality;

(q) all graduate medical education ("GME") programs, including those set forth on Schedule 1.1(q) hereto (collectively, the "Residency Programs");

(r) all goodwill associated with the System and the Assets;

(s) all rights and interests to all assets held for and under each Benefit Plan that is expressly assumed by Buyers hereunder as set forth on Schedule 1.1(s); and

(t) all other tangible and intangible assets, other than the Excluded Assets, of every kind, character or description owned by each Seller, whether or not reflected on the Financial Statements, wherever located and whether or not similar to the items specifically set forth above, and all other businesses and ventures owned by each Seller.

Each Seller shall convey its Assets to the appropriate Buyer free and clear of all claims, assessments, security interests, liens, restrictions and encumbrances of any kind, other than the Permitted Encumbrances (as hereinafter defined), the Assumed Liabilities (as hereinafter defined) or taxes, assessments or other sums being prorated at Closing pursuant to this Agreement.

1.2. Excluded Assets. Notwithstanding anything to the contrary herein, including Section 1.1 hereof, those assets of Sellers described below shall be retained by Sellers or one or more Affiliates of Sellers as the case may be (collectively, the "Excluded Assets") and shall not be conveyed to any of the Buyers:

(a) cash and investment assets, other than the medical staff fund balances referenced in Section 1.1(d);

(b) board-designated, temporarily and permanently restricted and endowment funds, other donor-restricted assets, beneficial interests in charitable trusts, debt service reserve funds and other assets limited as to use and accrued earnings on all of the foregoing;

(c) deferred financing costs and workers' compensation deposits;

(d) all Seller records relating to the Excluded Assets and Excluded Liabilities (as defined below) to the extent that any Buyer does not need the same in connection with the ongoing activities of the System, the Assets, or the Assumed Liabilities (as defined below), the records of those Benefit Plans that are not expressly assumed hereunder by Buyer, as well as all records which by law Sellers are required to maintain in their possession, including, but not limited, to personnel records for those employees of Seller who do not become Hired Employees or who do not accept an offer of employment with Buyer;

(e) all rights and interest to the assets of all Benefit Plans not expressly assumed by Buyers hereunder, including any right or interest in future credits, rebates, returned deposits, refunds or other returns of assets, whether attributable to activity prior to, or after, the Closing Date;

(f) the assets of or any rights or interests with respect to the Crozer Foundation and Delco Foundation, each a Pennsylvania nonprofit corporation, except as set forth in Section 1.1(m);

(g) the assets of or any rights or interests with respect to The Donaldson Trust;

(h) any rights or interests in VHA, Inc. and its Affiliates to the extent not also Affiliates of Seller;

(i) the assets, properties and rights specifically set forth in Schedule 1.2(i);

(j) the contracts, commitments, leases and agreements listed on Schedule 1.2(j) hereto;

(k) all research and other grants from any governmental entity or third party listed on Schedule 1.2(k) that require non-profit status or other requirements imposed by the grantor that Buyers cannot satisfy; and

(l) any rights or interests in Noble Health Alliance, LLC.

1.3. Assumed Liabilities. In connection with the conveyance of the Assets to Buyers, Buyers agree to assume, as of the Effective Time, the future payment and performance of the following liabilities (the "Assumed Liabilities") of Sellers:

(a) all obligations accruing, arising or to be performed after the Effective Time with respect to the Contracts assigned to and assumed by Buyers, but only to the extent such Contracts are listed on Schedule 1.1(f), and subject to Buyers' rights to have Sellers reasonably amend, terminate or otherwise not assign any such Contract prior to Closing;

(b) the capital/financing lease obligations set forth on Schedule 1.3(b) hereto (which shall include the current portion thereof), and the leases associated with the Broomall project referenced in Section 11.17, which shall be included on Schedule 4.11(e) or Schedule 4.11(f) as applicable;

(c) all obligations accruing, arising or to be performed on or after the Effective Time with respect to the leases of any of the Tenant Leased Real Property (such leases being referred to as the "Sellers Tenant Leases" and being set forth on Schedule 4.11(e) hereto) and all obligations accruing, arising or to be performed on or after the Effective Time with respect to the leases of any of the Landlord Leased Real Property (such leases being referred to as the "Sellers Landlord Leases" and being set forth on Schedule 4.11(f) hereto), which shall include leases associated with the Broomall project referenced in Section 11.17, but subject to Buyers' rights to have Sellers reasonably amend, terminate or otherwise not assign any such Sellers Tenant Leases or Sellers Landlord Leases;

(d) the DB Pension Plan and Net Pension Liability (as both terms are defined herein) determined pursuant to and subject to the requirements and limitations of Section 2.4;

(e) accounts payable and accrued expenses of Sellers, but only to the extent such accounts payable and accrued expenses are included in Net Working Capital and subject to the Net Working Capital adjustment as provided in Section 2.2(a);

(f) obligations and liabilities as of the Effective Time with respect to accrued paid time off ("PTO") of the Hired Employees, but only to the extent such PTO is included in Net Working Capital and subject to a Net Working Capital adjustment as provided in Section 2.2(a) and accrued sick time and provided that Buyers would not be required under any applicable law or otherwise to pay out such PTO or accrued sick time to the Hired Employees at or on account of Closing;

(g) all liabilities and obligations under the Benefit Plans (with the exception of the DB Pension Plan which is covered in Section 1.3(d)) expressly assumed by Buyers hereunder arising on or after the Effective Time other than those resulting from negligence of Sellers or Sellers' officers, directors, employees or agents prior to Closing, all provided that: (i) Buyers will not assume, before, on or after the Closing Date, any Benefit Plans that are intended to satisfy section 401(a), 401(k), 403(b), 457, or 409A of the Code, or any rights, duties, obligations or liabilities thereunder, nor shall Buyers become a successor employer or be responsible in any way for Sellers' (or their Affiliate's) participation in or obligations or responsibilities with respect to any such Benefit Plans, other than the DB Pension Plan which is covered in Section 1.3(d); (ii) all of the Sellers' Benefit Plans (which shall expressly not include the DB Pension Plan which is covered in Section 1.3(d)) that are intended to satisfy sections 401(k), 403(b), 457(b), 409A (including the supplemental executive retirement plans) and 401(a) of the Code as defined contribution plans shall be frozen as of the Effective Time and, to the extent permitted by applicable law, terminated within 180 days thereafter; and (iii) the Buyers' 401(k) plan shall accept rollover contributions from the Sellers' 401(k) and 403(b) and defined contribution plans (excluding outstanding loans);

(h) all liabilities and obligations under the union collective bargaining agreements or contracts assumed by the Buyers hereunder, if any, that arise from events after the Effective Time, and including any event that results in withdrawal liability with respect to the Pension Fund identified in Section 11.25;

(i) all liabilities and obligations under the Sellers' severance policies, including executive severance and change-in-control arrangements for payment of severance or termination benefits to executive / management employees, as set forth on Schedule 1.3(i) hereto, provided further that such arrangements were in effect prior to June 30, 2015 have not been materially amended since June 30, 2015, and provided that Buyers would not be required under any applicable law or otherwise to pay out any such benefits at or on account of Closing, except for any such employee not hired by Buyer as of Closing;

(j) all liabilities and obligations under the Environmental Permits transferred to Buyer pursuant to Section 1.1(p) arising after the Effective Time (but excluding any liabilities and obligations arising from or related to any breach by any Seller that occurred prior to the Effective Time);

(k) all liabilities and obligations for the executive retention bonuses and any other retention bonuses accrued in the normal course of business but only to the extent of such amounts set forth on Schedule 1.3(k) and applicable to the employees identified thereon, subject to the Net Working Capital adjustment as provided in Section 2.2(a) which will include any such retention bonuses accrued on a monthly basis up to the Effective Time, as consistent with Section 6.2(m);

(l) the following assumed liabilities: (i) those liabilities specifically identified on Sellers' Financial Statements (defined below) under the category of (A) "Current Liabilities": "Due to third parties" (i.e., associated with Sellers' cost reports) and (B) "Long Term Liabilities/ Other Liabilities": (ii) those liabilities associated with Sellers' "Other Postretirement Benefits (FAS 106)" (other than the DB Pension Plan), "Long-term lease incentive", "Long-term accrued sick pay" and "Other Liabilities" (to the extent specified), and (iii) any liabilities or obligations to former employees of any Seller and their dependents for ongoing continuation coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA") existing under or with respect to the Sellers' group health plan as of the Closing Date, provided that in each case above, Buyers are only assuming such liabilities to the extent specifically set forth on Schedule 1.3(l) (collectively, "Other Assumed Liabilities") and subject to the assumptions, limitations and conditions stated therein; and

(m) all employment related liabilities and obligations incurred by Buyers after the Effective Time, including but not limited to any liability resulting from Buyer's termination of any employees or other employment-related action of Buyer.

1.4. Excluded Liabilities. Except for the Assumed Liabilities, Buyers shall not assume and under no circumstances shall Buyers be obligated to pay or assume, and none of the assets of Buyers shall be or become liable for or subject to any liability, indebtedness, commitment, or obligation of Sellers, whether known or unknown, fixed or contingent, recorded or unrecorded, currently existing or hereafter arising or otherwise (collectively, the "Excluded Liabilities"), including the following Excluded Liabilities, which shall not, in any case, include any liabilities that are subject to the Net Working Capital adjustment set forth in Section 2.2:

(a) any obligations or liability under any tax exempt or other bonds or any other debt, note, obligation, expense or liability that is not an Assumed Liability;

(b) liabilities with respect to claims or potential claims for medical malpractice, premises liability, directors and officers liability, general liability or other claims to the extent arising out of events occurring prior to the Effective Time, subject to Buyers' obligation to maintain certain insurance coverage as further described in Section 11.23 and provided that Buyers shall not be liable for any liabilities not covered by such insurance;

(c) those claims and obligations (if any) specified in Schedule 1.4(c) hereto;

(d) any liabilities or obligations to the extent arising out of or otherwise associated with any of the Excluded Assets, including among others, the research and other grants constituting Excluded Assets under Section 1.2(k);

(e) those liabilities and obligations of any Seller in excess of what is included in the calculation of Net Working Capital, as described further in Section 2.2 of this Agreement, and with respect to any period prior to the Effective Time arising under the terms of the Medicare, Medicaid, CHAMPUS/TRICARE, Blue Cross, or other third party payor programs including any liabilities with respect to CMS Recovery Audit Contractor actions, and other billing and/or compliance matters involving other audit/review agencies and organizations;

(f) federal, state or local tax liabilities or obligations of any Seller with respect to periods prior to the Effective Time or resulting from the consummation of the transactions contemplated herein, including any income tax, any franchise tax, any tax recapture, any FICA, FUTA, workers' compensation and any and all other taxes or amounts due and payable as a result of the exercise by its employees of such employee's right to vacation, sick leave, and holiday benefits accrued while in the employ of Sellers;

(g) liability for any and all claims by or on behalf of any employee or former employee (including any retiree) of Sellers to the extent arising out of or related to acts, omissions, events or occurrences prior to the Effective Time, including liability (other than those expressly assumed pursuant to Section 1.3) for any pension or profit sharing plans, deferred compensation, supplemental executive retirement plan, group health, life insurance, disability insurance or any other employee health and welfare benefit plans, liability for any EEOC claim, ADA claim, FMLA claim, wage and hour claim, unemployment compensation claim, or workers' compensation claim, and any liabilities or obligations to former employees of any Seller under COBRA (provided, however, that this Section 1.4(g) shall not apply to any employee benefits claims or obligations constituting Assumed Liabilities under Section 1.3 hereof);

(h) any obligation or liability accruing, to the extent arising out of, or relating to any federal, state or local investigations of, or claims or actions against, any Seller or any of such Seller's Affiliates or any of its employees, medical staff, or agents with respect to acts or omissions occurring prior to the Effective Time, including, without limitation, with respect to federal 340B prescription drug program audits and investigations by Health Resources and Service Administration, Office of Pharmacy Affairs;

(i) any civil or criminal obligation or liability accruing, to the extent arising out of, or relating to any acts or omissions of any Seller, its Affiliates or their directors, officers, employees and agents claimed to violate any constitutional provision, statute, ordinance or other law, rule, regulation, interpretation or order of any Government Entity;

(j) liabilities or obligations to the extent arising as a result of any breach by any Seller at any time of any contract or commitment that is not assumed by any Buyer, or any breach by any Seller prior to the Effective Time of any Contract assumed by Buyers;

(k) any obligation or liability asserted under the federal Hill-Burton program or other restricted grant and loan programs with respect to the ownership or operation of the System or the Assets;

(l) any obligations or any liability under any tax exempt or other bonds or any other debt, obligation, expense, or liability of any Seller arising out of or incurred solely as a result of any transaction of such Seller occurring after the Effective Time; and

(m) any other liabilities or obligations with respect to claims, actions, suits, proceedings, or investigations against or related to any Seller, the System or the Assets, at law or in equity, before or by any federal, state or municipal court or other governmental agency, department, commission, board, bureau or instrumentality wherever located with respect to acts or omissions occurring prior to the Effective Time;

(n) any obligation or liability with respect to (i) any proceeding relating to the compliance or noncompliance with Environmental Laws (defined below); (ii) the presence, generation, management, storage, disposal, release (or threatened release), escape, seepage, leakage or clean-up of any Hazardous Substances at, on, in, emanating from or under all or a portion of any part of the Assets or Real Property in violation of any Environmental Laws; (iii) the migration of any Hazardous Substance from any of the Assets or Real Property to any other property or onto the Real Property from any property or area adjacent to the Real Property; (iv) the past treatment, removal, disposal, storage, decontamination or clean-up of any Hazardous Substances or the transportation of any Hazardous Substances onto or from the Assets or Real Property; (v) the incorporation, of any Hazardous Substances into the Real Property; and (vi) any activity carried on or undertaken on the Real Property in connection with the treatment, elimination and removal of any Hazardous Substance, in each case regardless of whether any claim was caused by action or inaction of the Sellers, a prior owner of the Real Property, or any other person whatsoever, except for any claim relating solely and exclusively to Hazardous Substances first introduced to the Real Property by the actions of Buyers or, Hazardous Substances that did not exist or occur at the Real Property prior to the Effective Time; and

(o) all liabilities and obligations of any Seller relating to any oral agreements, oral contracts or oral understandings with any referral sources including, but not limited to, physicians, unless reduced to writing and expressly assumed as part of the Contracts.

2. PURCHASE PRICE.

2.1. Purchase Price.

(a) Purchase Price. The purchase price (the "Purchase Price") for the Assets shall be Three Hundred Million Dollars ($300,000,000.00), with the following adjustments: (i) plus the amount of the Final Net Working Capital, as defined in Section 2.2(b) below, as of the Effective Time; (ii) minus the amount of any capital/financing lease obligations that are assumed by any Buyer and identified on Schedule 1.3(b) hereto (excluding any portion of such liabilities included in the Net Working Capital calculation); (iii) minus One Hundred Twenty Million Dollars ($120,000,000.00) if the Net Pension Liability assumed by any Buyer pursuant to Section 2.4(a) equals or exceeds One Hundred Ten Million Dollars ($110,000,000.00), provided that if the amount of the Net Pension Liability as of the Effective Time is less than One Hundred Ten Million Dollars ($110,000,000.00), then the deduction under this subsection (iii) shall be equal to One Hundred Twenty Million Dollars ($120,000,000.00) less 50% of the

amount by which the actual Net Pension Liability as of the Effective Time is less than One Hundred Ten Million Dollars ($110,000,000.00); (iv) minus the amount of Other Assumed Liabilities that are assumed by any Buyer and identified on Schedule 1.3(l); (v) minus a deduction of Fifteen Million Dollars ($15,000,000.00) for Buyers costs to obtain the "prior acts" professional and general liability insurance coverage referenced in Section 11.23 below; (vi) minus the additional deductions listed on Schedule 2.1(a); and (vii) minus any credits against the Purchase Price issued pursuant to the terms of Section 8.3(a) or Section 8.3(d). As part of the Purchase Price, Buyers shall also assume the Assumed Liabilities. The Purchase Price shall initially be calculated as of the Closing ("Estimated Purchase Price") based upon the Estimated Net Working Capital (as defined in Section 2.2(b)) and Estimated Other Adjustments (as defined in Section 2.3), subject to adjustment after the Closing in accordance with Section 2.2(b) to reflect the Final Net Working Capital (as defined in Section 2.2(b)) and in accordance with Section 2.3 to reflect the Final Other Adjustments (as defined in Section 2.3). Buyers shall pay the Estimated Purchase Price to Sellers at the Closing by wire transfer of immediately available funds to an account designated by Sellers, subject to Buyers' direct funding at Closing of Sellers' pension liabilities pursuant to Section 2.4(b).

(b) Restricted Fund. At Closing, Sellers shall cause the Foundation's governing body to set aside and maintain at least Fifteen Million Dollars ($15,000,000.00) (the "Restricted Fund") to secure Sellers' and Foundation's obligations to Buyers, which Restricted Fund shall not be reduced, transferred, expended or otherwise utilized except as expressly permitted pursuant to this Section 2.1, and which Restricted Fund amount shall not be construed as a cap or other limitation on Sellers' and/or Foundation's indemnification or other liability to Buyers. Without limiting any of Buyers' rights or other legal or equitable remedies, the Buyers shall have the right to, upon prior written notice to the Foundation, request payment from the available Restricted Fund of any liabilities of one or more Sellers with respect to any matter which is subject to the Sellers' indemnification obligations, pursuant to the procedures and provisions of Article 13, whether arising before or after the Effective Time and irrespective of when asserted or finally determined.

(c) Sunsetting of Restricted Funds. Except as otherwise provided below, at the expiration of the first anniversary of the Effective Time, the unapplied balance of the Restricted Fund shall be reduced to Ten Million Dollars ($10,000,000.00); at the expiration of the second anniversary of the Effective Time, the unapplied balance of the Restricted Fund shall be reduced to Five Million Dollars ($5,000,000.00); and at the expiration of the third anniversary of the Effective Time, the unapplied balance of the Restricted Fund shall be reduced to Zero Dollars ($0.00); provided, however, that if any claim by Buyers that is within the coverage of the Restricted Fund is in dispute between the Buyers and Sellers with respect thereto and has not been resolved by the expiration of any anniversary of the Effective Time subsequent to the filing of such claim, then the Sellers shall cause the Foundation to continue to maintain the unapplied balance of the Restricted Fund on each such anniversary date to the extent of such claim until final resolution of such dispute. During the pendency of any resolution of such dispute, no other claims may be made against the Restricted Fund after the expiration of the third anniversary of the Effective Time. For the avoidance of doubt, recognizing that the Restricted Fund balance may be insufficient to satisfy Buyers' claims for indemnification or any other liability of Sellers'

and/or Foundation to Buyers, Buyers may pursue claims at any time against the Foundation and/or Sellers and their respective remaining assets (other than restricted endowments) as applicable, subject to Section 13.6 below.

2.2. Net Working Capital, Estimates and Audits.

(a) Net Working Capital. As used herein, the term "Net Working Capital" shall mean (i) the sum of the following "current assets" of Sellers, as such terms are defined on Sellers' Financial Statements: all accounts receivable including patient receivables (less accounts deemed uncollectible), supplies, inventories and prepaid expenses (but excluding any Excluded Assets that would otherwise be included in the foregoing), (ii) minus accounts payable and accrued expenses of Sellers that are assumed by any Buyer pursuant to Section 1.3(e) hereof (excluding any Excluded Liabilities that would otherwise be included in accounts payable and accrued expenses), all as determined in accordance with generally accepted accounting principles ("GAAP"). For purposes of the computation of Net Working Capital, the current portion of accrued paid time off and sick time benefits with respect to the Hired Employees that are assumed by any Buyer under Section 1.3(f) shall be included in accounts payable and accrued expenses.

(b) Net Working Capital Estimates and Final Adjustments. Schedule 2.2(b) sets forth a sample calculation of Net Working Capital using Sellers' most recent audited Financial Statements as of June 30, 2015, all determined in accordance with GAAP and consistent with past practice. Not more than ten (10) but in no event less than five (5) business days prior to the Closing, Sellers shall deliver to Buyers a good faith estimate of the Net Working Capital as of the Effective Time following the same principles, specifications and methodologies used to determine the foregoing sample calculation of Net Working Capital as set forth on Schedule 2.2(b), based on the most recent Interim Statements (the "Estimated Net Working Capital") except with respect to counting and valuing inventory and supplies, as described in more detail below. The Estimated Net Working Capital shall be used for purposes of calculating the Estimated Purchase Price payable as of the Closing and shall be subject to prior good faith review and comment by Buyers. No later than ninety (90) days after the Closing, Buyers shall deliver to Sellers their determination of the final Net Working Capital as of the Effective Time (following the same principles, specifications and methodologies used to determine the Estimated Net Working Capital) (the "Final Net Working Capital"). Sellers shall have full access to Buyers' Books and Records pertaining to the Assets and the System to confirm or audit the Final Net Working Capital computations. In the event Sellers disagree with Buyers' determination of Final Net Working Capital, Sellers shall notify Buyers within sixty (60) days after Buyers' delivery of their determination of Final Net Working Capital. If Sellers and Buyers fail to agree within thirty (30) days after Sellers' delivery of notice of disagreement on the amount of Final Net Working Capital, such disagreement shall be resolved in accordance with the procedure set forth in Section 2.2(c) which shall be the sole and exclusive remedy for resolving accounting disputes relative to the determination of Final Net Working Capital. The Purchase Price shall be: (i) increased to the extent of the positive difference of Final Net Working Capital minus Estimated Net Working Capital; or (ii) decreased by the absolute value of the negative difference of Final Net Working Capital minus Estimated Net Working Capital,

and within five (5) business days after determination thereof any increase in the Purchase Price shall be paid in cash by Buyers to Sellers, and any decrease in the Purchase Price shall be paid in cash by Sellers to Buyers. Notwithstanding the foregoing, the portion of Net Working Capital constituting the value of inventory and supplies shall be determined based on a physical count conducted by Sellers on a date not more than five (5) business days before the Closing Date. Sellers shall give Buyers at least five (5) business days prior notice of the date of the count and permit Buyers to monitor the count. Sellers shall count the usable items of inventory and supplies that are not damaged, obsolete, or slow moving, and that are of a type, quality and quantity that may be used in the ordinary course of business of the Sellers (having due regard for the services offered by the Sellers). Sellers shall conduct the count in the same manner that Sellers conducted the count of, and will count the same classes and categories of items that Sellers counted to determine the value of, inventory and supplies in the most recent audited Financial Statements. Upon completion of the count, Sellers shall determine the value of the inventory and supplies (determined by the lower of cost or market on a first in, first out basis). If the results of the count and the resulting value of inventory and supplies are available by Closing, then, for purposes of the Estimated Net Working Capital calculation, the portion of Net Working Capital attributable to inventory and supplies will be the value determined pursuant to the count (updated for actual usage and purchases between the date of the count and the Closing Date). If the results of the count or the resulting value of inventory and supplies are not available by Closing, then for purposes of the Estimated Net Working Capital calculation, the value of the inventory and supplies will be the amount set forth in the most recent Interim Statements and the value of the inventory and supplies determined pursuant to the count (updated for actual usage and purchases between the date of the count and the Closing Date) will be utilized for purposes of determining Final Net Working Capital.

(c) Dispute of Adjustments. In the event that Sellers and Buyers are not able to agree on the Final Net Working Capital within thirty (30) days after Sellers' delivery of notice of disagreement, Sellers and Buyers shall each have the right to require that such disputed determination be submitted to CliftonLarsonAllen LLC (the "Accounting Firm"), for computation or verification in accordance with the provisions of this Agreement. The Accounting Firm shall review the matters in dispute and, acting as arbitrators, promptly shall decide the proper amounts of such disputed entries (which decision shall also include a final calculation of the Final Net Working Capital). The submission of the disputed matter to the Accounting Firm shall be the exclusive remedy for resolving accounting disputes relative to the determination of Net Working Capital. The Accounting Firm's determination shall be binding upon Sellers and Buyers. The Accounting Firm's fees and expenses shall be borne equally by Sellers and Buyers.

2.3. Other Adjustments, Estimates and Audits. Schedule 2.3 sets forth a sample calculation of:

(a) the capital/financing lease obligations that are assumed by any Buyer and identified on Schedule 1.3(b) hereto (excluding any portion of such liabilities included in the Net Working Capital calculation);

(b) the amount of Net Pension Liability assumed by any Buyer pursuant to Section 2.4(a) and the related deduction under Section 2.1(a)(iii) subject to the limits and modifications thereunder; and

(c) the amount of Other Assumed Liabilities that are assumed by any Buyer and identified on Schedule 1.3(l),

(collectively, the "Other Adjustments"), all using Sellers' most recent audited Financial Statements as of June 30, 2015 and all determined in accordance with GAAP and consistent with past practice. Not more than ten (10) but in no event less than five (5) business days prior to the Closing, Sellers shall deliver to Buyers a good faith estimate of the Other Adjustments as of the Effective Time following the same principles, specifications and methodologies used to determine the foregoing sample calculation of the Other Adjustments as set forth on Schedule 2.3, and where actuarially determined, based on the most recent Interim Statements (the "Estimated Other Adjustments"). The Estimated Other Adjustments shall be used for purposes of calculating the Estimated Purchase Price payable as of the Closing and shall be subject to prior good faith review and comment by Buyers. No later than ninety (90) days after the Closing, Buyers shall deliver to Sellers their determination of the final Other Adjustments as of the Effective Time (following the same principles, specifications and methodologies used to determine the Estimated Other Adjustments) (the "Final Other Adjustments"). Sellers shall have full access to Buyers' Books and Records pertaining to the Assets and the System to confirm or audit the Final Other Adjustments computations. In the event Sellers disagree with Buyers' determination of Final Other Adjustments, Sellers shall notify Buyers within sixty (60) days after Buyers' delivery of their determination of Final Other Adjustments. If Sellers and Buyers fail to agree within thirty (30) days after Sellers' delivery of notice of disagreement on the amount of Final Other Adjustments, such disagreement shall be resolved in accordance with the same procedures as set forth in Section 2.2(c) for resolving Net Working Capital disputes, which shall be the sole and exclusive remedy for resolving accounting disputes relative to the determination of Final Other Adjustments. The Purchase Price shall be: (i) decreased to the extent of the positive difference of Final Other Adjustments minus Estimated Other Adjustments; or (ii) increased by the absolute value of the negative difference of Final Other Adjustments minus Estimated Other Adjustments, and within five (5) business days after determination thereof any increase in the Purchase Price shall be paid in cash by Buyers to Sellers, and any decrease in the Purchase Price shall be paid in cash by Sellers to Buyers.

2.4. Pension Funding.

(a) Pension Liability. Buyers agree to become the sponsor of, and assume, as of the Effective Time, the Crozer-Keystone Health System Employees Retirement Plan, an employee non-contributory, defined benefit pension plan (the "DB Pension Plan") and therewith all of the assets and the liability, less the Sellers' Pension Plan Contribution defined in Section 2.4(b) below ("Net Pension Liability"), all subject to the specific actuarial assumptions and all other terms, conditions and provisions as specifically set forth on Schedule 2.4 hereto.

(b) Funding by Sellers. At Closing and subject to such contribution being permissible under the Code without giving rise to penalties or other adverse consequences to

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Sellers, Sellers shall pay, out of the Purchase Price, One Hundred Million Dollars ($100,000,000.00) to fund, in part, the underfunded DB Pension Plan liability then outstanding ("Pension Plan Contribution"). Such Pension Plan Contribution shall be designated as a prefunding payment. If Sellers reasonably determine such payment would result in penalties or other adverse consequences to Sellers under the Code, then Sellers shall make such payment directly to Buyers outside the DB Pension Plan. Upon reasonable prior notice from Buyers to Sellers, and absent timely objection by Sellers, Buyers may elect to pay Sellers' Pension Plan Contribution directly, on Sellers' behalf, at Closing out of the Purchase Price payable to Sellers.

(c) Post-Closing Commitment. Within five (5) years after the Effective Time and subject to applicable filing and authorization by the applicable Government Entity, Buyers shall adopt a plan amendment to terminate the DB Pension Plan effective within such five (5) year period and thereafter, in accordance with applicable law, shall liquidate, fully fund and satisfy, and pay all benefits owed to participants and beneficiaries of, the DB Pension Plan by providing for lump sum distributions to participants, purchasing annuities for participants who do not elect a lump sum distribution or otherwise in accordance with the terms, conditions and provisions of the DB Pension Plan (as in effect at the Effective Time) and with applicable law.

(d) PBGC Matters. Sellers and Buyers agree to cooperate in connection with any pre-Closing inquiry, investigation, audit or other proceeding of, or by, the Pension Benefit Guaranty Corporation ("PBGC"), including without limitation formulating and implementing any amendments to this Agreement as may be required by the PBGC in connection with the assignment, assumption, funding and termination of the DB Pension Plan. Sellers shall be responsible for any pension costs associated with any of the foregoing matters.

2.5. Tax Prorations. Subject to Section 14.9(iii), all real property Taxes, personal property Taxes, or ad valorem obligations or assessments and any similar Taxes or fees on the Assets and Assumed Liabilities for taxable periods ending prior to the Effective Time shall be paid for by Sellers. All real property Taxes, personal property Taxes, or ad valorem obligations or assessments and any similar Taxes or fees on the Assets and Assumed Liabilities for taxable periods beginning on or before, and ending on or after, the Effective Time, shall be prorated between Buyer and Sellers based on the number of days of such taxable period up to and including the Closing Date (which shall be for the account of Sellers) and the number of days of such taxable period after the Closing Date (which shall be for the account of Buyer). All real property Taxes, personal property Taxes, or ad valorem obligations or assessments and any similar Taxes or fees on the Assets and Assumed Liabilities for taxable periods commencing on the Effective Time shall be paid for by Buyer. Any real property Taxes, personal property Taxes, or ad valorem obligations or assessments and any similar Taxes or fees on the Assets and Assumed Liabilities which are due and payable in installments on or after the Effective Date shall be paid for by Buyers. Any real property Taxes, personal property Taxes, or ad valorem obligations or assessments and any similar Taxes or fees on the Assets and Assumed Liabilities which are due and payable in installments prior to the Effective Date shall be paid for by Sellers, provided any which are for the installment period in which Closing occurs, shall be prorated between Buyers and Sellers for such installment period. The foregoing provisions shall only

apply to Real Property which is Owned Real Property. Notwithstanding anything the contrary herein, this Section 2.5 and the prorations described herein shall not apply to any Taxes, obligations, assessments or fees to the extent included in Net Working Capital and subject to the adjustments described in Section 2.2.

2.6. Net Operating Loss Reconciliation. To the extent Buyers acquire the stock, shares or other ownership or beneficial interest in any for profit Affiliates of Sellers as listed on Schedule 1.1(o) that have net operating loss carryovers ("NOLs") as of the Effective Time, Buyers shall pay to Sellers as additional Purchase Price an amount equal to fifty percent (50%) of the reduction in federal income tax liability attributable to deductions taken on account of the NOLs of such for profit Affiliates of Sellers that were in existence as of the Effective Time. Such payments, if any, shall be made by Buyers to Sellers within one hundred and eighty (180) days of filing of the federal income tax return wherein such NOL deductions are taken.

2.7. Allocation of Purchase Price. The Purchase Price shall be allocated among the various classes of Assets in accordance with and as provided by Section 1060 of the Internal Revenue Code (the "Code"). At least sixty (60) days prior to the Closing, Buyers shall provide Sellers with a preliminary allocation of the Purchase Price for Sellers' review and approval. The Parties agree that any tax returns or other tax information they may file or cause to be filed with any Government Entity shall be prepared and filed consistently with such agreed upon allocation. In this regard, the Parties agree that, to the extent required, they will each properly prepare and timely file Form 8594 in accordance with Section 1060 of the Code.

2.8. Sellers Tenant Leases Rent Prorations. Any rent, additional rent or other sums payable or paid in or for the month in which Closing occurs under or pursuant to any Sellers Tenant Leases shall be prorated between Buyers and Sellers as of the Effective Time on a per diem basis for such month. After Closing, if any additional sums are due from the tenant to the landlord under any Sellers Tenant Lease or to the tenant from the landlord under any Sellers Tenant Lease for a period of time during which the Closing occurred, then such amount shall be prorated between Buyers and Sellers as of the Effective Time with Buyers obligated to pay, or entitled to receive, such sums from and after the Effective Time and Sellers obligated to pay, or entitled to receive, such sums prior to the Effective Time. If the landlord gives a credit against future rent or other sums payable under any Sellers Tenant Lease, any portion of which belongs to Sellers pursuant to the foregoing, Buyers shall be obligated to pay such sum to Sellers in cash. Any and all such sums due to or from one Party to another, shall be paid in ten (10) business days from the receipt of written demand for the same. The terms hereof shall survive Closing. Notwithstanding anything the contrary herein, this Section 2.8 and the prorations described herein shall not apply to any rent, additional rent or other sums payable to the extent included in Net Working Capital and subject to the adjustments described in Section 2.2.

3. CLOSING.

3.1. Closing. Subject to the terms and conditions of this Agreement, the consummation of the transactions contemplated by this Agreement (the "Closing") shall take place on the last day of the month immediately after all of the conditions precedent to Closing set forth herein are either satisfied or waived (other than conditions which, by their nature, are to be

satisfied on the Closing Date), but no later than sixty (60) days after receipt of all necessary regulatory approvals as set forth herein, or on such other date as Sellers and Buyers may mutually agree in writing. The date on which the Closing is to occur is herein referred to as the "Closing Date." Subject to the satisfaction on the Closing Date of all conditions which, by their nature, are to be satisfied on the Closing Date, including payment of the Purchase Price by Buyers as described in Section 3.3, the Closing shall be effective as of 12:00:01 a.m., Eastern Time, on the first calendar day of the month immediately following the Closing Date (the "Effective Time").

3.2. Actions of Sellers at Closing. At the Closing and unless otherwise waived in writing by Buyers, Sellers shall deliver to Buyers the following:

(a) Deeds containing special warranty of title, fully executed by the appropriate Seller in recordable form, conveying to the appropriate Buyer fee title to the Owned Real Property pursuant to the terms of Section 8.3 of this Agreement;

(b) A General Assignment, Conveyance and Bill of Sale in substantially the form attached hereto as Exhibit C, fully executed by the appropriate Seller, as applicable, conveying to the appropriate Buyer title to all assets which are a part of the Assets;

(c) An Assignment and Assumption Agreement in substantially the form attached hereto as Exhibit D (the "Assignment and Assumption Agreement"), fully executed by the appropriate Seller, conveying to the appropriate Buyer such Seller's interest in the Contracts (other than the Real Property Leases);

(d) An Assignment and Assumption of Leases in substantially the form attached hereto as Exhibit E (the "Lease Assignment and Assumption Agreement"), fully executed by the appropriate Seller, conveying to the appropriate Buyer such Seller's interest in all Sellers Tenant Leases and all Sellers Landlord Leases (Sellers Tenant Leases and Sellers Landlord Leases collectively, the "Real Property Leases");

(e) An Assignment and Assumption of Licenses in substantially the form attached hereto as Exhibit F (the "License Assignment and Assumption Agreement"), fully executed by the appropriate Seller, conveying to the appropriate Buyer such Seller's interest in all assignable Licenses (as defined in Section 4.6 hereof);

(f) An Assignment and Assumption of Pension Plan Obligations in substantially the form attached hereto as Exhibit G (the "DB Pension Plan Assignment and Assumption Agreement"), fully executed by the appropriate Seller, conveying to the appropriate Buyer such Seller's interest in all of the assets and liabilities of the DB Pension Plan;

(g) An Assignment and Assumption of Benefit Plan Obligations (other than the DB Pension Plan) in substantially the form attached hereto as Exhibit H (the "Benefit Plan Assignment and Assumption Agreement"), fully executed by the appropriate Seller, conveying to the appropriate Buyer such Seller's interest in all of the assets and certain liabilities of the assignable Benefit Plans (other than the DB Pension Plan) assumed by Buyers hereunder;

(h) The Transition Services Agreement in substantially the form attached hereto as Exhibit I (the "Transition Services Agreement"), fully executed by the appropriate Seller(s) (as described in Section 11.11 hereof);

(i) All instruments and documents reasonably and customarily required by the Title Company (as defined in Section 8.3 hereof) to issue the Title Policy (as defined in Section 8.3 hereof) as described in and provided by Section 8.3 hereof;

(j) Copies of resolutions duly adopted by the Board of Directors or other governing body, as applicable, of each of the Sellers, authorizing and approving its performance of the transactions contemplated hereby and the execution and delivery of this Agreement and the documents described herein on such Sellers' behalf, certified as true and of full force as of the Closing, by the appropriate officers of each Seller;

(k) Certificates of the Chief Executive Officer, President or a Vice President of each Seller, certifying that each covenant and agreement of such Seller to be performed prior to or as of the Closing pursuant to this Agreement has been performed in all material respects and each representation and warranty of such Seller is true, accurate and complete in all material respects on the Closing Date, as if made on and as of the Closing;

(l) Certificates of incumbency for the respective officers of each Seller executing this Agreement (or the Indemnification Agreement attached hereto as Exhibit K) or making certifications for the Closing dated as of the Closing Date;

(m) Certificates of existence and good standing of each Seller from the state in which it is incorporated, dated the most recent practical date prior to the Closing;

(n) All forms required for the termination of any assumed names of each Seller used in the operation of the System and registered with the Commonwealth of Pennsylvania, fully executed by the appropriate Seller;

(o) Documentation of all Material Consents (as defined in Section 8.7);

(p) All certificates of title and other documents evidencing an ownership interest conveyed as part of the Assets;

(q) the Indemnification and Restrictive Covenant Agreement attached hereto as Exhibit K fully executed by the Foundation and complete copies of the Statement of Merger and Plan of Merger (with all attachments thereto) associated with the merger of Delco Foundation into Crozer Foundation pursuant to Section 6.13; and

(r) Such other instruments and documents as any Buyer reasonably deems necessary to effect the transactions contemplated hereby.

3.3. Actions of Buyers at Closing. At the Closing and unless otherwise waived in writing by Sellers, Buyers shall deliver to Sellers the following:

(a) An amount equal to the Estimated Purchase Price in immediately available funds to an account (or accounts) designated by Sellers prior to Closing, subject to Buyers' election to directly pay Seller's DB Pension Plan Contribution in accordance with Section 2.4(b);

(b) An Assignment and Assumption Agreement, fully executed by the appropriate Buyer, pursuant to which such Buyer shall assume the future performance of the Contracts as herein provided;

(c) A Lease Assignment and Assumption Agreement, fully executed by the appropriate Buyer, pursuant to which such Buyer shall assume the future performance of the Real Property Leases as herein provided;

(d) A License Assignment and Assumption Agreement, fully executed by the appropriate Buyer, pursuant to which such Buyer shall assume the future performance of the Licenses as herein provided;

(e) A DB Pension Plan Assignment and Assumption Agreement in substantially the form attached hereto as Exhibit G, fully executed by the Buyers, pursuant to which such Buyers shall assume such Seller's interest and obligations in all of the assets and liabilities of the DB Pension Plan;

(f) A Benefit Plan Assignment and Assumption Agreement (other than the DB Pension Plan) in substantially the form attached hereto as Exhibit H, fully executed by the Buyers, conveying to the appropriate Buyer the interests of Sellers' in all assignable Benefit Plans (other than the DB Pension Plan) assumed by Buyers hereunder;

(g) The Transition Services Agreement in substantially the form attached hereto as Exhibit I, fully executed by the appropriate Buyer(s) (as described in Section 11.11 hereof);

(h) Copies of resolutions duly adopted by the governing bodies of each of Prospect and PMH, authorizing and approving its performance of the transactions contemplated hereby and the execution and delivery of this Agreement and the documents described herein, certified as true and in full force as of the Closing, by the appropriate officers of each of Prospect and PMH;

(i) Certificates of an executive officer of Buyers certifying that each covenant and agreement of each Buyer to be performed prior to or as of the Closing pursuant to this Agreement has been performed in all material respects and each representation and warranty of each Buyer is true, accurate and complete in all material respects on the Closing Date, as if made on and as of the Closing;

(j) Certificates of incumbency for the respective officers of each of Buyers executing this Agreement or making certifications for the Closing dated as of the Closing Date;

(k) the Indemnification and Restrictive Covenant Agreement attached hereto as Exhibit K fully executed by PMH and Prospect; and

(l) Such other instruments and documents as any Seller reasonably deems necessary to effect the transactions contemplated hereby.

4. REPRESENTATIONS AND WARRANTIES OF SELLERS.

As of the date hereof, as updated pursuant to Section 11.1, and as of the Closing Date, Sellers jointly and severally represent and warrant to each of the Buyers the following:

4.1. Existence and Capacity. Each Seller is validly existing in good standing under the laws of the Commonwealth of Pennsylvania, in the corporate form and taxable or tax-exempt status specified on Schedule 4.1. Each Seller has all requisite power and authority to enter into this Agreement, to perform its obligations hereunder and to conduct its business as now being conducted in each jurisdiction where such business is conducted.

4.2. Powers; Consents; Absence of Conflicts With Other Agreements, Etc. The execution, delivery, and performance of this Agreement by each Seller, and all other agreements referenced herein, or ancillary hereto, to which any Seller is a party, and the consummation of the transactions contemplated herein by each Seller:

(a) are within its corporate powers, are not in contravention of law or of the terms of its organizational documents, and have been duly authorized by all appropriate corporate action;

(b) except as provided in Section 6.4 and Section 6.5 below, do not require any approval or consent of, or filing with, any Government Entity or authority bearing on the validity of this Agreement which is required by law or the regulations of any such agency or authority;

(c) except as set forth on Schedule 4.2, will neither conflict with, nor result in any breach or contravention of, or the creation of any lien, charge, or encumbrance under, any indenture, agreement, lease, instrument or understanding to which it is a party or by which it is bound;

(d) will not violate any statute, law, rule, or regulation of any Government Entity to which any Seller or the Assets may be subject; and

(e) will not violate any judgment, decree, writ or injunction of any court or Government Entity to which any Seller or the Assets may be subject.

4.3. Binding Agreement. This Agreement and all agreements to which any Seller will become a party pursuant hereto are and will constitute the valid and legally binding

obligations of each such Seller, and are and will be enforceable against each Seller in accordance with the respective terms hereof or thereof.

4.4. Financial Statements.

(a) Sellers have delivered to Buyers copies of the following financial statements of or pertaining to Sellers ("Financial Statements"), which Financial Statements are maintained on an accrual basis, and copies of which are attached hereto as Schedule 4.4(a):

(i) Audited Consolidated Balance Sheets, Income Statements, and Statements of Cash Flows for Sellers for the fiscal years ended June 30, 2015 (the "Balance Sheet Date"), June 30, 2014, and June 30, 2013, together with the notes thereto and the audit report thereon by Sellers' independent auditors;

(ii) Unaudited Consolidated Balance Sheets for the Sellers, dated as of November 30, 2015; and

(iii) Unaudited Consolidated Income Statements for Sellers for the five-month period ended on November 30, 2015.

(b) The Financial Statements are true, accurate and complete and present fairly in all material respects the financial condition and results of operations of Sellers as of the dates indicated thereon, and for the periods indicated therein. The Financial Statements have been prepared in accordance with GAAP, applied on a consistent basis throughout the periods indicated, except as may be specified in Schedule 4.4(b). The Sellers have heretofore provided Buyers with copies of all annual management letters with respect to the Sellers from their independent certified public accountants for each of the last three fiscal years to the extent issued.

(c) Except as set forth in Schedule 4.4(c), all Accounts Receivable of Sellers reflected on the Financial Statements constitute *bona fide* receivables resulting from a *bona fide* sale to a patient or customer in the ordinary course of business, the amount of which was actually due on the date thereof and has been collected, or which Sellers, as of the Effective Time, are using reasonable efforts to collect, in the ordinary course of business. The Books and Records of the Sellers state correctly the facts with respect to each of the Accounts Receivable of Sellers and the balance due thereon. Each payment reflected in such Books and Records as having been made on each such Account Receivable was made by the respective account debtor and not directly or indirectly by any director, officer, employee or agent of any of the Sellers. Each document and instrument evidencing, securing or relating to each Account Receivable, including, without limitation, each insurance policy, certificate, bill or statement, is correct and complete in all respects, is genuine and valid and is enforceable in accordance with its terms. There are no defenses, claims of disabilities, counterclaims, offsets, refusals to pay or other rights of setoff against any Accounts Receivable and there is no threatened, intended or proposed defense, claim of disability, counterclaim, offset, refusal to pay or other right of setoff with respect thereto. Each Account Receivable, each document and instrument and each transaction underlying or relating thereto conforms in all material respects, including, without

limitation, in respect of interest rates charged, notices given and disclosures made, to the requirements and provisions of each applicable law, rule, regulation or order relating to credit, consumer credit, credit practices, credit advertising, credit reporting, retail installment sales, credit cards, collections, usury, interest rates and truth-in-lending, including, without limitation, the Federal Truth in Lending Act, as amended, and Regulation Z issued by the Board of Governors of the Federal Reserve System thereunder. Accounts Receivable reserve allowances have been established on the basis of historical experience in accordance with GAAP consistently applied (which reserves and allowances are set forth in Schedule 4.4(c)).

(d) Except as set forth in the Financial Statements, or as otherwise set forth on Schedule 4.4(d), there are no contingent or other liabilities or obligations which have, or with reasonable foreseeability may have, a Material Adverse Effect (as defined in Section 14.17) on any Seller or their respective business or operations.

4.5. Certain Post-Balance Sheet Results. Except as set forth in Schedule 4.5 hereto, since June 30, 2015 there has not been any:

(a) material damage, destruction, or loss (whether or not covered by insurance) affecting the System or the Assets;

(b) any event, change or occurrence which has or could reasonably be expected to have a Material Adverse Effect;

(c) threatened employee strike, work stoppage or labor dispute within the System, as further described in Section 4.18(a), except as set forth on Schedule 4.18(a);

(d) sale, assignment, transfer, or disposition of any item of property, plant or equipment included in the Assets having a value in excess of Two Hundred Fifty Thousand Dollars ($250,000.00) (other than supplies), except in the ordinary course of business or with a comparable replacement thereof;

(e) general increases in the compensation payable by any Seller to any of its employees or any general increase in, or general institution of, any bonus, insurance, pension, profit-sharing or other employee benefit plan, remuneration or arrangements made to, for or with such employees, other than those increases in compensation or the general institution of any bonus, insurance, pension, profit-sharing arrangement, other employee benefit plan, remuneration or arrangement required under any collective bargaining agreement or otherwise made in the ordinary course of business by any Seller;

(f) changes in the composition of the medical staffs of the two licensed Hospitals or other facilities operated by Sellers, other than normal turnover occurring in the ordinary course of business;

(g) changes in the rates charged by the Hospitals, its physicians or other providers for their services, other than changes made in the ordinary course of business;

(h) changes in the accounting methods or practices employed by Sellers or changes in depreciation or amortization policies; or

(i) transactions pertaining to the Hospitals or any of the other Assets by any Seller outside the ordinary course of business (other than those contemplated by this Agreement).

4.6. Licenses. Crozer-Chester Medical Center ("CCMC") is duly licensed by the Pennsylvania Department of Health as an acute care hospital with four campuses: (a) the Crozer Medical Center campus ("Crozer Campus"), a tertiary care teaching facility with 300 licensed and 260 staffed beds in Upland, Pennsylvania; (b) Taylor Hospital ("Taylor"), an acute care facility with 105 licensed and staffed beds in Ridley Park, Pennsylvania; (c) Springfield Hospital ("Springfield"), an acute care facility with 25 licensed and staffed beds in Springfield, Pennsylvania; and (d) Community Hospital ("CH"), an outpatient facility that coordinates a full range of outpatient behavioral and community health services in Chester, Pennsylvania. In addition, Delaware County Memorial Hospital ("DCMH") is separately licensed by the Pennsylvania Department of Health as a general acute care hospital with approximately 168 licensed and staffed beds. The pharmacies, laboratories and all other ancillary departments or other healthcare services located at the Hospitals or Sellers' other facilities which are required to be specially licensed are so duly licensed by the appropriate licensing agency pursuant to the laws of the Commonwealth of Pennsylvania. Sellers have all other licenses, registrations, permits, certificates, accreditations, authorizations and approvals which are required by law to operate the Assets and the System (collectively, the "Licenses"). Schedule 4.6 sets forth of all such Licenses, owned or held by Sellers relating to the ownership or operation of the System or the Assets, all of which are in good standing, and none of the foregoing has been revoked or limited, or, to Sellers' knowledge, has been threatened to be revoked or limited.

4.7. Condition of Assets. The Assets constitute the assets which are owned by Sellers or held or used by Sellers in the conduct of the business and operation of the System in the manner conducted as of the date of this Agreement. Schedule 4.7 lists any material defects (which shall include for this purpose all known noncompliance with applicable building and safety codes and all known life safety issues) in the buildings, structures, facilities and major equipment. The furniture, fixtures, machinery, equipment, vehicles and other items of tangible personal property currently owned or leased by Sellers are sufficient for the continued conduct of Sellers' business after the Effective Time in substantially the same manner as conducted prior to the Effective Time and constitute substantially all of the rights, property and assets necessary to conduct the business of Sellers as currently conducted.

4.8. Medicare Participation/Accreditation/Registration.

(a) The Hospitals, the employed physicians and other providers within the System, as applicable, are qualified for participation in the Medicare, Medicaid/Medical Assistance and CHAMPUS/TRICARE programs, have current and valid provider numbers and contracts with such programs, are in compliance with the conditions of participation in such programs, and have received all approvals or qualifications necessary for reimbursement. The Hospitals are duly accredited, with no contingencies, by The Joint Commission. A copy of the most recent accreditation letter from The Joint Commission pertaining to each Hospital has been

provided to Buyers. All billing practices of Sellers with respect to the Hospitals, its employed physicians and other providers for all third party payors, including the Medicare, Medicaid and CHAMPUS/TRICARE programs and private commercial insurance companies, have been in compliance with all applicable laws, regulations and policies of such third party payors and the Medicare, Medicaid and CHAMPUS/TRICARE programs, and no Seller has billed or received any payment or reimbursement in excess of amounts allowed by law. No Seller, Hospital, employed physician or other provider has been excluded from participation in the Medicare, Medicaid or CHAMPUS/TRICARE programs, nor to Sellers' knowledge is any such exclusion threatened. None of the officers, directors or employees of Seller have been excluded from participation in the Medicare, Medicaid or CHAMPUS/TRICARE programs. Except as set forth in a writing delivered by Sellers to Buyers and set forth on Schedule 4.8(a), Seller has not received any written notice from any of the Medicare, Medicaid or CHAMPUS/TRICARE programs, or any other third party payor programs of any pending or threatened investigations or surveys.

(b) Each Seller required to be registered (each, for purposes of this paragraph, a "Registered Seller") has registered with My Quality Net (formerly QNet Exchange) and any other quality reporting data exchanges as required by The Centers for Medicare and Medicaid Services ("CMS") under its quality reporting programs (the "Quality Programs"). Each Registered Seller has submitted all quality data required under the Quality Programs to CMS or its agents, and all quality data required under the ORYX Core Measure Performance Measurement System ("ORYX") to The Joint Commission, for all reporting periods concluded prior to the date of this Agreement, except for any reporting period for which the respective reporting deadlines have not yet expired. All such submissions of quality data have been made in accordance with applicable reporting deadlines and in the form and manner required by CMS and The Joint Commission, respectively. Sellers have made available to Buyers the "validation results" for all reporting periods concluded prior to the date of this Agreement, except for any reporting period for which the respective reporting deadlines have not yet expired. Except as set forth on Schedule 4.8(b), no Registered Seller has received notice of any reduction in reimbursement under the Medicare program resulting from its failure to report quality data to CMS or its agent as required under the Quality Programs.

4.9. Compliance with Laws. Except as set forth in a writing delivered by Sellers to Buyers and set forth on Schedule 4.9, Sellers are in compliance in all material respects with all applicable statutes, rules, regulations, and requirements of the Government Entities having jurisdiction over the System and the Assets. As used herein, "Government Entity" means any government or any agency, bureau, board, directorate, commission, court, department, official, political subdivision, tribunal or other instrumentality of any government, whether federal, state or local. Each Seller has timely filed all reports, data, and other information required to be filed with the Government Entities. No Seller, or any of Seller's employees have committed a violation of federal or state laws regulating healthcare and/or healthcare fraud, including but not limited to the following laws: the Federal (Title XIX of the Social Security Act) and state Medicaid programs and their implementing regulations, the Medicare Program (Title XVIII of the Social Security Act) and its implementing regulations; the Federal False Claims Act (31 U.S.C. §§ 3729 *et seq.*); the Federal Health Care Program Anti-Kickback Statute (42 U.S.C.

§ 1320a 7b(b)); the Federal Physician Self-Referral Law (42 U.S.C. § 1395nn); the Federal Administrative False Claims Law (42 U.S.C. § 1320a 7b(a)); the Federal Confidentiality of Alcohol and Drug Abuse Patient Records Act (42 U.S.C. 290ee 3); the Rehabilitation Act, the Americans with Disabilities Act, the Occupational Safety and Health Administration statutes and regulations for blood borne pathogens and workplace risks, and any state and local laws that address the same or similar subject matter. Without limiting the generality of the foregoing, Sellers are in compliance in all material respects with the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), including the electronic data interchange regulations and the health care privacy regulations, and including the applicable rules and regulations promulgated under HIPAA pursuant to 45 CFR Parts 160, 162, and 164 (subparts A, D and E) and the changes thereto imposed by the Health Information Technology for Economic Clinical Health Act, Division A, Title XIII § 1301 *et seq*. of the American Recovery and Reinvestment Act of 2009, all as of the applicable effective dates for such requirements.

4.10. Equipment. Schedule 4.10 sets forth a depreciation schedule as of the Balance Sheet Date which takes into consideration all the equipment constituting any part of the System and the Assets having a book value greater than Ten Thousand Dollars ($10,000.00).

4.11. Real Property. Based solely on the Title Commitments (as defined in Section 8.3 below), each Seller owns good, marketable, and indefeasible fee simple title to the Owned Real Property and good, valid and subsisting leasehold title to the Insured Leases (as defined in Section 8.3 below), subject only to the Permitted Encumbrances (as defined in Section 8.3 below). With respect to the Owned Real Property or the Insured Lease Parcels (as defined in Section 4.11(c) below):

(a) To the knowledge of the applicable Seller which is the record title owner of the applicable Owned Real Property or the Seller which is the tenant under the applicable Insured Lease, such applicable Seller has not received during the past three (3) years written notice of a violation of any applicable ordinance or other law, order, regulation, or requirement of any governmental authority applicable to such Owned Real Property or Insured Lease Parcel that has not been corrected or complied with;

(b) To Sellers' knowledge, except as described on Schedule 4.11(b), the Real Property and its operation are in material compliance with all applicable zoning ordinances, and, to the knowledge of Seller, subject to Seller's satisfaction of the terms of Section 14.26 below, as may be applicable, the consummation of the transactions contemplated herein will not result in a violation of any applicable zoning ordinance or the termination of any applicable zoning variance now existing;

(c) Based solely on the Title Commitments and subject to the Permitted Encumbrances and any fact which current and accurate surveys of the Owned Real Property and/or the parcels of land leased pursuant to the Insured Leases (such parcels being referred to as the "Insured Lease Parcels" or individually as an "Insured Lease Parcel") would disclose, to the knowledge of Sellers, neither the Owned Real Property nor the Insured Lease Parcels are subject to any easements, restrictions, ordinances, or other limitations on title so as to make the same unusable for its current use;

(d) To the knowledge of Sellers, the Owned Real Property and the Insured Lease Parcels are in compliance in all material respects with the applicable provisions of the Rehabilitation Act of 1973, Title III of the Americans with Disabilities Act, and the provisions of any comparable state statute relative to accessibility, and there is no pending, or written threat of litigation, administrative action or complaint (whether from state, federal or local government or from any other person, group or entity) relating to compliance of any of the Owned Real Property or the Insured Lease Parcels with the Rehabilitation Act of 1973, Title III of the Americans with Disabilities Act or the provisions of any comparable state statute relative to accessibility;

(e) The only real property leases to which any of the Sellers is a tenant are the Sellers Tenant Leases described in Schedule 4.11(e), and no tenant has paid rent in advance for more than one month and no improvement credit or other tenant allowance of any nature is owed to any tenant, nor is any landlord improvement work required, except as described on Schedule 4.11(e);

(f) Attached to Schedule 4.11(f) is a "rent roll" which sets forth all Sellers Landlord Leases where a Seller is landlord: (i) the names of then current tenants; (ii) the rental payments for the then current month under each of the Sellers Landlord Leases; (iii) a list of all then delinquent rental payments; (iv) a list of all concessions granted to tenants; (v) a list of all tenant deposits and a description of any application thereof, and (vi) a list of all uncured material defaults under the Sellers Landlord Leases known to the appropriate Seller;

(g) To the knowledge of Sellers, during the past three (3) years, no Seller of any of the Owned Real Property nor as tenant of any of the Insured Leases has received written notice from any governmental authority or any agent of any governmental authority, of any existing or proposed eminent domain proceeding of such governmental authority that would result in the taking of either (i) all of any parcel constituting a part of the Owned Real Property or the Insured Lease Parcels or (ii) a part of any of parcel constituting a part of the Owned Real Property or the Insured Lease Parcels that would adversely affect the current use of such parcel of the Owned Real Property or Insured Lease Parcels;

(h) Except as set forth on Schedule 4.11(h), to the knowledge of Sellers, none of the Owned Real Property or Insured Lease Parcels are located within a one hundred year flood plain or an area identified by the Secretary of Housing and Urban Development as having "special flood hazards," as such term is used in the National Flood Insurance Act of 1968, as amended and supplemented by The Flood Disaster Protection Act of 1973, and in regulations, interpretations and rulings thereunder; and

(i) The Owned Real Property and Insured Lease Parcels are supplied with utilities and other services sufficient for the operation thereof as are currently being operated. To the knowledge of the Seller, except as set forth on Schedule 4.11(i), the buildings, plants and structures, including heating, ventilation and air conditioning systems, roof, foundation and floors, of the Owned Real Property and Insured Lease Parcels are in good operating condition, subject to ordinary wear and tear.

4.12. Title. As of the Closing, Sellers shall own and hold good and valid title to all of the Assets, and at the Closing Sellers shall assign and convey to Buyers good, valid and marketable title to all of the Assets, or any part thereof, subject to no mortgage, lien, pledge, security interest, conditional sales agreement, right of first refusal, option, restriction, liability, encumbrance, or charge other than the Permitted Encumbrances and the Assumed Liabilities, or mortgages, liens, pledges, security interests or the like being paid off, satisfied or released as of Closing. As to the Owned Real Property and the Sale/Lease Back Leased Real Property the terms of this Section 4.12 are subject to the terms of Section 4.11(a) and Section 8.3.

4.13. Employee Benefit Plans. Except as set forth on Schedule 4.13 hereto:

(a) Sellers do not sponsor or participate in, nor have they, within the last five (5) calendar years including the calendar year that includes the Effective Time, sponsored or participated in any pension, profit-sharing, stock bonus, deferred compensation, or other retirement plans as would be defined as an "employee pension benefit plan" in Section 3(2) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), including any Code Section 401(a), Section 403(b) or Section 457 plans; "employee welfare benefit plans," as would be defined in Section 3(1) of ERISA including group health, life, disability or similar plans; fringe benefit, cafeteria, flexible benefit, or tuition assistance plans; executive compensation agreements, bonus, or incentive plans; retention or severance plans; vacation, holiday, sick-leave, paid-time-off, or other employee compensation plans, programs, payroll practices, policies, or agreements; or any annuity contracts, custodial agreements, trusts or other agreements related thereto (all collectively, the "Benefit Plans"). With respect to such Benefit Plans appearing on Schedule 4.13, Sellers have delivered to Buyers accurate and complete copies of the Benefit Plans that have written instruments and, for those that do not, general summaries or explanations (including descriptions from employee handbooks and other materials); insurance contracts or any other funding instruments; governmental correspondence issued within the last five (5) calendar years including the calendar year that includes the Effective Time; determination, advisory, notification, or opinion letters issued within the last five (5) calendar years including the calendar year that includes the Effective Time; currently in effect as of the Effective Time contracts with third-party administrators and other independent contractors; and summary plan descriptions, modifications, memoranda, employee handbooks, and other material written communications. Except as may be set forth on Schedule 4.13: all returns, reports, disclosure statements, and premium payments relating to the Benefit Plans appearing on Schedule 4.13 have been timely filed, delivered, or paid, or appropriate extensions obtained, as applicable and as required by applicable law. For the purposes of Section 4.13, Sellers shall refer to Sellers and any entity required to be aggregated with Sellers pursuant to the controlled group rules under Code Section 414(b), (c), (m) and (o).

(b) Other than as set forth on Schedule 4.13, with respect to such Benefit Plans, Sellers do not currently and have not participated in or sponsored, contributed to, or had an obligation to contribute to a multiemployer plan (as defined in ERISA), multiple employer plan (as defined in ERISA), or single employer plan to which at least two or more of the contributing sponsors are not part of the same controlled group (as determined in accordance with the controlled group rules under Code Section 414(b), (c), (m) and (o)); sponsored or

participated in any benefit plan that is self-insured or is a self-funded multiple employer welfare arrangement; participated in, engaged in, or been a party to any prohibited transaction for which there is no statutory exemption; had asserted against them any claim for any excise tax, interest, or penalty; or committed a material breach of any responsibilities or obligations imposed upon fiduciaries under ERISA. Other than as set forth in Schedule 4.13 or expressly assumed by one or more Buyers pursuant to provisions of this Agreement (including but not limited to Sections 1.1 and 1.3), Sellers do not have any liability under any Benefit Plan for which Buyers have or will have any liability, contingent or otherwise, under Parts I or IV of ERISA, the Code, or other applicable law.

(c) Other than as set forth on Schedule 4.13, each Benefit Plan that is a pension or other retirement plan and each related trust agreement, annuity contract, or other funding instrument is and has been since its inception qualified and tax-exempt under the provisions of Sections 401(a), 403(b), 457 or 501(a) of the Code applicable to such Benefit Plan; each Benefit Plan is and has been since its inception in material compliance with its terms and, both as to form and in operation, with the requirements prescribed by any and all laws that are applicable to such Benefit Plan; does not have and has not had since its inception any unfunded accrued liability; to the best knowledge of Sellers, has not experienced any reportable events (as such term is defined in ERISA Section 4043); has not had any accumulated funding deficiencies or liquidity shortfalls (both as defined under the Code); does not have any liabilities required to be disclosed that have not been disclosed; and has not been partially or fully terminated, nor has any Government Entity instituted or threatened a proceeding to terminate any such Benefit Plan or to appoint a trustee. Each Benefit Plan that is not a pension, or other retirement, plan not included in the preceding sentence is in material compliance with its terms and, both as to form and operation, with the requirements prescribed by any and all laws that are applicable to such Benefit Plan. Sellers have no knowledge of any material noncompliance with applicable laws with respect to any Benefit Plan that would create any liability for Buyers.

(d) Except as set forth on Schedule 4.13, no Benefit Plan is currently or has been within the last five (5) calendar years including the calendar year that includes the Effective Time under audit, inquiry, or investigation by the any Government Entity, and to Sellers' knowledge, there are no outstanding issues with reference to the Benefit Plans pending before any Government Entity. Other than routine claims for benefits, there are no actions, mediations, audits, arbitrations, suits, claims, or investigations pending or, to Sellers' knowledge, threatened against or with respect to any of the Benefit Plans or their assets, and there are no threatened or pending claims by or on behalf of the Benefit Plans or by any participants in the Benefit Plans alleging a breach of fiduciary duties or violations of law nor, to Sellers' knowledge, is there any basis for such claims.

4.14. Litigation or Proceedings. Schedule 4.14 lists all pending litigation or proceedings to which any Seller is a party or which otherwise involve the System or any of the Assets. No Seller is in default under any order of any court or federal, state, municipal, or other governmental department, commission, board, bureau, agency or instrumentality wherever located. Except as set forth on Schedule 4.14, there are no claims, actions, suits, proceedings, or investigations pending, or to the knowledge of Sellers, threatened against or related to any Seller,

the System or the Assets, at law or in equity, or before or by any federal, state, municipal, or other governmental department, commission, board, bureau, agency, or instrumentality wherever located.

4.15. Environmental Laws. Except as set forth on Schedule 4.15 hereto, to the knowledge of Sellers (i) the Real Property is not subject to any material environmental hazards, risks, or liabilities, (ii) no Seller is in material violation of any federal, state or local statutes, regulations, laws, orders or common law pertaining to the protection of human health and safety or the environment (collectively, "Environmental Laws"), including the Comprehensive Environmental Response Compensation and Liability Act, as amended ("CERCLA"), the Pennsylvania Solid Waste Management Act, as amended, the Pennsylvania Hazardous Sites Cleanup Act, as amended, the Pennsylvania Infectious and Chemotherapeutic Waste Law, as amended, the Clean Air Act, as amended, the Clean Water Act, as amended, the Solid Waste Disposal Act, as amended, and the Resource Conservation and Recovery Act, as amended ("RCRA") and (iii) no Seller has received any notice alleging or asserting either a violation of any Environmental Law or a legal obligation to investigate, assess, remove, or remediate any property that is an Asset under this Agreement, including, but not limited to, the Real Property, under or pursuant to any Environmental Law. Except as set forth on Schedule 4.15 hereto, no "Hazardous Substances" (which for purposes of this Agreement shall mean and include polychlorinated biphenyls, asbestos, and any hazardous substances, materials, constituents, or wastes which are regulated by any Environmental Law, including CERCLA and RCRA) have been possessed, stored, managed, processed, treated, released, handled, discharged, disposed of on or released or discharged from or onto, or threatened to be released from or onto, the Real Property (including groundwater) by any Seller, or to Sellers' knowledge, any third party, in material violation of any applicable Environmental Law. Except as set forth on Schedule 4.15 hereto or the documents referenced thereon, to the knowledge of Sellers, neither radon nor any radon progeny is present in any enclosed and occupied structure present on any area of the Owned Real Property in excess of four (4) picocuries/liter. Except as set forth on Schedule 4.15 hereto, to the knowledge of Sellers, the physical plants constituting a portion of the Assets do not contain regulated, friable asbestos-containing material. Without limiting the generality of the foregoing, to the knowledge of Sellers: (i) all current or former underground storage tanks located on the Real Property and all information in Sellers' possession relating to the capacity, uses, dates of installation and contents of such tanks located on the Real Property are identified in Schedule 4.15; (ii) there are no, nor have there ever been, any collection dumps, pits, and disposal facilities or surface impoundments located on the Real Property for the containment of Hazardous Substances except as identified in Schedule 4.15 or in the documents referenced thereon; and (iii) all existing underground storage tanks located on the Real Property have been maintained in material compliance with all Environmental Laws. To the knowledge of Sellers, except as set forth on Schedule 4.15 hereto, no Seller has transported or arranged for the transportation of any Hazardous Substance to any location not owned, operated or leased by any Seller that is the subject of an action by any Governmental Entity or any other third party that would reasonably be expected to result in a claim against any Seller. Copies of all environmental investigations, studies, audits, tests, reviews or other analyses (collectively, the "Environmental Reports") conducted by, or that are in the possession of, Sellers relating to the System or Real Property have been made available to Buyer and all such Environmental Reports

are listed on Schedule 4.15. Sellers have all Environmental Permits required under applicable Environmental Laws for Sellers to use the Real Property and any equipment located thereon as currently used by Sellers; all such Environmental Permits are valid and in effect; Sellers are in compliance in all material respects with all such Environmental Permits and all such Environmental Permits are listed on Schedule 4.15.

4.16. Hill-Burton and Other Liens. Except as set forth on Schedule 4.16 hereto, no Seller has received any loans, grants or loan guarantees pursuant to the Hill-Burton Act program, the Health Professions Educational Assistance Act, the Nurse Training Act, the National Health Planning and Resources Development Act, and the Community Mental Health Centers Act, as amended, or similar laws or acts relating to healthcare facilities. The transactions contemplated hereby will not result in any obligation on any Buyer to repay any of such loans, grants or loan guarantees, nor subject any Buyer or the Assets to any lien, restriction or obligation, including any requirement to provide uncompensated care.

4.17. Taxes.

(a) During the last five (5) tax years, each Seller has filed all federal, state and local tax returns required to be filed by it (all of which are true and correct in all material respects) and has duly paid or made provision for the payment of all taxes (including any interest or penalties and amounts due state unemployment authorities) which are due and payable to the appropriate tax authorities. During the last five (5) calendar years, each Seller has withheld proper and accurate amounts from its employees' compensation in compliance with all withholding and similar provisions of the Code, including employee withholding and social security taxes, and any and all other applicable laws. No deficiencies for any of such taxes have been asserted or threatened in writing, and no audit on any such returns is currently under way or threatened in writing. There are no outstanding agreements by any Seller for the extension of time for the assessment of any such taxes. No Seller has taken any action in respect of any federal, state or local taxes (including any withholdings required to be made in respect of employees) which may have an adverse impact upon the System or the Assets as of or subsequent to Closing. There are no liens for delinquent taxes on any of the Assets.

(b) For purpose of the Agreement, "tax" or "taxes" means (i) all federal, state, local or foreign taxes, charges, fees, imposts, contributions, levies or other assessments, including all net income, alternative minimum or add-on minimum tax, gross income, profits, gross receipts, franchise, capital, paid-up capital, capital stock, sales, use, value-added, ad valorem, property, inventory, transfer, license, withholding, payroll, employment, social security, unemployment, excise, severance, stamp, occupation, business privilege, mercantile, estimated taxes, environmental, windfall profits, customs duties, fees, or other like assessments and charges of any kind whatsoever, (ii) all interest, penalties, fines, additions to tax or additional amounts imposed by any taxing authority in connection with any item described in clause (i), and (iii) any transferee liability in respect of any items described in clauses (i) and/or (ii) payable by reason of contract, assumption, transferee liability, operation of law, or otherwise, in each case whether or not disputed. For purpose of the Agreement, "tax return" means any return, report or statement filed or required to be filed with respect to any tax (including any attachments thereto,

and any amendment thereof) including any information return, claim for refund, amended return or declaration of estimated tax.

4.18. Employee Relations.

(a) Except as set forth on Schedule 4.18(a), all employees of the System are employees of one of the Sellers. Except as set forth on Schedule 4.18(a), there is not presently pending or, to Sellers' knowledge within the last three (3) calendar years including the calendar year that includes the Effective Time, threatened, and no event has occurred that could provide any reasonable basis for any strike, slowdown, picketing, work stoppage, or employee grievance process, or any proceeding against or affecting any Seller relating to an alleged violation of any legal requirements pertaining to labor relations, including any charge, complaint, or unfair labor practices claim filed by an employee, union, or other person with the National Labor Relations Board or any comparable Government Entity, organizational activity, or other labor dispute against or affecting any Seller or the System. Except as set forth on Schedule 4.18(a), with respect to the employees of each Seller, no collective bargaining agreement exists or is currently being negotiated by Seller; to Sellers' knowledge no application for certification of a collective bargaining agent is pending; no written demand has been made for recognition by a labor organization; to Sellers' knowledge, no union representation question exists; to Sellers' knowledge, no union organizing activities are taking place; and no employee of any Seller is represented by any labor union or organization.

(b) Each Seller has complied in all material respects with all legal requirements relating to employment; employment practices; terms and conditions of employment; equal employment opportunity; nondiscrimination; immigration; wages; hours; payment of employment, social security, and similar payroll taxes; occupational safety and health; and plant closing. No Seller is liable for the payment of any compensation, damages, taxes, fines, penalties, interest, or other amounts, however designated, for failure to comply with any of the foregoing legal requirements. Except as set forth in Schedule 4.18(b), there are no pending or, to Sellers' knowledge, threatened claims before the Equal Employment Opportunity Commission (or comparable state agency), complaints before the Occupational Safety and Health Administration (or comparable state agency), wage and hour claims, unemployment compensation claims, workers' compensation claims, or the like.

(c) Sellers have made available to Buyers the personnel records of all of the employees of each Seller and the salary or wage records for such employees including records reflecting sick or extended illness, paid time off, vacation and holiday benefits that, as of the Effective Time, are accrued or credited but unused or unpaid. Sellers have made available to Buyers copies of each employment, consulting, independent contractor, bonus, retention or severance agreement to which any Seller is a party. Schedule 4.18(c) sets forth the employees who had an "employment loss," as such term is defined in the Worker Adjustment and Retraining Notification Act (the "WARN Act"), within the ninety (90) days preceding the Closing; in relation to the foregoing, Sellers have not violated the WARN Act or any similar state or local legal requirements. To Sellers' knowledge, no employee of any Seller is bound by any contract that purports to limit the ability of such employee to engage in or continue or perform any conduct, activity, duties or practice relating to the business of any Seller.

(d) All necessary visa or work authorization petitions required to be filed by Sellers have been timely and properly filed on behalf of any employees of any Seller requiring a visa stamp, I-94 status document, employment authorization document, or any other immigration document to legally work for Sellers in the United States and all paperwork retention requirements with respect to such applications and petitions have been met. To the knowledge of Sellers, no current employee of any Seller has ever worked for such Seller without employment authorization from the Department of Homeland Security or any other Government Entity that must authorize such employment. I-9 Forms have been timely and properly completed by Sellers for all current employees of Sellers. I-9 Forms have been lawfully retained and re-verified by Sellers. There are no claims, lawsuits, actions, arbitrations, administrative or other proceedings, or to Sellers' knowledge, governmental investigations or inquiries pending or threatened against any Seller relating to such Seller's compliance with immigration laws. There have been no letters received by any Seller from the Social Security Administration ("SSA") regarding the failure of such Seller's employee's Social Security number to match their name in the SSA database.

4.19. Contracts and Commitments.

(a) Schedule 4.19 sets forth an accurate list of all material written commitments, contracts, leases, and agreements, which materially affect the System or the Assets, to which any Seller is a party or by which any Seller, the System or the Assets are bound, and which involve future payments, performance of services or delivery of goods to or by Seller in an amount or value in excess of One Hundred Thousand Dollars ($100,000.00) per contract on an annual basis, which have terms (including renewal options and rights) in excess of one (1) year, or which involve a contract with a physician, physician organization or other referral source ("Material Contracts"), including: (a) agreements with individual physicians or physician groups and any other agreements with potential referral sources; (b) agreements with health insurance payors, health maintenance organizations, preferred provider organizations, accountable care organizations; clinically integrated networks, or other alternative delivery systems; (c) joint venture or partnership agreements; (d) employment contracts or any other contracts or commitments with individual employees or agents; (e) contracts or commitments materially affecting ownership of, title to, use of or any interest in the Real Property (including the Real Property Leases); (f) equipment leases; (g) equipment maintenance agreements; (h) agreements with municipalities; (i) collective bargaining agreements or other contracts or commitments with any labor unions, labor organizations, or other employee representatives or groups of employees; (j) loan agreements, bonds, mortgages, liens, or other security agreements; (k) patent licensing agreements or any other agreements, licenses, or commitments with respect to patents, patent applications, trademarks, trade names, service marks, technical assistance, copyrights, or other like terms affecting the System or the Assets; (l) contracts or commitments providing for payments based in any manner on the revenues or profits of the System or the Assets; and (m) agreements, licenses, or commitments relating to data processing programs, software, or source codes utilized in connection with the System or the Assets.

(b) Sellers have made available to Buyers, subject to applicable law, true, accurate and complete copies of all of the Contracts, including, among others, the Material

Contracts. Sellers represent and warrant with respect to each Contract, including Material Contracts, that:

(i) Such Contract constitutes the valid and legally binding obligation of the Seller which is a party thereto and is enforceable against such Seller in accordance with its terms;

(ii) Such Contract constitutes the entire agreement by and between the respective parties thereto with respect to the subject matter thereof;

(iii) All obligations required to be performed by the Seller under the terms of such Contract have been performed in all material respects, no act or omission by the Seller has occurred or failed to occur which, with the giving of notice, the lapse of time or both would constitute a default under the Contract, and such Contract is in full force and effect without default on the part of the Seller;

(iv) Except as expressly set forth on Schedule 4.19, the Contract does not require consent to the assignment and assumption of such Contract by the appropriate Buyer;

(v) Except as expressly set forth on Schedule 4.19, the assignment of the Contract to and assumption of such Contract by the appropriate Buyer does not require any fee and will not result in any penalty or premium, breach, default, termination or variation of the rights, remedies, benefits or obligations of any Party thereunder; and

(vi) Each Contract is in compliance in all material respects with all applicable federal, state and local laws, regulations, judicial and administrative decisions.

4.20. Unclaimed Property.

(a) Each Seller is, and at all time has been, in compliance with the applicable state laws regarding abandoned or unclaimed property or escheat in all material respects. Each Seller has reported and remitted to each state as required by Law all amounts held, due or owing by Seller remaining unclaimed or unpaid for a period of time such that they are presumed abandoned under the applicable state laws. No amounts which are, or would be, or would become, unclaimed property or presumed abandoned under the applicable state laws regarding abandoned or unclaimed property have been written off, written or reversed to income, or otherwise removed or excluded from the Seller's Balance Sheet Liabilities.

(b) For purpose of the Agreement, "unclaimed property" means tangible and intangible property held by the Seller as custodian for the apparent owner which is deemed abandoned or unclaimed under applicable state laws.

4.21. Inventory/Supplies. All the inventory of medical and office supplies ("Inventory") constituting any part of the Assets is substantially of a quality and quantity usable and salable in the ordinary course of business of the System. Obsolete items or inventory items

greater than one (1) year old have been written off the Financial Statements. The Inventory is carried at the lower of cost or market, on a first-in, first-out basis and is properly stated in the Financial Statements. The Inventory levels are based on past practices of Sellers and are reasonable and justified under the normal operations of the Sellers.

4.22. Insurance. Schedule 4.22 hereof lists the insurance policies covering the ownership and operations of the System and the Assets, which Schedule reflects the policies' numbers, terms, identity of insurers, amounts, coverage, and loss experience for the last five (5) years per policy. All of such policies are in full force and effect with no premium arrearage. During the past five (5) years, Sellers have given in a timely manner to their insurers all notices required to be given under their insurance policies with respect to all of the claims and actions covered by insurance, and no insurer has denied coverage of any such claims or actions. Except as set forth on Schedule 4.22, at no time during the past five (5) years has any Seller (a) received any written notice or other communication from any such insurance company canceling or materially amending any of such insurance policies, and, to Sellers' knowledge, no such cancellation or amendment is threatened; or (b) failed to present any material claim which is still outstanding under any of such policies with respect to the System or any of the Assets.

4.23. Third Party Payor Cost Reports. Each Seller required to file cost reports has duly and timely filed all such required reports for all the fiscal years through and including the most recently completed fiscal year. All of such cost reports completely and accurately reflect the information required to be included thereon and such cost reports do not claim and no Seller has received reimbursement in any amount in excess of the amounts provided by law or any applicable agreement. Schedule 4.23 indicates which of such cost reports have not been audited and finally settled and a brief description of any and all notices of program reimbursement, proposed or pending audit adjustments, disallowances, appeals of disallowances, and any and all other unresolved claims or disputes in respect of such cost reports. Each Seller has established adequate reserves to cover any potential reimbursement obligations or other liabilities such Seller may have in respect of any such third party cost reports pertaining to any periods prior to the Effective Time, regardless of when such cost reports are filed, and such reserves are set forth in the Financial Statements.

4.24. Medical Staff Matters. Sellers have made available to Buyers true, correct, and complete copies of the bylaws and rules and regulations of the medical staff of each Hospital, as well as a list of all current members of the medical staffs. Except as set forth on Schedule 4.24 hereto, there are no adverse actions pending with respect to any medical staff members of the Hospitals or any current applicant thereto for which a medical staff member or current applicant has requested a judicial review hearing which has not been scheduled or has been scheduled but has not been completed, and there are no pending or, to the knowledge of Sellers, threatened disputes with current applicants or medical staff members of the Hospitals.

4.25. Intellectual Property; Computer Software. All Intellectual Property (whether registered or common law) currently owned by Sellers is listed and described on Schedule 1.1(k) hereto. No proceedings have been instituted or are pending or, to the knowledge of Sellers, threatened which challenge the validity of the ownership by any Seller of such Intellectual Property, and Sellers know of no basis therefor. No Seller has licensed anyone to use such

Intellectual Property and Sellers have no knowledge of the use or the infringement of any such Intellectual Property by any other person. Sellers, collectively, own (or possesses licenses or other rights to use) all Intellectual Property, including all computer software programs and similar systems used in the operation of the System and the Assets.

4.26. Compliance Program. Sellers have made available to Buyers a copy of the current compliance program materials related to Sellers and the System, including all program descriptions, compliance officer and committee descriptions, and, to the extent they exist, ethics and risk area policy materials, training and education materials, auditing and monitoring protocols, reporting mechanisms, and disciplinary policies. Except as set forth in a writing delivered by Sellers to Buyers which specifically makes reference to this Section 4.26 and set forth on Schedule 4.26, no Seller (a) is Party to any current, valid and binding Corporate Integrity Agreement with the Office of Inspector General of the Department of Health and Human Services, (b) has any current reporting obligation pursuant to any Settlement Agreement entered into with any Government Entity, (c) to Sellers' knowledge, has, at any time during the past five (5) years, been the subject of any Federal health care program investigation conducted by any federal or state enforcement agency, (d) to Sellers' knowledge, has, at any time during the past five (5) years, been a defendant in any qui tam/False Claims Act litigation, (e) has, during the past five (5) years, been served with or received any search warrant, subpoena, civil investigative demand, or contact letter from any federal or state enforcement agency (except in connection with medical services provided to third-parties who may be defendants or the subject of investigation into conduct unrelated to the operation of the healthcare businesses conducted by Sellers), and (f) has, during the past five (5) years, received any written complaints (or complaints through their compliance "hotline") from employees, independent contractors, vendors, physicians, or any other person that would indicate that Seller has violated any law or regulation. Schedule 4.26 includes a description of each audit and investigation conducted by any Seller pursuant to its compliance program during the last five (5) years. For purposes of this Agreement, the term "compliance program" refers to provider programs of the type described in the compliance guidance published by the Office of Inspector General of the Department of Health and Human Services.

4.27. Full Disclosure. To the knowledge of Sellers, copies of all documents referred to in any Schedule delivered by Sellers hereto have been delivered or made available to Buyers and constitute true, accurate and complete copies thereof and include all amendments, exhibits, schedules, appendices, supplements or modifications thereto or waivers thereunder, unless noted on the relevant schedule. No representation or warranty made by Sellers hereunder contains an untrue statement of a material fact or omits to state a material fact required to be stated herein or necessary to make the statements contained herein not misleading.

5. REPRESENTATIONS AND WARRANTIES OF BUYERS.

As of the date hereof, as updated pursuant to Section 11.1, and as of the Closing Date, Buyers jointly and severally represent and warrant to Sellers the following:

5.1. Existence and Capacity. Each Buyer (other than PMH) is a limited liability company, duly organized and validly existing in good standing under the laws of the

Commonwealth of Pennsylvania or such other jurisdiction where domesticated. Each Buyer has the requisite power and authority to enter into this Agreement, to perform its obligations hereunder, and to conduct its business as now being conducted in all material respects. PMH is a corporation, duly organized and validly existing in good standing under the laws of the State of Delaware. PMH has the requisite power and authority to enter into this Agreement, to perform its obligations hereunder and to conduct its business as now being conducted. Each Buyer (other than PMH) is a direct or an indirect, wholly-owned subsidiary of PMH.

5.2. Powers; Consents; Absence of Conflicts with Other Agreements, Etc. The execution, delivery and performance of this Agreement by each Buyer and all other agreements referenced herein, or ancillary hereto, to which each Buyer is a Party, and the consummation of the transactions contemplated herein by each Buyer:

(a) are within its corporate powers, are not in contravention of law or of the terms of its organizational documents, and have been duly authorized by all appropriate corporate action;

(b) except as provided in Section 7.1 and Section 7.2 below, do not require any approval or consent of, or filing with, any Government Entity or authority bearing on the validity of this Agreement which is required by law or the regulations of any such agency or authority;

(c) will neither conflict with, nor result in any breach or contravention of, or the creation of any lien, charge or encumbrance under, any indenture, agreement, lease, instrument or understanding to which it is a party or by which it is bound;

(d) will not violate any statute, law, rule, or regulation of any Government Entity to which any Buyer may be subject; and

(e) will not violate any judgment, decree, writ, or injunction of any court or Government Entity to which any Buyer may be subject.

5.3. Binding Agreement. This Agreement and all agreements to which Buyers will become a Party pursuant hereto are and will constitute the valid and legally binding obligations of each Buyer, respectively, and are and will be enforceable against each Buyer, respectively, in accordance with the respective terms hereof and thereof.

5.4. Full Disclosure. Copies of all documents referred to in any schedule delivered by Buyers have been delivered and made available to Sellers and constitute true, accurate and complete copies thereof and include all amendments, exhibits, schedules, appendices, supplements or modifications thereto. No representation or warranty made by Buyers hereunder contains an untrue statement of a material fact or omits to state a material fact required to be stated herein or necessary to make the statements contained herein not misleading. Without limitation, the foregoing expressly includes all of the Title Commitments and any and all documents, instruments, easements, agreements, covenants or restrictions referred to therein.

5.5. Litigation/Investigations. There are no actions, proceedings, or investigations pending or, to the knowledge of Buyers, threatened, that if determined adversely to Buyers would have a materially adverse effect on Buyers' ability to consummate the transactions contemplated by this Agreement.

5.6. Compliance with Laws.

(a) Generally. Except as disclosed in Schedule 5.6(a) hereto, to the knowledge of Buyers, Buyers are in material compliance and have at all times within the past three (3) years complied with all Laws with respect to Buyers' ownership, use and operation of their business except for noncompliance that would not have a materially adverse effect on Buyers' ability to consummate the transactions contemplated by this Agreement. During the past three (3) years, except as so disclosed, to Buyers' knowledge, Buyers have: (i) properly filed all material reports and other documents required by any Governmental Entity; and (ii) not received any notice from any Governmental Entity that any of its assets or business procedures or practices fails to comply in any material respect with any applicable Laws; except for noncompliance that would not have a materially adverse effect on Buyers' ability to consummate the transactions contemplated by this Agreement.

(b) Health Care Laws. In the three (3) year period immediately preceding the Execution Date hereof, to the knowledge of Buyers, neither Buyers nor any of Buyer's employees while an employee of Buyers has committed a violation of federal or state Laws regulating health care, including the Anti-Kickback Law, 42 U.S.C. Section 1320a (the "Anti-Kickback Law"), the Stark I and II laws, 42 U.S.C. Section 1395nn, as amended (the "Stark Law"), and the False Claims Act, 31 U.S.C. Section 3729, *et seq*. (the "False Claims Act"), except for violations that would not have a materially adverse effect on Buyers' ability to consummate the transactions contemplated by this Agreement. Neither Buyers nor any of their employees or the physicians on their medical staff, have been excluded from participation in Medicare or any other federal health care program (as that term is defined in 42 U.S.C. Section 1320a-7b(f)), subject to sanction pursuant to 42 U.S.C. 1320a-7a or 1320a-8 or convicted of a criminal offense under the Anti-Kickback Law, except for exclusions, sanctions or convictions that would not have a materially adverse effect on Buyers' ability to consummate the transactions contemplated by this Agreement.

5.7. Licenses/Permits. To the knowledge of Buyers, Buyers have lawful authority and have, or will reasonably promptly obtain prior to or within a reasonable period of time after the Closing Date, as applicable, all material federal, state and local Licenses and Permits necessary for or required to conduct their business operations where the failure to hold such Licenses and Permits would have a materially adverse effect on Buyers' ability to consummate the transactions contemplated by this Agreement. All such materials Licenses and Permits are or will be valid and in full force and effect. To the knowledge of Buyers, Buyers are in material compliance with all such currently held Licenses and Permits and the terms and requirements of all Governmental Entities with respect thereto except for noncompliance that would not have a materially adverse effect on Buyers' ability to consummate the transactions contemplated by this Agreement. To the knowledge of Buyers, no notice from any authority in respect to the revocation, termination, suspension, or limitation of any such Licenses or Permits has been

issued or given, nor are Buyers aware of the proposed or threatened issuance of any such notice, except where such notice would not have a materially adverse effect on Buyers' ability to consummate the transactions contemplated by this Agreement.

6. COVENANTS OF SELLERS PRIOR TO CLOSING.

Between the Execution Date of this Agreement and the Closing:

6.1. Information. Sellers shall afford to the officers, authorized representatives and agents (which shall include accountants, attorneys, bankers, and other consultants) of Buyers full and complete access during normal business hours to and the right to inspect, at Buyers' sole cost and expense, the plants, properties, equipment, books, and records of the Sellers, and will furnish Buyers with such additional financial and operating data and other information as to the business and properties of Sellers as Buyers may from time to time reasonably request without regard to where such information may be located. Buyers' right of access and inspection shall be exercised in such a manner as not to interfere unreasonably with Sellers' operations.

6.2. Operations. Sellers shall:

(a) carry on their business in substantially the same manner as presently conducted and not make any material change outside of the ordinary course of business in personnel, operations, finance, accounting policies, Real Property or personal property;

(b) maintain the Assets and the System and all parts thereof in substantially the same operating condition;

(c) maintain the Inventory at substantially the same levels as exist as of the Execution Date of this Agreement;

(d) perform all of their obligations under agreements relating to or affecting the System, the Assets or Sellers' operations;

(e) keep in full force and effect their present insurance policies or other comparable insurance;

(f) use reasonable efforts to maintain and preserve their business organizations intact, retain their present employees within the System, and maintain their relationships with physicians, suppliers, customers, and others having business relations with the System;

(g) comply with all applicable laws in all material respects;

(h) keep, hold and maintain all Licenses reasonably necessary for the conduct and operation of Sellers' business;

(i) use reasonable measures to avoid rendering any representation or warranty contained in this Agreement inaccurate or untrue as of the Closing;

(j) promptly notify Buyers in writing of any lawsuits, claims, administrative actions or other proceedings asserted or commenced against any of the Sellers or their officers, directors or employees involving in any material way the ability of any such Seller to consummate the transactions contemplated or required by this Agreement, or materially affecting such Seller's business, properties or its assets;

(k) promptly notify Buyers in writing of any facts or circumstances that come to their attention and that cause, or through the passage of time could reasonably cause, any of the representations and warranties made by Sellers and contained in this Agreement to be untrue or misleading at any time from the Execution Date through the Closing;

(l) continue to make (i) any and all required or other scheduled contributions to the DB Pension Plan for the 2016 plan year in the amounts set forth on Schedule 6.2(l) hereto (as may be increased or decreased pursuant to the January 1, 2016 DB Pension Plan actuarial determination) on a pro-rata basis up to the Closing Date (where such pro-ration shall be based on the number of days occurring between the start of the pro-ration period and the Closing Date), and (ii) the outstanding required contributions for the 2015 plan year in the amounts also set forth on Schedule 6.2(l) (plus accrued interest, if any) (as such contributions may be increased or decreased pursuant to the January 1, 2016 DB Pension Plan actuarial determination), provided that if Closing occurs prior to Sellers' full payment of the contributions for the 2015 plan year, Sellers shall pay the remaining balance of such contributions to the DB Pension Plan on or before the Closing Date; and Sellers shall pay PBGC premiums on a timely basis; and

(m) continue to accrue any executive retention bonuses and any other retention bonuses set forth on Schedule 1.3(k) on a monthly basis up to the Effective Time in accordance with past practice and in monthly amounts not less than have been historically accrued for such bonuses.

6.3. Negative Covenants. Sellers shall not, without the prior written consent of Buyers:

(a) amend, renew or terminate any of the Contracts, enter into any contract or commitment, or incur or agree to incur any liability which would constitute a Contract to the extent such Contract: (i) is outside of the ordinary course of business of Sellers; (ii) involves future payments, performance of services or delivery of goods to or by Sellers in an amount or value in excess of One Hundred Thousand Dollars ($100,000.00) on an annual basis; (iii) has one or more physicians or physician organizations as a party and provides for total annual compensation (including any incentives, bonuses, benefits or other reimbursement) exceeding, or potentially exceeding, Five Hundred Thousand Dollars ($500,000.00); and/or (iv) is not terminable by Sellers without cause and without penalty upon prior notice of twelve (12) months or less, all except as provided herein or as set forth on Schedule 6.3(a);

(b) increase compensation payable or to become payable or make any bonus, incentive or severance payment to or otherwise enter into one or more bonus, severance, profit-sharing, deferred compensation, stock option, purchase, retainer, consulting, retirement, welfare or incentive plan Contracts (including any plan or agreement under which "fringe

benefits" are afforded) with any employee of the Sellers, except in the ordinary course of business in accordance with existing personnel policies, consistent with past merit-based practices in accordance with existing personnel policies or pursuant to Contract requirements in force on the date of this Agreement;

(c) enter into (or materially amend existing) agreements for employment, indemnity, retention, severance, change-in-control, employee lease, deferred compensation, or incentive compensation with, or agreements regarding loans or advances to, Sellers' executive management personnel as listed on Schedule 6.3(c);

(d) create, assume, or permit to exist any new debt, mortgage, pledge, or other lien or encumbrance upon any of the Assets or System in excess of One Hundred Thousand Dollars ($100,000), whether now owned or hereafter acquired;

(e) sell, assign, lease, or otherwise transfer or dispose of any property, plant, or equipment except in the ordinary course of business with comparable replacement thereof, if appropriate;

(f) incur capital expenditures in an aggregate amount exceeding One Hundred Thousand Dollars ($100,000) except for expenditures identified on Schedule 6.3(f);

(g) adopt any plan of merger, consolidation, reorganization, liquidation or dissolution or file a petition in bankruptcy under any provisions of federal or state bankruptcy law or consent to the filing of any bankruptcy petition against it under any similar law;

(h) purchase or otherwise acquire any property or asset for an amount in excess of One Hundred Thousand Dollars ($100,000), except for purchases of inventory or supplies in the ordinary course of business;

(i) take any material action outside the ordinary course of business of the System, the Assets or Sellers generally;

(j) enter into any agreement, undertake any action or fail to take any action that would have a Material Adverse Effect;

(k) amend any provision of the Hospitals' Medical Staff Bylaws or Medical Staff rules and regulations; or

(l) settle any third party payor or governmental claims or cost report appeals or related proceedings or any other billing and/or compliance matters involving other audit/review agencies and organizations.

6.4. Governmental Approvals. Sellers shall (i) use reasonable efforts to obtain all governmental approvals (or exemptions therefrom, including the Office of Attorney General of the Commonwealth of Pennsylvania and the Court of Common Pleas of Delaware County, Pennsylvania, Orphans' Court Division) necessary or required to allow Sellers to perform their obligations under this Agreement; and (ii) assist and cooperate with Buyers and their

representatives and counsel in obtaining all governmental consents, approvals, and licenses which Buyers deem necessary or appropriate and in the preparation of any document or other material which may be required by any Government Entity as a predicate to or as a result of the transactions contemplated herein.

6.5. Hart-Scott-Rodino Notification. If not completed prior to the Execution Date of this Agreement, Sellers shall, if and to the extent required by law, file all reports or other documents required or requested by the Federal Trade Commission ("FTC") or the United States Department of Justice ("Justice Department") under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 ("HSR Act"), and all regulations promulgated thereunder, concerning the transactions contemplated hereby, and, as instructed by counsel, comply with any requests by the FTC or Justice Department for additional information concerning such transactions, in an effort to allow the waiting period specified in the HSR Act to expire as soon as reasonably possible after the execution and delivery of this Agreement. Sellers shall furnish to Buyers such information concerning Sellers as Buyers need to perform their obligations under Section 7.2 of this Agreement. Sellers and Buyers shall each pay one-half (1/2) of the filing fees required under the HSR Act and all regulations promulgated thereunder.

6.6. Additional Financial Information. Within five (5) business days after they are created (but in any event no later than twenty (20) days following the end of each calendar month prior to Closing), Sellers shall deliver to Buyers true, accurate and complete copies of the unaudited balance sheets and the related unaudited statements of income (collectively, the "Interim Statements") of, or relating to, the Sellers for each month then ended, together with a year-to-date compilation and the notes, if any, related thereto, which shall have been prepared from and in accordance with the Books and Records of Sellers, and shall fairly present in all material respects the financial position and results of operations of the System as of the date and for the period indicated, all in accordance with GAAP consistently applied, except as set forth in Schedule 4.4(b).

6.7. Exclusivity. No Sellers or any of their respective representatives, agents, directors, officers or employees, directly or indirectly, shall: (a) offer any of the Assets described in this Agreement for sale, lease or other disposition to any person or entity other than Buyers, except in the ordinary course of business; (b) merge or conduct any business combination of any sort involving Sellers or any Affiliate thereof with any other person or entity except that any Seller may merge with any other Seller or transfer all or substantially all of its assets to another Seller in connection with the transactions contemplated herein; (c) transfer the membership, control or any ownership interest in any Seller or any Affiliate thereof (including any joint venture, LLC membership or partnership interests) to any other person or entity except as required under a joint venture, operating or partnership agreement and necessary to meet a closing condition of under this Agreement that has not been waived by Buyer; (d) enter into a partnership, LLC or any other joint venture involving any Seller or any Affiliates thereof; (e) enter into any agreement with any person or entity other than Buyers with respect to any of the matters set forth in (a) through (d) above; or (f) solicit, encourage (by way of furnishing non-public information or otherwise), negotiate, hold discussions regarding, entertain, accept, or take any other actions to facilitate, any offers regarding any of the matters or actions set forth in

(a) through (e) above. Sellers will promptly communicate to Buyers the substance of any inquiry or proposal concerning any such potential offer or transaction described above.

6.8. Insurance Ratings. Sellers shall take all action reasonably requested by Buyers to enable Buyers to succeed to the Workers' Compensation and Unemployment Insurance ratings, and other ratings for insurance or other purposes established by Sellers. Buyers shall not be obligated to succeed to any such ratings, except as they may elect to do so. At Buyer's election and to the extent allowable under the Pennsylvania Unemployment Compensation Law, one or more Sellers shall join in an application to transfer the whole or appropriate part of such Seller's Pennsylvania Unemployment Compensation experience record and reserve account balance to Buyer and file with the Pennsylvania Department of Labor and Industry such supporting schedules or other information with respect to such experience record and reserve account balance as said Department may require.

6.9. Medical Staff Disclosure. Sellers shall deliver to Buyers a written disclosure containing a brief description of all adverse actions taken against medical staff members of the Hospitals or applicants thereof during the past three (3) years which could result in claims or actions against any Seller and which are not disclosed in the minutes of the meetings of the Medical Executive Committee of the medical staff of the Hospitals, which have been made available to Buyers.

6.10. Consent for Assignment of Contracts.

(a) To the extent a Contract is not capable of being assigned without the consent of a third party as set forth in Section 4.19 or if such assignment or attempted assignment would constitute a breach thereof or a violation of any law (a "Non-Assignable Contract"), nothing in this Agreement shall constitute an assignment or an attempted assignment thereof prior to the time at which all consents necessary for such assignment shall have been obtained and all legal restrictions removed.

(b) Sellers shall use commercially reasonable efforts to obtain the consent to the assignment of any Contracts hereunder, including Non-Assignable Contracts, and Buyers shall reasonably cooperate with their efforts. To the extent that any of such consents under Material Contracts are not obtained: (i) Buyers shall not be required to consummate the transactions described herein pursuant to Section 8.7; and (ii) if Buyers nevertheless elect to waive the condition to closing under Section 8.7 and consummate the transactions described herein, then to the extent requested by Buyers, Sellers shall, during the term of the affected Material Contract, use commercially reasonable efforts to (A) provide to Buyer the benefits under any such Material Contract, (B) cooperate in any reasonable and lawful arrangement designed to provide such benefits to Buyers, and (C) enforce for the account of Buyers, any rights of Sellers under the affected Material Contract (including the right to elect to terminate such Material Contract in accordance with the terms thereof upon the written direction of Buyers) and for the period that Buyers are receiving the benefit that would otherwise inure to Sellers under the Material Contract, Buyers will be responsible for the obligations of Sellers under the Material Contract relating to such period. Buyers shall cooperate with Sellers to

enable Sellers to provide to Buyers the benefits contemplated by the immediately preceding sentence.

(c) If assignment of any Contract requires any additional payment by Sellers of any fees, expenses, premiums, expenditures, assessments or penalties in excess of One Thousand Dollars ($1,000.00) in order to effect assignment (provided that such payments are not contemplated in such Contract), Sellers shall promptly notify Buyers of such payment and Buyers may elect to either pay such amounts due in excess of One Thousand Dollars ($1,000.00) or not accept assignment of such Contract. Sellers and Buyers shall reasonably cooperate in negotiating with third parties any payments associated with assignment of any Contracts hereunder.

6.11. Corporate and Bulk Sales Clearance Certificate. Prior to Closing, Sellers shall timely notify all Pennsylvania tax authorities, to the extent required by applicable law, of the transactions contemplated by this Agreement in the form and manner required by such tax authorities. After Closing, Sellers shall file with the Pennsylvania tax authorities to receive applicable tax clearance certificates ("Tax Clearance Certificates"). From and after Closing, Sellers shall defend, indemnify and hold harmless the Buyers having taken title to any of the Assets from and against any and all of such Seller's tax liabilities which are imposed upon or asserted against such Buyers or the Assets, including any fines, penalties or interest thereon, solely as a result of, or with respect to, Sellers' failure to obtain and deliver to Buyers any such Tax Clearance Certificates prior to Closing.

6.12. Unions. Prior to the Closing, Sellers shall keep Buyers reasonably apprised of, and consult with Buyers, regarding the status of any negotiations (which shall include routine pending grievances, arbitrations or similar complaints) regarding any collective bargaining agreement or the demand for recognition of any labor organization. Sellers shall not enter into any new collective bargaining agreement or extension of any existing collective bargaining agreement or recognize any labor organization without prior written consent from the Buyer. Such consent shall not be required if Sellers reasonably determine and notify Buyers that it would interfere with Sellers' bargaining or other obligations under the National Labor Relations Act.

6.13. Foundation Merger. Prior to or simultaneous with the Closing, Sellers shall cause Delco Foundation to merge with and into Crozer Foundation with Crozer Foundation to be the surviving organization and successor in interest to all assets and liabilities of both organizations, and renamed "Crozer-Keystone Community Foundation." Upon effectuation of such merger, Sellers shall cause Foundation to execute and deliver to Buyers the Indemnification Agreement attached hereto as Exhibit K and shall deliver to Buyers complete copies of the Statement of Merger and Plan of Merger (with all attachments thereto) associated with the merger of Delco Foundation into Crozer Foundation.

6.14. Consulting Agreement. Subject to compliance with applicable laws, as promptly as practicable after the Execution Date but by no later than thirty (30) days after the Execution Date, the Parties shall negotiate and finalize a consulting agreement pursuant to which Buyers provide operational support to Sellers' leadership. The consulting agreement shall not be

executed or take effect until thirty (30) days after the Parties make their required filing pursuant to the Hart-Scott-Rodino Act pursuant to the terms of this Agreement. The consulting fee payable to Buyers under such consulting agreement shall be equal to 0.75% of "net patient revenue" (as defined on Sellers' financial statements) of the System per month. Sellers agree to reasonably consent to make recommended operational changes under the terms of such consulting agreement. The consulting fees payable to Buyers would be deferred and would only be payable to Buyers if the Closing does not occur as a result of a breach of this Agreement, where such breach is willful and intentional by one or more Sellers and based on factors within one or more Sellers' control.

7. COVENANTS OF BUYERS PRIOR TO CLOSING.

Between the Execution Date of this Agreement and the Closing:

7.1. Governmental Approvals. Buyers shall (i) use reasonable commercial efforts to obtain all governmental approvals (or exemptions therefrom) necessary or required to allow Buyers to perform their obligations under this Agreement; and (ii) assist and cooperate with Sellers and their representatives and counsel in obtaining all governmental consents, approvals, and licenses which Sellers deem necessary or appropriate and in the preparation of any document or other material which may be required by any Government Entity as a predicate to or as a result of the transactions contemplated herein.

7.2. Hart-Scott-Rodino Notification. If not completed prior to the Execution Date, Buyers shall, if and to the extent required by law, file all reports or other documents required or requested by the FTC or the Justice Department under the HSR Act, and all regulations promulgated thereunder, concerning the transactions contemplated hereby, and comply promptly with any requests by the FTC or Justice Department for additional information concerning such transactions, so that the waiting period specified in the HSR Act will expire as soon as reasonably possible after the execution and delivery of this Agreement. Buyers agree to furnish to Sellers such information concerning Buyers as Sellers need to perform their obligations under Section 6.5 of this Agreement. Sellers and Buyers shall each pay one half (1/2) of the filing fees required under the HSR Act and all regulations promulgated thereunder.

7.3. Unions. Buyers shall recognize the existing labor unions representing Sellers' employees as such employees certified representative. Following approval by the Office of Attorney General of Pennsylvania, as set forth in Section 6.4, and not prior thereto unless otherwise mutually agreed upon by Sellers and Buyers, Buyers and Buyers' representatives may meet with each union to discuss the terms and conditions of employment for the bargaining units they represent subject to Buyers' obligations under Section 11.10 and Section 11.25. Buyers shall keep Sellers apprised of such meetings and discussions.

8. CONDITIONS PRECEDENT TO OBLIGATIONS OF BUYERS.

Notwithstanding anything herein to the contrary, the obligations of Buyers to consummate the transactions described herein are subject to the fulfillment by Sellers, on or prior

to the Closing Date, of the following conditions precedent unless waived in writing by Buyers at or prior to the Closing:

8.1. Representations/Warranties. The representations and warranties of Sellers contained in this Agreement shall be true in all material respects when made and as of the Closing Date as though such representations and warranties had been made on and as of such Closing Date. Each and all of the terms, covenants, and conditions of this Agreement to be complied with or performed by Sellers on or before the Closing Date pursuant to the terms hereof shall have been duly complied with and performed in all material respects.

8.2. Pre-Closing Confirmations. Buyers shall have received documentation from the Sellers or other evidence satisfactory to Buyers in their reasonable discretion that Sellers have:

(a) Received approval from all Government Entities whose approval is required to complete the transactions herein contemplated, provided that no such approval is conditioned upon or otherwise imposes any changes or additional requirements with respect to the transactions contemplated hereby that are not acceptable to Buyers, in Buyers' reasonable discretion;

(b) Received confirmation from all applicable licensure agencies that upon the Closing all material Licenses required by law to operate the System and the Assets as currently operated and carry on Sellers' business will be transferred to, or issued or reissued in the name of, the appropriate Buyer;

(c) Obtained reasonable assurances that Medicare and Medicaid certification of the System and the Assets for their operation by Buyers will be effective as of the Closing and that Buyers may participate in and receive reimbursement from such programs effective as of the Closing; and

(d) Obtained such other consents and approvals as may be legally or contractually required for the consummation of the transactions described herein.

8.3. Title Policy. For purposes of clarification, the processes and other actions described in this Section 8.3 shall have been completed in accordance with the terms and conditions hereof prior to the Closing Date as one of the conditions under this Article 8 to Buyers' obligations to consummate the transactions.

(a) Attached to this Agreement as Schedule 8.3 is a list of encumbrances, agreements, easements and exceptions or objections to title pursuant to the title commitments of Commonwealth Land Title Insurance Company (the "Title Company") being so identified on Schedule 8.3. All encumbrances, agreements, easements, or exceptions on Schedule 8.3 are referred to as the "Permitted Encumbrances," and the title commitments are referred to as the "Title Commitments" and individually as a "Title Commitment" with respect to the corresponding Owned Real Property identified on Schedule 8.3 and the corresponding leases of the Leased Real Property, as designated by Buyers, identified on Schedule 8.3 (such leases on Schedule 8.3 being referred to as the "Insured Leases" and individually as an "Insured Lease").

Buyers shall promptly following the execution of this Agreement obtain current as-built ALTA surveys with respect to the Owned Real Property and the Insured Lease Parcels as designated by Buyers (collectively, the "Surveys"). Buyers shall provide Sellers with a copy of the Surveys as and when received. Buyers shall provide written notice to Sellers ("Survey Notice") of any matters shown on the Surveys which adversely affects Seller's title to or use and operation of the Owned Real Property and/or the Insured Lease Parcels as currently being so used and operated (collectively, the "Survey Objections"), which are not satisfactory to Buyers in their reasonable discretion and which the Title Company raises as an exception to coverage. In the event that Buyers provide the Sellers with a Survey Notice, Sellers shall use commercially reasonable efforts, during the Survey Objection Cure Period (as hereinafter defined), to cure to the reasonable satisfaction of Buyers (which Buyers agree shall be so satisfied if the Title Company agrees not to raise the same as an exception to coverage or insure over the same) the Survey Objections identified in the Survey Notice. As used in this Agreement, the term "Survey Objection Cure Period" means the thirty (30) day period beginning on each date on which Sellers receive a Survey Notice. Those matters disclosed on the Surveys to which Buyers do not object shall be deemed Permitted Encumbrances. In the event that Sellers have not completed the cure of any of the Survey Objections by 6:00 p.m., Eastern Standard Time, on the first business day after the last day of a Survey Objection Cure Period, Buyers shall provide Sellers with a reasonable estimate of the dollar amount of the claims, losses, liabilities, damages, taxes, costs (including court costs and costs of appeal) and expenses (including reasonable attorneys' fees and fees of expert consultants and witnesses) resulting from Seller's failure to cure all such Survey Objections ("Survey Objection Cure Estimate"). If the aggregate amount of such Survey Objections Cure Estimate and any New Title Objections Cure Estimate, as defined in Section 8.3(d) below (collectively, the "Cure Estimates"), does not exceed Five Million Dollars ($5,000,000.00), then Sellers shall grant a credit to Buyers against the Purchase Price in the aggregate amount of Buyers' Cure Estimates and Buyers shall proceed to Closing subject to the terms and conditions of this Agreement. If the aggregate amount of the Cure Estimates exceeds Five Million Dollars ($5,000,000.00), Buyers shall have the right, to be exercised in Buyers' sole and exclusive discretion, to terminate this Agreement upon written notice of the same being given to Sellers, which termination shall be effective on the date which is ten (10) business days after the date such notice is received by Sellers, unless prior to the expiration of said ten (10) business day period, Sellers agree, by written notice being sent to Buyers, to grant a credit to Buyers against the Purchase Price in the aggregate amount of Buyers' Cure Estimates, at which point Buyers shall proceed to Closing subject to the terms and conditions of this Agreement. In the event this Agreement is terminated by Buyers pursuant hereto, neither party will thereafter have any further rights, obligations or liability hereunder except with respect to provisions hereof which by their express terms survive a termination of this Agreement.

(b) Subject to Buyers complying with all requirements, conditions and obligations of Buyers under or pursuant to the Title Commitments, with respect to the Owned Real Property, at the Closing, the Title Company shall be ready, willing and able to issue a pro forma policy of owner's title insurance pursuant to the Title Commitments (the "Owner's Title Policy") or mark-up the Title Commitments, in an amount equal to the portion of the Purchase Price being allocated to the Owned Real Property and shall insure to Buyers good and marketable, fee simple title to the Owned Real Property subject only to (i) the Permitted

Encumbrances attributable to the same pursuant to Schedule 8.3, as the same may be amended pursuant hereto, and (ii) taxes for the current year and subsequent years.

(c) Subject to Buyers complying with all requirements, conditions and obligations of the Buyers under or pursuant to the Title Commitments, at the Closing, the Title Company shall be ready, willing and able to issue a pro forma policy of leasehold title insurance pursuant to the Title Commitments (the "Leasehold Title Policy") or mark-up the Title Commitments, in an amount equal to the portion of the Purchase Price being allocated to the Insured Leases and shall insure to Buyers good and marketable, leasehold title to the Insured Leases subject only to the Permitted Encumbrances, attributable to the same pursuant to Schedule 8.3, as the same may be amended pursuant hereto.

(d) Prior to Closing, Buyers may provide written notice to Sellers ("New Matter Title Notice") of any new matters raised by the Title Company affecting or relating to title to the Owned Real Property or any Insured Leases provided such new matters were (i) not previously listed on the Title Commitment for the same, (ii) not pertaining to any of the Buyers or any requirements, conditions or obligations of the Buyers and (iii) not already a Permitted Encumbrance (such new matters being collectively referred to as the "New Title Objections"), which are not satisfactory to Buyers in their sole and absolute discretion. Buyers shall include with such New Matter Title Notice a copy of the updated Title Commitment referencing the New Title Objection and a copy of any such document, instrument, agreement, lien, encumbrance, easement or the like which is the basis of such New Matter Title Notice and New Title Objection. In the event that Buyers provide Sellers with a New Matter Title Notice, Sellers shall, at Sellers' sole cost and expense, cure such New Title Objections to the reasonable satisfaction of the Title Company so that the Title Company shall either remove or insure over the same at Closing. In the event Sellers fail to cure any New Title Objections pursuant hereto, Buyers shall provide Sellers with a reasonable estimate of the dollar amount of the claims, losses, liabilities, damages, taxes, costs (including court costs and costs of appeal) and expenses (including reasonable attorneys' fees and fees of expert consultants and witnesses) resulting from Seller's failure to cure all such New Title Objections ("New Title Objections Cure Estimate"). If the aggregate amount of the Cure Estimates, as defined in Section 8.3(a) above, does not exceed Five Million Dollars ($5,000,000.00), Sellers shall grant a credit to Buyers against the Purchase Price in the aggregate amount of Buyers' Cure Estimates and Buyers shall proceed to Closing subject to the terms and conditions of this Agreement. If the aggregate amount of the Cure Estimates does exceed Five Million Dollars ($5,000,000.00), Buyers shall have the right, to be exercised in Buyers' sole and exclusive discretion, to terminate this Agreement upon written notice of the same being given to Sellers, which termination shall be effective on the date which is ten (10) business days after the date such notice is received by Sellers, unless prior to the expiration of said ten (10) business day period, Sellers agree, by written notice being sent to Buyers, to grant a credit to Buyers against the Purchase Price in the aggregate amount of the Cure Estimates, at which point Buyers shall proceed to Closing subject to the terms and conditions of this Agreement. In the event this Agreement is terminated by Buyers pursuant hereto, neither party will thereafter have any further rights, obligations or liability hereunder except with respect to provisions hereof which by their express terms survive a termination of this Agreement.

(e) Notwithstanding the foregoing, Sellers must discharge and satisfy, and cause to be released of record at or prior to Closing any mortgage, judgment, construction lien or monetary encumbrance (collectively, "Monetary Liens") secured by or otherwise encumbering the Owned Real Property or the tenant's leasehold interest in the Insured Lease Parcels, except to the extent the same pertain to Buyers. Sellers' obligation to cause the release of any such Monetary Liens pursuant to the immediately preceding sentence shall survive the Closing. In the event any Monetary Lien exists as of Closing which Sellers dispute, and the Title Company is agreeable to insuring over the same, Buyers shall be obligated to proceed to Closing and the terms of this Section 8.3(e) shall be deemed to be satisfied.

(f) In the event that title to any of the Owned Real Property or the Insured Leases is not as provided for in this Agreement as of the Closing, Buyers shall proceed to Closing, in which event Sellers will remain liable, in accordance with Section 13.2, for any and all claims, losses, liabilities, damages, taxes, costs (including court costs and costs of appeal) and expenses (including reasonable attorneys' fees and fees of expert consultants and witnesses) that a Buyer Indemnified Party (as defined in Section 13.2) incurs as a result of or with respect to such failure of title, subject to the limitations of Section 13.3.

8.4. Actions/Proceedings. No action or proceeding before a court or any other Government Entity or body shall have been instituted or threatened to restrain or prohibit the transactions herein contemplated, and no Government Entity shall have taken any other action with respect to the Sellers, Assets or the System as a result of which Buyers reasonably and in good faith deem it impracticable to proceed with the transactions hereunder.

8.5. Adverse Change. Since the Execution Date, there shall not have occurred any event, change or occurrence that has or could reasonably be expected to have a Material Adverse Effect, and Sellers, collectively, shall not have suffered any change, loss or damage to the Assets or the System, whether or not covered by insurance, which would have a Material Adverse Effect.

8.6. Insolvency. Sellers, collectively, shall not (i) be in receivership or dissolution, (ii) have made any assignment for the benefit of creditors, (iii) have admitted in writing its inability to pay its debts as they mature, (iv) have been adjudicated a bankrupt, or (v) have filed a petition in voluntary bankruptcy, a petition or answer seeking reorganization, or an arrangement with creditors under the federal bankruptcy law or any other similar law or statute of the United States or any state, nor shall any such petition have been filed against Sellers.

8.7. Material Consents. Sellers shall have obtained all consents, waivers and estoppels of third parties, including in connection with assignment of certain Material Contracts and in connection with Buyers' acquisition of interests in for profit Affiliates, joint ventures or other affiliated organizations of Sellers pursuant to Section 1.1(o), that are material to the consummation of the transactions contemplated in this Agreement (collectively, the "Material Consents") as listed on Schedule 8.7. The Material Consents shall be in form and substance reasonably satisfactory to Buyers.

8.8. Vesting/Recordation. Sellers shall have furnished to Buyers, in form and substance reasonably satisfactory to Buyers, assignments or other instruments of transfer and consents and waivers by others, necessary or appropriate to transfer to and effectively vest in Buyers all right, title, and interest in and to the Assets, in proper statutory form for recording if such recording is necessary or appropriate.

8.9. Surveys and Reports. Promptly following the Execution Date, Buyers, in their discretion and at their sole cost, may commission from one or more reputable environmental consulting or engineering firms: (i) a Phase II environmental sampling and analysis of environmental media at or beneath the Real Property, if deemed necessary or appropriate by Buyers based on the results of Buyers' Phase I environmental assessments; and/or (ii) an architectural and structural report on the Owned Real Property and the facilities situated thereon. The scope, findings and conclusions of such reports shall be reasonably satisfactory to Buyers.

8.10. Closing Deliveries. Sellers shall have made the deliveries required to be made by them under Section 3.2 hereof.

8.11. Satisfaction of Indebtedness. Sellers shall have paid off or otherwise satisfied as of Closing (including, as may be necessary, through payment of the Purchase Price at Closing) all indebtedness, including defeasance of any bonds, as is reasonably necessary for each Seller to convey its Assets to the appropriate Buyer free and clear of all claims, assessments, security interests, liens, restrictions and encumbrances of any kind, other than the Permitted Encumbrances and the Assumed Liabilities and/or as otherwise necessary to carry out the transactions contemplated hereby, and Sellers shall have delivered reasonable documentation thereof to Buyers as may be requested.

8.12. Pension Funding. Sellers shall have satisfied their Pension Plan Contribution funding obligations set forth in Section 2.4(b).

8.13. Delivery of Other Agreements. Sellers shall have executed and delivered all other agreements determined by Buyers to be reasonably necessary or appropriate to be entered into prior to the Closing to effect the transactions contemplated herein.

9. CONDITIONS PRECEDENT TO OBLIGATIONS OF SELLERS.

Notwithstanding anything herein to the contrary, the obligations of Sellers to consummate the transactions described herein are subject to the fulfillment by Buyers, on or prior to the Closing Date, of the following conditions precedent unless waived in writing by Sellers at or prior to the Closing:

9.1. Representations/Warranties. The representations and warranties of Buyers contained in this Agreement shall be true in all material respects when made and as of the Closing Date as though such representations and warranties had been made on and as of such Closing Date. Each and all of the terms, covenants, and conditions of this Agreement to be complied with or performed by Buyers on or before the Closing Date pursuant to the terms hereof shall have been duly complied with and performed in all material respects.

9.2. Governmental Approvals. All material consents, authorizations, orders and approvals of (or filings or registrations with) any Government Entity or other Party required in connection with the execution, delivery and performance of this Agreement, as described in Section 7.1, shall have been obtained or made by Buyers when so required, except for any documents required to be filed, or consents, authorizations, orders or approvals required to be issued, after the Closing Date.

9.3. Actions/Proceedings. No action or proceeding before a court or any other Government Entity or body shall have been instituted or threatened to restrain or prohibit the transactions herein contemplated, and no Government Entity shall have taken any other action with respect to the Sellers, Assets or the System as a result of which Sellers reasonably and in good faith deem it impracticable to proceed with the transactions hereunder.

9.4. Insolvency. Buyers, collectively, shall not (i) be in receivership or dissolution, (ii) have made any assignment for the benefit of creditors, (iii) have admitted in writing its inability to pay its debts as they mature, (iv) have been adjudicated a bankrupt, or (v) have filed a petition in voluntary bankruptcy, a petition or answer seeking reorganization, or an arrangement with creditors under the federal bankruptcy law or any other similar law or statute of the United States or any state, nor shall any such petition have been filed against Buyers.

9.5. Closing Deliveries. Buyers shall have made the deliveries required to be made by them under Section 3.3 hereof.

10. RESTRICTIVE COVENANTS.

10.1. Purchase Price Proceeds. As promptly as practicable after the Closing Date, Sellers shall, after reserving for and/or paying off Sellers' debt and other liabilities, transfer the net proceeds of the Purchase Price paid to Sellers and any other net cash or investment assets to the Foundation (the "Foundation Funds"). The term "Foundation Funds" shall include any return on the investment thereof. A detailed description of Sellers' proposed use of the Purchase Price proceeds and projected amount of Foundation Funds is set forth on Schedule 10.1 hereto.

10.2. Enforcement Authority; Annual Reports. For a period of ten (10) years after the Effective Time, Buyers shall develop and provide an annual report to the Foundation regarding progress in meeting its commitments and compliance with covenants as set forth in Sections 2.4 and 11.12 through 11.20 hereof, as applicable during such time period. Subject to limitations on remedies set forth in Section 14.21, Foundation shall have authority to enforce, on behalf of Sellers, all legal and equitable rights and remedies of Sellers against Buyer pursuant to this Agreement.

10.3. Non-Compete. The Sellers hereby covenant and agree that, at all times during the period of ten (10) years after the Effective Time, neither the Sellers nor any of their respective Affiliates shall, directly or indirectly, own, lease, manage, operate, control, or participate in any manner with the ownership, leasing, management, operation or control of any business which offers healthcare services in competition with the Buyers, including but not limited to any acute care hospital, specialty hospital, rehabilitation facility, diagnostic imaging

center, ambulatory or other type of surgery center, urgent care center, or physician clinic or physician medical practice (any of such uses being referred to herein as a "Competing Business"), within thirty-five (35) miles of any Hospital campus (the "Restricted Area"), without Buyers' prior written consent (which Buyers may withhold in their sole and absolute discretion); provided, however, that no Seller or any of their Affiliates will be precluded from (i) participating in community benefit activities that promote healthcare services for residents of the communities historically served by Sellers and their Affiliates, or (ii) providing financial support to or on behalf of uninsured or underinsured individuals in order for those individuals to access health care services (including from a Competing Business), so long as they do not provide financial support to another Competing Business within the Restricted Area.

10.4. Non-Solicitation. The Sellers hereby covenant and agree that, at all times during the period of five (5) years after the Effective Time, neither the Seller nor any of their respective Affiliates shall, directly or indirectly, recruit or solicit for hire (other than through placing advertisements or job postings in print or electronic media of general circulation) any officers or executive management team members of any Buyer as listed on Schedule 10.4 ("Key Management Personnel") or otherwise encourage or induce any such Key Management Personnel to leave employment of Buyers, whether for business or other purposes, where such conduct or actions would have a reasonable likelihood of ending, curtailing, reducing or interfering with the business or other relationship between the Buyers and such Key Management Personnel.

10.5. Remedies. In the event of Seller's breach of this Article 10, Sellers recognize that monetary damages shall be inadequate to compensate Buyers and Buyers shall be entitled, without the posting of a bond or similar security, to an injunction restraining such breach, with the reasonable costs (including reasonable attorneys' fees) of securing such injunction to be borne by the breaching Seller or Affiliate. Nothing contained herein shall be construed as prohibiting Buyers from pursuing any other remedy available to it for such breach or threatened breach. All Parties hereto hereby acknowledge the necessity of protection against the competition of Sellers and their Affiliates and that the nature and scope of such protection under this Article 10 has been carefully considered by the Parties. Sellers further acknowledge and agree that the covenants and provisions of this Article 10 form part of the consideration under this Agreement and are among the inducements for Buyers entering into and consummating the transactions contemplated herein. The period provided, activities restricted and the area covered are expressly represented and agreed to be fair, reasonable and necessary. The consideration provided for herein is deemed to be sufficient and adequate to compensate for agreeing to the restrictions contained in this Article 10. If, however, any court determines that the foregoing restrictions are not reasonable, such restrictions shall be modified, rewritten or interpreted to include as much of their nature and scope as will render them enforceable.

11. ADDITIONAL COVENANTS AND AGREEMENTS.

11.1. Supplement to Schedules. From time to time prior to the Closing Date, the Parties shall supplement or amend with reasonable frequency, or promptly following the reasonable request of the other Party, the information contained in their respective disclosure schedules with respect to any material matter arising after the Execution Date, which, if existing

or occurring on the Execution Date, would have been required to be set forth or described in any disclosure schedule; provided, however, that no such supplement or amendment by a Party shall be deemed to modify its disclosure schedules for the purpose of, as the case may be, (i) certifying the accuracy of any representation or warranty made by Sellers in this Agreement or in the Officer's Certificates under Section 3.2(k) hereof, (ii) determining whether any of the conditions set forth in Article 8 or Article 9 hereof have been satisfied, (iii) indemnification in Article 13 hereof, and (iv) increasing the liabilities or obligations of Buyers. In the event that a Party supplements or amends the information contained in one of more of its disclosure schedules prior to Closing, the other Party may supplement or amend its schedules as it deems reasonably necessary with respect thereto (e.g., if Sellers add contracts requiring consent to their list of Material Contracts on, or referenced on, Schedule 4.19 prior to Closing, Buyers may, in their discretion, supplement or amend their list of Material Consents on Schedule 8.7 to add one of more of such contracts).

11.2. Termination Prior to Closing. Notwithstanding anything herein to the contrary, this Agreement may be terminated at any time:

(a) on or prior to the Closing Date by mutual written agreement of Sellers and Buyers;

(b) on or prior to the Closing Date by Buyers following ten (10) days written notice, if satisfaction of any condition to Buyers' obligations under Section 7 of this Agreement becomes impossible or impractical with the use of commercially reasonable efforts (unless the failure results primarily from one or more Buyers materially breaching any representation, warranty, or covenant herein) and such condition shall not have been waived by Buyers;

(c) on or prior to the Closing Date by Sellers following ten (10) days written notice, if satisfaction of any condition to Sellers' obligations under Section 8 of this Agreement becomes impossible or impractical with the use of commercially reasonable efforts (unless the failure results primarily from one or more Sellers materially breaching any representation, warranty, or covenant herein) and such condition shall not have been waived by Sellers;

(d) by Buyers or Sellers if the Closing Date shall not have taken place on or before September 30, 2016 (which date may be extended by mutual agreement of Buyers and Sellers and which date may be extended by Buyers by up to ninety (90) days in the event that the documentation and approvals required by Section 8.2 have not yet been provided); provided that the right to terminate this Agreement under this Section 11.2(d) shall not be available to any Party if the failure of the Closing to take place by September 30, 2016 (as may be extended) results primarily from such Party's (or such Party's Affiliates) breach of any representation, warranty or covenant herein;

(e) by Sellers upon thirty (30) days' prior written notice if Buyers have a change of control where more than fifty percent (50%) of Buyers' outstanding equity interest, or substantially all of Buyers' assets, are to be transferred to a third party, but only if such third party transferee is, or is owned or controlled by, a health system or health plan whose principal business is operating hospitals or health systems, provided that, in addition to Sellers' right to

terminate pursuant to this Section, Buyers shall also pay to Sellers Five Hundred Thousand Dollars ($500,000.00), as liquated damages, to cover the estimated costs incurred in connection with the Transaction ("Liquidated Damages") with Buyers and Sellers acknowledging that the Liquidated Damages set forth herein are not intended to be a penalty and have been determined to be a reasonable and good faith estimate of the probable loss and costs suffered by Sellers if this Agreement is terminated by Sellers as a result of such a change of control; for the avoidance of doubt and without limiting the generality of the foregoing, acquisition by a private equity firm or other investment firm of more than fifty percent (50%) of the outstanding voting equity interests of Buyers, or substantially all of the assets of Buyers, shall not be considered a change of control triggering Sellers' termination rights and rights to Liquidated Damages under this Section 11.2(e), even if such firm has investments in other health systems or health plans; or

(f) by Buyers immediately upon written notice to Sellers, if all of the conditions to Buyers' and Sellers' obligations to close as set forth in Article 8 and Article 9 have been satisfied or waived except that Buyers, as of the Closing Date, are unable to pay, or otherwise fail to pay, despite commercially reasonable efforts to obtain financing on terms and conditions that are acceptable to Buyers, in their sole discretion, in accordance with Section 2.1(a) and Section 3.3(a), in immediately available funds an amount equal to the Estimated Purchase Price (a "Financing Failure"). If Buyers terminate this Agreement in accordance with this Section 11.2(f) or for any other reason as a result of a Financing Failure, PMH shall pay to Crozer, by no later than three (3) business days following the date of termination, an amount equal to Three Million Dollars ($3,000,000.00) (the "Termination Payment"). The Termination Payment shall be secured by a letter of credit issued by City National Bank no later than five (5) business days after the execution of this Agreement and PMH shall take all reasonably necessary steps to allow Crozer to draw upon such letter of credit by no later than the fourth (4th) business day following termination of the Agreement pursuant to this Section 11.2(f) if the Termination Payment has not been previously paid by PMH. Termination under this Section 11.2(f) and receipt of the Termination Payment shall represent the sole and exclusive legal and/or equitable remedy available to Sellers under this Agreement, or otherwise, with respect to or otherwise on account of a Financing Failure (which includes, among other situations, any breach of, inaccuracy with respect to, default under or failure to satisfy or fulfill any covenant, obligation, representation, condition or warranty under the Agreement with respect to or otherwise on account of a Financing Failure) and Buyers (including PMH) shall be released by Sellers from any and all claims related to such Financing Failure upon receipt of the Termination Payment.

If this Agreement is terminated pursuant to this Section 11.2, this Agreement shall be null and void and all rights and obligations of Sellers and Buyers hereunder shall terminate without any liability of any Party to any other Party, except that with respect to a termination of this Agreement under Sections 11.2(a), (b) or (c), nothing herein shall prevent any Party from pursuing any of its legal rights or remedies that may be granted to any Party(ies) by law against the other Party(ies) to this Agreement as a result of any default by the other Party(ies) in the observance or in the due and timely performance of such Party(ies) of any of the covenants herein contained.

11.3. Post-Closing Access to Information. Sellers and Buyers acknowledge that subsequent to Closing each Party may need access to information or documents (including but not limited to personnel files included in the definition of Assets above) in the control or possession of the other Party(ies) for the purposes of, without limitation, concluding the transactions herein contemplated, audits, compliance with governmental requirements and regulations, and the prosecution or defense of third party claims. Accordingly, Sellers and Buyers agree that for a period of seven (7) years after Closing, each will make reasonably available to the other's agents, independent auditors, counsel, and/or governmental agencies upon written request and at the expense of the requesting Party such documents and information as may be available relating to the Assets and the System for periods prior and subsequent to Closing to the extent necessary to facilitate, without limitation, concluding the transactions herein contemplated, audits, compliance with governmental requirements and regulations, and the prosecution or defense of claims.

11.4. Preservation and Access to Records after the Closing. After the Closing, Buyers shall, in the ordinary course of business and as required by law, keep and preserve in their original form all Records of the System and Assets existing as of the Closing, and which constitute a part of the Assets delivered to Buyers at the Closing. Buyers acknowledge that as a result of entering into this Agreement and operating the System they will gain access to patient and other information which is subject to rules and regulations regarding confidentiality. Buyers agree to abide by any such rules and regulations relating to the confidential information it acquires. Buyers agree to maintain the Patient Records delivered to Buyers at Closing within the System after Closing in accordance with applicable law (including, if applicable, Section 1861(v)(i)(I) of the Social Security Act (42 U.S.C. § 1395(v)(l)(i)), the privacy requirements of the Administrative Simplification subtitle of HIPAA and applicable state requirements with respect to medical privacy and requirements of relevant insurance carriers, all in a manner consistent with the maintenance of patient records generated within the Buyers' system after Closing. Upon reasonable notice, during normal business hours, at the sole cost and expense of Sellers and upon Buyers' receipt of appropriate consents and authorizations, Buyers will afford to the representatives of Sellers, including their counsel and accountants, full and complete access to, and copies of, the Records transferred to Buyers at the Closing (including access to Patient Records in respect of patients treated by Sellers within the System). Upon reasonable notice, during normal business hours and at the sole cost and expense of Sellers, Buyers shall also make their officers and employees available to Sellers at reasonable times and places after the Closing. In addition, Sellers shall be entitled, at Sellers' sole risk, to remove any such Patient Records from Sellers' facilities, but only for purposes of pending litigation involving a patient to whom such records refer, as certified in writing prior to removal by counsel retained by Sellers in connection with such litigation and only upon Buyers' receipt of appropriate consents and authorizations; provided that if the litigation is brought by or on behalf of the patient to whom the records relate, such patient shall be deemed to have consented to disclosure and use in accordance with this Section. Any Patient Record so removed from the System shall be promptly returned to Buyers following its use by Sellers. Any access to the System , the Records or Buyers' personnel granted to Sellers in this Agreement shall be upon the condition that any such access not materially interfere with the business operations of Buyers.

11.5. Tax and Medicare Effect. None of the Parties (nor such Parties' counsel or accountants) has made or is making any representations to any other Party (nor such Party's counsel or accountants) concerning any of the tax, Medicare, Medicaid or other reimbursement effects of the transactions provided for in this Agreement as each Party hereto represents that each has obtained, or may obtain, independent tax, Medicare, Medicaid and reimbursement advice with respect thereto and upon which it, if so obtained, has solely relied.

11.6. Reproduction of Documents. This Agreement and all documents relating hereto, including: (a) consents, waivers and modifications which may hereafter be executed, (b) the documents delivered at the Closing, and (c) financial statements, certificates and other information previously or hereafter furnished to Sellers or to Buyers, may, subject to the provisions of Article 12 hereof, be reproduced by Sellers and by Buyers by any photographic, photostatic, microfilm, micro-card, miniature photographic or other similar process and Sellers and Buyers may destroy any original documents so reproduced. Sellers and Buyers agree and stipulate that any such reproduction shall be admissible in evidence as the original itself in any judicial, arbitral or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made by the Sellers or Buyers in the regular course of business) and that any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence.

11.7. Cooperation on Tax Matters. Following the Closing, the Parties shall cooperate fully with each other and shall make available to the other, as reasonably requested and at the expense of the requesting Party, and to any taxing authority, all information, records or documents relating to tax liabilities or potential tax liabilities of Sellers or Buyers and any information which may be relevant to determining the amount payable under this Agreement, and shall preserve all such information, records and documents (to the extent a part of the Assets delivered to Buyers at Closing) at least until the expiration of any applicable statute of limitations or extensions thereof.

11.8. Cost Reports. As set forth in more detail in the Transition Services Agreement, Sellers, at their expense, shall prepare and timely file all terminating and other cost reports required or permitted by law to be filed under the Medicare and Medicaid or other third party payor programs and the State Health Agency for periods ending on or prior to the Effective Time, or as a result of the consummation of the transactions described herein ("Sellers Cost Reports"). Buyers shall forward to Sellers any and all correspondence relating to Sellers Cost Reports within fifteen (15) business days after receipt by Buyers. Sellers shall remit to Buyers any receipts of funds relating to Sellers Cost Reports within fifteen (15) business days after receipt by Sellers. Buyers shall receive all rights to Sellers Cost Reports for any amounts receivable and assume all liabilities with respect to Sellers Cost Reports for any amounts payable, in respect of such reports or reserves relating to such reports, without limiting any of Buyers' rights or remedies hereunder. To the extent assignable and transferrable, Buyers' rights shall include the right to appeal any Medicare or Medicaid determinations relating to Sellers Cost Reports. Sellers shall retain the originals of Sellers Cost Reports, correspondence, work papers and other documents relating to the Sellers Cost Reports. Sellers shall furnish copies of such cost reports, correspondence, work papers and other documents to Buyers upon request.

11.9. Misdirected Payments, Etc. Sellers and Buyers covenant and agree to remit, with reasonable promptness, to the other any payments received, which payments are on or in respect of accounts or notes receivable owned by (or are otherwise payable to) the other (including any incentive payments, Meaningful Use funds, etc.) pursuant to the terms hereof. In addition, and without limitation, in the event of a determination by any governmental or third-party payor that payments to the Sellers resulted in an overpayment or other determination that funds previously paid by any program or plan to the Sellers must be repaid, Sellers shall be responsible for repayment of said monies (or defense of such actions) if such overpayment or other repayment determination was for services rendered prior to the Effective Time and Buyers shall be responsible for repayment of said monies (or defense of such actions) if such overpayment or other repayment determination was for services rendered after the Effective Time. In the event that, following the Closing, Buyers suffer any offsets against reimbursement under any third-party payor or reimbursement programs due to Buyers relating to amounts owing under any such programs by Sellers, Sellers shall, within five (5) business days following demand from Buyers, pay to Buyers the amounts so billed or offset. These obligations shall be in addition to any other remedies available herein.

11.10. Employee Matters.

(a) As of the Closing Date, Sellers shall terminate all of their respective employees and Buyers shall offer to hire all active employees of such Sellers who are in good standing as of the Effective Time (including the management team) (the "Hired Employees") in positions and at compensation levels and health and welfare benefit levels substantially similar to those being provided by Sellers as of the Closing Date, subject to the standard pre-employment screening process conducted by Buyers and their Affiliates. For purposes of this subsection, "active" employees shall mean those individuals on the employment rolls who are reporting to and attending work on a regular basis and shall also mean: (i) employees who are on maternity or paternity leave and are entitled to reemployment rights under applicable law, (ii) employees who are on leave pursuant to the Family and Medical Leave Act and are entitled to reemployment rights under such law, and (iii) employees who are on leave due to service in the uniformed services pursuant to the Uniform Services Employment and Reemployment Rights Act of 1994 and are entitled to reemployment rights under such law. An employee in "good standing" shall mean an employee who Seller indicates is not suspended according to Sellers' policies as of the Closing Date. Individuals who are not active employees due to long-term or short-term disability, workers compensation or other leaves of absence not mentioned herein shall not be an "active" employee until such time when they notify Sellers they are ready and meet all requirements for reporting to work, at which time Sellers will notify Buyer and Buyer then will consider them for employment as an active employee of Seller. Notwithstanding the foregoing, Buyers reserve the right not to hire or continue the employment of any individual employee for cause (*i.e.*, with a legitimate reason with respect to such employee's job performance or conduct) or based on staffing considerations, upon reasonable advance notice to Sellers (if prior to the Closing) and the employee. Nothing herein shall be deemed to affect or limit in any way normal management prerogatives of Buyers with respect to employees or to create or grant to any such employees third-party beneficiary rights or claims of any kind or nature. Within the period of ninety (90) days before the Closing, Sellers shall not take any action

that would result in WARN Act liability with respect to employees of the System. With respect to terminations of employees following the Closing, Buyers shall be responsible for any notification required under the WARN Act. In respect of the Hired Employees, Buyers shall provide such employees with employee benefits as described in Schedule 11.10(a), provided, however, that for the remainder of the 2016 calendar year following the Closing Date, the health and welfare benefits levels shall be substantially similar to those benefits levels provided by Sellers as of the Closing Date. Buyers shall recognize the existing seniority and service credit with Sellers of all Hired Employees for benefits purposes in Buyers' retirement plans and shall provide credit under such plans for purposes of determining eligibility and vesting and the rate of benefit accrual (but not actual benefit accrual); provided, however, that no such credit need be given in respect of any new plan commenced or participated in by Buyers in which no prior service credit is given or recognized to or for other similarly-situated plan participants. In providing benefits to Hired Employees under Buyers' welfare benefit plans, Buyers welfare benefit plans shall waive pre-existing conditions limitations, waiting periods, evidence of insurability or other exclusions or limitations in Buyers' welfare benefit plans which might otherwise apply to such Hired Employees and shall recognize the existing seniority and service credit with Sellers of all such Hired Employees to provide credit under such plans for the purpose of determining eligibility, except to the extent such Hired Employees have not satisfied such limitations under the current welfare benefit plans of Sellers or such waiver of pre-existing conditions is requested of an insurer, but after diligent pursuit is not permitted under one or more of Buyers' short-term or long-term disability plans provided through insurance contracts or policies. Buyers shall give all Hired Employees credit for their years of service with Sellers for the purpose of determining benefits under Buyers' vacation, sick pay and other paid-time-off programs.

(b) Buyers shall give credit to all Hired Employees for their actual accumulated and unused paid time off hours to the extent included in the calculation of Net Working Capital. Buyers shall also give credit to all Hired Employees for their actual and unused sick time hours for each Hired Employee. Such amounts shall not otherwise be subject to reduction, offset, or any other limitation under Buyers' sick time benefits policies and procedures.

11.11. Transition Services. Pursuant to the terms and conditions of the Transition Services Agreement attached hereto as Exhibit I, following the Closing, the Buyers shall provide Sellers with certain specified items and services as reasonably necessary to assist Sellers in transitioning ownership and operation of the System and Assets and winding down operations, all upon reasonable and customary terms mutually agreed upon by the Parties.

11.12. Local Advisory Board. Buyers and Sellers shall establish and appoint a local advisory board (the "Advisory Board") to ensure ongoing, meaningful input from local community and physician leaders with respect to the System. The Advisory Board shall be comprised of nine (9) individuals, including local community and physician leaders, four (4) of whom shall be appointed by Crozer's Board of Directors subject to Buyers' prior approval, which approval shall not be unreasonably withheld, and four (4) of whom shall be appointed by Buyers, with the remaining member selected by the Foundation from among its Board of

Directors to serve as a voting *ex-officio* member. The Advisory Board shall be self-perpetuating with annual elections conducted by the then current Advisory Board members on a staggered basis such that roughly one-third (1/3) of the members are subject to election each year, with the exception of the slot for the Foundation board member, who shall be selected and appointed by the Foundation from time to time, provided that, at all times: (i) at least fifty percent (50%) of the members shall be physicians on the active Medical Staff of one or more of Buyers' Hospitals; and (ii) the Advisory Board members shall reasonably attempt to maintain the same member composition and representation described above. For as long as Buyers own and operate one or more of the Hospitals, the Advisory Board shall meet on a regular basis and have the following responsibilities, all of which shall be advisory in nature and not binding with respect to Buyers: (a) make recommendations and suggestions with respect to medical staff credentialing; (b) provide input on policies and clinical programs; (c) provide input in the development and review of strategic plans; (d) provide input on operating and capital budgets; (e) provide input and support physician recruitment efforts; (f) provide input on succession plans for executive leadership at the Hospitals; (g) promote community health initiatives; and (h) monitor the commitment to maintain and improve quality indicators. The initial list of Advisory Board members (with their initial staggered terms) and the charter for the Advisory Board are attached as Exhibit J hereto prior to the Closing Date.

11.13. Financial Assistance Policies. For a period of at least five (5) years after the Effective Time, Buyers shall: (a) adopt and maintain Sellers' charity care policies for the treatment and financial assistance of indigent patients of the Hospitals in accordance with applicable law; (b) cause the Hospitals to treat any patient presented to the emergency room who has a medical emergency or who, in the judgment of a staff physician, has an immediate emergency need; (c) not turn away any such patient on account of age, race, gender or inability to pay; and (d) cause the Hospitals to continue to provide medically necessary services to patients in the communities served by Sellers, including those unable to pay for emergent and/or medically necessary care, subject to Sellers' charity care policies. This covenant shall be subject in all respects to changes in governmental policy.

11.14. Community Benefit, Education Programs and Affiliations. For as long as Buyers own and operate one or more of the Hospitals, Buyers shall: (a) support the health and well-being of residents in the communities served by Sellers through wellness, health education and other community programs; (b) maintain Sellers' graduate medical education programs in existence as of the Closing provided that there are no material changes in the reimbursement or clinical requirements for such programs; and (c) maintain a strategic alignment with ChesPenn Health Services, Inc., which operates a federally qualified health center, in order to continue providing critical primary care access to underserved and low socioeconomic, at-risk populations in the communities served by Sellers, on commercially reasonable terms mutually agreed upon by the Parties and generally consistent with the pre-Closing relationship with Sellers.

11.15. Availability of Services. Buyers shall: (a) for as long as Buyers own and operate one or more of the Hospitals, use commercially reasonable efforts to ensure that residents of Delaware County, Pennsylvania have access to a full range of healthcare services including primary, secondary and tertiary care, specialty and hospital-based services, and emergency and

urgent care facilities necessary to support the needs of the community; and (b) for a period of at least five (5) years after the Effective Time, Buyers shall preserve key service lines within the System, including women's services (including obstetrics and neonatal intensive care services), behavioral health, pediatrics, trauma (including burn), and emergency medicine, with a further commitment to maintain Emergency Access Points in the communities served as of the Closing Date. Buyers further agree to consult with the Advisory Board in advance of any significant changes in such services listed in subsection (b) above after the five (5) year period after the Effective Time.

11.16. Future Sale or Closing. For a period of ten (10) years after the Effective Time, Buyers shall not sell or close any of the licensed Hospitals, including any campus of a licensed Hospital providing inpatient acute care services as of the Effective Time, acquired as part of the transactions contemplated hereby unless consented to by the Advisory Board and the Foundation in advance. Notwithstanding anything herein to the contrary, the prohibition of this Section 11.16 shall not apply to: (a) any sale or closure required by a Government Entity; (b) any merger, sale or other transaction that does not relate solely or principally to the Assets purchased pursuant to this Agreement; or (c) any corporate-level transactions involving Buyer's stock or securities, including macro-level mergers, recapitalizations or reorganizations or other changes of control of PMH or its parent. In the event of any transactions described in subsections (b) and (c) above, or any other change in control of Buyers after the Effective Time, any successor shall be required to comply with, and shall be bound by, the post-closing covenants and other obligations of Buyers as set forth in this Agreement.

11.17. Capital Expenditures. During the first five (5) years following the Effective Time, Buyers shall invest, or enter into binding commitments to invest, at least One Hundred Million Dollars ($100,000,000.00) for routine capital needs of the System and an additional One Hundred Million Dollars ($100,000,000.00) for strategic capital needs of the System, including expenditures in connection with Sellers' current construction project involving an ambulatory care center in Broomall, Pennsylvania, which project is in process as of the Execution Date and the expenditures associated therewith are currently estimated to be about Twelve Million Dollars ($12,000,000.00). As used in this Section 11.17, "capital needs" shall include new equipment, equipment replacement, facility renovations, new facilities, medical office space, development of new services, information systems, physician recruitment, physician practice acquisitions, and other capital improvements, including commitments incurred pursuant to operating or capital/financing leases, or other off balance sheet financing mechanisms.

11.18. Strategic Planning. As soon as possible following the Effective Time, Buyers shall commence a strategic planning process (the "Strategic Planning Process"), which shall be led by Buyers' local management team. The Strategic Planning Process shall provide for the evaluation of market data and projections, current and proposed regulatory environments, operational and financial requirements, and capital expenditures models in the markets in which Sellers operated to best determine the use of the Buyers' invested capital pursuant to Section 11.17. Without limiting the generality of the foregoing, within twelve (12) months of the Effective Time, as part of the Strategic Planning Process, Buyers shall specifically review the potential expanded strategic development on the Springfield Hospital campus.

11.19. Branding and Identity. For as long as Buyers own and operate one or more of the Hospitals, Hospitals and other provider organizations within the System shall retain their trade names as utilized immediately prior to the Effective Time. For a period of five (5) years after Closing, Buyers, with the approval of the Advisory Board and the Foundation, may choose to append to, or include in Hospitals' or System's trade name in use immediately prior to the Effective Time one or more of Buyers', or Buyers Affiliates', existing corporate or trade names. For a period of five (5) years after the Effective Time, Buyers shall not approve or adopt any branding plan, or materially modify any trade name usage, with respect to the Hospitals and other provider organizations within the System without the prior approval of the Advisory Board, as well as, in the case of branding plans, the prior approval of the Foundation.

11.20. Corporate Functions and Services. Promptly after the Effective Time, Buyers shall provide the acquired System with full and complete corporate support from PMH and its Affiliates with respect to the following: (a) comprehensive support and back office services, as more fully described in Schedule 11.20(a); (b) comprehensive physician infrastructure and alignment services, including the Coordinated Regional Care ("CRC") model; (c) expertise in operational efficiencies; (d) inclusion in Prospect's group purchasing organization ("GPO") arrangements; (e) programs, services and infrastructure that support the transition and advancement towards value-based care (*e.g.*, ACO's) and population health management; and (f) quality and patient safety programs and infrastructure.

11.21. Medical Staff and Physicians. As a result of the acquisition of the Assets by Buyers, there will be no change or modification to the current staff privileges for physicians on the medical staff of the Hospitals who are in good standing. Buyers shall adopt the current medical staff bylaws of the Hospitals as of the Effective Time. Buyers shall maintain open medical staffs at the Hospitals, except with respect to existing closed departments thereof listed on Schedule 11.21, and Buyers shall continue to work collaboratively with independent physicians. All agreements between Sellers and physicians, including employment agreements, shall be included in the Contracts to be assigned to and assumed by Buyers to the extent assignable and assumable by the terms of such contracts and under applicable law; provided however, that Buyers may elect not to assume any of such agreements on reasonable notice to Sellers prior to Closing should Buyers reasonably determine, based on Buyers' review of applicable federal or state laws or regulations, that assumption thereof would be in violation of such applicable federal or state laws or regulations. Following the Closing, Buyers shall generally make available to the employed and medical staff physicians such physician resources, expertise, intellectual capital, entities and associated operational support functions as generally available to Buyers' Affiliates.

11.22. Quality Reporting. Sellers shall submit all quality data required under the Quality Programs to CMS or its agents, and all quality data required under ORYX to The Joint Commission, for any reporting period with reporting deadlines between the date of this Agreement and the Effective Time. If a reporting period ends prior to the Effective Time, but the reporting deadline for such reporting period ends after the Effective Time, Sellers shall prepare and submit the quality data for the System required under the Quality Programs and ORYX in accordance with applicable filing deadlines and in the form and manner required by

CMS and The Joint Commission, respectively, or, at the sole option of Buyers, Sellers shall transmit such quality data to Buyers in a form mutually agreeable to Buyers and Sellers or allow Buyers access to such data, to enable Buyers to submit quality data for the System required under the Quality Programs and ORYX for such reporting period. If the Effective Time falls between the first and last day of a reporting period, Sellers shall cooperate with Buyers to ensure that all quality data required to be submitted for the System under the Quality Programs and ORYX for the portion of the reporting period during which Sellers owned the System can be aggregated with the quality data for the portion of the reporting period during which Buyers owned the System, to enable Buyers and/or Sellers to submit the quality data for the System required under the Quality Programs and ORYX in accordance with applicable filing deadlines and in the form and manner required by CMS and The Joint Commission, respectively.

11.23. Continuation of Insurance. Except as otherwise provided in this Section 11.23, from and after the date of this Agreement through: (a) a date that is at least seven (7) years from the Effective Time for claims-made policies, whether through the purchase of an extended reporting endorsement/"tail" coverage or otherwise; and (b) the Effective Time for occurrence-based policies, Sellers shall, at their sole cost and expense, maintain in effect without material modification, all existing insurance coverage in effect as of the date hereof other than: (i) professional liability insurance for each of the Hospitals and Sellers' other institutional health care providers in the System, as well as for all employed physicians and other health care professional employees of Sellers for any claims related to the period prior to the Effective Time; and (ii) comprehensive general liability insurance and cybersecurity insurance with respect to Sellers' potential liability for any acts, omissions, events, claims or occurrences arising out of or otherwise related to the System, the Assets, Sellers' employees or the Sellers generally prior to the Effective Time, all to the extent such excepted liabilities remain insured through Cassatt and/or its Affiliates or otherwise as specified below. The insurance described above shall have coverage levels equal to the levels maintained by Sellers immediately prior to Closing. Sellers shall provide Buyers with at least thirty (30) days prior written notice of the cancellation, reduction or termination of any such insurance coverage. For a period of at least seven (7) years from the Effective Time, Buyers, through Cassatt and/or its Affiliates or otherwise, shall maintain claims-made policies, with coverage for "prior acts," for professional liability and comprehensive general liability insurance and cybersecurity insurance set forth in subsections (b)(i) and (b)(ii) above at coverage levels equal to the levels maintained by Sellers immediately prior to Closing.

11.24. Cooperation on Payor Matters. Following the Closing, the Sellers shall cooperate with Buyers and afford Buyers the opportunity to reasonably participate in any third party payor settlement and/or audit proceedings involving Sellers and/or pre-closing operation of the System, including, without limitation, matters and proceedings related to Medicare, Medicaid and CHAMPUS/TRICARE cost reports and CMS Recovery Audit Contractor appeals or other billing and/or compliance matters involving other audit/review agencies and organizations. Sellers shall not settle any claim, audit, proceeding or investigation concerning billing and/or compliance matters without the prior written consent of Buyers to the extent the terms of such settlement impose any obligations or restrictions on Buyers.

11.25. Section 4204 Sale of Assets. Buyers and Sellers each desire to have the withdrawal liability exclusions of Section 4204 of ERISA apply to the sale of assets under this Agreement. As a condition of the Agreement and according to the terms of Section 4204 ERISA, Buyer has agreed to contribute to the Pension Fund of Hospital and Healthcare Employees of Philadelphia and Vicinity (the "Pension Fund") for substantially the same number of contribution base units for which Sellers were obligated prior to the Closing Date of the Agreement. Sellers agree to be secondarily liable for any unpaid portion of withdrawal liability to such Pension Fund that Buyer may incur in the five year period following the Closing Date. In the event of Sellers' distribution of assets or liquidation, then to the extent required in Section 4204(a)(3) of ERISA, Sellers shall provide a bond or an amount in escrow equal to the present value amount of the potential withdrawal liability owed to the Pension Fund, determined as of the Closing Date of the Agreement. If it should be required by the Pension Fund or otherwise necessary in order to meet the requirements of Section 4204 of ERISA, Buyers shall post a bond or place an amount in escrow equal to the amount determined under Section 4204(a)(1)(B) of ERISA or request a variance of such amount from the Pension Fund on or before the Closing Date. Pursuant to the terms of this Section 11.25 of the Agreement, the parties acknowledge that the Pension Fund must first approve any variance requests, and any bonding or escrow arrangements entered into by the parties hereto. Buyers and Sellers, through their appropriate officers and employee representatives, shall take any and all actions necessary and appropriate to fulfill the spirit of this Section 11.25; to ensure that the requirements of ERISA Section 4204 are met; and to make certain that the sale of assets hereunder does not trigger an assessment of current withdrawal liability against the Sellers by the Pension Fund. These actions include, but shall not be limited to, taking any steps necessary and appropriate to timely meet the bonding, escrow and/or variance requirements under ERISA Section 4204 and obtaining any necessary approvals from the Pension Fund.

11.26. Environmental Matters. Sellers acknowledge that they are responsible for an ongoing investigation and remediation of an oil discharge at the CCMC property, which discharge has also caused and continues to cause an oil discharge to Ship Creek adjacent the CCMC property. For purposes of this Section 11.256, the presence of petroleum hydrocarbons in soil and/or groundwater at the CCMC property at such concentrations or under such conditions as to require a responsive action under applicable Environmental Laws is hereinafter referred to as the "Ship Creek Discharge." Sellers are conducting the investigation and remediation of the Ship Creek Discharge in consultation with the Pennsylvania Department of Environmental Protection ("PaDEP"). With respect to the Ship Creek Discharge, Sellers agree:

(a) Sellers' liability to perform an investigation and/or remediation of the Ship Creek Discharge is an Excluded Liability pursuant to Section 1.4(n);

(b) From and after the Closing Date, Sellers shall promptly undertake and diligently pursue, at Sellers' sole cost and expense, an investigation and remediation of the Ship Creek Discharge in accordance with all applicable laws, including Environmental Laws, and to obtain the cleanup liability protection afforded under Section 501 of the Land Recycling and Environmental Remediation Standards Act ("Act 2"), 35 P.S. § 6026.501, for the Ship Creek Discharge in all affected environmental media. In connection with the performance of the

Sellers' obligations under this Section 11.26; Buyers, Sellers agree that the Sellers may demonstrate attainment with a remediation standard consistent with the use of the CCMC property for non-residential purposes in accordance with Act 2. The Sellers shall not rely on any activity and use limitations to attain or maintain the cleanup standard without the prior written consent of Buyers, which consent shall be at Buyers' sole discretion. Sellers shall use reasonable efforts to perform their obligations under this Section 11.26 in a manner so as to minimize disruption to Buyers' business operations at the CCMC property, and (ii) coordinate with Buyers, including, without limitation, providing Buyers with reasonable advance notice of upcoming remedial activities, so that disruptions to Buyers' business operations at the CCMC property are minimized.

(c) Sellers shall have an ongoing duty to keep Buyers reasonably informed as to the progress of Sellers' performance of their obligations under this Section 11.26 and Sellers shall: (i) provide to Buyers a final draft of any environmental reports or substantive documents that refer or relate to the Ship Creek Discharge and provide to Buyers a meaningful opportunity to review and comment on such documents before they are submitted to the PaDEP; (ii) consider Buyers' comments in good faith; (iii) provide Buyers with a complete copy of any environmental reports or substantive documents submitted to the PaDEP, concurrently with their submittal to the PaDEP; and (iv) promptly provide Buyers with a complete copy of any correspondence received from the PaDEP that refers or relates to the Ship Creek Discharge or Sellers' performance of their obligations under this Section 11.25 .

(d) Promptly following Sellers' receipt of PaDEP approval of a Final Report for the Ship Creek Discharge in accordance with Act 2, Sellers shall, at their sole cost and expense, promptly decommission, close and/or otherwise remove from the CCMC property (as the case may be) all monitoring wells and remedial equipment (if any) installed as part of the investigation and/or remediation of the Ship Creek Discharge in accordance with all applicable laws and restore the surface of the areas affected by such decommissioning, closure and/or removal.

(e) The provisions of this Section 11.25 shall survive the Closing of the transactions contemplated herein.

12. CONFIDENTIALITY.

12.1. Confidential Information. It is understood by the Parties hereto that the information, documents, and instruments delivered to Buyers or Sellers and their agents and the information, documents, and instruments delivered to Sellers by Buyers and their agents, as well as the terms and conditions of this Agreement, are of a confidential and proprietary nature (the "Confidential Information"). Each of the Parties hereto agrees that both prior and subsequent to the Closing it will maintain the strict confidentiality of all such Confidential Information and will only use such Confidential Information in connection with the negotiation of this Agreement or in compliance with the terms, conditions, and covenants hereof and will only disclose such Confidential Information to its duly authorized officers, members, directors, representatives, and agents (including consultants, attorneys, and accountants of each Party) and applicable Government Entities in connection with any required notification or application for approval or

exemption therefrom. Each of the Parties hereto further agrees that if the transactions contemplated hereby are not consummated, upon written request, it will return all such documents and instruments and all copies thereof in its possession to the other Parties to this Agreement. Each of the Parties hereto recognizes that any breach of this Section 12.1 would result in irreparable harm to the other Parties to this Agreement and their Affiliates and that therefore either Sellers or Buyers shall be entitled to an injunction to prohibit any such breach or anticipated breach, without the necessity of posting a bond, cash, or otherwise, in addition to all of their other legal and equitable remedies. Nothing in this Section 12.1, however, shall prohibit the use of such Confidential Information for such governmental filings as in the opinion of Sellers' counsel or Buyers' counsel are required by law or governmental regulations or are otherwise required to be disclosed pursuant to applicable state law. The Mutual Nondisclosure and Confidentiality Agreement, dated November 12, 2014, between the Parties shall remain in full force and effect.

12.2. Public Announcements. No Party hereto shall prior to Closing release, publish, or otherwise make available to the public in any manner whatsoever any information or announcement regarding the transactions herein contemplated without the prior written consent of the signatories to this Agreement, except for information and filings reasonably necessary to be directed to Government Entities to fully and lawfully effect the transactions herein contemplated or required in connection with securities and other laws.

13. INDEMNIFICATION.

13.1. Indemnification by Buyers. Subject to the limitations set forth in Section 13.3 hereof, Buyers shall jointly and severally defend, indemnify and hold harmless Sellers and their Affiliates, and their respective officers, directors or employees (collectively, "Seller Indemnified Parties"), from and against any and all claims, losses, liabilities, damages, taxes, unclaimed property, costs (including court costs and costs of appeal) and expenses (including reasonable attorneys' fees and fees of expert consultants and witnesses) that such Seller Indemnified Party incurs as a result of or with respect to:

(i) any inaccuracy, misrepresentation or breach of a representation or warranty by Buyers under this Agreement;

(ii) any breach by Buyers of, or any failure by Buyers to perform, any covenant or agreement of, or required to be performed by, Buyers under this Agreement;

(iii) any of the Assumed Liabilities; or

(iv) operation of the Assets or System, as acquired by Buyers hereunder, on or following the Effective Time.

13.2. Indemnification by Sellers. Subject to the limitations set forth in Section 13.3 hereof, Sellers shall jointly and severally defend, indemnify and hold harmless Buyers and their Affiliates, and their respective officers, directors or employees (collectively, "Buyer Indemnified Parties"), from and against any and all claims, losses, liabilities, damages, taxes, unclaimed

property, costs (including court costs and costs of appeal) and expenses (including reasonable attorneys' fees and fees of expert consultants and witnesses) that such Buyer Indemnified Party incurs as a result of or with respect to:

(i) any inaccuracy, misrepresentation or breach of a representation or warranty by Sellers under this Agreement;

(ii) any breach by Sellers of, or any failure by Sellers to perform, any covenant or agreement of, or required to be performed by, Sellers under this Agreement;

(iii) any of the Excluded Liabilities or Excluded Assets

(iv) the Ship Creek Discharge or Sellers' acts or omissions while performing their obligations pursuant to Section 11.26; or

(v) operation of the System, the Assets or Sellers generally prior to the Effective Time.

13.3. Limitations. Buyers and Sellers shall be liable under Section 13.1(i) or Section 13.2(i) (*i.e.*, for inaccuracies, misrepresentations and breaches of warranties), as applicable, only when the cumulative total of all indemnification claims exceeds Five Hundred Thousand Dollars ($500,000.00) (the "Threshold Amount"), at which point Buyers or Sellers, as applicable, shall be liable for the full amount of such claims including the Threshold Amount. Notwithstanding anything to the contrary herein, the indemnification obligations of Sellers with respect to claims by Buyers arising under Section 13.2(i) and/or Section 13.2(ii), with respect to any and all claims arising under any or all of Sections 4.11, 4.12 (only as relates to real property) and 8.3, shall only apply when the cumulative total of any or all indemnification claims exceeds the Threshold Amount, at which point Sellers shall be liable for the full amount of indemnification claims including the Threshold Amount provided that the cumulative total of liability arising under Section 13.2(i) and/or Section 13.2(ii) with respect to any and all claims arising under any or all of Sections 4.11, 4.12 (only as relates to real property) and 8.3 shall not exceed, in the aggregate, the amount of Five Million Dollars ($5,000,000.00), less any credit(s) against the Purchase Price granted to Buyer by Seller for any Cure Estimates ("Indemnification Cap"). For avoidance of doubt, the Threshold Amount shall only be applied once with respect to any and all indemnification claims of Sellers and once with respect to any and all indemnification claims of Buyers regardless of the nature of the underlying indemnification claims. Notwithstanding anything to the contrary, none of the limitations contained in this Section 13.3 shall apply to any indemnification claims arising under Section 13.1(i) or Section 13.2(i) as a result of the intentional misrepresentation or fraud of Buyers or Sellers, respectively. Buyers agree that prior to asserting any claim arising under any or all of Sections 4.11, 4.12 (only as relates to real property) and 8.3 which are in the nature of a title claim, Buyers shall first file a claim and exhaust all rights and remedies against the Title Company under its Owners Title Policy or its Leasehold Title Policy, as applicable. Buyers acknowledge and agree that they shall not have a claim under the warranty of title of the deeds, which is separate and apart from the provisions and limitations of this Section 13.3.

For avoidance of doubt, the parties acknowledge and agree that notwithstanding anything to the contrary, there is an aggregate single monetary cap of Five Million and no/100 Dollars ($5,000,000.00), being the Indemnification Cap described above, towards which Indemnification Cap shall be counted: (A) any and all liabilities or obligations of Sellers arising under or pursuant to Section 13.2(i) and/or Section 13.2(ii) with respect to Sections 4.11, 4.12 (only as relates to real property) and 8.3; and (B) any and all credits provided to Buyers at Closing pursuant to either or both of Section 8.3(a), and Section 8.3(d), with respect to any Cure Estimates. Notwithstanding anything to the contrary, once the Indemnification Cap is reached, whether as of Closing or afterwards, and whether by payment of indemnification liabilities under Section 13.2(i) and/or Section 13.2(ii) with respect to Sections 4.11, 4.12 (only as relates to real property) and 8.3 or by credit against the Purchase Price pursuant to Section 8.3(a) and/or Section 8.3(d), Sellers shall have no further liability or obligations to Buyers under Section 13.2(i) and/or Section 13.2(ii) with respect to Sections 4.11, 4.12 (only as relate to real property) and 8.3, except for claims arising under Section 13.2(i) as a result of the intentional misrepresentation or fraud of Sellers.

13.4. Indemnification Procedures. All claims for indemnification by a Party entitled to be indemnified under this Article 13 (an "Indemnified Party") by Sellers or Buyer, as the case may be (an "Indemnifying Party"), shall be asserted as follows:

(a) Notice of Claim. If an Indemnified Party becomes aware of any breach of this Agreement by the Indemnifying Party, any claim or liability asserted by a third party against an Indemnified Party or any other basis for indemnification under this Article 13, which equals or exceeds the Threshold Amount, if and as applicable, the Indemnified Party shall notify the Indemnifying Party in writing of the same within thirty (30) days after becoming aware of such breach or receipt of such written assertion by a third party of a claim or liability, specifying in detail the circumstances and facts which give rise to such alleged breach or claim and the amount or the estimated amount thereof to the extent then feasible, which estimate shall not be conclusive of the final amount of such breach or claim ("Claim Notice"); provided however, that the failure to provide the Claim Notice will not relieve the Indemnifying Party of liability, unless and only to the extent that, such failure to provide the Claim Notice results in the loss of substantive rights or defenses.

(b) Notice Period. Except as otherwise provided in Section 13.4(c) below, the Indemnifying Party shall have thirty (30) days from the receipt of the Claim Notice (the "Notice Period") to notify in writing the Indemnified Party whether or not the Indemnifying Party (i) disputes the liability with respect to such claim or demand; (ii) acknowledges, assumes, and satisfies the claim or demand by the Indemnified Party; or (iii) with respect to claims or obligations asserted by third parties, desires, at its sole cost and expense, to defend the Indemnified Party against such claim or demand pursuant to Section 13.4(c) below; provided however, that Indemnifying Party shall not be entitled to assume the defense of the Indemnified Party unless the Indemnifying Party agrees in writing to accept the obligation to indemnify the Indemnified Party. If the Indemnifying Party does not notify the Indemnified Party within the Notice Period that it disputes its liability to the Indemnified Party, the Indemnified Party shall be

liable for the amount of any liability described or estimated in the applicable Claim Notice, as such estimates are finally determined.

(c) Third Party Claims; Control of Litigation. If any claim or liability is asserted in writing by a third party against an Indemnified Party which would give rise to a claim under this Article 13, which the Indemnifying Party agrees to indemnify, the Indemnifying Party shall have the right to defend such claim and control the defense, settlement, and prosecution of any litigation. If the Indemnifying Party, within ten (10) days after notice of such claim, fails to commence defense of such claim, the Indemnified Party shall (upon further written notice to the Indemnifying Party) have the right to undertake the defense, compromise, or settlement of such claim on behalf of and for the account and at the risk of the Indemnifying Party, subject to the right of the Indemnifying Party to assume the defense of such claim at any time prior to settlement, compromise, or final determination thereof. Anything in this Section 13.4(c) notwithstanding, (i) if there is a reasonable probability that a claim may materially and adversely affect the Indemnified Party other than as a result of money damages or other money payments, the Indemnified Party shall have the right, at its own cost and expense, to defend, compromise, and settle such claim, and (ii) the Indemnifying Party shall not, without the written consent of the Indemnified Party, settle or compromise any claim or consent to the entry of any judgment which does not include as an unconditional term thereof the giving by the claimant to the Indemnified Party of a release from all liability in respect of such claim. The foregoing rights and agreements shall be limited to the extent of any requirement of any third-party insurer or indemnitor. All Parties agree to cooperate fully as necessary in the defense of such matters.

(d) Mitigation. The Indemnified Party shall take all reasonable steps to mitigate all liabilities and claims, including availing itself as reasonably directed by the Indemnifying Party of any defenses, limitations, rights of contribution, claims against third parties and other rights at law, and shall provide such evidence and documentation of the nature and extent of any liability as may be reasonably requested by the Indemnifying Party. The amount of any indemnification hereunder shall be reduced or reimbursed, as the case may be, by any amount received by the Indemnified Party under any insurance coverage or from any other Party alleged to be responsible therefor. The Indemnified Party shall use reasonable efforts to collect any amounts available under such insurance coverage and from such other Party alleged to have responsibility. If the Indemnified Party receives an amount under any such insurance coverage or from such other Party subsequent to an indemnification provided by the Indemnifying Party pursuant to this Article 13, the Indemnified Party shall promptly reimburse the Indemnifying Party for any payment made or expense incurred by the Indemnifying Party in connection with providing such indemnification up to such amount received by the Indemnified Party. Each Party shall act in a commercially reasonable manner in addressing any liabilities that may provide the basis for an indemnifiable claim (that is, each Party shall respond to such liability in the same manner that it would respond to such liability in the absence of the indemnification provided for in this Agreement). Any request for indemnification of specific costs shall include invoices and supporting documents containing reasonably detailed information about the costs or damages for which indemnification is being sought.

13.5. Exclusive Remedy; Set Off. The representations and warranties contained in or made pursuant to this Agreement shall be terminated and extinguished upon the earlier of the end of the Survival Period (hereinafter defined) or any termination of this Agreement. Thereafter, none of Sellers, Buyers or any shareholder, partner, officer, director, principal or Affiliate of any of the preceding shall be subject to any liability of any nature whatsoever with respect to any such representation or warranty. Moreover, the sole and exclusive remedy for any breach or inaccuracy, or alleged breach or inaccuracy, of any representation and warranty made by Sellers or Buyers shall be the remedies provided by this Article 13. Notwithstanding the foregoing, each Buyer shall have the right to set off any amounts owed to it by any Seller under this Article 13 against any amounts owed by Buyers to Sellers hereunder or against any other financial obligations, commitments or liabilities of Buyers hereunder; provided that Buyers shall first provide written notice to Sellers of their intention to set off amounts owed under this Article 13. Notwithstanding anything to the contrary herein, Sellers shall first exhaust all remedies against Buyers (other than PMH) under this Article 13 prior to pursuing any action against PMH under this Article 13 on account of PMH's guaranty of Buyers' obligations pursuant to Section 14.24 or of any joint and several liability of PMH with other Buyers hereunder.

13.6. Survival. All of the representations, warranties, covenants, and agreements made by the Parties in this Agreement or pursuant hereto in any certificate, instrument, or document shall survive the consummation of the transactions described herein, and may be fully and completely relied upon by Sellers and Buyers, as the case may be, notwithstanding any investigation heretofore or hereafter made by any of them or on behalf of any of them, and shall not be deemed merged into any instruments or agreements delivered at the Closing or thereafter. Notwithstanding anything in this Section 13.6 which may be to the contrary, any claim, demand, or cause of action with respect to a breach of any representation or warranty made in this Agreement (other than representations or warranties contained in Section 4.1, Section 4.2, Section 4.3, Section 4.12, Section 5.1, Section 5.2 and Section 5.3, which shall survive indefinitely, and the representations or warranties contained in Section 4.8, Section 4.9, Section 4.13, Section 4.15, Section 4.17 and Section 4.23, which shall survive until four (4) years after the Effective Time), must be made or brought, if at all, within eighteen (18) months after the Effective Time, provided, however, that any claim, demand, or cause of action with respect to a breach of any representation or warranty made in this Agreement involving fraud or intentional misrepresentation shall survive indefinitely. Notwithstanding the foregoing, the representations and warranties related to the DB Pension Plan shall survive through the completion of the plan termination process described in Section 2.4(c) plus three (3) years. For the avoidance of doubt, this Section 13.6 shall not affect any rights to bring claims after eighteen (18) months based on (x) any covenant or agreement of the Parties which contemplates performance after the Closing, (y) the obligations of Buyers under Section 13.1(ii), Section 13.1(iii) or Section 13.1(iv), or (z) the obligations of Sellers under Section 13.2(ii), Section 13.2(iii), Section 13.2(iv) or Section 13.2(v). The period from the date hereof until the last date on which a representation, warranty, covenant or other obligation survives pursuant to this Section 13.6 shall be known as the "Survival Period."

14. MISCELLANEOUS.

14.1. Schedules and Other Instruments. Each Schedule and Exhibit to this Agreement shall be considered a part hereof as if set forth herein in full.

14.2. Additional Assurances. The provisions of this Agreement shall be self-operative and shall not require further agreement by the Parties except as may be herein specifically provided to the contrary; provided, however, at the request of a Party, the other Party or Parties shall execute such additional instruments and take such additional actions as the requesting Party may deem necessary to effectuate this Agreement. In addition and from time to time after Closing, Sellers shall execute and deliver such other instruments of conveyance and transfer, and take such other actions as Buyers reasonably may request, more effectively to convey and transfer full right, title, and interest to, vest in, and place Buyers in legal and actual possession of, any and all of the Assets and the System. Sellers shall also furnish Buyers with such information and documents in their possession or under their control, or which Sellers can execute or cause to be executed, as will enable Buyers to prosecute any and all petitions, applications, claims, and demands relating to or constituting a part of the Assets or the System. Additionally, Sellers shall cooperate and use their best efforts to have their present directors, officers, and employees cooperate with Buyers on and after Closing in furnishing information, evidence, testimony, and other assistance in connection with any action, proceeding, arrangement, or dispute of any nature with respect to matters pertaining to all periods prior to Closing in respect of the items subject to this Agreement.

14.3. Consented Assignment. Anything contained herein to the contrary notwithstanding, this Agreement shall not constitute an agreement to assign any claim, right, contract, license, lease, commitment, sales order, or purchase order if an attempted assignment thereof without the consent of the other Party thereto would constitute a breach thereof or in any material way affect the rights of any Seller thereunder, unless such consent is obtained. Each Seller and Buyer shall use reasonable efforts to obtain any third party consents to the transactions contemplated by this Agreement.

14.4. Consents, Approvals and Discretion. Except as herein expressly provided to the contrary, whenever this Agreement requires any consent or approval to be given by a Party, or whenever a Party must or may exercise discretion, the Parties agree that such consent or approval shall not be unreasonably withheld or delayed and such discretion shall be reasonably exercised.

14.5. Knowledge.

(a) The phrase "to the knowledge of Sellers" and similar references to Sellers' knowledge, as used in this Agreement, shall encompass (i) all matters with respect to which any Seller has received written notice (including by electronic transmission), (ii) the actual knowledge of each Seller's officers and senior management, after due inquiry, and (iii) the actual knowledge of those persons listed on Schedule 14.5(a) hereto.

(b) The phrase "to the knowledge of Buyers" and similar references to Buyers' knowledge, as used in this Agreement, shall encompass (i) all matters with respect to which any Buyers has received written notice (including by electronic transmission), (ii) the actual knowledge of each Buyer's officers and senior management, after due inquiry, and (iii) the actual knowledge of those persons listed on Schedule 14.5(b) hereto.

14.6. Choice of Law. The Parties agree that this Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania without regard to conflict of laws principles. Exclusive venue for any dispute arising out of this Agreement shall be the state or federal courts of the Commonwealth of Pennsylvania.

14.7. Benefit/Assignment. Subject to provisions herein to the contrary, this Agreement shall inure to the benefit of and be binding upon the Parties hereto and their respective legal representatives, successors, and assigns. No Party may transfer or assign (via sale, change of control of a Party, asset or stock purchase, operation of law or other method) this Agreement without the prior written consent of the other Parties.

14.8. No Brokerage. Except as set forth on Schedule 14.8, Buyers and Sellers each represent and warrant to the other that such Parties have not engaged a broker in connection with the transactions described herein. Each Party agrees to be solely liable for and obligated to satisfy and discharge all loss, cost, damage, or expense arising out of claims for fees or commissions of brokers employed or alleged to have been employed by such Party.

14.9. Cost of Transaction. Except as otherwise specified herein, including Section 6.5 and Section 7.2, whether or not the transactions contemplated hereby shall be consummated, the Parties agree as follows: (i) Sellers shall pay the fees, expenses, and disbursements of Sellers and their agents, representatives, accountants, and legal counsel incurred in connection with the subject matter hereof and any amendments hereto; (ii) Buyers shall pay the fees, expenses, and disbursements of Buyers and their agents, representatives, accountants and legal counsel incurred in connection with the subject matter hereof and any amendments hereto; and (iii) Sellers and Buyers shall each pay one-half (1/2) of any applicable real estate transfer taxes, sales taxes and other state and local taxes incurred on account of the transfer of Assets hereunder, and Buyers shall pay state and local recording fees and similar costs with respect to the transactions contemplated by this Agreement.

14.10. Waiver of Breach. The waiver by any Party of a breach or violation of any provision of this Agreement shall not operate as, or be construed to constitute, a waiver of any subsequent breach of the same or any other provision hereof.

14.11. Notice. Any notice, demand, or communication required, permitted, or desired to be given hereunder shall be deemed effectively given when personally delivered, when received by receipted overnight delivery, or five (5) days after being deposited in the United States mail, with postage prepaid thereon, certified or registered mail, return receipt requested, addressed as follows:

Sellers:

Prior to the Effective Time:

Crozer-Keystone Health System
Healthplex Pavilion II
[redacted]
Springfield, Pennsylvania 19064
Attention: [redacted]
President and CEO

And

Crozer-Keystone Health System
Healthplex Pavilion II
[redacted]
Springfield, Pennsylvania 19064
Attention: [redacted]
Vice President and General Counsel

After the Effective Time:

Sellers will provide prior to Closing

With a simultaneous copy to:

Buchanan Ingersoll & Rooney, P.C.
[redacted]
Philadelphia, Pennsylvania 19102-2555
Attention: [redacted]

Buyers:

Prospect Medical Holdings, Inc.
[redacted]
Los Angeles, California 90025
Attention: [redacted]
General Counsel

With a simultaneous copy to:

Stevens & Lee, P.C.
[redacted]
King of Prussia, Pennsylvania 19406
Attention: [redacted]

or to such other address, and to the attention of such other person or officer as any Party may designate, with copies thereof to the respective counsel thereof as notified by such Party.

14.12. Severability. In the event any provision of this Agreement is held to be invalid, illegal or unenforceable for any reason and in any respect, such invalidity, illegality, or unenforceability shall in no event affect, prejudice, or disturb the validity of the remainder of this Agreement, which shall be and remain in full force and effect, enforceable in accordance with its terms.

14.13. Interpretation. As used in this Agreement, and unless the context requires otherwise:

(a) References to Articles and Sections are references to articles and sections of this Agreement;

(b) The terms "hereto", "herewith", "herein", "hereby", "hereunder" and derivative or similar words refer to this entire Agreement;

(c) References to "include" or "including" mean including but not limited to or including without limitation;

(d) Each Exhibit and Schedule is incorporated in and made a part of this Agreement by reference;

(e) The gender of all words herein include the masculine, feminine, and neuter, and the number of all words herein include the singular and plural; and

(f) The terms "will" and "shall" are used interchangeably in this Agreement and the use of either term requires mandatory performance by the respective Party unless the context clearly states otherwise.

14.14. Divisions and Headings. The divisions of this Agreement into sections and subsections and the use of captions and headings in connection therewith are solely for convenience and shall have no legal effect in construing the provisions of this Agreement.

14.15. Risk of Loss. Notwithstanding any other provision hereof to the contrary, the risk of loss in respect of casualty to the System or any of the Assets shall be borne by Sellers prior to the Effective Time and by Buyers thereafter.

14.16. Affiliates. As used in this Agreement, the term "Affiliate" means, as to the entity in question, any entity that directly or indirectly controls, is controlled by or is under common control with, the entity in question. As used in this definition, the term "control" means possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of an entity, whether through ownership of voting securities, membership interests, by contract or otherwise.

14.17. Material Adverse Effect. As used in this Agreement, the term "Material Adverse Effect" means an event, change or circumstance which, individually or together with any other event, change or circumstance would be reasonably expected to have a material adverse effect on the Assets (whether or not covered by insurance) or on the business, operations, results of operations, prospects, or condition (financial or otherwise) of the Hospitals, the business of, or the results of operations of, the System or the Sellers, but excluding any event, change or circumstance attributable to: (i) general economic or political conditions; (ii) either Party's discussions or negotiations regarding any collective bargaining agreement or any demand or request for recognition of any labor organization; (iii) any action required or permitted by this Agreement or any action taken (or omitted to be taken) with the written consent of or at the written request of Buyers; or (iv) the acts or omissions of Buyers.

14.18. Accounting Date. The transactions contemplated hereby shall be effective for accounting purposes as of 12:00:01 a.m., Eastern Time, on the first calendar day of the month immediately following the Closing Date, unless otherwise agreed to in writing by Sellers and Buyers, all in accordance with Section 3.1.

14.19. No Inferences. Inasmuch as this Agreement is the result of negotiations between sophisticated parties of equal bargaining power represented by counsel, no inference in favor of, or against, either Party shall be drawn from the fact that any portion of this Agreement has been drafted by or on behalf of such Party.

14.20. No Third Party Beneficiaries. Except as otherwise provided in Section 14.21 of this Agreement, the terms and provisions of this Agreement are intended solely for the benefit of Buyers, Sellers and their respective permitted successors or assigns, and it is not the intention of the Parties to confer, and this Agreement shall not confer, third-party beneficiary rights upon any other person or entity.

14.21. Enforcement of Agreement. The Parties hereto agree that irreparable damage would occur in the event that any provision of this Agreement is not performed in accordance with its specific terms or is otherwise breached. It is accordingly agreed that the Parties shall be entitled to an injunction or injunctions (without the need to post bond or other security) to prevent breaches of this Agreement and to enforce specifically the terms and provisions hereof in any court of competent jurisdiction, this being in addition to any other remedy to which they are entitled at law or in equity. Without in any way limiting the remedies prescribed to the Parties under this Section 14.21, and for purposes of clarification, the Parties agree and acknowledge that, while not a Party to this Agreement, the Foundation shall be entitled to an injunction or injunctions and any other such remedies to which the Parties are entitled at law or in equity, but only to prevent breaches of this Agreement and to enforce specifically the terms and provisions hereof.

14.22. Force Majeure. Whenever a period of time is prescribed herein for action to be taken by either Sellers or Buyers, neither shall be liable or responsible for, and there shall be excluded from the computation for any period of time, any delays due to strikes, riots, acts of God, shortages of labor or materials, war, governmental laws, regulations or restrictions, or any

other cause of any kind whatsoever which is beyond the reasonable control of either Sellers or Buyers, as the case may be.

14.23. Entire Agreement/Amendment. This Agreement supersedes all previous contracts or understandings, including any offers, letters of intent, proposals or letters of understanding, and constitutes the entire agreement of whatsoever kind or nature existing between or among the Parties respecting the within subject matter, except with respect to that certain side letter (the "Side Letter") signed by the Parties of even date herewith permitting the completion of certain Schedules within a specified time period after the Execution Date and which shall be considered part of this Agreement. As between or among the Parties, no oral statements or prior written material not specifically incorporated herein shall be of any force and effect. The Parties specifically acknowledge that in entering into and executing this Agreement, the Parties rely solely upon the representations and agreements contained in this Agreement and no others and no Party shall be entitled to benefits other than those specified herein. All prior representations or agreements, whether written or verbal, not expressly incorporated herein are superseded, and no changes in or additions to this Agreement shall be recognized unless and until made in writing and signed by all Parties hereto. Notwithstanding anything to the contrary herein, on or prior to the Closing Date, Buyers shall be permitted to update, supplement, correct and/or revise Exhibit B from time to time upon notice to Sellers.

14.24. PMH Guaranty. PMH hereby unconditionally and absolutely guarantees the timely performance and observation of Buyers for each and every obligation, covenant and agreement of Buyers arising out of, connected with, or related to, this Agreement or any ancillary documents hereto and any extension, renewal and/or modification thereof. The obligation of PMH under this Section 14.24 is a continuing guaranty and shall remain in effect, and the obligations of PMH shall not be affected, modified or impaired upon the happening from time to time of any of the following events, whether or not with notice to or consent of PMH:

(a) The compromise, settlement, release, change, modification, amendment (except to the extent of such compromise, settlement release, change, modification or amendment) of any or all of the obligations, duties, covenants, or agreements of any Buyer under this Agreement or any ancillary documents hereto; or

(b) The extension of the time for performance of payment of money pursuant to this Agreement, or of the time for performance of any other obligations, covenants or agreements under or arising out of this Agreement or any ancillary documents hereto or the extension or the renewal thereof.

14.25. Counterparts. This Agreement may be executed in two or more counterparts, which may be delivered by facsimile or electronic transmission, each and all of which shall be deemed an original and all of which together shall constitute but one and the same instrument.

14.26. Municipal Resale Certificates. To the extent required by applicable law, at Closing, Sellers, at Sellers' expense, shall deliver to Buyers any resale or similar certification required by any municipality in connection with the sale and transfer of the Owned Real Property. To the extent required by applicable law and to the extent issued by the municipality

in which an Owned Real Property is located, at Closing, Sellers, at Sellers' expense, shall deliver to Buyers, a certification from the municipality in which the Owned Real Property is located as to outstanding notices of violations of any applicable laws, statutes, ordinances, and codes of such municipality. Sellers shall be solely responsible for correcting, prior to Closing, any violations identified by Buyer on any such certifications. Notwithstanding the foregoing, if Sellers' aggregate reasonable expenses associated with satisfying the requirements of this Section 14.26 are reasonably expected to exceed Five Million Dollars ($5,000,000.00) (the "Code Violation Cure Amount"), then Sellers shall provide written notice thereof, including a description of such expenses, to Buyers and either Sellers or Buyers may terminate this Agreement upon written notice to the other, which termination right must be exercised, if at all, within ten (10) business days of Sellers' expense notice to Buyers, unless prior to the expiration of such ten (10) business day period, Sellers agree, by written notice to Buyers, to assume responsibility for payment of the Code Violation Cure Amount to satisfy the requirements of this Section 14.26, at which point Buyers shall no longer have a right to terminate this Agreement.

[Signature page follows]

CONFIDENTIAL BUSINESS INFORMATION PMH00007687

IN WITNESS WHEREOF, intending to be legally bound thereby, the Parties hereto have caused this Agreement to be executed in multiple originals by their authorized officers, all as of the date first above written.

CROZER-KEYSTONE HEALTH SYSTEM

By: Redacted
Name:
Title: President and Chief Executive Officer

PROSPECT CROZER, LLC

By: _____
Name: Samuel S. Lee
Title: Chief Executive Officer

PROSPECT MEDICAL HOLDINGS, INC.

By: _____
Name: Samuel S. Lee
Title: Chief Executive Officer

CONFIDENTIAL BUSINESS INFORMATION

IN WITNESS WHEREOF, intending to be legally bound thereby, the Parties hereto have caused this Agreement to be executed in multiple originals by their authorized officers, all as of the date first above written.

CROZER-KEYSTONE HEALTH SYSTEM

By: _____
Name: Redacted
Title: President and Chief Executive Officer

PROSPECT CROZER, LLC

By: _____
Name: Samuel S. Lee
Title: Chief Executive Officer

PROSPECT MEDICAL HOLDINGS, INC.

By: _____
Name: Samuel S. Lee
Title: Chief Executive Officer

CONFIDENTIAL BUSINESS INFORMATION

81. Please provide copies of correspondence between Prospect (and/or its subsidiaries' and affiliates) and Rhode Island's and/or California's Attorney General's office regarding Prospect's acquisition of Pacific Healthcare Center, Newport Specialty Hospital, and Bellflower Medical Center transactions.

****

Prospect acquired two facilities -- Newport Specialty Hospital and Bellflower Medical Center -- from Pacific Health Corporation in May of 2014. Pacific Health Corporation is a for-profit corporation, and was for-profit at the time of the acquisition. Because the transaction involving the sale of these two facilities was between two for-profit corporations, no Attorney General notification, review or approval was required under California law.

Prospect has not acquired any facility known as "Pacific Healthcare Center".

In connection with Prospect's acquisition of certain facilities in Rhode Island, Prospect provided certain information to the Rhode Island Attorney General regarding the two Pacific Health Corporation facilities, copies of which are attached hereto.[1]

[1] Note – This response was provided by Prospect.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
RHODE ISLAND DEPARTMENT OF HEALTH

In re: Application of Prospect CharterCARE, LLC; Prospect CharterCARE SJHSRI, LLC; Prospect CharterCARE RWMC, LLC; Prospect CharterCARE Elmhurst, LLC; CharterCARE Health Partners, Prospect East Holdings, Inc. and Prospect Medical Holdings, Inc.

RESPONSES TO SUPPLEMENTAL QUESTIONS TO THE CHANGE IN EFFECTIVE CONTROL APPLICATION

March 7, 2014

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PROJECT REVIEW COMMITTEE

IN RE: APPLICATION OF PROSPECT CHARTERCARE SJHSRI, LLC, PROSPECT CHARTERCARE RWMC, LLC, PROSPECT CHARTERCARE ELMHURST, LLC, PROSPECT CHARTERCARE, LLC, CHARTERCARE HEALTH PARTNERS, PROSPECT EAST HOLDINGS, INC. AND PROSPECT MEDICAL HOLDINGS, INC.

Questions: Prospect/CharterCARE (CEC)

1. Financial Viability:
   a. Please provide any management letters provided by external auditors for Prospect Medical Holdings ("Prospect") for FY 2013.

Response: **The management letters for FY 2012 are attached as Exhibit A. With regard to FY 2013, management letters have not yet issued.**

   b. Please identify the bond rating assigned to the Prospect by each of the three major rating agencies: Standard & Poor's, Moody's and Fitch Group and discuss the implications of these bond rating as they relate to the financial strength of the company.

Response: **PMH's Bond rating as assigned by Moody's is B2. PMH's Bond rating as assigned by Standard & Poor's is B-. Fitch Group does not rate PMH. The ratings translate to a "stable" outlook reflecting the agencies' expectation that PMH should see modest improvement in credit metrics as PMH realizes improvement at recently added facilities. It is stated that the rating could be changed upward based upon the following:**

a. If debt to EBITDA was expected to approach and be sustained at around 4.0 times.

b. If PMH can grow its revenue base and diversify away from the Southern California market.

c. If PMH undertakes the funding of shareholder initiatives through a conservative fiscal policy with respect to increases in leverage.

Currently, with regard to Point 1, PMH meets the debt to EBITDA criteria and it must be noted that PMH's bond indenture has a clause that limits additional permitted liens to an overall 3.75X pro forma leverage debt level. Regarding points 2 and 3, the instant transaction leads to further diversification away from the Southern California market and achieves a key shareholder initiative without additional leverage.

c. Please provide forecasted balance sheets, if the transaction is approved, for FY 2014-2019 for (1) Prospect for (if the proposal is approved); and (2) separately just for Prospect CharterCARE, LLC.

Response: **The forecasted balance sheets as requested are attached as Exhibit B.**

d. Please identify the source of funds (including the terms of any debt funds) proposed to be utilized to finance (1) $45 million to retire debt and support pension plan; and (2) $50 million over 4 years to support capital needs. Please also discuss to what extent these sources of funds are sufficient to cover items (1) and (2) without significant impact on the availability of funds to the company for other uses.

Response: **The $45M at close is to be funded with cash on hand, that in accord with the 2013 financials is approaching $90M. In turn, the $50M to be used for capital expenditures over four years is to be funded with cash generated from PMH's operations, not including CCHP. PMH has a consistent track record of year-over-year earnings growth and generation of material positive cash flow. As of September 2013, year-over-year earnings before interest, taxes, depreciation and amortization totaled $114.5M, which represents a 20.5% year-over-year earnings growth when prior year revenue recognition items are adjusted. In addition, during fiscal year 2012, PMH secured a $50M senior secured credit facility, which has never been drawn upon. During fiscal year 2013, the relevant syndication of lenders increased the senior secured credit facility limit up to $60M; all of which remains undrawn. This credit line remains available to PMH should it require additional cash.**

e. Please address the financial viability of Prospect as according to the balance sheet the accumulated deficit in FY 2013 was $47 million.

Response: **When evaluating the balance sheet, it is important to make a distinction between: (i) the stated value pursuant to generally accepted accounting principles, or "GAAP" reporting purposes; and (ii) the market valuation of an entity's assets and operations. GAAP accounting will reflect historical values adjusted for impairment, depreciation and amortization and not attempt to reflect the actual or market value. A variance between assets and liabilities as reported under GAAP, will begin to develop when those assets begin to increase in market value (versus book value) due to growth in performance. When all segments of the organization demonstrate this type of growth, the market value of an organization will begin to vary significantly from the book value. This dynamic when coupled with debt can lead to the existence of negative equity as defined by liabilities exceeding the adjusted book value of assets. When an entity is in a growth mode such as PMH, debt can fuel growth by providing capital that can be reinvested in the business, used for acquisitions, or returned to investors, thereby resulting in the company being an investment worthy entity. Furthermore, with an upward growth trend, debt provides capital for increased innovation and organizational capacities**

that can lead to further growth and increased market valuation. To underscore these points with reference to the financials, PMH has demonstrated significant earnings growth over the last two years growing from approximately $63M at September 2011 to $114M at September 2013. PMH is an institutional investment worthy company and is confident representing that the company's market value is well in excess of the $610M of total liabilities as of September 2013.

f. Please provide a historical timeline for the past 5 years of major capital expenditures by Prospect.

Response: **The historical timeline requested is attached as Exhibit C.**

g. Please discuss any other acquisition plans of Prospect (and its related companies) for the next five years and estimate the associated capital investments.

Response: **PMH continues to pursue acquisitions within the market in which it operates, as well as those markets in which PMH's business model would align. To date, those states include California, Texas, Rhode Island and New Jersey.**

On November 21, 2013, PMH entered into an Asset Purchase Agreement to acquire substantially all of the assets of three Southern California hospitals. This acquisition will be funded with operating cash on hand. PMH anticipates that any future acquisitions will be financed with a combination of debt, issuances of equity instruments, and cash flow from operations depending on the size of the transaction.

h. Since 2011, Prospect's long-term debt is up 192%, and assets up 37%. Please identify the reasons for the growth is long-term debt above and beyond the growth in assets. Please demonstrate the long-term debt is serviceable with the revenue sources currently available to Prospect.

Response: **On May 3, 2012, PMH closed the offering of $325M in senior secured notes. The proceeds from the issuance were used as follows: (i) to repay $152M of prior debt; (ii) $88.1M was used to redeem the preferred stock of Ivy Holdings, Inc.; (iii) $13.3M was used to pay a call premium on the repaid debt; (iv) $5M was used to repay an outstanding, prior credit facility; and (v) the remaining funds were utilized for various operational requirements.**

On November 16, 2012, PMH closed the offering of an additional $100M which took the form of additional notes under the $325M indenture. Funds from those notes were ultimately used to pay the common stockholders of Ivy Holdings Inc., as well as other fees related to the offering.

With regard to long term debt, interest payments on the senior secured notes are approximately $35M annually and are a factor in PMH's overall cash planning and analysis that PMH utilizes for forecasting purposes.

i. Please identify the underlying assumptions that resulted in projections of increases in patient revenue for RWMC and Fatima in 2014-2016, as reproduced below (and any associated investments in services).

	RWMC			Fatima	
	Revenue	% Change		Revenue	% Change
2010	$ 148,652.00			$ 153,358.00	
2011	$ 151,684.00	2.0%		$ 152,077.00	-0.8%
2012	156,653.00	3.3%		$ 146,205.00	-3.9%
2013	156,137.00	-0.3%		$ 144,341.00	-1.3%
	Projections			Projections	
2014	$ 165,662.00	6.1%		$ 151,291.00	4.8%
2015	$ 173,879.00	5.0%		$ 158,383.00	4.7%
2016	181,298.00	4.3%		$ 165,540.00	4.5%

Response: **The principal underlying revenue assumptions are based on the following:**

a. **An increase in revenue to be generated by and through the Bone Marrow Transplant program. This assumption is based on the fact that in FY2013, the Bone Marrow Transplant program went through a significant restructuring. The unit is now again fully operational and discharges are expected to track FY2012 and then increase by 2% per year.**

b. **An increase in revenue to be generated from the redesign of both emergency rooms within the CCHP network to be more senior friendly. This is part of what will be a geriatrics initiative. The focus on the senior emergency departments is especially meaningful in Rhode Island, where it is projected that one in every five Rhode Island residents will be 65 years or older by 2030. This focus, along with expanding the support for Elmhurst Elder Care and other local nursing homes is projected to increase overall Medicare discharges over a three year period. The discharges are spread over Medicare and Medicare HMO plans based on historical data.**

c. **An increase in revenue from Roger Williams Medical Associates that is based upon the fact that the physicians employed by that entity were not in place for the full FY 2013 and thus, an increase in revenue is anticipated going forward.**

d. **An increase in revenue to be generated from planned improvements to the revenue cycle.**

e. **The assumptions included routine rate increases for commercial plans at 2.4%. The Existing Hospitals are also eligible for quality bonuses that generally average 5%. For the purpose of these projections, it was assumed that CCHP would qualify for a 4% bonus each year. Furthermore, Medicare, due to all of**

the federally mandated changes, is projected to increase at a rate of 1% per year.

2. Presentation. At the meeting of 11 February 2014 meeting, representatives of the applicant showed a slide comparing the per capita costs of health care [slide 436]. Please clarify whether the statistics presented were adjusted for demographic differences (RI has an older population) and cost of living. If not, then please provide a similar slide that adjusts for such factors.

   Response: **The data contained in slide number 36 of the February 11, 2014 presentation to Project Review Committee I was obtained from the Kaiser Family Foundation. No adjustments were made to the information obtained from the Kaiser Family Foundation. Since the Transacting Parties did not compile the data, they do not have the underlying data necessary to adjust the information in any way including to account for demographic differences.**

3. Change in Ownership Interest. A the meeting of 11 February 2014, representatives of the applicant noted the 15% ownership interest of CharterCARE may be further reduced to 5% and may have impact on its 50/50 board control. Please discuss in more details those situations that may cause this occur.

   Response: **CCHP's ownership interest in Prospect CharterCARE can only be reduced in the unlikely scenario that a capital call is made directly upon the members and CCHP cannot meet its obligations under said capital call. This is an unlikely scenario, because the long-term debt of CCHP is being eliminated by and through the $45M being paid at closing. Therefore, the Existing Hospitals, post-Change in Effective Control, will be able to fund ongoing capital needs from ongoing operations. As such, it is projected that an additional $10M per year will be available for capital needs. Moreover, PMH is committed to providing an additional $50M over four (4) years for capital requirements.**

   Thus, Section 4.2 of the Amended and Restated Limited Liability Company Agreement of Prospect CharterCARE, LLC (PCEC000127-PCEC000129), entitled "Additional Capital Contributions", provides the following capital waterfall:

   a. **Section 4.2(a) requires Prospect CharterCARE to fund additional capital expenditures in an annual amount of at least $10,000,000.00 per year from operations.**

   b. **Section 4.2(b) requires PMH to commit additional long term capital commitment of $50,000,000.00 over 4 years.**

   c. **If for any reason there are funds required beyond the capital contributions detailed above, that are necessary for the operation of Prospect CharterCARE, Prospect CharterCARE, must seek funds from the following sources in order of**

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priority:

i. **Cash generated by operations;**

ii. **From PMH pursuant to PMH's long term capital commitment;**

iii. **Commercial loans from third parties;**

iv. **Loans from PMH or any PMH affiliate; and**

v. **If commercially reasonable efforts have been made to obtain funds using the above options and these funds have not satisfied the needs of Prospect CharterCARE, upon approval of the Board, there may be a request that PMH and CCHP make additional capital contributions pro rata in accordance with each member's sharing percentage.**

Therefore, a capital call upon the members is a last resort. As such, it is unlikely that CCHP would be called upon for capital in a manner that would reduce its ownership. However, pursuant to Section 4.2(e), if a request for additional capital contributions is made, no member shall be required to make such additional capital contribution. Yet, as is typical in limited liability companies, if a member fails to make a requested capital contribution, the member's ownership percentage shall be adjusted to reflect the decision not to meet the capital call. Notwithstanding the foregoing, CCHP's own interest cannot be reduced to less than 5%.

Regarding governance, the Board of Directors will consist of 8 members. The capacity to appoint board members is as follows: (i) 4 members elected or appointed by CCHP; and (ii) 4 members elected or appointed by PMH. If CCHP's ownership interest is reduced to 5%, the Board of Directors shall be reduced to 7 members with 3 being elected or appointed by CCHP and 4 being elected or appointed by PMH.

Reduction of ownership provisions are common in limited liability company agreements. The parties do not anticipate any type of reduction in ownership interest. The transaction between the parties was set up in such a manner that there are significant funds available through operations and capital commitments that will be more than sufficient to meet any capital needs without having to request capital contributions from members.

4. Contingencies. Please address the following:

   a. Please identify all the contingencies provided for in the Asset Purchase Agreement that may result in the proposed transaction not being implemented. Please identify the likelihood and timeline for the resolution of each of these outstanding contingencies, separately for each such contingency.

Response: The transaction contingencies are detailed in Section 9 of the APA (PCEC000060-PCEC000063). The following contingencies have the potential to result in the proposed transaction not being implemented:

a. Approvals and Permits: Prospect CharterCARE must receive all approvals and permits necessary to close. These permits and approvals include:

   i. The Change in Effective Control process.

   ii. The Hospital Conversion Act process. The Transacting Parties have submitted a Hospital Conversion Act application that is currently under review with the Department of Health and the Attorney General's office. A decision is due on or before May 16, 2014.

   iii. Church Approval. The proposed transaction is contingent upon receiving approval from the Roman Catholic Church for the sale of the assets of St. Joseph Health Services of Rhode Island. The status of this contingency is further detailed in response to question 6(a) below.

   iv. Licenses, Permits and Accreditations. There are a number of additional licenses, permits and accreditations that must be transferred. The Transacting Parties are currently preparing applications for these transfers. Additionally, the Transacting Parties are working closely with the Department of Health to submit applications subject to CEC and HCA approval to ensure the application process moves in a timely fashion. The Transacting Parties do not foresee any issues with transferring licenses, permits and accreditations that would delay the transaction.

b. Collective Bargaining Agreements The United Nurses & Allied Professionals ("UNAP") is the union representing the vast majority of unionized employees at CCHP. All negotiations with UNAP have been completed to the mutual satisfaction of both sides. A copy of related correspondence from UNAP is attached as Exhibit D.

   There are a small number of employees represented by the Federation of Nurses and Health Professionals ("FNHP"). The contract for FNHP is due to expire on April 30, 2014. CCHP continues to have positive labor relations with the bargaining unit and is seeking an extension of the contract into the summer of 2014, so it can be addressed in the normal course of business, post-approval, if such approval is secured.

c. Property Tax The proposed transaction is contingent upon Prospect CharterCARE's agreements with the host communities regarding stabilization/exemptions from certain taxes. The status of this contingency is further detailed in response to question 4(b) below.

d. Material Adverse Development **There is a contingency that there be no Material Adverse Development prior to closing. Material Adverse Development is defined at PCEC000102. Generally this includes natural disasters, or other changes that would materially affect operations, not including financial changes, changes in law, economic conditions and reimbursement rates. The Transacting Parties do not foresee the need to utilize this contingency.**

e. Please address the following regarding the contingency related to the exemption from taxes:

i. Please describe in detail the progress made with regards to this issue with the cities of Providence and North Providence. Please identify to what extent if any, these request have been proposed and/or considered to the City Council, Assessor's Office, or the Mayor's Office separately for the cities of Providence and North Providence.

ii. Please identify the dollar amount of exemptions sought from each city.

iii. Please discuss the timeline for the resolution of these matters and receipt of binding commitments from the applicable governmental entities (as noted in section 9.6 of the APA).

Response: **The assessment and levy of property taxes on a hospital in Rhode Island, whether it is for-profit or non-profit, needs to be a topic of discussion; especially, a time when both acute-care, community hospitals and their host municipalities face an array of challenges. Rhode Island's entire property tax system, as it applies to hospitals, acknowledges that there must be some property tax relief for these institutions to be successful. With that said, several hospitals have originating charters which provide that their host municipalities cannot subject them to taxation. For example, Roger Williams has a charter that dates back to 1904 and it was amended as recently as the 1980s. Ultimately, the Rhode Island General Assembly codified the intent behind the charters and enacted a real and personal property tax exemption that is now found at R.I. Gen. Laws §44-3-3(12). The real and personal property tax exemption found at R.I. Gen. Laws §44-3-3(12), applies equally to for-profit and non-profit hospitals. This issue is presently being analyzed at the General Assembly.**

It has never been and it is not the present intention of the Transacting Parties to rely on that existing exemption.

In addition, the host municipalities of Providence and North Providence receive grants from the State of Rhode Island, pursuant to R.I. Gen. Laws §44-13-5.1, to off-set the fact that non-profit, tax exempt hospitals are being hosted in such communities and the municipalities have to provide services.

Thus, the Transacting Parties and the host municipalities have had a number of discussions working towards the goal of transitioning the host municipalities out of the state grant program under R.I. Gen. Laws §44-13-5.1 and into some type of reasonable Payment in Lieu of Taxes or tax exemption/stabilization agreement. In North Providence, the matter is currently before the Town Council's Ordinance Committee. In Providence, the Transacting Parties have been working with the City Tax Assessor's Office and the matter is now being transitioned to the City Council which will be initially reviewed by the City Council's Ways and Means Committee.

At this point, the Transacting Parties are continuing in good faith negotiations with their host communities to reach agreement on a model that would compensate the host communities, allow the Licensed Entities' hospital system to be successful, and to take into account that the non-profit entity of CharterCARE Health Partners will continue to own a fifteen (15%) percent stake in the Hospitals. Furthermore, the negotiations have to take into account that the CharterCARE Hospital system employs approximately 3,000 people with salaries and benefits in the approximate amount of $178M per year. Moreover, the Existing Hospital system provides $25M in medical care to citizens of the State of Rhode Island, who otherwise would not be able to afford such care. In turn, the CharterCARE system makes in excess of $70M in purchases from vendors in the State of Rhode Island. Therefore, the property tax proposals that have been made to the host communities include economic development provisions that would be aimed towards making those purchases in the host communities and continuing a viable partnership out into the future.

It is difficult to answer the question of where these discussions will end up from a fiscal standpoint. The municipalities have to take into account what they are currently receiving by way of grant pursuant to R.I. Gen. Laws §44-13-5.1. Again, this issue is currently being analyzed by the General Assembly. In turn, the Transacting Parties and their host municipalities have to analyze how the real property of a hospital will be assessed at full and fair cash value which is not an easy issue.

As pursuant to further discussions with the City and Town, the Transacting Parties engaged Redacted who is a MAI licensed appraiser and has a great deal of experience in hospital valuations based on his work in the Landmark Medical Center proceeding. Redacted provided an assessed value of the Roger Williams Medical Center of $13,781,200; an assessed value of the former St. Joseph Hospital Campus in the City of Providence of $5,256,000; and an assessed value of the Fatima properties in North Providence of $15,330,700. Redacted work product comports with the three recent sales of Westerly Hospital, Landmark Medical Center and Memorial Hospital. Notwithstanding, the host municipalities are seeking additional consultation of the issue of assessed value. The Transacting Parties have suggested that the host communities utilize Redacted baseline assessments as a valuable tool in negotiations. Moreover, the Transacting Parties have sought a tax

exemption/stabilization/payment in lieu of taxes ordinance that would phase in property taxation over a twelve (12) year period in accordance with the format that was recently suggested by the City of Providence with regard to taxation exemption/stabilization requests with the exception that the assessed value be stabilized.

5. Purchase Price and Uses. The purchase price for the proposed transaction is $45 million (reflecting 85% ownership interest of Prospect). Please address the following:

    a. Please identify what, if any funds, CharterCARE will be contributing for its 15% ownership interest (and whether those funds will be drawn from the $45 million).

Response: CCHP will not be contributing any funds to receive its 15% ownership interest.

    b. Additionally, please discuss the intend uses of the $45 million that will be going to CharterCARE and how those uses for spending those funds would be established.

Response: Pursuant to Section 2.8 of the APA (PCEC000018), CCHP's Board must adopt a resolution as to the use of the $45M in sale proceeds. Said resolution was passed by the CCHP Board on February 27, 2014. *See February 27, 2014 Resolution at Exhibit E.* Generally the funds will be used as follows: (i) $31M will be used to retire CCHP's debt, and (ii) $14M will be utilized to strengthen the St. Joseph Health Services of Rhode Island defined benefit plan ("St. Joseph Pension Plan").

More specifically:

a. $16,550,000 will be used to fully redeem St. Joseph Health Services of Rhode Island revenue bonds issued in 1999 by Rhode Island Health and Educational Building Corporation.

b. $11,062,500 will be used to redeem Roger Williams Medical Center revenue bonds issued in 1998 by Rhode Island Health and Educational Building Corporation.

c. $3,387,500 will be used to redeem Roger Williams Realty Corporation revenue bonds issued in 1999 by Rhode Island Health and Educational Building Corporation.

d. $14,000,000 shall be applied to the St. Joseph Pension Plan.

    c. Please identify to what extent, if any, this purchase price will be used by CharterCARE for community benefit versus paying off debts.

Response: **The use of the sale proceeds as described is Section (b) above will benefit the community in three ways:**

a. **As a result of the payoff of CCHP's debt, $31M in existing charitable assets will remain available for use for the benefit of the community and be transferred to the CharterCARE Health Partners Foundation.**

b. **The use of $14M to strengthen the St. Joseph Pension Plan will be of significant benefit to the community as it will assure that the pensions and retirement of many former employees, who reside in the community, are protected.**

c. **As a result of the transaction the Existing Hospitals will be debt free. Any organization that can operate without debt is certainly a stronger organization than one that is burdened by significant debt. Thus, going forward, the result of the transaction will be two community hospitals transitioning from a weak financial position with significant debt to a strong, secure, debt free position with access to necessary capital.**

d. Section 2.8 of the Asset Purchase Agreement states "Seller shall adopt a board resolution specifying the manner in which Cash Purchase Price shall be used". Please provide more detail regarding this process and its timing.

Response: **On February 27, 2014, CCHP's Board adopted a resolution as to the use of the $45M in sale proceeds pursuant to Section 2.8 of the APA.** ***See Exhibit E and response 5(b) above.***

6. Asset Purchase Agreement. Please address the following:

a. Section 7.5 (e) of the APA relates to seller obtaining ecclesiastical approvals from the Roman Catholic Church including the authorization of the Bishop of the Roman Catholic Diocese of Providence, Rhode Island and the permission of the Holy See through the Vatican Congregation of Bishops. Please identify the status of and expected date for obtaining such approvals.

Response: **On September 17, 2013, the Finance Council of the Diocese of Providence voted to consent to the alienation of substantially all of the assets of Saint Joseph Health Services of Rhode Island including Our Lady of Fatima Hospital to Prospect CharterCARE, a newly-formed affiliate of CCHP and PMH.**

On September 26, 2013, the Roman Catholic diocese of Providence College of Consultors voted to consent to the alienation of substantially all of the assets of Saint Joseph Health Services of Rhode Island including Our Lady of Fatima Hospital to Prospect CharterCARE.

On September 27, 2013, Bishop Redacted **bishop of the Diocese of Providence, sent correspondence to Most Reverend Celso Morga Iruzubieta,**

Secretary, Congregation for the Clergy in Vatican City, indicating that he has no objection to the alienation and requesting canonical permission for the proposed alienation of substantially all of the assets of Saint Joseph Health Services of Rhode Island including Our Lady of Fatima Hospital to Prospect CharterCARE.

At the request of the Congregation for the Clergy, additional information was sent to Cardinal Beniamino Stella, Prefect, Congregation for the Clergy on February 17, 2014. A response is anticipated in the next few weeks.

b. Section 9.5 of the APA requires Change in Effective Control (and Hospital Conversion Act) approval that is not subject to any conditions that are unacceptable to Prospect. Please clarify what types of conditions would be found unacceptable.

Response: **There were no specific conditions under consideration when this contingency was developed. It merely provides protection to PMH if a condition is imposed on the transaction that PMH believes it could not meet or would otherwise threaten the success of the transaction. PMH is hopeful that if any such condition were imposed, that it could work within the framework of the conversion/transaction process to arrive at a condition that was acceptable to all interested parties.**

c. Section 13.15 of the APA Prospect commits to maintain certain essential services at the hospitals for 5 years except for cases where such services are not financially viable, there are no qualified physicians to support these services, significant decrease in volume, and issues with the level of quality. Please address the following:

    i. Please identify whether at this time any of such essential services and/or other services at the Rhode Island hospitals are expected to be reduced, relocated and/or eliminated within the first 5 years.

Response: **The APA requires that all Essential Services be maintained. Accordingly these services must be maintained.**

In addition, at this time there are no plans to reduce, relocate and/or eliminate services, whether or not they have been deemed essential, within the first 5 years after completion of the transaction. That being said, the transaction involves the purchase of 85% of CCHP's interest in a network of hospitals and medical treatment facilities. It is possible that in the future Prospect CharterCARE may decide that it would be a benefit to centralize certain services in one of Prospect CharterCARE's locations, and in that case certain services may be consolidated. At this time, there are no such consolidation plans.

ii. Please address to what extent, if any, Prospect has eliminated and/or reduced any services at any of its other hospitals (within the first five years after acquisition) and identify all such affected services.

Response: **As detailed in the response to inquiry 6 of Appendix G in the Applicants' CEC Application, in April of 2009, Brotman Medical Center ("Brotman") in Culver City, California successfully emerged from bankruptcy protection. PMH provided the investment funds needed to bring Brotman out of bankruptcy. Effective in April 2012, Brotman became a wholly-owned indirect subsidiary of Prospect (Brotman has been renamed Southern California Hospital at Culver City ("Culver City")).**

As this Committee is aware from its previous experience with hospitals emerging from insolvency proceedings, many times a hospital in an insolvency proceeding will lose physicians or a service area will experience a substantial drop in volume. In the case of Culver City, in May 2010, the Transitional Care Unit experienced similar issues, and as a result was closed which resulted in 21 Skilled Nursing Facility beds being held in suspension.

On the other hand, there are many instances where PMH's acquisition of a facility has resulted in an expansion of services. Recent examples include:

Nix Medical Facilities in and around San Antonio, Texas:

- **Summer 2013 - Expansion of 8 adult psychiatric beds.**
- **January 2014 - Opened unit of 31 beds for child/adolescent care. This also involved consolidating the child/adolescent units from multiple Nix Facilities.**
- **February 2014 - Expansion of geropsychiatric beds from 15 to 33. Additional units in development to be opened later in 2014.**

Culver City:

- **Summer 2013 - Added Psychiatric Emergency Department overflow area.**
- **Spring 2014 – Complete construction of 32 bed adult psychiatric unit.**

d. Please explain in layman's term section 13.18 of the Asset Purchase Agreement including the commitment not to sell interest to unaffiliated third parties for 5 years and regarding acquisition of 15% ownership of CharterCARE by Prospect.

Response: **Section 13.18 of the APA restricts PMH from selling its interest in Prospect CharterCARE to an unaffiliated third party for five (5) years. This prohibition is not applicable under the following hypothetical circumstances: (i) it does not prevent PMH from transferring its interest in Prospect CharterCARE to one if its affiliates, (ii) it does not prevent a change in any direct or indirect parent of PMH, and (iii) it does not limit any rights of PMH's creditors to take action against PMH.**

After five (5) years, PMH shall have the option to sell its interest in Prospect CharterCARE. Any buyer of Prospect CharterCARE would be required to expressly assume and/or reaffirm the obligations of PMH and Prospect CharterCARE. If PMH were to sell Prospect CharterCARE, CCHP has an option to sell its interest in Prospect CharterCARE to the buyer as well.

After five (5) years, a put option arises for CCHP. The put option allows CCHP to sell its interest in Prospect CharterCARE to PMH in exchange for a payment in cash equal to the appraised value of CCHP's interest in Prospect CharterCARE.

Additionally, at any time, CCHP has the right to provide its entire interest in Prospect CharterCARE to PMH, if necessary to protect tax exempt status or in the event of any foreclosure or attempted foreclosure of CCHP's assets.

7. Change to Single Beds Rooms. Part of the proposal, includes conversion of all rooms into single bed room at both hospitals. Please discuss what impact, if any, this would have on the number of staffed beds at each hospital.

   Response: **The conversion of all rooms into single bed rooms will not have an impact on the number of staffed beds at the Existing Hospitals, because CCHP currently operates as many private rooms as possible.**

8. Asset Purchase Agreement. Please provide copies of any amendments and/or restatements to the Asset Purchase Agreement (from that provided in the application). Please explain any such changes.

   Response: **On February 27, 2014, the parties executed a First Amendment to the Asset Purchase Agreement.** ***See First Amendment to the Asset Purchase Agreement at Exhibit F.*** **The First Amendment to the Asset Purchase Agreement accomplished the following:**

   a. **Adds Prospect CharterCARE Ancillary Services, LLC, ("Ancillary Services") a Rhode Island limited liability company, as a party to the Asset Purchase Agreement. Ancillary Services has been recently established to hold the licensure for the Prospect CharterCARE labs.**

   b. **The fiscal year for Prospect CharterCARE and its subsidiaries will be a twelve month (12) period commencing on October 1st and ending on September 30th.**

9. Please provide an update regarding any outstanding negotiations with the unions, if any are remaining. And whether amicable resolution is anticipated.

   Response: **UNAP is the union representing the vast majority of unionized employees at CCHP. All negotiations with UNAP have been completed to the**

mutual satisfaction of both sides. A copy of related correspondence from UNAP is attached as Exhibit D.

There are a small number of employees represented by FNHP. The contract for FNHP is due to expire on April 30, 2014. CCHP continues to have positive labor relations with the bargaining unit and is seeking an extension of the contract into the summer of 2014, so it can be addressed in the normal course of business, post-approval, if such approval is secured.

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10. Please attest to the following: I state that the information contained in this material is complete, accurate and correct.

[redacted] 3/7/14

Signed and Dated by President or Chief Executive Officer

Sam Lee, CEO
Signed and Dated by President or Chief Executive Officer

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10. Please attest to the following: I state that the information contained in this material is complete, accurate and correct.

Redacted CEO
Signed and Dated by President or Chief Executive Officer

Sam Lee, CEO
Signed and Dated by President or Chief Executive Officer

Exhibit A

BDO

Tel: Redacted
Fax:
www.bdo.com

Redacted

June 20, 2013

Ms. Alyse Wagner, Audit Committee Member
[redacted], Chief Financial Officer
Prospect Medical Holdings, Inc.
Redacted
Los Angeles, California 90025

Dear Ms. Wagner and Mr. [redacted]

In planning and performing our audit of the consolidated financial statements of Prospect Medical Holdings, Inc. (the "Company") as of and for the year ended September 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the company's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control that we consider to be significant deficiencies, as noted below. This significant deficiency was communicated at the audit committee meeting which was held on December 12, 2012.

Medical Malpractice Liability - Brotman

BDO noted that during the testing of the Company's medical malpractice IBNR estimate, it was identified that it had not recorded an entry to reinstate the IBNR estimate at September 30, 2012. This was identified on review of a report prepared by the Company's actuaries as well as the examination of its insurance digest. The Company had changed its insurance policy during the year and accordingly a revised estimate had to be recorded. This matter was brought to the attention of management and an audit adjustment entry was recorded to true up the liability to $1.3 million at September 30, 2012. Management did not appropriately review this significant material estimate during the close process. Additionally it would appear that management responsible for the close process were not aware of the changes in the policy nor the impact it could have on a significant estimate such as medical malpractice IBNR. We recommend that management of the Company

include a specific step in the financial close process to inquire as to whether any significant changes have been made to the Company's insurance policies, and if so, appropriately ascertain what the impact is on the Company's IBNR estimates. This step could proactively prevent error and misstatements in financial reporting.

This communication is intended solely for the information and use of management and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

BDO USA, LLP

Exhibit B

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Prospect Medical Holdings, Inc.
Proforma Consolidated Balance Sheets

(in 000's)

	FY14	FY15	FY16	FY17	FY18	FY19
CURRENT ASSETS:	fcst	fcst	fcst	fcst	fcst	fcst
Cash (includes restricted cash/ investments of $1.2M)	$ 65,708	$ 92,046	$ 146,578	$ 205,241	$ 242,071	$ 312,878
Accounts Receivable	118,926	127,934	130,793	133,626	136,839	136,739
Third-party Settlements	7,922	7,922	7,922	7,922	7,922	7,922
Due from Government Payors	23,691	36,571	36,673	36,776	36,885	36,992
Prepaid Expenses and Other Current Assets	25,492	25,243	24,950	24,715	24,501	24,501
Hospital Fee Program Receivable	13,398	26,264	17,569	7,074	22,031	11,436
Deferred Tax Asset / Income Tax Receivable	10,289	10,289	10,289	10,289	10,289	10,289
Total Current Assets	285,426	328,270	374,874	425,847	480,539	542,757
FIXED ASSETS:						
Property, Improvements & Equipment, net	195,716	196,045	195,048	191,868	187,857	185,858
OTHER ASSETS:						
Investment in joint ventures	2,911	2,911	2,911	2,911	2,911	2,911
Investment in Subsidiary	-	-	-	-	-	-
Deposits and Other Long-Term Assets	445	389	389	389	389	389
Deferred Tax Asset	2,015	2,015	2,015	2,015	2,015	2,015
Goodwill	165,214	165,214	165,214	165,214	165,214	165,214
Identifiable Intangibles	26,348	21,464	17,816	14,682	11,547	8,412
Deferred Financing Costs	9,554	7,483	5,413	3,342	1,271	(800)
Total Other Assets	206,487	199,477	193,758	188,553	183,348	178,142
TOTAL ASSETS	**$ 687,628**	**$ 723,792**	**$ 763,679**	**$ 806,268**	**$ 851,744**	**$ 906,757**
CURRENT LIABILITIES:						
Accrued Medical Claims/IBNR	31,837	32,930	33,800	34,377	35,142	35,908
Accounts Payable & Accrued Expenses	100,869	99,931	97,017	95,323	94,400	94,480
Other Payable	25,759	25,759	25,759	25,759	25,759	25,759
Third Party Settlements	5,800	5,800	5,800	5,800	5,800	5,800
Due to Government Payors	13,834	13,834	13,834	13,834	13,834	13,834
Income Taxes Payable	2,461	5,502	5,765	5,903	6,001	6,112
Capitalized Leases	4,350	2,010	1,470	1,190	951	751
Debt - Current Portion	178	178	178	178	178	178
Unconsolidated JV	5,359	10,341	15,892	22,126	28,980	35,380
Revolver Line of Credit	-	-	-	-	-	-
Hospital Fee Program Liability	7,022	7,237	7,453	7,669	7,885	8,101
Total Current Liabilities	197,468	203,523	206,968	212,159	218,829	226,303
LONG TERM LIABILITIES:						
Capitalized Leases	9,307	8,010	7,044	6,254	5,585	5,135
Debt - L/T Portion	426,579	426,357	426,135	425,913	425,691	425,469
OIP / (OID) on Notes Payable	(4,926)	(3,941)	(2,956)	(1,971)	(985)	(0)
Deferred Income Taxes	24,869	24,869	24,869	24,869	24,869	24,869
Other Long Term Liabilities	7,243	7,243	7,243	7,243	7,243	7,243
Malpractice Reserves	4,660	4,660	4,660	4,660	4,660	4,660
Total Long Term Liabilities	467,731	467,197	466,995	466,968	467,063	467,376
TOTAL LIABILITIES	**665,199**	**670,720**	**673,964**	**679,127**	**685,892**	**693,679**
SHAREHOLDER'S EQUITY (DEFICIT)						
Common Stock	0	0	0	0	0	0
Additional Paid in Capital	18,433	21,124	23,814	26,504	29,194	31,884
Retained Earnings (Accumulated Deficit) - Prior Year	52,504	75,251	105,994	139,831	174,446	217,361
Dividends Paid	(88,460)	(88,460)	(88,460)	(88,460)	(88,460)	(88,460)
Retained Earnings - Current Year	30,829	34,993	38,003	38,851	40,213	41,789
Total Holdings Equity	13,306	42,907	79,350	116,725	155,392	202,573
Noncontrolling Interest	9,123	10,164	10,364	10,415	10,459	10,505
Total Shareholder's Equity	22,429	53,070	89,715	127,140	165,851	213,078
TOTAL LIABILITIES & SHAREHOLDER'S EQUITY	**$ 687,628**	**$ 723,791**	**$ 763,678**	**$ 806,267**	**$ 851,743**	**$ 906,756**

EOGH 81-00023
PMH0008664

CONFIDENTIAL BUSINESS INFORMATION

CharterCARE, Inc.
Balance Sheets

(In 000's)

	FY14	FY15	FY16	FY17	FY18	FY19
CURRENT ASSETS:	fcst	fcst	fcst	fcst	fcst	fcst
Cash (includes restricted cash/ investments of $1.2M)	$ (1,882)	$ (701)	$ 1,029	$ 5,166	$ 10,844	$ 23,765
Accounts Receivable	33,237	34,768	36,226	37,313	38,432	38,432
Third-party Settlements	-	-	-	-	-	-
Due from Government Payors	-	-	-	-	-	-
Prepaid Expenses and Other Current Assets	11,780	11,531	11,294	11,069	10,855	10,855
Hospital Fee Program Receivable	-	-	-	-	-	-
Deferred Tax Asset / Income Tax Receivable	-	-	-	-	-	-
Total Current Assets	43,136	45,598	48,548	53,547	60,131	73,052
FIXED ASSETS:						
Property, Improvements & Equipment, net	65,051	61,419	56,637	51,412	45,730	42,059
OTHER ASSETS:						
Investment in joint ventures	2,911	2,911	2,911	2,911	2,911	2,911
Investment in Subsidiary	-	-	-	-	-	-
Deposits and Other Long-Term Assets	-	-	-	-	-	-
Deferred Tax Asset	-	-	-	-	-	-
Goodwill	-	-	-	-	-	-
Identifiable Intangibles	-	-	-	-	-	-
Deferred Financing Costs	-	-	-	-	-	-
Total Other Assets	2,911	2,911	2,911	2,911	2,911	2,911
TOTAL ASSETS	**$ 111,098**	**$ 109,928**	**$ 108,097**	**$ 107,870**	**$ 108,771**	**$ 118,021**
CURRENT LIABILITIES:						
Accrued Medical Claims/IBNR	-	-	-	-	-	-
Accounts Payable & Accrued Expenses	43,170	42,170	39,174	37,440	36,545	36,545
Other Payable	-	-	-	-	-	-
Third Party Settlements	-	-	-	-	-	-
Due to Government Payors	-	-	-	-	-	-
Income Taxes Payable	-	-	-	-	-	-
Capitalized Leases	610	610	610	610	610	610
Debt - Current Portion	-	-	-	-	-	-
Unconsolidated JV	-	-	-	-	-	-
Revolver Line of Credit	-	-	-	-	-	-
Hospital Fee Program Liability	-	-	-	-	-	-
Total Current Liabilities	43,779	42,779	39,784	38,050	37,155	37,155
LONG TERM LIABILITIES:						
Capitalized Leases	632	505	379	253	126	126
Debt - L/T Portion	-	-	-	-	-	-
OIP / (OID) on Notes Payable	-	-	-	-	-	-
Deferred Income Taxes	-	-	-	-	-	-
Other Long Term Liabilities	6,673	6,673	6,673	6,673	6,673	6,673
Malpractice Reserves	-	-	-	-	-	-
Total Long Term Liabilities	7,304	7,178	7,052	6,925	6,799	6,799
TOTAL LIABILITIES	**51,084**	**49,957**	**46,835**	**44,975**	**43,954**	**43,954**
SHAREHOLDER'S EQUITY (DEFICIT)						
Common Stock	-	-	-	-	-	-
Additional Paid In Capital	66,999	66,999	66,999	66,999	66,999	66,999
Retained Earnings (Accumulated Deficit) - Prior Year	-	(6,984)	(7,028)	(5,737)	(4,104)	4,840
Dividends Paid	-	-	-	-	-	-
Retained Earnings - Current Year	(6,984)	(44)	1,291	1,633	1,923	2,229
Total Holdings Equity	60,015	59,971	61,261	62,894	64,817	74,068
Noncontrolling Interest	-	-	-	-	-	-
Total Shareholder's Equity	60,015	59,971	61,261	62,894	64,817	74,068
TOTAL LIABILITIES & SHAREHOLDER'S EQUITY	**$ 111,098**	**$ 109,928**	**$ 108,097**	**$ 107,870**	**$ 108,771**	**$ 118,021**

EOGH 81-00024
PMH0008665

CONFIDENTIAL BUSINESS INFORMATION

Note to PMH's Proforma Consolidated Balance Sheet

The future capital contributions of $50M that will be provided by PMH within four (4) years of the closing on the transaction ("Long-Term Funding Commitment") are not included in PMH's projected balance sheet, because the timing of the expenditure of said funds will be determined by Prospect CharterCARE's Board of Directors. That being said, PMH will have no problem funding the Long-Term Funding Commitment as the projections evidence significant cash, including cash in excess of $200M after FY17. Moreover, as detailed in response 1(d), PMH maintains a senior secured credit facility limit up to $60M, all of which remains undrawn.

Exhibit C

CONFIDENTIAL BUSINESS INFORMATION

Prospect Medical Holdings, Inc.
Detail of Capital Expenditures - Last 5 years

	10/1/08 - 9/30/09 FY09	10/1/09 - 9/30/10 FY10	10/1/10 - 9/30/11 FY11	10/1/11 - 9/30/12 FY12	10/1/12 - 9/30/13 FY13
Land and land improvements	1,755	-	-	-	477,276
Buildings and improvements	295,381	667,371	1,571,319	2,812,812	3,737,513
Equipment, Furnitures & Fixtures	610,368	1,989,994	2,964,856	5,435,930	6,657,359
EHR Implementation	-	-	5,314,898	2,888,378	4,244,109
CIP, net	313,961	645,608	(192,153)	1,940,791	9,147,970
Grand Total	**1,221,465**	**3,302,972**	**9,658,921**	**13,077,911**	**24,264,227**

EOGH 81-00027
PMH00008668

Exhibit D

United Nurses &
Allied Professionals

Redacted
President

Via U.S. Mail

March 6, 2014

Redacted
Chief, Office of Health Systems Development
Rhode Island Department of Health
Cannon Building
Three Capitol Hill
Providence, RI 02908

Re: Change in Effective Control Application of Prospect CharterCARE SJHSRI, LLC, Prospect CharterCARE RWMC, LLC, Prospect CharterCARE Elmhurst, LLC, Prospect CharterCARE Health Partners, Prospect East Holdings, Inc. and Prospect Medical Holdings, Inc.

Dear Redacted

The United Nurses & Allied Professionals [UNAP] respectfully submit the instant letter in full support of the above referenced application.[1]

Well before the filing of the instant application, Prospect reached out to representatives of the UNAP to discuss their vision and the proposed joint venture. They did so because they wanted to forge a partnership with the UNAP while doing so simultaneously with CharterCARE Health Partners (CCHP).

When we met with Prospect, we informed them that we were cautiously optimistic about the proposed joint venture, but also expressed concern about a broad range of issues important to the hundreds of registered nurses we represent at Our Lady of Fatima Hospital (Fatima). In particular, we raised concerns about the impact the proposed joint venture might have on job security, retirement security, medical and dental insurance coverage, wage rates, working conditions, seniority and the like. We explained that if these issues were not appropriately addressed in the joint venture, Prospect would not be able to recruit and retain a skilled and experienced compliment of nurses so essential to the delivery of quality patient care.

In response, Prospect agreed to engage the UNAP in a negotiation over all of these critical issues. In so doing, Prospect agreed to recognize the UNAP as the collective bargaining agent of the nurses, and agreed to assume nearly all of the terms and conditions of employment set forth in the

[1] The UNAP is a health care union representing approximately 6,000-7,000 health care professionals working at many of our State's acute care facilities (among them, Westerly Hospital, Kent County Hospital, Rhode Island Hospital, Memorial Hospital, Landmark Medical Center, Our Lady of Fatima Hospital, Zambarano Hospital, and the Rehabilitation Hospital of RI).

collective bargaining agreement (CBA) then in effect.[2] Beyond that, however, Prospect agreed to the terms of a successor agreement, the term of which runs from August 1, 2014 through July 31, 2015.

The successor agreement, which was overwhelmingly approved by the nurses at Fatima, will provide them with stability and security over the next few years. With respect to job security, the agreement provides the Fatima nurses with, among other things, job opportunities at Roger Williams Medical Center that they did not previously have. In addition, their seniority and other core benefits will be fully recognized and portable should they move to Roger Williams as a result of any system integration.[3] With respect to retirement security, CCHP has agreed to put $14 million into the defined benefit pension plan which will bring the fund balance up to appropriate levels. And while the nurses did agree to a freeze of the defined benefit pension plan, that plan will be replaced with a competitive defined contribution retirement plan.[4] With respect to medical and dental insurance benefits, Prospect agreed to maintain those benefits at current levels for the life of the successor agreement. Prospect also agreed to increase pay so that the rates of pay for the nurses at Fatima will remain competitive.

At the heart of every health care system are its physicians, nurses, technologists, technicians and other health care professionals. They deliver the care. Without them, the system fails.

The partnership that has been successfully forged between Prospect and the UNAP will ensure that Prospect will continue to be able to retain and recruit skilled and experienced nurses. That, in turn, will go a long way in ensuring the success of the proposed joint venture. As such, the UNAP fully supports the pending application.

Respectfully submitted by:

Redacted
General Counsel
[redacted]
Providence, RI 02904
Redacted

[2] That agreement has a term that runs from August 1, 2011 through July 31, 2014.
[3] The Fatima nurses will continue to retain all job security protections afforded them under the CBA should they remain at the Fatima facility.
[4] Under the freeze, the Fatima nurses will keep the benefits already accrued but will not accrue benefits beyond the closing date of the joint venture.

Exhibit E

CharterCARE Health Partners

Resolution of the Board of Trustees
February 27, 2014

RESOLVED: That upon the Closing Date of the transaction between CharterCARE Health Partners, et. als. and Prospect Medical Holdings, et als., and pursuant to the Asset Purchase Agreement dated September 24, 2014, by and among those parties, the Cash Purchase price of Forty-Five Million Dollars ($45,000,000) shall be used as follows:

- $16,550,000 will be used to fully redeem St. Joseph Health Services of Rhode Island revenue bonds issued in 1999 by Rhode Island Health and Educational Building Corporation (RIHEBC).

- $11,062,500 will be used to redeem Roger Williams Medical Center revenue bonds issued in 1998 by Rhode Island Health and Educational Building Corporation (RIHEBC).

- $3,387,500 will be used to redeem Roger Williams Realty Corporation revenue bonds issued in 1999 by Rhode Island Health and Educational Building Corporation (RIHEBC).

- $14,000,000 shall be applied to the St. Joseph Health Services of Rhode Island defined benefit plan.

Exhibit F

FIRST AMENDMENT TO ASSET PURCHASE AGREEMENT

This FIRST AMENDMENT TO ASSET PURCHASE AGREEMENT (this "Amendment") is entered into as of February 27, 2014, by and among CharterCARE Health Partners, a Rhode Island non-profit corporation ("CCHP"), Roger Williams Medical Center, a Rhode Island non-profit corporation ("RWMC"), St. Joseph Health Services of Rhode Island, a Rhode Island non-profit corporation ("SJHSRI"), Roger Williams Realty Corporation, a Rhode Island non-profit corporation ("RWRC"), RWGH Physicians Office Building, Inc., a Rhode Island non-profit corporation ("RWOB"), Elmhurst Extended Care Facilities, Inc., a Rhode Island non-profit corporation ("Elmhurst ECF"), Roger Williams Medical Associates, Inc., a Rhode Island non-profit corporation ("RWMA"), Roger Williams PHO, Inc., a Rhode Island non-profit corporation ("PHO"), Elmhurst Health Associates, Inc., a Rhode Island corporation ("Elmhurst HA"), Our Lady of Fatima Ancillary Services, Inc., a Rhode Island corporation ("Our Lady"), The Center for Health and Human Services, a Rhode Island non-profit corporation ("TCHHS"), SJH Energy, LLC, a Rhode Island limited liability company ("SJHE"), and Rosebank Corporation, a Rhode Island corporation ("Rosebank" and together with CCHP, RWMC, SJHSRI, RWRC, RWOB, Elmhurst ECF, RWMA, PHO, Elmhurst HA, Our Lady, TCHHS and SJHE, each a "Seller" and, collectively, "Sellers"), Prospect Medical Holdings, Inc., a Delaware corporation ("Prospect"), Prospect East Holdings, Inc., a Delaware corporation ("Prospect Member"), Prospect CharterCare, LLC, a Rhode Island limited liability company (the "Company"), Prospect CharterCare RWMC, LLC, a Rhode Island limited liability company ("RWMC SMLLC"), Prospect CharterCare SJHSRI, LLC, a Rhode Island limited liability company ("SJHSRI SMLLC"), Prospect CharterCare Elmhurst, LLC, a Rhode Island limited liability company ("Elmhurst SMLLC"), and Prospect CharterCare Physicians, LLC, a Rhode Island limited liability company ("Physicians SMLLC" and together with RWMC SMLLC, SJHSRI SMLLC and Elmhurst SMLLC, each a "Company Subsidiary" and, collectively, the "Company Subsidiaries"). Terms used but not otherwise defined herein shall have the respective meanings specified in the Asset Purchase Agreement (defined below).

RECITALS

WHEREAS, Sellers, Prospect, Prospect Member, the Company and the Company Subsidiaries (collectively, the "Parties") are parties to that certain Asset Purchase Agreement dated as of September 24, 2013 (the "Asset Purchase Agreement"), pursuant to which Sellers shall sell to the Company, and the Company shall acquire from Sellers, either directly or through the Company Subsidiaries, substantially all of the assets of Sellers used in the operation of the Facilities; and

WHEREAS, the Parties desire to amend the Asset Purchase Agreement in order to, among other things, add Prospect CharterCare Ancillary Services, LLC, a Rhode Island limited liability company ("Ancillary Services SMLLC"), as a party to the Asset Purchase Agreement; and

WHEREAS, the Parties desire to amend the form of Amended and Restated Agreement, which was Exhibit A to the Asset Purchase Agreement, in order to, among other things, change the fiscal year as set forth therein.

NOW, THEREFORE, for and in consideration of the agreements, covenants, representations and warranties hereinafter set forth, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

1. Amendment to the Form of Amended and Restated Agreement (attached as Exhibit A to the Asset Purchase Agreement). Section 7.5 of the form of Amended and Restated Agreement is hereby deleted and replaced in its entirety with the following:

> "7.5 Fiscal Year. The fiscal year of the Company and each Company Subsidiary shall be the twelve (12) month period commencing on October 1st and ending on September 30th."

2. Replacement of Exhibit A to the Asset Purchase Agreement. Exhibit A to the Asset Purchase Agreement is hereby deleted and replaced in its entirety with Attachment 1 attached hereto.

3. Amendment to Preamble. The first sentence of the Preamble of the Asset Purchase Agreement is hereby deleted and replaced in its entirety with the following sentence:

> "THIS ASSET PURCHASE AGREEMENT (this "Agreement") is made and entered into as of September 24, 2013 by and among CharterCARE Health Partners, a Rhode Island non-profit corporation ("CCHP"), Roger Williams Medical Center, a Rhode Island non-profit corporation ("RWMC"), St. Joseph Health Services of Rhode Island, a Rhode Island non-profit corporation ("SJHSRI"), Roger Williams Realty Corporation, a Rhode Island non-profit corporation ("RWRC"), RWGH Physicians Office Building, Inc., a Rhode Island non-profit corporation ("RWOB"), Elmhurst Extended Care Facilities, Inc., a Rhode Island non-profit corporation ("Elmhurst ECF"), Roger Williams Medical Associates, Inc., a Rhode Island non-profit corporation ("RWMA"), Roger Williams PHO, Inc., a Rhode Island non-profit corporation ("PHO"), Elmhurst Health Associates, Inc., a Rhode Island corporation ("Elmhurst HA"), Our Lady of Fatima Ancillary Services, Inc., a Rhode Island corporation ("Our Lady"), The Center for Health and Human Services, a Rhode Island non-profit corporation ("TCHHS"), SJH Energy, LLC, a Rhode Island limited liability company ("SJHE"), and Rosebank Corporation, a Rhode Island corporation ("Rosebank" and together with CCHP, RWMC, SJHSRI, RWRC, RWOB, Elmhurst ECF, RWMA, PHO, Elmhurst HA, Our Lady, TCHHS and SJHE, each a "Seller" and, collectively, "Sellers"), Prospect Medical Holdings, Inc., a Delaware corporation ("Prospect"), Prospect East Holdings, Inc., a Delaware corporation ("Prospect Member"), Prospect CharterCare, LLC, a Rhode Island limited liability company (the "Company"), Prospect CharterCare Ancillary Services, LLC, a Rhode Island limited liability company ("Ancillary Services SMLLC"), Prospect CharterCare RWMC, LLC, a Rhode Island limited liability company ("RWMC SMLLC"), Prospect CharterCare SJHSRI, LLC, a Rhode Island limited liability company ("SJHSRI SMLLC"), Prospect CharterCare Elmhurst, LLC, a Rhode Island

limited liability company ("Elmhurst SMLLC"), and Prospect CharterCare Physicians, LLC, a Rhode Island limited liability company ("Physicians SMLLC" and together with Ancillary Services SMLLC, RWMC SMLLC, SJHSRI SMLLC and Elmhurst SMLLC, each a "Company Subsidiary" and, collectively, the "Company Subsidiaries")."

4. Counterpart Signature Page to Asset Purchase Agreement. Contemporaneously with the execution of this Amendment, Ancillary Services SMLLC shall execute a Counterpart Signature Page to the Asset Purchase Agreement in the form attached hereto as Attachment 2, in order become bound by all of the terms and provisions of, and be entitled to all of the benefits and privileges of, the Asset Purchase Agreement.

5. Ratification of the Asset Purchase Agreement. Except as expressly amended by this Amendment, all other terms and conditions of the Asset Purchase Agreement shall remain in full force and effect without modification.

6. Entire Agreement. The Asset Purchase Agreement (including all schedules, annexes and exhibits thereto), as amended by this Amendment, constitutes the entire agreement among the Parties with respect to the subject matter thereof and hereof and supersedes all prior agreements and understandings among the Parties, oral or written, with respect to the subject matter thereof and hereof.

7. Execution of this Amendment. This Amendment may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. A signature delivered by facsimile or PDF will be sufficient for all purposes among the Parties.

[remainder of page intentionally left blank; signature page follows]

IN WITNESS WHEREOF, the Parties have caused this Amendment to be executed by their authorized representatives, all as of the date and year first above written.

SELLERS:

CHARTERCARE HEALTH PARTNERS

By: Redacted
Name:
Title:

ROGER WILLIAMS MEDICAL CENTER

By: Redacted
Name:
Title:

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

By: Redacted
Name:
Title:

ROGER WILLIAMS REALTY CORPORATION

By: Redacted
Name:
Title:

RWGH PHYSICIANS OFFICE BUILDING, INC.

By: Redacted
Name:
Title:

ELMHURST EXTENDED CARE FACILITIES, INC.

By: Redacted
Name:
Title:

ROGER WILLIAMS MEDICAL ASSOCIATES, INC.

By: Redacted
Name:
Title:

ROGER WILLIAMS PHO, INC.

By: Redacted
Name:
Title:

ELMHURST HEALTH ASSOCIATES, INC.

By: Redacted
Name:
Title:

OUR LADY OF FATIMA ANCILLARY SERVICES, LLC

By: Redacted
Name:
Title:

THE CENTER FOR HEALTH AND HUMAN SERVICES

By: Redacted
Name:
Title:

SJH ENERGY, LLC

By: Redacted
Name:
Title:

ROSEBANK CORPORATION

By: Redacted
Name:
Title:

PROSPECT:

PROSPECT MEDICAL HOLDINGS, INC.

By: _____
Name:
Title:

PROSPECT MEMBER:

PROSPECT EAST HOLDINGS, INC.

By: _____
Name:
Title:

COMPANY:

PROSPECT CHARTERCARE, LLC

By: _____
Name:
Title:

COMPANY SUBSIDIARIES:

PROSPECT CHARTERCARE RWMC, LLC

By: _____
Name:
Title:

PROSPECT CHARTERCARE SJHSRI, LLC

By: _____
Name:
Title:

PROSPECT CHARTERCARE ELMHURST, LLC

By: _____
Name:
Title:

PROSPECT CHARTERCARE PHYSICIANS, LLC

By: _____
Name:
Title:

ATTACHMENT 1

EXHIBIT A TO THE ASSET PURCHASE AGREEMENT

See attached.

ATTACHMENT 2

COUNTERPART SIGNATURE PAGE

TO

ASSET PURCHASE AGREEMENT

February 27, 2014

The undersigned, desiring to become a party to that certain Asset Purchase Agreement dated as of September 24, 2013 (as amended by that certain First Amendment to Asset Purchase Agreement dated as of February ___, 2014, the "Asset Purchase Agreement"), by and among CharterCARE Health Partners, Roger Williams Medical Center, St. Joseph Health Services of Rhode Island, Roger Williams Realty Corporation, Physicians Office Building, Inc., Elmhurst Extended Care Facilities, Inc., Roger Williams Medical Associates, Inc., Roger Williams PHO, Inc., Elmhurst Health Associates, Inc., Our Lady of Fatima Ancillary Services, Inc., The Center for Health and Human Services, SJH Energy, LLC, Rosebank Corporation, Prospect Medical Holdings, Inc., Prospect East Holdings, Inc., Prospect CharterCare, LLC, Prospect CharterCare RWMC, LLC, Prospect CharterCare SJHSRI, LLC, Prospect CharterCare Elmhurst, LLC, and Prospect CharterCare Physicians, LLC, hereby agrees to be bound by all of the terms and provisions of, and shall be entitled to all of the benefits and privileges of, the Asset Purchase Agreement, and further authorizes the parties to the Asset Purchase Agreement to attach this signature page to the Asset Purchase Agreement in order to make the undersigned a party thereto.

PROSPECT CHARTERCARE ANCILLARY SERVICES, LLC

By: _____
Name:
Title:

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
RHODE ISLAND DEPARTMENT OF HEALTH

In re: Application of Prospect CharterCARE, LLC; Prospect CharterCARE SJHSRI, LLC; Prospect CharterCARE RWMC, LLC; Prospect CharterCARE Elmhurst, LLC; CharterCARE Health Partners, Prospect East Holdings, Inc and Prospect Medical Holdings, Inc.

RESPONSES TO SUPPLEMENTAL QUESTIONS TO THE CEC APPLICATION

1. Please provide audited consolidated CharterCARE financial statements for the years ended September 30, 2013, 2012 & 2011 including footnotes and the details of consolidation (the rollup of the individual CharterCARE entities with eliminations). Ideally, the details of consolidation could be provided in an Excel spreadsheet.

   Response: Please see **Exhibit 1**.

2. Please provide utilization statistics (discharges, days, case mix, outpatient visits, ER visits homecare visits, etc.) for each entity (the two hospitals and Elmhurst) for the years ended September 30, 2013, 2012 & 2011. Please provide by type (e.g. surgical, medical, etc. as appropriate).

   Response: Please see **Exhibit 2**.

3. Please provide the most recent interim financials with comparative prior year, including related utilization statistics for each entity (the two hospitals and Elmhurst).

   Response: Please see **Exhibits 3 and 2**.

4. Please provide projected consolidated financial statements for the years ended September 30, 2014-2016 including projected utilization statistics and underlying assumptions (also refer to question below).

   Response: Please see attached hereto as **Exhibit 4** setting forth projected utilization statistics. Please also see attached, **Exhibit 4A** which sets forth projected statements and underlying assumptions regarding revenues. The Applicants cross-reference the Response to question 5, regarding the narrative as it pertains to the underlying assumption for expenses.

5. In Exhibit B to the March 7, 2014 responses, please provide the underlying assumptions. Also please provide the associated income statements, cash flow statements and statistics for those years (historic and projected).

Response:
Please see the Exhibits attached in response to question 4. With regard to the underlying assumptions relative to expenses, the Applicants set forth as follows:

1. The following assumptions are made for Routine inflation:
   - SWB - Overall 1.8%, which equates to an approximate salary increase of 2.4%
   - Supplies/Other and Office Expense - Overall 1%, since these categories also include several large dollar relatively fixed costs
   - Utilities - Overall 5%
   - Insurance - No increase is projected due to the risk management programs which will be implemented post-close
   - Hospital License Fee - the 2014 approved rate of 5.246% is utilized for changes in Net Revenues.
   - Depreciation - Assumes annual Capital Expenditures of $10M, with $7M at a 7-year life and $3M at a 20-year life
   - Bad Debt Expense - Baseline Bad Debt Expense/Baseline Net Revenues x the change in Net Patient Revenues

2. Benefits – There is a $5M reduction in benefits related to the pension. In addition, there are reductions projected by transferring CCHP to Prospect's self- insured health plan model

3. An increase in expenses is anticipated by the restructuring of the Bone Marrow Transplant program related primarily to salaries and supplies

4. An increase in expenses is anticipated from the additional volumes projected by the Senior Friendly Emergency Departments, primarily related to salaries

5. A decrease in expenses is anticipated related primarily to the use of Purchased Services, that CCHP will no longer need to access because of services provided directly by Prospect and the reduction of costs related to the sale of CCHP

6. With respect to Exhibit B, are all entities for CharterCARE included? Please provide the details by entity.

Response: The projected CharterCARE, Inc. balance sheets that are Exhibit B to the March 7, 2014 responses do include all of the CharterCARE entities. The analysis undertaken to provide details by entity is included in the exhibits responsive to question 4.

7. The March 7, 2014 responses refer to the credit ratings for Prospect for Moody's and S&P. Please provide copies of these credit reports. In addition, when is the next credit review scheduled to occur?

Response: Attached are the requested ratings reports at **Confidential Exhibit 7**. Prospect Medical Holdings is in communication with the ratings agencies on frequent and ongoing basis to discuss company and sector performance and outlook. Periodic reviews are not formally scheduled, though it is anticipated the next review by both Moody's and S&P will occur over the next 6 months.

8. In the March 7, 2014 responses, Prospect notes that it has a market value of $610M (top of p. 3). Please provide the basis of that amount and how it was determined.

Response:

There are many investment considerations that factor into market value. The investment considerations for Prospect Medical Holdings are:

- Operating Model: Cost-efficient provider of quality healthcare
- Revenue diversification across patient demographics, payors, service lines
- Management team experienced in operating numerous healthcare provider businesses
- Demonstrated ability to grow internally and via acquisition
- Proven ability to successfully operate acquired assets
- Market dynamics and pending healthcare reforms favor operating model
- Stable, flexible long term capital structure

Sector market multiples for companies such as Prospect are in the 7X – 8.5X range of adjusted TTM EBITDA. TTM adjusted EBITDA as of September 30, 2013 was $114.5M. Accordingly, estimated market value would fall within an approximate range of $800M - $975M.

9. In the auditors' report, there was a paragraph on a purchase of an additional three California hospitals by Prospect, two of which were closed and one of which was operating only pediatric sub-acute, to be finalized in November 2013. Was that finalized and did that have any impact on available cash?

Response: The transaction to date for the three California hospitals has not closed. It is to be funded by available cash balances and will not be financed. If the transaction ultimately closes, it will not impact the ability of Prospect to follow-through on the commitments made in the CharterCARE transaction.

10. For each and every Prospect hospital, please provide copies of accreditation certificates to demonstrate current accreditation.

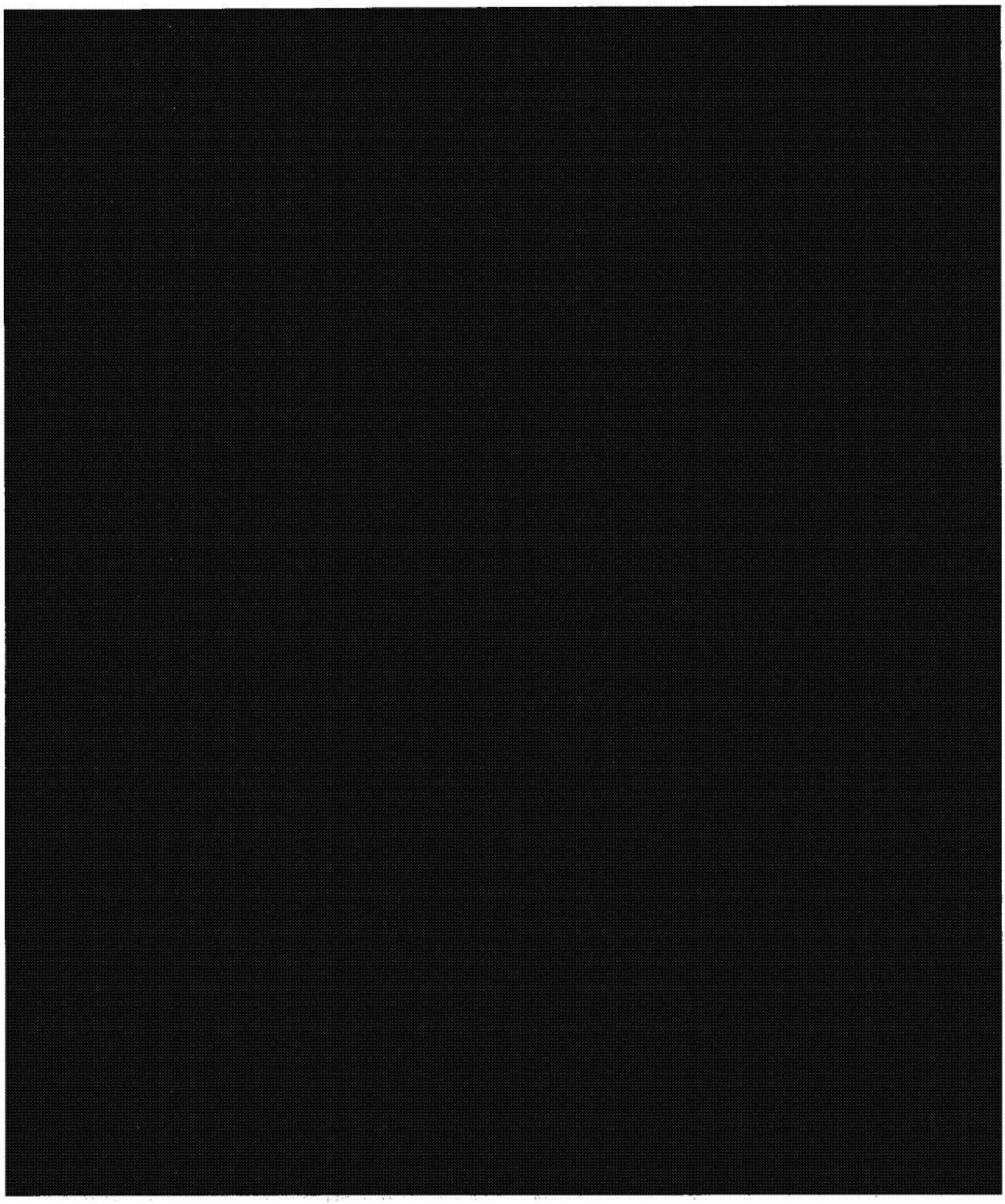
Response: Please see **Exhibit 10**.

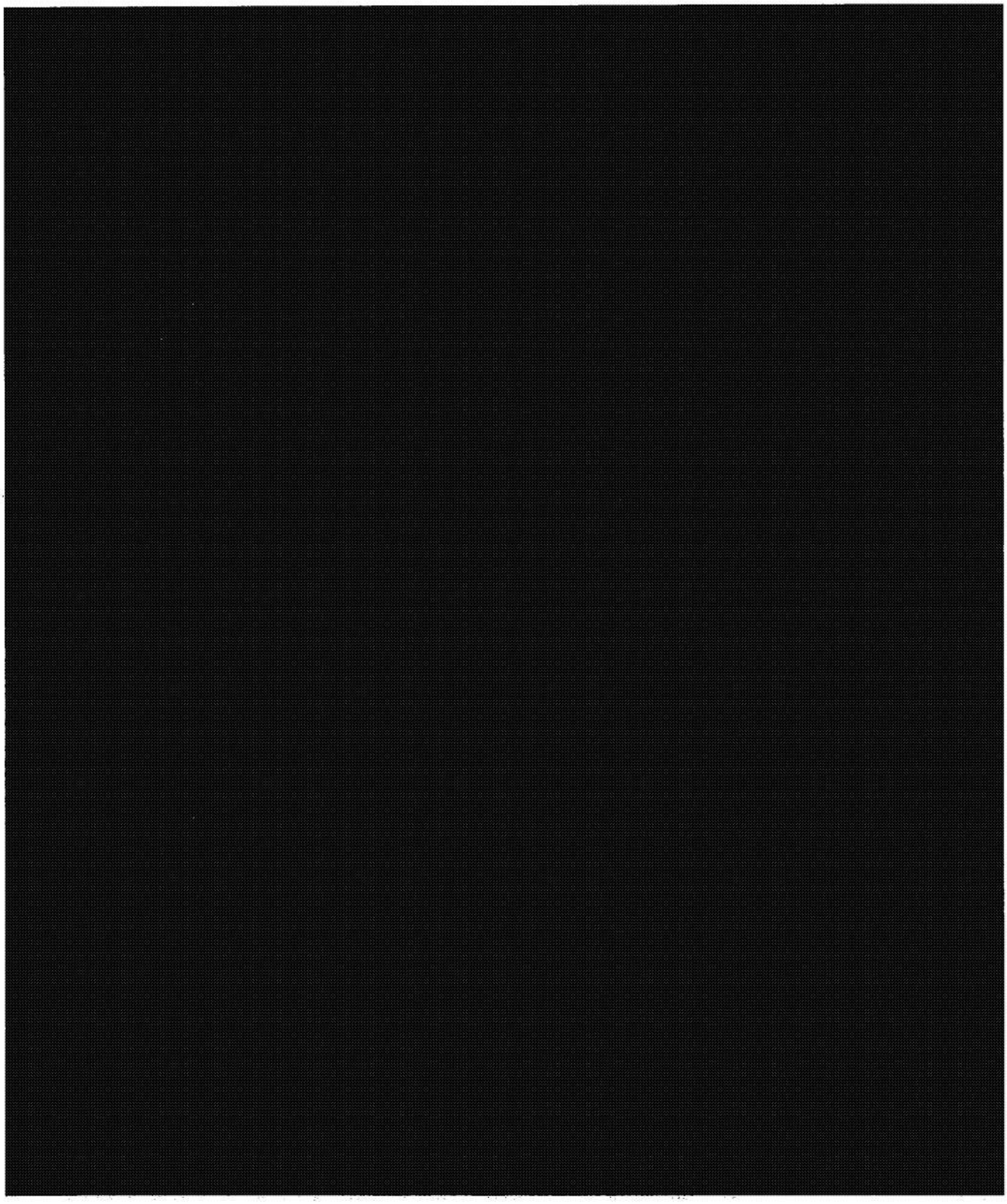
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
RHODE ISLAND DEPARTMENT OF HEALTH AND
RHODE ISLAND DEPARTMENT OF ATTORNEY GENERAL

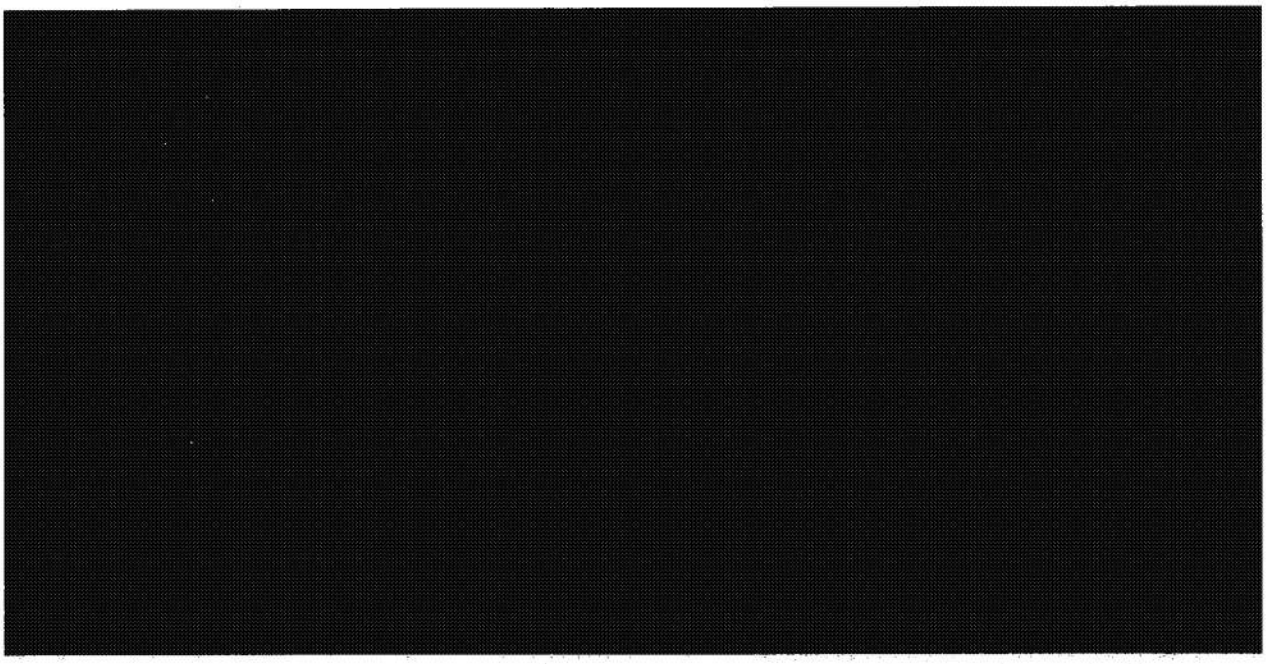
In re: Hospital Conversions Act Application of Prospect CharterCARE, LLC; Prospect CharterCARE SJHSRI, LLC; Prospect CharterCARE RWMC, LLC; Prospect CharterCARE Elmhurst, LLC; CharterCARE Health Partners, Prospect East Holdings, Inc. and Prospect Medical Holdings, Inc.

CONFIDENTIAL RESPONSES TO THIRD SUPPLEMENTAL QUESTIONS TO THE HCA APPLICATION

[redacted]

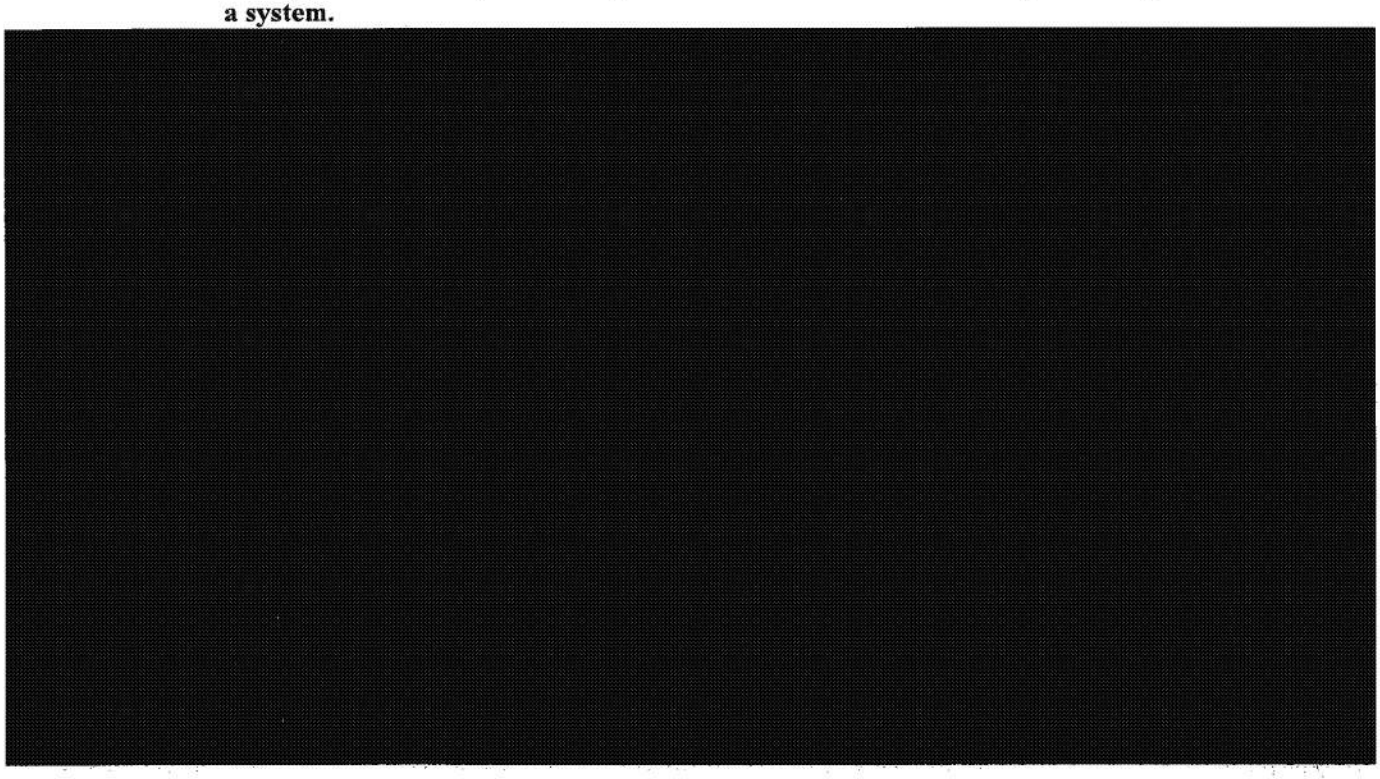


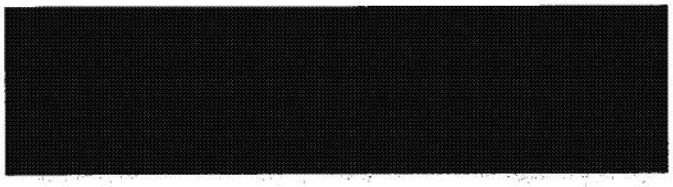




S3-55 What is Prospect's long term plan in the Northeast/New England and its plan nationally? Is it looking to acquire more facilities? Is it looking to be acquired as a system?

Response: **PMH's plan is to continue to look at opportunities in California, Texas, Rhode Island, New Jersey and Florida. PMH is not looking to be acquired as a system.**





(19) Describe all due diligence efforts with respect to Prospect done by the Applicant or on the Applicant's behalf in anticipation of the Proposed Transaction and provide the results of any due diligence investigations conducted by or on behalf of the Applicant into Prospect, including any and all reports, memoranda, letters, financial assessments or evaluations or other materials.

****

19.1 Agendas from visits by members of EOGH senior management to various Prospect locations

19.2 Reverse Financial Due Diligence Report of ParenteBeard LLC

ParenteBeard conducted a comprehensive reverse due diligence review. In its Reverse Financial Due Diligence Report, ParenteBeard analyzed the Prospect's financial results, debt capacity and recent transactions and also discussed other risk factors associated with Prospect. With the help of this report, the Board concluded that Prospect would make a strong strategic partner, with Prospect's financial strengths outweighing the related risks. In addition, members of EOGH senior management visited several Prospect facilities to better understand Prospect's culture and how Prospect runs its hospitals.

(19) Describe all due diligence efforts with respect to Prospect done by the Applicant or on the Applicant's behalf in anticipation of the Proposed Transaction and provide the results of any due diligence investigations conducted by or on behalf of the Applicant into Prospect, including any and all reports, memoranda, letters, financial assessments or evaluations or other materials.

****

19.1 Agendas from visits by members of EOGH senior management to various Prospect locations

East Orange Hospital
Prospect Medical Holding IPA Site Visit
Agenda
May 12, 2014 10:00 AM to 3:00 PM

Attendees:

Redacted	CEO President of the Medical Staff Secretary of the Medical Staff Physician Consultant

Topic	Time	Presenter
Welcome and Introductions	10:00 am	Redacted Sr. VP, Coordinated Regional Care CEO, East Orange General Hospital
Healthcare and Prospect Medical Systems Overview	10:15 am	Redacted MD, CEO
PMS Care Management Overview	10:45 am	Redacted MD, CMO Redacted SVP, Healthcare Services
Performance Programs and Ascender Overview	11:15 am	Redacted Performance Programs MD, Medical Director, Performance Programs
Lunch	12:00 pm	
PMS Care Management Software Overview—Cerecons and Essette	12:30 pm	Redacted VP Healthcare Services
Physician relations and support	1:15 pm	Redacted P, Network Management
Wrap-Up and Next Steps	1:45 pm	All
Adjourn		

East Orange General Hospital
Nix Care System Site Visit
April 30, 2014

Attendee:

[redacted] Chief Nursing Officer

Wednesday, April 30th

11:30 a.m.	Arrive and tour of Hospital with [redacted] Chief Nursing Officer
12:30 p.m.	Lunch with [redacted]
1:00 p.m.	Meeting with [redacted] President & CEO
1:30 p.m.	Meeting with [redacted] Senior Vice President, Chief Quality & Compliance Officer
2:00 p.m.	Meeting with [redacted] Senior Vice President, Chief Operating Office Med/Surg & Human Resources
2:30 p.m.	Meeting with [redacted] Chief Nursing Officer
3:30 p.m.	Depart Nix Care System

East Orange General Hospital
Nix Health Care System Site Visit
March 3rd – 4th, 2014

Attendees:

Redacted	CEO Vice Chairman of the Board VP of Behavioral Health

Monday, March 3rd

9:00	a.m.	Arrive and Continental Breakfast - Board Room
9:30	a.m.	Presentation with Nix Leadership Team • Overview of the System/Services • Nix Initiatives/Improvements • Prospect/Nix Management/Oversight/Governance
11:00	a.m.	Tour of Nix Downtown
12:00	p.m.	Lunch, Meeting with MEC/Key Physicians/COS • Physician engagement models • Prospect/Nix Governance
2:00	p.m.	Tour of Behavioral Center – Redacted Meet Redacted
3:00	p.m.	Tour of Behavioral Center - Babcock
4:00	p.m.	Tour of Alamo Heights
6:30	pm	Dinner at Club Giraud Redacted Director of Behavioral Chief of Staff • Development of Behavioral Model in San Antonio • Expansion of Services • Integration with Medical Management

Tuesday March 4th

8:30 a.m.	Continental Breakfast (with Physicians and or Answer any remaining questions).
10:00	Leave for Airport

East Orange General Hospital
Prospect Medical Holdings Site Visit
January 27th - 28th.

Visiting Attendees:

Redacted — CEO East Orange General Hospital
Chairman East Orange General Hospital

Monday, January 27th

9:45	a.m.	Arrive Prospect Office Location - Orange
10:00	a.m.	Prospect Medical Systems Presentation
Noon		Lunch – Board Room (lunch for 6 attendees)
12:30	p.m.	Coordinated Regional Care Presentation - Redacted
1:30	p.m.	Depart for Los Angeles Community Hospital
2:15	p.m.	Tour Los Angeles Community Hospital - ***Host:*** Redacted
3:15	p.m.	Depart for Norwalk.
3:45	pm	Tour Norwalk Community Hospital - ***Host:*** Redacted
4:30	pm	Return to Hotel
6:00	pm	Dinner (Reservations for 4)

Dinner Attendees:

Redacted
East Orange General Hospital CEO
CFO
SVP Corporate Development
SVP Hospital System

Tuesday, January 28th

Visiting Attendees:

Redacted — CEO East Orange General Hospital
Chairman East Orange General Hospital

9:30 a.m. **Arrive Southern California Hospital at Culver City**
History, Investments, Business Development, Behavioral Health, Quality
Redacted

[redacted]

10:00 a.m. **Tour – Southern California Hospital at Culver City**

11:30 a.m. **Governance Discussion (Advisory Board / MEC)**

[redacted]
Board Chair
Vice Chair
Chief of Staff
Board Member
Community Member
w

12:30 p.m **Lunch**

1:30 p.m **East Orange General Hospital and New Jersey Market Overview/Update" -**

[redacted]

2:30 p.m. **Prospect Update – Transactions**
Sam Lee, Steve Aleman, Von Crockett

3:00 p.m. **Prospect Reverse Due Diligence**
Sam Lee, Steve Aleman, Von Crockett

4:00 p.m. **East Orange/Prospect Transaction Discussion**
Steve Aleman

5:00 p.m. **Break**

6:00 pm **Dinner (Reservations for 5)**

Dinner Attendees:

[redacted]
Chairman East Orange General Hospital
East Orange General Hospital CEO
Chairman and CEO
President, Alta Hospital Systems
CFO

(19) Describe all due diligence efforts with respect to Prospect done by the Applicant or on the Applicant's behalf in anticipation of the Proposed Transaction and provide the results of any due diligence investigations conducted by or on behalf of the Applicant into Prospect, including any and all reports, memoranda, letters, financial assessments or evaluations or other materials.

****

19.2 Reverse Financial Due Diligence Report of ParenteBeard LLC

ParenteBeard

CONFIDENCE THROUGH CLARITY

Prospect Medical Holdings, Inc.:
Reverse Financial Due Diligence Report
March 25, 2014

an independent member of BAKER TILLY INTERNATIONAL

EOGH 19-00009

ParenteBeard

CONFIDENCE THROUGH CLARITY

ParenteBeard LLC
[redacted]
Philadelphia, PA 19106
Telephone [redacted]

March 25, 2014

[redacted]
President and Chief Executive Officer
East Orange General Hospital
[redacted]
East Orange, NJ 07018

Dear [redacted]

As you requested, we have performed analyses of certain historical financial information and various financial, operating and other data of Prospect Medical Holdings, Inc. ("the Company") solely to assist you in your evaluation of the Company. Consistent with your instructions, our services have been limited to the work described in our engagement letter dated March 3, 2014.

Information with respect to the Company's operations, account balances, accounting and operating procedures described in this report was obtained through discussions with certain officers and employees of the Company, and observations and analyses made by us during the course of our work.

Our work did not constitute an audit conducted in accordance with generally accepted auditing standards, an examination of internal controls or other attestation or review services in accordance with standards established by the American Institute of Certified Public Accountants ("AICPA") or by the Public Company Accounting Oversight Board. Accordingly, we do not express an opinion or any other form of assurance on the financial statements of the Company or any financial or other information, or operating and internal controls of the Company. Our work was based primarily on information supplied by the management of the Company and was carried out on the basis that such information is accurate and complete.

Information was not subject to checking or verification procedures, except to the extent expressly stated to form part of the scope of our work.

To the extent this report is considered written advice under Treasury Regulations, Circular 230, this report was not intended or written to be used, and it cannot be used for the purpose of, (i) avoiding penalties that may be imposed on any taxpayer or, (ii) supporting the promotion or marketing of any transactions or matters addressed in the report.

We make no representation regarding the sufficiency of our work either for purposes for which this report has been requested or for any other purpose. The sufficiency of the work we performed is solely the responsibility of East Orange General Hospital ("East Orange") as are any decisions with respect to the proposed transaction. Had we been requested to perform additional work, additional matters might have come to our attention that would have been reported to you.

It is understood that this report is solely for the information of East Orange. This report, or portions thereof, should not be referred or distributed, orally or in writing, to any other persons or entity, other than East Orange's legal counsel on this transaction or board of directors.

It is not to be referred to or quoted, in whole or in part, in any registration statement, prospectus, public filing, loan agreement, or other agreement or document without our express prior written approval, which may require that we perform additional work.

Notwithstanding anything contrary herein, East Orange may disclose to any and all persons, without limitation of any kind other than those set forth in the following sentence, the tax treatment and tax structure of the transaction and all materials of any kind (including opinions or other tax analysis subject to the limitations set forth in the following sentence) that are provided relating to such tax treatment and tax structure, provided that any such disclosure shall not be made to the extent prohibited by applicable securities law. In the event that our report includes discussion of the tax treatment or tax structure of the transaction and proposed financing, disclosure of our report will be limited solely to the section or sections discussing the tax treatment or tax structure, and all other information unrelated to the tax treatment or tax structure and all references to ParenteBeard, LLC and all branding and other identifiers of ParenteBeard, LLC shall be redacted from related sections of the report, and/or not distributed to any other third party in accordance with the provisions above. The tax treatment or tax structure of the transaction shall refer to that phrase as used in Section 1.6011-4(a)(3) (or any successor provision) of the Treasury Regulations (the "Confidentiality Regulation") promulgated under Section 6011 of the Internal Revenue Code of 1986, as amended, or any similar regulation which may otherwise require East Orange to file Form 8886.

We appreciate the opportunity to assist you in connection with your due diligence of the Company. Should you require clarification of any of the matters contained in our report or any further information, we would be pleased to extend our work as you consider necessary.

Very truly yours,

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EOGH 19-00012

CONFIDENTIAL BUSINESS INFORMATION

PMH00016537

Glossary and Abbreviations

Term	Definition
The Company	Prospect Medical Holdings, Inc. / Ivy Holdings Inc. / Ivy Intermediate Holding Inc.
Auditor	BDO USA, LLP
CMI	Case Mix Index
EBITDA	Earnings Before Interest, Taxes, Depreciation, and Amortization
FY10	Fiscal year ended September 30, 2010
FY11	Fiscal year ended September 30, 2011
FY12	Fiscal year ended September 30, 2012
FY13	Fiscal year ended September 30, 2013
Historical Period	FY10, FY11, FY12, FY13 and TTMDec13
IT	Information technology
MADS	Maximum annual debt service
Management	Samuel S. Lee, Chief Executive Officer; Steve Aleman, Chief Financial Officer; Redacted Senior Vice President Corporate Development; Ellen Shin, General Counsel; Redacted VP Finance, Treasury & Planning Redacted CFO Hospitals; and Redacted CFO Medical Group
Moody's	Moody's credit rating agency
NA	Not applicable

Glossary and Abbreviations

Term	Definition
NP	Not provided
NPSR	Net patient service revenue
NQ	Not quantifiable
OS	Official Statement
Seller	East Orange General Hospital
Sep10,Sep11, Sep12 , Sep13 and Dec13	As of September, 30, 2010, 2011, 2012, 2013 and December 31, 2013
Standard & Poor's / S&P	Standard and Poor's credit rating agency
TBD	To be determined
TTMDec13	Trailing twelve months ended Dec 31, 2013
US GAAP	United States Generally Accepted Accounting Principles
YTDDec12	Three months ended December 31, 2012
YTDDec13	Three months ended December 31, 2013
$	US Dollars - All amounts are in thousands unless otherwise noted

Section 1

Background & Status

EOGH 19-00015

CONFIDENTIAL BUSINESS INFORMATION

PMH00016540

Background & Status

Business Description

- Prospect Medical Holdings, Inc. is a Delaware corporation and a wholly owned indirect subsidiary of Ivy Holdings Inc. Ivy Intermediate Holding Inc. which is wholly-owned by Ivy Holdings, is the direct parent of Prospect Medical Holdings, Inc. The Company's operations are organized under three reportable segments: Hospital Services, Medical Group and Corporate.
- Hospital Services consists of:
  - Alta Hospital Systems, LLC, a California limited liability company
  - Alta Hollywood Hospitals, Inc. (Brotman Medical Center, Inc., a California corporation)
  - Nix Hospital Systems, LLC, a Texas limited liability company (dba Nix Health Care System)
  - Collectively, Hospital Services owns:
    - 7 free-standing acute care and behavioral hospitals
    - 18 specialty and primary care clinics
  - The hospitals are located in diverse, high density population areas within Southern California and San Antonio, TX and maintain leading market positions in the areas they serve
  - Licensed Beds:
    - Alta Hospitals– approximately 730
    - Nix Health – approximately 352
  - Active physicians:
    - Alta Hospitals– 721
- The Medical Group segment is a healthcare organization providing management services to affiliated physician organizations that operate as independent physician associations ('Medical Groups"). These Medical Groups consist of physician networks containing primary care and specialty physicians (approximately 9,600).
- The Medical Group segment consists of the following affiliates:
  - Prospect Medical Group, Inc. (PMG)
  - Prospect Health Source Medical Group, Inc. (PHS)
  - Prospect Professional Care Medical Group, Inc. (PPCM)
  - Genesis HealthCare of Southern California, Inc.
  - Prospect NWOC Medical Group, Inc. (PNW)
  - StarCare Medical Group, Inc. (PSC)
  - AMVI/Prospect Medical Group (AMVI/Prospect)
  - Nuestra Familia Medical Group, Inc. (Nuestra)
  - Upland Medical Group (UMG)
  - Pomona Valley Medical Group, Inc. (PVMG)
  - ** PVMG and UMG are referred to as the "ProMed Entities"*
- These affiliates are managed by the following two medical management company subsidiaries wholly-owned by Prospect:
  - Prospect Medical Systems, Inc. (PMS)
  - ProMed Healthcare Administrators (PHCA)
  - The Medical Groups provide physician services to approximately 184,000 enrollees through capitated arrangements with HMOs.

Background & Status

Background & Status

Proposed Transaction

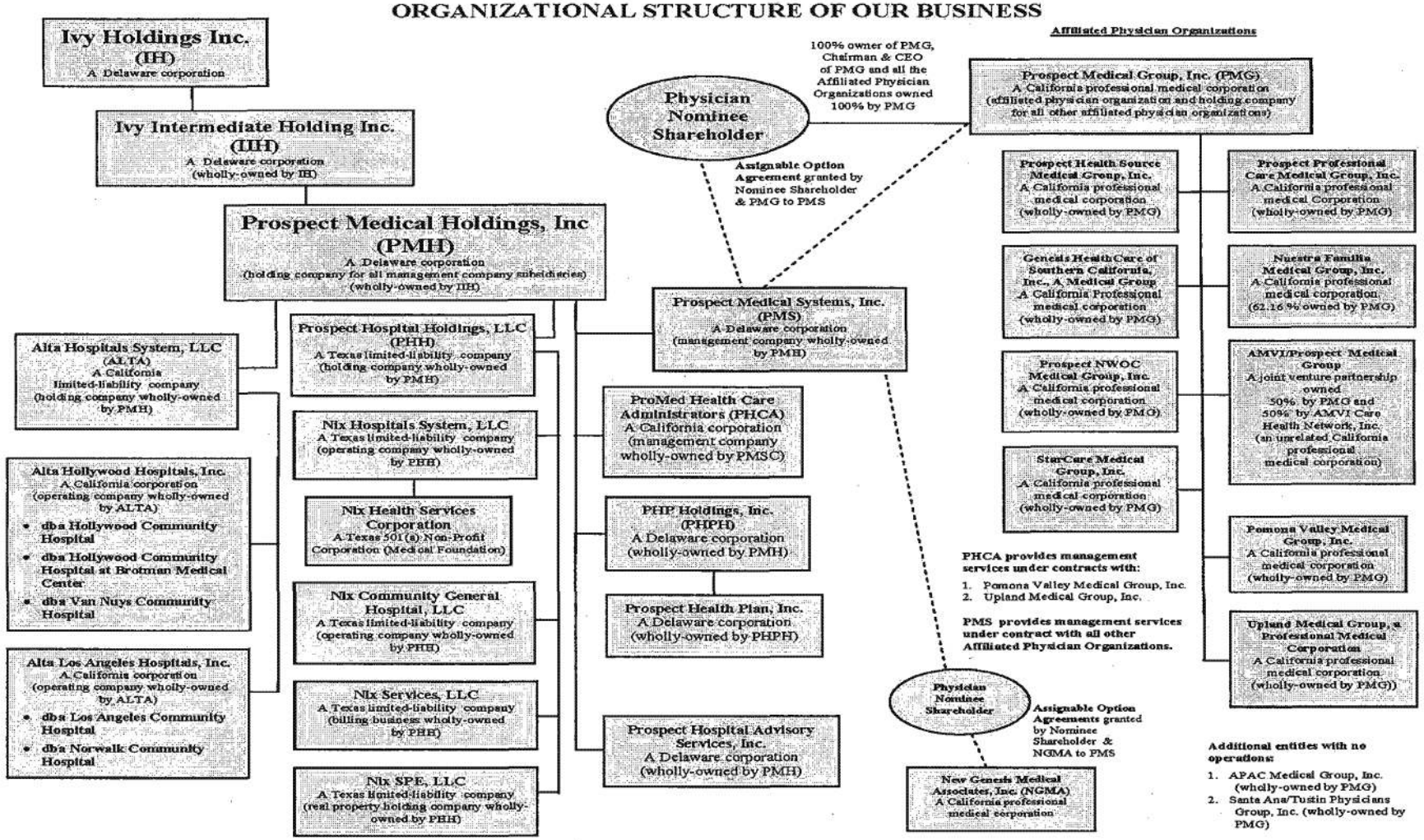
- East Orange General Hospital ("EOGH") is currently considering a merger with Prospect Medical Holdings, Inc. Prospect's proposal is to be the sole member of EOGH, post-transaction.
- Prospect Medical Holdings, Inc. has identified New Jersey as a key strategic region for its Coordinated Regional Care Model. Management believes they can capitalize on the managed care programs already in place in NJ by implementing Prospect's business model. They have identified EOGH as a key community based target and plan to establish EOGH as its East coast flagship.
- Prospect has indicated EOGH's management team will remain in tact post-transaction and EOGH will continue to operate as fully owned stand-alone subsidiary of Prospect Medical Holdings, Inc.

Approach

- We were engaged to perform a reverse due diligence investigation of Prospect Medical Holdings, Inc. We read and analyzed financial and corporate information provided by the Company via electronic data files and made inquiries of the Company's management through on-site visits from July 24 through July 26, 2013. Follow up discussions with the Company's management were held on March 6 and 19, 2014.
- In accordance with the terms of our engagement, this report includes summaries of key findings and is not intended to provide a description of all procedures performed and information analyzed.
- The requested scope of work did not include an analysis of taxation, human resources, environmental, operational, legal or insurance matters. As a result, certain issues relating to these areas may not have been identified by the procedures performed.

Background & Status

ORGANIZATIONAL STRUCTURE OF OUR BUSINESS



Source: Prospect Management

EOGH 19-00018

Section 2

Key Deal Issues

EOGH 19-00019

CONFIDENTIAL BUSINESS INFORMATION

PMH00016544

Key Deal Issues

Summary Key Deal Issues

Issue	Comments
Increasing debt / negative stockholders' equity	***Issue:*** The Company's debt burden has increased significantly from FY10 to current. Debt proceeds were utilized to repay prior outstanding debt and to finance distributions to Prospect's parent company, Ivy Intermediate Holdings as follows: • FY12 - $151.8 million to repay outstanding 2014 notes • FY12 - $28.0 million to repay outstanding Brotman debt • FY12 - $88.0 million to redeem all outstanding preferred stock issued by parent company • FY13 - $100 .0 million dividend paid to parent company These equity payouts created an accumulated deficit. Management indicated cash flow from operations will reverse the deficit in approximately three to five years. This assumption is predicated upon the continuation of the current run rate and earnings contributions by its acquisitions. ***Risk:*** A negative equity position can potentially have a detrimental impact on access to capital. ***Recommendation:*** East Orange General Hospital should discuss the future projections and operating plans with Prospect's management to ensure the appropriate amount of funds are earmarked for EOGH.

Key Deal Issues

Summary Key Deal Issues

Issue	Comments
Pending acquisitions/affiliations	***Issue:*** Prospect entered into multiple arrangements to purchase hospitals in Rhode Island and Southern California. ***Risk:*** Other potential acquisitions and affiliations could stress both the capital and management resources and capabilities of Prospect. Further, potential costs and integration issues may exist due to the formation of an east coast entity to manage the hospital operations in New Jersey (Prospect NJ). ***Recommendation:*** EOGH should discuss the impact of these transactions with Prospect to determine impact on both management and capital resources that will be available to EOGH post deal.
LGP Exit Plan	***Issue:*** Management indicated there are no actual exit plans currently in place for LGP. However, management expects LGP to exit within the next five years. ***Risk:*** Upon LGP's exit, Prospect will need to replace the capital with either debt (bonds) or equity via an Initial Public Offering (IPO). ***Recommendation:*** EOGH's management should discuss the future plans for LGP's exit with Prospect to gain an understanding of the potential impact on its operations.

Section 3

Summary of Findings

EOGH 19-00022

CONFIDENTIAL BUSINESS INFORMATION

PMH00016547

Summary of Findings

Key Financial Statement Items

The table to the right outlines key financial metrics from the Company.

- **Income Statement** – Revenue and expenses are broken down into three separate reporting segments (Hospital Services, Medical Group and Corporate). The Corporate segment reflects certain corporate level overhead expenses incurred at Prospect Medical Holdings, Inc. which are not specifically allocated to the Hospital Services and Medical Group segments.

- **Balance Sheet** – The key components of Prospect's balance sheet include unrestricted cash and investments, accounts receivable, due from/due to government payors, goodwill and intangible assets.

- **Adjusted stockholder's equity** – Equity has been adjusted for the removal of goodwill and intangible assets from the balance sheet. This adjustment is presented to demonstrate Prospect's estimated tangible net worth. Prospect has accumulated substantial goodwill and intangibles on its consolidated balance sheet due to previous acquisitions. These balances could potentially present difficulties in obtaining financing in future periods.

Key Financial Statement Items

($ In thousands)	FY10	FY11	FY12	FY13	TTMDec13
Net Hospital Services revenues	$ 279,079	$ 346,962	$ 477,402	$ 518,206	$ 527,076
Medical Group revenues	190,117	199,475	203,806	221,743	225,779
Income (loss) from operations	46,850	33,780	80,642	82,156	79,351
Other income (expense)	(28,096)	(28,291)	(51,814)	(39,104)	(41,046)
Net income (loss)	$ 8,416	$ (2,667)	$ 26,230	$ 33,242	$ 30,456

($ In thousands)	Sep10	Sep11	Sep12	Sep13	Dec13
Unrestricted Cash and Investments	$ 51,363	$ 71,793	$ 83,060	$ 86,952	$ 78,512
Patient accounts receivable, net	42,677	46,288	61,280	75,606	79,141
Goodwill	153,250	153,250	156,545	158,864	158,864
Intangible assets, net	42,159	38,291	38,080	31,325	30,447
Due from government payors	4,318	4,076	12,599	27,408	25,317
Due to government payors	13,834	15,128	19,788	19,634	21,040
Long-term debt	178,650	173,817	328,472	421,067	422,154
Total stockholder's equity	$ 88,070	$ 97,968	$ 31,017	$ (32,041)	$ (27,968)

Proforma Stockholder's Equity

($ In thousands)	Sep10	Sep11	Sep12	Sep13	Dec13
Total adjusted stockholder's equity	(107,339)	(93,573)	(163,608)	(222,230)	(217,279)

** Adjusted for Goodwill and Intangible assets.*

Source: FY10, FY11, FY12 and FY13- Audited financial statements; TTM Dec13 unaudited interim financial statements

Summary of Findings

Financial Items

Issue	Comments
Pending acquisitions/affiliations	In March 2013, CharterCARE Health Partners ("CCHP"), the corporate parent of Roger Williams Medical Center and St. Joseph Health Services of Rhode Island/Our Lady of Fatima Hospital, announced that it has executed a Letter-of-Intent ("LOI") with Prospect Medical Holdings, Inc. ("PMH"). Under the proposed transaction, CCHP and PMH will create a new and innovative joint venture that will maintain local governance and input, while serving as a model alternative for the delivery of high quality, cost efficient care for the people of Rhode Island. Furthermore, PMH will make a significant capital contribution into a new company, which will be jointly owned by PMH and CCHP. Prospect's management has confirmed a new Delaware Corporation, Prospect East Holdings, Inc., has been established to manage the east coast operations. Management indicated regulatory approval for this Rhode Island transaction is expected by May 16, 2014, with subsequent closing expected by June 1, 2014. In addition to this transaction, management indicated three separate Asset Purchase Agreements (APA's) were signed on November 21, 2013 with Pacific Health Corp (PHC) to acquire three separate hospitals in Southern California (i.e. Bellflower Medical Center, Tustin Hospital Medical Center and Los Angeles Metropolitan Medical Center). It should be noted these hospitals were previously in distressed situations and ceased operations in 2013. PHC is ultimately owned by an absent German owner who was not attentive to his assets in the United States and is now selling these hospitals.

Summary of Findings

Financial Items

Issue	Comments
Prospect's ability to fund planned acquisitions	Management has indicated Prospect plans to fund all acquisitions through current operations. Management has provided the cash planning schedule included on the following two pages. The CFO indicated this schedule was developed utilizing a conservative approach. This Cash Planning schedule reflects cash activity from current operations, investing and financing at a flat level over the next twenty four months and does not include operational cash flows from acquisitions. The CFO indicated the schedule included on the following pages represents a conservative planning estimate and does not factor in projected EBITDA growth rates for core operations or cash contributions from acquired operations. Prospect estimates the following EBITDA contributions from its planned acquisitions by the end of 2015: CharterCare $20,000 Bellflower 1,900 Tustin 6,700 East Orange 4,600 Total EBITDA Contribution $33,200 These amounts are not included in the cash planning schedule presented on the following pages. Management further indicated it expects to receive an additional $17,000 per year for the next three years related to the California Hospital Fee Program as a result of the acquisition of Bellflower Medical Center. These cash inflows are guaranteed under a three year contract effective Jan14 through Dec16 and have been included in the cash planning schedule as positive quarterly receipts of $4,250 beginning in Apr15. See PHC Facilities Transaction line notated with footnote *(1)* . Other considerations not included in the cash planning schedule include the acquisition of Los Angeles Metropolitan Medical Center from PHC. Management indicated this particular facility is still under a Letter of Intent and Due Diligence Phase. There are regulatory, licensing and capital expenditure issues still being researched. Estimated purchase price is $12,000.

Summary of Findings

Financial Items

Prospect Medical Holdings
Cash Planning / Acqusiition Timing *(a)*
2014 - 2015

($ in Thousands)	Jan14	Feb14	Mar14	Apr14	May14	Jun14	Jul14	Aug14	Sep14	Oct14	Nov14	Dec14
Beginning cash balance	$ 77,876	$ 80,854	$ 90,091	$ 91,675	$ 71,579	$ 16,508	$ 9,280	$ 22,422	$ 35,526	$ 33,048	$ 49,890	$ 16,457
Cash from operations	2,978	9,237	1,584	12,604	(10,571)	784	14,104	14,016	(616)	18,704	(10,571)	(2,816)
CharterCare												
Transaction	-	-	-	-	(43,300)							
Working capital	-	-	-	-	-	(7,000)						
CapEx	-	-	-	-	-	-	-	-	(1,000)	(1,000)	(1,000)	(1,000)
Management fee (2%)	-	-	-	-	-	538	538	538	538	538	538	538
	-	-	-	-	(43,300)	(6,462)	538	538	(462)	(462)	(462)	(462)
PHC Facilities (Bellflower/Tustin) (b)												
Transaction	-	-	-	(32,000)	-	-	-	-	-	-	-	-
CapEx Bellflower	-	-	-	(200)	(200)	(600)	(600)	(600)	(600)	(600)	(600)	(600)
CapEx Tustin	-	-	-	(500)	(500)	(450)	(400)	(350)	(300)	(300)	(300)	(300)
Working capital Bellflower	-	-	-	-	-	-	-	-	-	-	-	-
Working capital Tustin	-	-	-	-	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(500)
	-	-	-	(32,700)	(1,200)	(1,550)	(1,500)	(1,450)	(1,400)	(1,400)	(1,400)	(1,400)
East Orange general Hospital												
Foundation	-	-	-	-	-	-	-	-	-	-	(10,000)	-
Working capital	-	-	-	-	-	-	-	-	-	-	(11,000)	-
CapEx	-	-	-	-	-	-	-	-	-	-	-	(200)
	-	-	-	-	-	-	-	-	-	-	(21,000)	(200)
Total Acquisition Distributions	-	-	-	(32,700)	(44,500)	(8,012)	(962)	(912)	(1,862)	(1,862)	(22,862)	(2,062)
Ending cash balance	80,854	90,091	91,675	71,579	16,508	9,280	22,422	35,526	33,048	49,890	16,457	11,579
Revolver	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000
Funds availability	$ 140,854	$ 150,091	$ 151,675	$ 131,579	$ 76,508	$ 69,280	$ 82,422	$ 95,526	$ 93,048	$ 109,890	$ 76,457	$ 71,579

Source: Management's Cash Planning Schedule 2014 – 2015.

Summary of Findings

Financial Items

Prospect Medical Holdings
Cash Planning / Acqusiition Timing *(a)*
2014 - 2015

($ in Thousands)	Jan15	Feb15	Mar15	Apr15	May15	Jun15	Jul15	Aug15	Sep15	Oct15	Nov15	Dec15	Total
Beginning cash balance	$ 11,579	$ 19,091	$ 20,804	$ 20,326	$ 35,368	$ 22,685	$ 21,357	$ 38,099	$ 50,503	$ 48,375	$ 70,367	$ 58,834	
Cash from operations	9,574	3,775	1,584	12,604	(10,571)	784	14,104	14,016	(616)	18,704	(10,571)	(2,816)	
CharterCare													
Transaction													(43,300)
Working capital													(7,000)
CapEx	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(16,000)
Management fee (2%)	538	538	538	538	538	538	538	538	538	538	538	538	10,222
	(462)	(462)	(462)	(462)	(462)	(462)	(462)	(462)	(462)	(462)	(462)	(462)	(56,078)
													-
PHC Facilities (Bellflower/Tustin) (b)													-
Transaction	-	-	-	4,250	-	-	4,250	-	-	4,250	-	-	(19,250)
CapEx Bellflower	(600)	(600)	(600)	(350)	(350)	(350)	(350)	(350)	(350)	-	-	-	(8,500)
CapEx Tustin	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(200)	-	-	-	(6,000)
Working capital Bellflower	(500)	(500)	(500)	(500)	(500)	(500)	-	-	-	-	-	-	(3,000)
Working capital Tustin	-	-	-	-	-	-	-	-	-	-	-	-	(4,000)
	(1,400)	(1,400)	(1,400)	3,100	(1,150)	(1,150)	3,600	(650)	(550)	4,250	-	-	(40,750)
East Orange general Hospital													-
Foundation	-	-	-	-	-	-	-	-	-	-	-	-	(10,000)
Working capital	-	-	-	-	-	-	-	-	-	-	-	-	(11,000)
CapEx	(200)	(200)	(200)	(200)	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(5,000)
	(200)	(200)	(200)	(200)	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(26,000)
													-
Total Acquisition Distributions	(2,062)	(2,062)	(2,062)	2,438	(2,112)	(2,112)	2,638	(1,612)	(1,512)	3,288	(962)	(962)	(122,828)
Ending cash balance	19,091	20,804	20,326	35,368	22,685	21,357	38,099	50,503	48,375	70,367	58,834	55,056	
Revolver	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	
Funds availability	$ 79,091	$ 80,804	$ 80,326	$ 95,368	$ 82,685	$ 81,357	$ 98,099	$ 110,503	$ 108,375	$ 130,367	$ 118,834	$ 115,056	

Source: Management's Cash Planning Schedule 2014 – 2015.

Summary of Findings

Financial Items

Issue	Comments
Healthcare Reform and Possible Medicare Cuts	Per discussions with management and review of Prospect's five-year projections, Healthcare reform and possible future Medicare cuts may have the following approximate cumulative impact through FY17: • Medicare DSH, net---$(5,200,000) annually / $(26,000,000) cumulative • 2% Sequestration---$(4,000,000) annually / $(20,000,000) cumulative • Readmission Reduction--- $(521,000) annually / $(2,605,000) cumulative • Value Based Purchasing---$(246,000) annually / $(1,230,000) cumulative • Productivity Adjustment---**[OPEN]** • Rural Floor---**[OPEN]** • Labor Market/Wage Index---**[OPEN]** • Elimination of Bad Debts---**[OPEN]** • **Total cumulative impact of possible cuts ---$(49,835,000)** Per inquiry of CFO of Hospitals and review of assumptions, approximately $49,835,000 in cumulative cuts have been considered in Prospect's projections. This estimate is based on annual figures, rolled forward for five years. However, adjustments for productivity (market basket), rural floor, wage index and elimination of bad debts have not been provided. Per management's assumptions, bad debt is expected to improve due to increased insurance coverage from the insurance exchanges in 2014, as well as continued focus on improved AR and collections. Further, no volume adjustments were considered on the readmissions side, due to the belief that Prospect already has a length of stay management program in place and volume levels will remain flat.

Summary of Findings

Financial Items

Issue	Comments
Current credit rating	**Moody's** – B2 (previously upgraded from B3 in April 2012) – Nov2012 **Standard & Poor's** – B- (affirmed) – Nov2012 Upon the issuance of an additional $100 million in secured notes in Nov2012, both rating agencies affirmed the rating but downgraded their outlooks., Moody's changed its outlook to negative on November 8, 2012. Standard & Poor's changed their outlook from positive to stable on the same date. The rating outlook revisions reflect the credit agencies views of the company's more aggressive financial policy and belief that the company's financial risk profile will remain "aggressive" in future years. It is thought that the company has a relatively undiversified business portfolio with most business concentrated in Southern California, a concentration of risk in a small number of hospitals, and a significant exposure to third-party reimbursement risk, in addition to further uncertainty around exposures that will be a result of the Patient Protection and Affordable Care Act. Subsequently, on August 8, 2013, Moody's upgraded Prospect Medical's outlook to stable and affirmed its B2 rating. The change in the rating outlook reflects Moody's expectation that the company's leverage will remain within the range of 4.5 to 5.0 times, and Prospect should see modest improvement in credit metrics as it realizes improvement at recently added facilities. The company has little opportunity to accelerate that pace as there is no pre-payable debt in the capital structure. Moody's also anticipates that the company will take a more measured approach to shareholder initiatives and expects that available cash flow will be used for acquisitions in order to increase scale and further diversify geographically.
Post affiliation credit rating	Management expects the merger to result in an expanded geographical footprint and further diversification. From a rating perspective, they believe the impact of the merger to be neutral at best. It was noted that the respective rating agencies were expecting possible future acquisitions at the time of their last rating reports. Key risks of a credit down grade are associated with potential increased leverage upon future acquisitions.

Summary of Findings

Financial Items

Issue	Comments
Post affiliation debt capacity	Assumptions/impact of merger to operating results were not available from Prospect Medical's management. NQ.
Estimated impact to EOGH operating results	Assumptions/impact of merger to operating results were not available from Prospect Medical's management. NQ.
Reimbursement adjustments, audit findings, and settlements	On Thursday, July 24, 2013, ParenteBeard met with Ellen Shin, General Counsel. Ellen confirmed she overseas the Legal, HR, and Compliance functions, with the heads of HR and Compliance reporting directly to Ms. Shin We discussed the status of open costs reports for the hospitals, the status of RAC, MIC and other regulatory review agencies correspondence and reports, as well as third party payer liabilities. Ms. Shin confirmed she does not believe there to be any additional financial exposure from any of the items she shared. Based on the results of our procedures, we have no findings to report in this area.
Compliance issues	Prospect uses several methods and processes to manage risks and seize opportunities related to the achievement of its objectives, strategy, and monitoring progress. These methods and processes include, but are not limited to: Prospect's corporate and subsidiary level risk management program, compliance program, compliance committee, internal audit function, hotline number, quarterly reporting, and ongoing monitoring programs in the areas of finance, operations, and legal, who implement periodic self audits as deemed necessary. As needed, Prospect also utilizes external third party experts to assist them with their review and identification of risks and determination whether objectives are being achieved. Based on discussions with General Counsel, we were informed that there are no significant compliance matters, issues or concerns, other than the ongoing RAC and other Medicare and Medicare audits, none of which are expected to have a significant adverse effect on the financial statements of Prospect.

Summary of Findings

Financial Items

Issue	Comments
Legal claims	On Thursday, July 24, 2013, ParenteBeard met with Ellen Shin, General Counsel. Ellen confirmed she overseas the Legal, HR, and Compliance functions, with the heads of HR and Compliance reporting directly to Ms. Shin. We discussed the status of open legal cases and status of any pending claims. A majority of the matters occur in the normal course of business and relate to medical malpractice claims. The remaining normal claims relate to employee matters (i.e. wrongful termination, discrimination, etc.) and some vendor matters. Ms. Shin and her team are very active to manage cases and ultimate exposure. Ms. Shin confirmed that all current cases are within insurance limits and she does not expect any one case to exceed these insurance limits. A class action law suit outside of the normal course of business does exist. This lawsuit has been disclosed in the notes to the financials. Following the announcement of the Ivy Merger, two putative class action complaints were filed against the Company, each of the special committee members, Ivy Holdings, Leonard Green & Partners, L.P. and certain other parties. On December 30, 2010, another lawsuit was filed in Delaware Chancery Court by Terrier Partners and five related entities against the same defendants identified above. The court has consolidated these cases. The allegations against Prospect and the roll-over investors relate to the breach of fiduciary duties and assume a "sweet heart deal" was made on behalf of the defendant's when it came to price of the Ivy Merger. LGP is no longer party to this suit, rather the remaining defendants are Prospect, Roll-over investors and special committee members. General Counsel indicated that her outside counsel team advised that these cases typically "settle." The Company has hit its $250,000 self insured retention limit and it is now management's expectation that the case will be fully covered by its insurance carrier.

Summary of Findings

Financial Items

Issue	Comments
No financial model for hospital acquisition	Management did not have any readily available financial models or assumptions demonstrating cost reductions/synergies in contemplation of the merger.
Organizational Cultural Compatibility	Prospect Medical Holdings, Inc. is a "for profit" entity, owned in part (61%) by a Private Equity Group, Leonard Green Partners ("LGP"). Management prides themselves on margins, expense management and operating results. There are strict approval processes in place for all expenses – both operating and capital.
Employee benefits plan	General Counsel indicated that Prospect Medical's benefits plan is self-insured with a narrow network in place, leading to expense savings of $700,000 - $800,000. Further, she confirmed that there are no pensions nor 401(k) matches offered to employees.
Financial statements and operating indicators	See appendix 2 for further details.

Summary of Findings

Financial Items

Issue	Comments
Brotman Medical Center Bankruptcy	In August of 2007, Prospect Medical Holdings acquired Alta Hospitals, creating the current day Prospect Medical Holdings. Inc, with the current management owning a 51% share in the new Prospect Medical Holdings. Prior to this merger, however, Prospect Medical Holdings had owned a 33.1% minority stake in Brotman Medical Center through a subsidiary named Prospect Hospital Advisory Services ("PHAS"). In October 2007, Brotman Medical Center filed for Chapter 11 bankruptcy. In 2009, Brotman emerged from bankruptcy with PHAS providing the investment funds. At this point, Prospect's ownership approximated 78.28%. Post bankruptcy Brotman still had a liability related to 401(k) matches that were not previously paid. As such, Prospect loaned Brotman approximately $3.5 million in order for Brotman to satisfy the 401(k) liabilities. Due to this loan, the largest minority holder, Culver Medical Group, filed suit against Prospect . Prospect diligently fought this suit and ultimately settled for a total buy-out of $6.15 million in 2012. After this 2012 buyout, Prospect now owns Brotman Medical Center 100%. Further as part of the debt financing in May 2012, Prospect settled all outstanding debt owed by Brotman. Brotman Medical center still remains in a negative equity position, but management believes the continual improvement in processes at Brotman since it became a 100% subsidiary of Prospect will lead to future gains. The CFO of Hospitals indicated that Brotman has already experienced better results in FY13 due to key personnel improvements, improved relationships with physicians, instituted growth initiatives and a new business office which has lead to improved AR and less bad debts. Per discussions with management and based on the ownership history, it appears the Brotman bankruptcy was circumstantial and not a strategic operating strategy. As of October 1, 2012, Brotman was tested for impairment by Redacted No impairment was necessary as a result of this test.

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CONFIDENTIAL BUSINESS INFORMATION

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Summary of Findings

Financial Items

Issue	Comments

Operating trends

Hospital - Key Operating Trends

($ In thousands)	FY10	FY11	FY12	FY13	YTD Dec13
Occupancy Rate for Licensed Beds	54.10%	55.21%	53.65%	51.5%	51.9%
Occupancy Rate for Staffed Beds	79.26%	72.79%	74.22%	70.6%	71.3%
Length of Stay	6.4	6.54	6.57	6.20	6.23
FTE's per Licensed Bed	2.11	2.15	2.22	2.66	2.57
Net In-Patient Service Revenue per Admission	$ 10,079	$ 12,811	$ 13,702	$ 9,870	$ 10,083
Case Mix Index	1.23	1.24	1.36	1.29	1.39
Total Operating Expenses per Admission	$ 10,097	$ 11,403	$ 13,535	$ 12,335	$ 12,714

Summary of Findings

Financial Items

Issue	Comments
Management / Experience	Prospect Medical Holdings, Inc. ("PMH") senior management consists of the following individuals: • Samuel Lee - Chairman of the Board, Chief Executive Officer (20.2% shareholder) • David Topper – President, Alta Hospitals System, LLC (14.9% shareholder) In 1998, Mr. Lee co-founded Alta Hospitals (formerly Alta Healthcare System, Inc.) with David Topper after acquiring seven (7) Los Angeles area hospitals from Paracelsus Healthcare Corporation ("Paracelsus"). He served previously as the President of Alta Hospitals from January 2002 until PMH acquired Alta Hospitals. Mr. Lee's background involves healthcare and technology related private equity investment management, operational leadership, entrepreneurship, mergers and acquisitions, and leveraged financing for various corporations. Prior to joining Alta Hospitals, Mr. Lee was a General Partner with Kline Hawkes & Co., a $500 million private equity firm located in Brentwood, California, that focuses on healthcare, technology, and business services. His partner and co-founder of Alta Hospitals, David Topper, also has a career rooted in the Healthcare industry. Mr. Topper has been a key member of management responsible for the hospital operations since its inception.

Summary of Findings

Financial Items

Issue	Comments
Ivy Holdings Structure / Relationship with Leonard Green Partners	The current organizational structure was put in place when Prospect Medical Holdings was taken private in 2010. Per management, the direct parent of PMH, Ivy Intermediate Holding Inc., as well as the ultimate top tier parent, Ivy Holdings Inc., function as holding companies only and serve as corporate shells, with no operational activities recorded within these entities. Per review of the Ivy Holdings financials, the holding company status was confirmed. Affiliated funds of Leonard Green & Partners, L.P. ("LGP") own a majority of the common stock of Ivy Holdings Inc. ("Ivy") (approximately 61%), which is the ultimate parent company of Prospect Medical Holdings, Inc. ("Prospect"). Members of Prospect's management own the remainder of Ivy's stock (approximately 39%). In accordance with the terms of Ivy's Stockholders Agreement, dated December 15, 2010, LGP, with its current level of ownership of Ivy's stock, has a right to designate three of the five members of the Boards of Directors of Ivy and Prospect. The same five directors, including the three designated by LGP, comprise the Audit Committee of the Board of Directors of Prospect. LGP's current director designees are John Baumer, Michael Solomon and Alyse Wagner. Mr. Baumer and Ms. Wagner currently comprise the two-member Compensation Committee of the Board of Directors of each of Prospect and Ivy. Pursuant to the Management Services Agreement, dated December 15, 2010, between Prospect and LGP, as amended, LGP provides to Prospect, (a) certain investment banking services, (b) management, consulting and financial planning services and (c) financial advisory and investment banking services in connection with major financial transactions from time to time. In consideration for the services provided by LGP under the management agreement, the Company pays LGP an annual fee of $1.0 million, payable in monthly installments, and reimburses LGP for its related expenses up to $50,000 annually. Based upon request and need, there is the possibility of future capital investments or loans from affiliated investment funds of LGP, although no request has been made historically. Management further indicated that as of the dividend payment to shareholders in November 2012, LGP's original investment has been returned in full and there is no further required annual dividend.

Summary of Findings

Issue	Comments

Ivy Holdings Ownership:

The table to the right depicts the current Stockholder Ownership percentages of Ivy Holdings, as confirmed by management.

Ivy Holdings Ownership Chart

Stockholder	% Interest
Green Equity Investors V, L.P.	45.7%
Green Equity Investors Side V, L.P.	13.7%
Ivy LGP Co-Invest LLC	1.4%
Samuel Lee	20.1%
David & Alexa Topper Family Trust u/d/t September 29, 1997	14.9%
Mike Heather	1.8%
Jeereddi Prasad, M.D.	0.6%
Other Employees	1.8%
Total	100%

Section 4

Debt Capacity

EOGH 19-00038

CONFIDENTIAL BUSINESS INFORMATION

PMH00016563

Debt Capacity

Leverage Covenant Ratio (Pre-merger: Prospect Medical Holdings, Inc. Only)

As of Dec13, we recalculated the 2014 current required debt leverage covenant ratios for Consolidated Prospect Medical Holdings, Inc.

- The bond indenture and credit agreement for the 2019 notes call for compliance with a Consolidated Secured Leverage Ratio.
- The Consolidated Secured Leverage Ratio is calculated as consolidated secured indebtedness divided by consolidated EBITDA.
- We reviewed Prospect's calculation and inputs with Redacted Vice President Finance, Treasury, and Planning. We also reviewed the compliance certificate submitted to Prospect's lenders as of March 31, 2013 and noted no issues.
- The covenant becomes more restrictive in future years as follows:
  - June 30, 2012 – September 30, 2014 *5.25 to 1.00*
  - December 31, 2014 – September 30, 2015 *4.75 to 1.00*
  - December 31, 2015 – and thereafter *4.50 to 1.00*
- At current levels, Prospect has additional debt capacity of $154.7 million.

Consolidated Secured Leverage Ratio

($ In thousands)	YTD Dec13
Consolidated secured indebtedness	
Debt, Long-term potion	$ 416,341
Secured portion of current maturities	132
Original Issue Premium / (Original Issue Discount) on notes payable	4,787
Capital leases, current	5,128
Capital leases, long-term	12,488
Total secured indebtedness	438,876
Consolidated EBITDA:	113,055
Consolidated secured leverage ratio	3.88
Additional debt capacity:	
Current consolidated EBITDA	$ 113,055
Maximum allowed leverage ratio June 30, 2012 - September 30, 2014	5.25
Adjusted maximum secured indebteness	593,539
Current indebtedness	438,876
Additional indebtedness capacity as of December 31, 2013	$ 154,663

Notes:

(1) Amounts above are presented using balances of Consolidated Prospect Medical Holdings.

Source: Prospect Medical Holdings, Inc. Compliance Certificate as of December 31, 2013

Debt Capacity

Leverage Covenant Ratio (Post-merger: Prospect Medical Holdings, Inc. plus EOGH)

As of Dec13, we recalculated the 2014 current required debt leverage covenant ratios for Consolidated Prospect Medical Holdings, Inc.

- The bond indenture and credit agreement for the 2019 notes call for compliance with a Consolidated Secured Leverage Ratio.
- The Consolidated Secured Leverage Ratio is calculated as consolidated secured indebtedness divided by consolidated EBITDA.
- We estimated a net loss of ($2.0) million of EBITDA would be added to the calculation as of TTM Dec13 for EOGH.
- Further, no additional indebtedness was contemplated as it is estimated that all EOGH outstanding debt will be settled at closing.
- The covenant becomes more restrictive in future years as follows:
  - June 30, 2012 – September 30, 2014 *5.25 to 1.00*
  - December 31, 2014 – September 30, 2015 *4.75 to 1.00*
  - December 31, 2015 – and thereafter *4.50 to 1.00*
- At current levels, and contemplating additional EBITDA from EOGH, Prospect has additional debt capacity of $144.2 million.

Consolidated Secured Leverage Ratio

($ In thousands)	YTD Dec13	Nts
Consolidated secured indebtedness		
Debt, Long-term potion	$ 416,341	
Secured portion of current maturities	132	
Original Issue Premium / (Original Issue Discount) on notes payable	4,787	
Capital leases, current	5,128	
Capital leases, long-term	12,488	
Total secured indebtedness	438,876	
Consolidated EBITDA:	111,055	(2)
Consolidated secured leverage ratio	3.95	
Additional debt capacity:		
Current consolidated EBITDA	$ 111,055	
Maximum allowed leverage ratio June 30, 2012 - September 30, 2014	5.25	
Adjusted maximum secured indebteness	583,039	
Current indebtedness	438,876	
Additional indebtedness capacity as of December 31, 2013	$ 144,163	

Notes:

(1) Amounts above are presented using balances of Consolidated Prospect Medical Holdings.

(2) EBITDA of $(2) million included as estimated contribution to EBITDA from EOGH.

Source: Prospect Medical Holdings, Inc. Compliance Certificate as of December 31, 2013

Debt Capacity

Long-term debt

- See table to the right for a summary of the LTD on Prospect's books.
- The capital leases approximate $17.6 million on the consolidated balance sheet.
- The debt issuances in FY12 and FY13 were utilized to repay prior outstanding debt and to finance distributions to Prospect's parent company, Ivy Intermediate Holdings as follows:
  - FY12 - $151.8 million to repay outstanding 2014 notes
  - FY12 - $28.0 million to repay outstanding Brotman debt
  - FY12 - $88.0 million to redeem all outstanding preferred stock issued by parent company
  - FY13 - $100 .0 million dividend paid to parent company

	Long-term Debt				
($ In thousands)	**Sep10**	**Sep11**	**Sep12**	**Sep13**	**Dec13**
Long-term debt:					
Prospect's debt					
Senior secured notes	160,000	151,800	325,000	425,000	425,000
Less: original issue discount (premium)	10,198	7,689	-	5,912	4,787
Demand notes	-	-	804	-	-
Other	-	-	-	21	
Sub-total long-term debt	149,802	144,111	325,804	419,109	420,213
Brotman's debt					
Senior secured revolving credit facility	4,280	5,956	-	-	-
Secured credit facility term loan A	15,818	16,000	-	-	-
Secured credit facility term loan B	6,250	6,250	-	-	-
Subordinated promissory note	2,500	1,500	500	-	-
Sub-total long-term debt	28,848	29,706	500	-	-
Nix Health's debt					
Mortgage debt	-	-	2,028	1,919	1,919
Note payable	-	-	140	39	22
Sub-total long-term debt	-	-	2,168	1,958	1,941
Total long-term debt	178,650	173,817	328,472	421,067	422,154
Less: current portion	(170,900)	(29,206)	(1,515)	(178)	(1,026)
Long-term debt, net of current	$ 7,750	$ 144,611	$ 326,957	$ 420,889	$ 421,128
Capital leases:					
Current	674	609	3,337	5,429	5,128
Long-term	544	1,195	6,260	11,816	12,488
	$ 1,218	$ 1,804	$ 9,597	$ 17,245	$ 17,616
Total long-term debt	$ 8,968	$ 146,415	$ 336,554	$ 438,134	$ 438,744

Source: FY10, FY11 and FY12- Audited financial statements; Dec13 unaudited interim financial statements

Section 5

Net Working Capital

EOGH 19-00042

CONFIDENTIAL BUSINESS INFORMATION

PMH00016567

Net Working Capital

Net Working Capital

- The purpose of this analysis is to illustrate historical net working capital balances.
- **Current ratio** – This ratio gives a sense of the efficiency of the Company's operating cycle and its ability to generate cash to cover its short-term liabilities. Increased operating results have caused the current ratio to trend upwards during the years under diligence.

Annual Average / Total	Year-end Balances				
($ In thousands)	FY10	FY11	FY12	FY13	Dec13
Current assets:					
Cash and cash equivalents	$ 50,729	$ 71,255	$ 82,427	$ 86,315	$ 77,875
Retsricted cash	3,122	4,073	263	563	263
Investments, primarily restricted money market funds	634	538	633	637	637
Patient accounts receivable, net	42,677	46,288	61,280	75,606	79,141
Due from government payors	4,318	4,076	12,599	27,408	25,317
Other receivables	2,148	2,448	7,241	8,034	11,040
Refundable income taxes, net	782	-	-	2,365	1,254
Deferred income taxes, net	7,671	9,094	11,041	8,254	8,254
Inventories	3,864	3,109	4,660	4,679	4,710
Hospital fee program receivable	-	-	33,473	18,895	11,044
Prepaid hospital fee program provider tax	-	8,841	-	-	-
Prepaid expenses and other current assets	4,990	6,861	7,892	8,967	13,229
Total current assets	120,935	156,583	221,509	241,723	232,764
Current liabilities:					
Accrued medical claims and other healthcare costs	17,859	23,301	26,985	30,352	31,568
Accounts payable and other accrued liabilities	33,206	38,065	45,774	52,151	43,696
Accrued salaries, wages and benefits	19,114	17,474	24,787	30,057	25,877
Hospital fee program liability and deferred revenue	-	19,590	19,777	8,609	8,701
Due to government payors	13,834	15,128	19,788	19,634	21,040
Income taxes payable, net	-	949	9,210	1,288	296
Current portion of capital leases	674	609	3,337	5,429	5,128
Current portion of long-term debt	170,900	29,206	1,515	178	1,026
Other current liabilities	1,121	1,276	1,094	485	1,417
Total current liabilities	256,708	145,598	152,267	148,183	138,749
Net working capital (as reported)	(135,773)	10,985	69,242	93,540	94,015
Pro forma adjustment	-	-	-	-	-
Net working capital (adjusted)	$ (135,773)	$ 10,985	$ 69,242	$ 93,540	$ 94,015
Total net revenues	$ 439,228	$ 511,181	$ 658,750	$ 713,582	$ 726,390
Other operating income	2,504	2,150	2,606	2,217	2,777
Total operating revenue	441,732	513,331	661,356	715,799	729,167
Operating expenses	394,882	479,551	580,714	633,643	649,816
Operating income	$ 46,850	$ 33,780	$ 80,642	$ 82,156	$ 79,351
Current ratio	0.5	1.1	1.5	1.6	1.7
Days in patient accounts receivable	35	33	34	39	40
Days payable outstanding	45	40	40	43	35

Section 6

Historical Income Statements

EOGH 19-00044

CONFIDENTIAL BUSINESS INFORMATION

PMH00016569

Income Statements

Comparative Income Statements

- See detailed analysis in Appendix 2 of full report for further discussion of income statement accounts.

Comparative Income Statements

	Audited				Unaudited
($ In thousands)	**FY10**	**FY11**	**FY12**	**FY13**	**TTM Dec13**
Net Hospital Services revenues	$ 279,079	$ 346,962	$ 477,402	$ 518,206	$ 527,076
Medical Group revenues	190,117	199,475	203,806	221,743	225,779
Other revenues	-	-	9,897	7,700	7,570
Provision for bad debt	(29,968)	(35,256)	(32,355)	(34,067)	(34,035)
Total net revenue	439,228	511,181	658,750	713,582	726,390
Other opertaing income from unconsolidated joint venutre	2,504	2,150	2,606	2,217	2,777
Operating expense	394,882	479,551	580,714	633,643	649,816
Operating income (loss)	46,850	33,780	80,642	82,156	79,351
Other income and (expense)	(28,096)	(28,291)	(51,814)	(39,104)	(41,046)
Income before income taxes	18,754	5,489	28,828	43,052	38,305
Provision for income taxes	10,338	8,156	2,598	9,810	7,849
Net Income (loss)	8,416	(2,667)	26,230	33,242	30,456
Net Income (loss) attributable to noncontrolling interest	(1,956)	(3,659)	22	7	6
Net Income (loss) attributable to Prospect Medical Holdings, Inc.	$ 10,372	$ 992	$ 26,208	$ 33,235	$ 30,450
As a % of total net revenues:					
Net income (loss)	*1.9*	*(0.5)*	*4.0*	*4.7*	*4.2*
Operating expense	*89.9*	*93.8*	*88.2*	*88.8*	*89.5*
Operating Income	*10.7*	*6.6*	*12.2*	*11.5*	*10.9*
Other operating Income from JV	*0.6*	*0.4*	*0.4*	*0.3*	*0.4*
Other Income (expense)	*(6.4)*	*(5.5)*	*(7.9)*	*(5.5)*	*(5.7)*

Source: FY10, FY11 and FY12- Audited financial statements; TTM Mar13 unaudited interim financial statements

Section 7
Balance Sheets

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Balance Sheets

Comparative Balance Sheets

- See detailed analysis in Appendix 2 for further discussion of balance sheet accounts.

Comparative Balance Sheets

($ In thousands)	Sep10	Sep11	Sep12	Sep13	Dec13
Assets:					
Current assets -					
Cash and cash equivalents	$ 50,729	$ 71,255	$ 82,427	$ 86,315	$ 77,875
Retsricted cash	3,122	4,073	263	563	263
Investments, primarily restricted money market funds	634	538	633	637	637
Patient accounts receivable, net	42,677	46,288	61,280	75,606	79,141
Due from government payors	4,318	4,076	12,599	27,408	25,317
Other receivables	2,148	2,448	7,241	8,034	11,040
Refundable income taxes, net	782	-	-	2,365	1,254
Deferred income taxes, net	7,671	9,094	11,041	8,254	8,254
Inventories	3,864	3,109	4,660	4,679	4,710
Hospital fee program receivable	-	-	33,473	18,895	11,044
Prepaid hospital fee program provider tax	-	8,841	-	-	-
Prepaid expenses and other current assets	4,990	6,861	7,892	8,967	13,229
Total current assets	120,935	156,583	221,509	241,723	232,764
Property, plant and equipment, net	63,104	68,836	113,415	126,532	129,124
Deferred financing costs, net	6,354	4,337	9,748	11,625	11,073
Deferred income taxes, non-current	-	-	7,503	6,361	6,361
Goodwill	153,250	153,250	156,545	158,864	158,864
Intangible assets, net	42,159	38,291	38,080	31,325	30,447
Other assets	715	585	1,623	2,516	6,958
Total assets	$ 386,517	$ 421,882	$ 548,423	$ 578,946	$ 575,591
Liabilities and net assets:					
Current liabilities -					
Accrued medical claims and other healthcare costs payable	$ 17,859	$ 23,301	$ 26,985	$ 30,352	$ 31,568
Accounts payable and other accrued liabilities	33,206	38,065	45,774	52,151	43,696
Accrued salaries, wages and benefits	19,114	17,474	24,787	30,057	25,877
Hospital fee program liability and deferred revenue	-	19,590	19,777	8,609	8,701
Due to government payors	13,834	15,128	19,788	19,634	21,040
Income taxes payable, net	-	949	9,210	1,288	296
Current portion of capital leases	674	609	3,337	5,429	5,128
Current portion of long-term debt	170,900	29,206	1,515	178	1,026
Other current liabilities	1,121	1,276	1,094	485	1,417
Total current liabilities	256,708	145,598	152,267	148,183	138,749
Long-term debt, net of current portion	7,750	144,611	326,957	420,889	421,128
Deferred income taxes, net	31,717	30,602	29,137	24,869	24,869
Malpractice reserves	1,579	699	2,229	4,660	5,063
Capital leases, net of current portion	544	1,195	6,260	11,816	12,488
Other long-term liabilities	149	1,209	556	570	1,262
Total liabilities	298,447	323,914	517,406	610,987	603,559
Commitments, Contingencies and Subsequent Eevents					
Stockholder's equity (deficit) -					
Common stock, $0.01 par value; 100 shares authorized, issued and outstanding	214	1	1	1	1
Additional paid-in capital	97,675	108,926	11,634	15,334	16,457
Retained earnings (accumulated deficit)	(7,931)	(6,939)	19,269	(47,496)	(44,548)
Total Prospect Medical Holdings, Inc. stockholder's equity (deficit)	89,958	101,988	30,904	(32,161)	(28,090)
Noncontrolling interest	(1,888)	(4,020)	113	120	122
Total stockholder's equity (deficit)	88,070	97,968	31,017	(32,041)	(27,968)
Total liabilities and stockholder's equity	$ 386,517	$ 421,882	$ 548,423	$ 578,946	$ 575,591

Source: FY10, FY11, FY12 and FY13- Audited financial statements; Dec13 unaudited interim financial statements

Section 8

Post Deal Integration

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Post Deal Integration

Post Deal Integration Issues

Issue	Comments

The single most common cause why an acquisition fails to meet the anticipated business or financial objectives is due to the lack of proper planning and execution of the transaction integration. According to numerous surveys, the majority of acquisitions ultimately decrease shareholder value.

Proper post deal integration starts with a robust plan prior to signing the deal. Some of the leading practices follow:

Plan Ahead of the Deal	Integration issues should be identified during the due diligence phase or earlier to help to mitigate transaction risk and increase likelihood of integration success .
Align Strategic Rationale and Integration	Establish a vision for the future, agree on degree of integration and incorporate into integration plan.
Establish Clear Goals and Manage Expectations	Clearly define and establish goals for the integration effort and your organization, proactively manage all stakeholder expectations through the integration.
Establish Organizational Leadership Quickly	Establish leadership structure, clarify roles and responsibilities to minimize confusion.
Focus Significant Attention on Integration	Dedicate senior leadership to integration structure and integration teams to bring discipline and focus, establish clear success criteria, decision making processes and create a sense of urgency.
Prioritize and Manage Risks Rigorously	Prioritize initiatives most critical to success and establish a comprehensive risk mitigation plan; conduct periodic assessments.

Post Deal Integration

Post Deal Integration Issues

Issue	Comments
Prioritize and Manage Risks Rigorously	Prioritize initiatives most critical to success and establish a comprehensive risk mitigation plan; conduct periodic assessments.
Establish Explicit Customer Focus	Keep the organization focused on key customers and day-to-day operations, retain customers and develop competitive defense plans.
Communicate and Lead Change	Establish a frequent, clear and timely communication process for all stakeholders; implement change leadership programs to address cultural issues.
Implement Financial Controls Early	Establish financial baseline and integrate financial targets; integrate internal audit, financial systems and treasury functions early.

Refer to the Summary of Findings and Observations section of this report for further discussion of specific integration challenges.

(35) A copy of any existing or proposed management, transition services, shared services or consulting agreement or arrangement arising out of the Proposed Transaction between the Transacting Parties and documentation that the consideration paid under each agreement is the fair market value for the services rendered.

****

35.1 Interim Management Advisory Agreement, dated May 28, 2014 (the "Management Agreement") by and between EOGH and Prospect.

Pursuant to Section 2.5 of the Management, Prospect will receive two (2%) percent of net revenue per month as an Advisory Services Fee, which will be waived in the event that (i) the Closing under the APA takes place, or (ii) the Closing under the APA does not take place due to (a) the inability to obtain the State of New Jersey's approval for the transfer of the Hospital's certificates of need and licenses to Buyer despite the Company's good faith efforts to work with Buyer to obtain such approval, (b) the inability to obtain the State of New Jersey's approval for the Transaction under CHAPA despite the Company's good faith efforts to work with Buyer to obtain such approval, or (c) Buyer, notwithstanding the fact that all of the conditions precedent set forth in Article VIII of the APA are satisfied or waived in writing by Buyer and Advisor, breaches its obligations under the APA by failing to close on the Transaction.

No official studies or reports were prepared to confirm that the consideration paid under the Management Agreement was equal to the fair market value of the services rendered. Members of the Hospital's management and the Board concluded that a management fee equal to five (5%) percent of net revenues represented industry standard and, as result, were comfortable with the two (2%) percent Advisory Services Fee paid under the terms and provisions of the Management Agreement.

INTERIM MANAGEMENT ADVISORY AGREEMENT

THIS INTERIM MANAGEMENT ADVISORY AGREEMENT (this "Agreement") is made and entered into as of the 28th day of May, 2014 (the "Effective Date") by and between Prospect Medical Holdings, Inc., a Delaware corporation (collectively with its Affiliates, "Advisor"), and East Orange General Hospital, Inc. a New Jersey not-for-profit corporation (the "Company").

RECITALS

A. The Company, together with its Affiliates (as defined in ARTICLE I below), operate East Orange General Hospital an acute care hospital (the "Hospital") that serves the needs of residents of East Orange, New Jersey and surrounding areas (the Company and its Affiliates, hereafter, collectively, the "Company").

B. As of the Effective Date, Advisor has entered into an Asset Purchase Agreement with the Company (the "Purchase Agreement"), which states various conditions to Closing (including regulatory approvals), some of which may take months to satisfy or obtain. Defined terms used but not defined herein shall have the meanings set forth in the Purchase Agreement.

C. Advisor, through its executives and other personnel, has certain experience and expertise in the management, operations, financial and administrative aspects of businesses like that of the Company.

D. Advisor is willing to provide certain advisory services, as described on Exhibit A hereto (the "Advisory Services"), with the objective of improving and otherwise benefitting the operations of the Company and the Hospital during the time period from the Effective Date through the Closing of the Purchase Agreement, pursuant to the terms and conditions contained in this Agreement.

E. Advisor may, in its sole and absolute discretion, make certain funds available to the Company for operations or certain capital projects prior to Closing (the "Pre-Closing Funds"), subject to the Company's binding commitment to either: (i) in connection the Closing of the Purchase Agreement, cause such amounts to be treated as partial satisfaction of Advisor's Projected New CapEx Commitment pursuant to Section 12.1(d) of the Purchase Agreement; or (ii) in the event that the Purchase Agreement is terminated prior to Closing, repay such funds with interest.

F. The Company seeks to confirm in writing Advisor's agreement (i) to provide the Company with the Advisory Services, and (ii) to make available to the Company the Pre-Closing Funds for mutually agreed capital projects, in each case, between the Effective Date and the Closing Date.

NOW, THEREFORE, in consideration of the premises and mutual covenants set forth herein and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and for their mutual reliance, the parties agree as follows:

ARTICLE I
RECITALS; AFFILIATES

1.1 Recitals. The recitals set forth above are hereby incorporated into this Agreement as if fully set forth in this Article I.

1.2 Affiliate. As used herein, "Affiliate" means, as to the Company or Advisor, any person or entity that directly or indirectly controls, is controlled by, or is under common control with, as applicable, the Company or Advisor and any successors or assigns of such person or entity; and the term "control" means possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of, as applicable, the Company or Advisor whether through ownership of voting securities, by appointment of trustees, directors, and/or officers, by contract or otherwise.

ARTICLE II
OFFER OF ADVISORY SERVICES

2.1 Appointment; Provision of Services. For and during the Term (as defined in ARTICLE V below), the Company grants to Advisor the right to provide the Advisory Services, and Advisor shall provide to the Company, with respect to the operation of the Hospital and other programs and services carried on by the Company (collectively, the "Business"), those Advisory Services described on Exhibit A, as it may be amended from time to time, upon the terms and conditions as set forth herein.

2.2 Acceptance. Advisor hereby accepts such appointment by the Company and agrees that it will faithfully perform its duties and responsibilities hereunder.

2.3 Maintenance of Control. The Advisory Services entail recommendations to the Company regarding how to improve the operations and financial condition of Company's Business. Nothing in this Agreement is intended to alter, weaken, displace or modify the authority of either (i) the Board of Trustees of the Company with respect to the ultimate oversight and governance of the Company, or (ii) the executive leadership of the Company with respect to day-to-day management of the Business and the assets and affairs of the Company. During the Term, the Board of Trustees of the Company shall exercise ultimate authority, supervision, direction and control over the business, policies, operation and assets of the Company, and shall retain the ultimate authority and responsibility regarding the powers, duties and responsibilities vested in the Board of Trustees of the Company by any and all applicable laws and regulations. The parties mutually acknowledge and agree that any Advisory Services provided pursuant to this Agreement are intended to constitute assistance and support to the Company's Board of Trustees and executive leadership, and are not intended and shall not be construed to grant Advisor any rights or interests in, nor decision-making authority with respect to, the Company or the Business, and the rights and interests of Advisor shall be limited to as expressly set forth herein or in the Purchase Agreement.

2.4 Input Into Company's Strategic Business Decisions. The Company, through its Chief Executive Officer, shall make Advisor aware of key strategic business decisions facing the Company and shall elicit input from Advisor on said decisions

2.5 Advisory Services Fee. In connection with its receipt of Advisory Services pursuant to this Agreement, the Company shall pay to Advisor two (2%) percent of net revenue per month (cumulatively, the "Advisory Services Fee"). The Advisory Services Fee shall be inclusive of all costs and expenses incurred by Advisor in connection with the performance of its obligations under this Agreement (including, without limitation, all travel and out of pocket expenses incurred by Advisor). If (i) the Closing under the Purchase Agreement takes place or (ii) if the Closing under the Purchase Agreement does not take place due to (a) the inability to obtain the State of New Jersey's approval for the transfer of the Hospital's certificates of need and licenses to Buyer despite the Company's good faith efforts to work with Buyer to obtain such approval, (b) the inability to obtain the State of New Jersey's approval for the Transaction under CHAPA despite the Company's good faith efforts to work with Buyer to obtain such approval or (c) Buyer, notwithstanding the fact that all of the conditions precedent set forth in Article VIII of the Purchase Agreement are satisfied or waived in writing by Buyer and Advisor, breaches its obligations under the Purchase Agreement by failing to close on the Transaction, payment of the Advisory Services Fee shall be waived. In the event the Closing does not take place, except as set forth in the preceding sentence, then payment of the Advisory Services Fee shall be paid in accordance with the provisions of Section 6.5 hereunder.

2.6 Company's Commitments. The Company shall provide Advisor with sufficient working space and other reasonable physical accommodations at the Facilities as appropriate to the Advisory Services, including access to telephones, facsimile machines, internet connections and copiers, to enable Advisor to fulfill its duties and responsibilities hereunder. The Company and its management staff shall provide timely responses to Advisor's requests for information (and other inquiries) to enable Advisor to perform the Advisory Services hereunder, and shall fully cooperate with Advisor in the fulfillment of Advisor's duties hereunder, including, without limitation, attending meetings and providing information, feedback and input to Advisor.

2.7 Liaisons. Advisor shall direct all inquiries regarding the Advisory Services, and provide all recommendations, reports and other matters relating to the Advisory Services, to Redacted the Company's Chief Executive Officer, and/or such person(s) as he may from time to time designate. The Company shall direct all inquiries regarding the Advisory Services to such person as Advisor may from time to time designate.

2.8 Access of Advisor; Patient Records.

(a) During the Term, Advisor shall be given complete access to the Company's records (including Patient Records as defined below), offices and Facilities, in order that it may carry out its obligations hereunder, subject to the confidentiality requirements relating to Patient Records.

(b) The Company shall maintain, to the fullest extent of the law, sole and exclusive responsibility for the preparation, storage and destruction of all patient medical

records, clinical treatment plans, charts and similar documents generated in connection with the operation of the Business (collectively, the "Patient Records"). The Company shall assure that the Patient Records are prepared in compliance with all applicable federal, state and local laws and regulations. All Patient Records will be maintained by the Company and shall remain the property of the Company.

(c) To the extent permitted by law including, but not limited to, the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") and the standards or regulations promulgated thereunder, including the Privacy Standards and the Security Standards, as well as the federal Health Information Technology for Economic and Clinical Health Act (including any and all standards and regulations promulgated thereunder) and professional ethics regarding confidentiality and disclosure of medical information, the Company shall make such information available to Advisor to enable Advisor to perform its duties hereunder and for any and all other reasonable purposes. For the purposes of this Section 2.9, Advisor shall be referred to as the Company's Business Associate ("Business Associate"). As a Business Associate, Advisor agrees to enter into the Business Associate Agreement with the Company, attached hereto as Exhibit B.

ARTICLE III
AVAILABILITY OF PRE-CLOSING FUNDS

3.1 Pre-Closing Funds. During the Term hereof, Advisor may, in its sole and absolute discretion, make available to the Company certain Pre-Closing Funds with any and all such amounts to be used for mutually agreed upon operating expenses or capital projects. Such Pre-Closing Funds shall be reflected in that certain Unsecured Promissory Note the form of which is attached as Exhibit C hereto (the "Note").

3.2 Treatment as Partial Satisfaction of New CapEx Commitment Upon Closing of Purchase Agreement. In the event that the transactions contemplated by the Purchase Agreement close, as of the Closing Date, the aggregate amount of Pre-Closing Funds advanced to the Company shall be treated as partial satisfaction of Advisor's New CapEx Commitment pursuant to Section 12.1(d) of the Purchase Agreement and, based thereon, the indebtedness evidenced by the Note shall be deemed paid and satisfied in full. In such event, the Note shall be cancelled and the Company shall have no further obligations thereunder.

3.3 Repayment of Pre-Closing Funds Upon Termination of Purchase Agreement. In the event that the Purchase Agreement is terminated pursuant to its terms prior to Closing of the transactions contemplated therein, then all Pre-Closing Funds advanced by Advisor to the Company shall be treated as principal indebtedness due and owing from the Company to Advisor. Notwithstanding the foregoing, if Buyer breaches its obligations under the Purchase Agreement by failing to close on the Transaction despite the fact that all of the conditions precedent set forth in Article VIII of the Purchase Agreement are satisfied or waived in writing by Buyer and Advisor, then the Company shall not be obligated to repay any or all of the Pre-Closing Funds. As more fully described in the Note, the Company shall repay the principal indebtedness and interest further accruing thereon at a rate of nine percent (9%) per annum in twelve (12) equal monthly installments commencing one month after the termination of the

Purchase Agreement. The accrual of interest shall commence as of the date on which the Purchase Agreement is terminated.

ARTICLE IV
CONFIDENTIALITY; PROPRIETARY RIGHTS

4.1 Due to the highly competitive nature of the health care industry, disclosure of certain nonpublic, confidential or proprietary information -- including but not limited to Advisor's Proprietary Rights (as defined below), Company's Proprietary Rights (as defined below), analyses, compilations, summaries, memoranda, studies, policy and procedure documentation/information, quality assurance materials or other documents prepared by the Company or Advisor in connection with this Agreement or the Advisory Services provided hereunder (collectively, the "Confidential Information") -- would be extremely damaging to the party that owns or has the right to such Confidential Information. The parties therefore agree to maintain the confidentiality of the other party's Confidential Information and to protect as a trade secret any portion of the other party's Confidential Information by using reasonable efforts to prevent any unauthorized disclosure, copying, use, distribution, or transfer of possession of such Confidential Information. Each party agrees to maintain at least the same procedures regarding the other party's Confidential Information that it maintains with respect to its own Confidential Information, but in no event less than a reasonable standard of care. For purposes of this Agreement, Confidential Information shall not be deemed to include information and data: (a) rightfully previously known or acquired by either party from a third party without a continuing restriction on use; (b) that is or becomes a part of the public domain through no breach of this Agreement by either party; (c) approved for release by written authorization by the party who owns or has rights to the Confidential Information; (d) that is required to be disclosed by law; or (e) independently developed by either party.

4.2 The manuals, software, systems, methods, procedures, policies, controls, documents and pricing and the information relating thereto (including, without limitation, purchase orders and all form documents) and all information relating to Advisor and its Affiliates learned, acquired or obtained by the Company and its Affiliates pursuant to this Agreement, including without limitation the financial condition, marketing plans, regulatory affairs and business strategies of Advisor or its Affiliates, employed or obtained by Advisor or its Affiliates, and all trademarks, service marks, trade names, copyrights and other proprietary rights in which Advisor or any of its Affiliates has any interest (collectively, "Advisor's Proprietary Rights") are proprietary to Advisor and shall remain the property of Advisor or its Affiliates and are not, at any time during the Term or thereafter, to be utilized, distributed, disseminated, copied or otherwise employed or acquired by the Company, any of the Company's Affiliates, or their respective officers, directors, trustees, consultants, members, employees, shareholders, and agents, except as authorized by Advisor in writing.

4.3 The manuals, software, systems, methods, procedures, policies, controls, documents and pricing and the information relating thereto (including, without limitation, purchase orders and all form documents) and all information relating to the Company and its Affiliates learned, acquired or obtained by Advisor and its Affiliates pursuant to this Agreement, including without limitation the financial condition, marketing plans, regulatory affairs and

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business strategies of the Company or its Affiliates, employed or obtained by Company or its Affiliates, and all trademarks, service marks, trade names, copyrights and other proprietary rights in which the Company or any of its Affiliates has any interest (collectively, "Company's Proprietary Rights") are proprietary to the Company and shall remain the property of the Company or its Affiliates and are not, at any time during the Term or thereafter, to be utilized, distributed, disseminated, copied or otherwise employed or acquired by Advisor, any of Advisor's Affiliates, or their respective officers, directors, trustees, contractors, members, employees, shareholders, and agents, except as authorized by the Company in writing.

4.4 Each party acknowledges that the breach of the provisions of this ARTICLE IV would cause irreparable injury to the non-breaching party that could not be adequately compensated by money damages. Accordingly, the non-breaching party may obtain a restraining order, injunction or other equitable relief prohibiting a breach or threatened breach of the provisions of this ARTICLE IV without the necessity of posting any bond or security whatsoever, in addition to any other legal or equitable remedies that may be available. In the event of a breach or threatened breach by either party of any of its obligations under this ARTICLE IV, the other party shall have the right, in addition to any other remedies that may be available to it, to obtain specific performance of the terms of this Agreement without posting any security or bond whatsoever.

4.5 If requested by court order or other legal process to disclose any information constituting Confidential Information, Advisor's Proprietary Rights or Company's Proprietary Rights, the party so requested shall promptly give notice of such request or requirement to the other party so that such party may, at its own cost and expense, seek an appropriate protective order or, in the alternative, waive compliance to the extent necessary to comply with such request if a protective order is not obtained. If a protective order or waiver is granted, the party to whom the request was made may disclose such information only to the extent required by such court order or other legal process or to the extent permitted by such waiver.

4.6 The provisions of this ARTICLE IV shall survive the termination of this Agreement, provided, however, this provision shall terminate upon the Closing of the Purchase Agreement. In that event, however, the parties shall continue to be subject to the terms and conditions of that certain Confidentiality Agreement dated as of August 2, 2012, which shall remain in full force and effect in accordance with its terms.

ARTICLE V
TERM

The term of this Agreement shall commence on the Effective Date and shall continue until the Closing of the Purchase Agreement (the "Term"), unless sooner terminated in accordance with the provisions of ARTICLE VI below.

ARTICLE VI
TERMINATION

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6.1 Termination by Either Party for Cause. If either party materially defaults in the performance of any material covenant, agreement, term or provision of this Agreement to be performed by it and such material default continues for a period of thirty (30) days after written notice is delivered to the breaching party from the other party stating the specific default, then the non-breaching party may terminate this Agreement by giving written notice thereof to the breaching party; provided, however, that the non-breaching party shall not have the right to terminate under this Section 6.1 at the end of such thirty (30) day period so long as the breaching party has commenced a cure within such thirty (30) day period and thereafter diligently pursues such cure to completion, which shall be no later than sixty (60) days after the initial written notice.

6.2 Termination Upon Bankruptcy, Etc. If either party shall apply for or consent to the appointment of a receiver, trustee or liquidator for it or for all or substantially all of its assets, file a voluntary petition in bankruptcy or admit in writing its inability to pay its debts as they become due, make a general assignment for the benefit of creditors, file a petition or any answer seeking reorganization or arrangement with creditors or to take advantage of any insolvency law, or if an order, judgment or decree shall be entered by a court of competent jurisdiction, on the application of a creditor, adjudicating either party to be bankrupt or appointing a receiver, trustee or liquidator of either party with respect to all or substantially all of the assets of either party, and such order, judgment or decree shall continue unstayed and in effect for any period of ninety (90) consecutive days, then this Agreement shall automatically terminate.

6.3 Termination Upon Dissolution of the Company or Termination of Purchase Agreement. This Agreement shall terminate immediately and automatically if the Company files for voluntary dissolution, or if the Purchase Agreement is terminated (in accordance with the provisions thereof) prior to a Closing of the transactions contemplated therein.

6.4 Regulatory Matters. If the performance by either party of any material covenant, agreement, term or provision of this Agreement would (a) result in the de-certification of a the Hospital under any federal or state government program or by any other regulatory agency that would have a material adverse effect on the operation of the Business, (b) result in the loss of the Hospital's accreditation, or (c) be in violation of any statute or regulation, or for any other reason be or become illegal and such violation or illegality would have a material adverse effect on the operation of the Business, and in any such event, the reason therefore cannot be corrected by good faith negotiations and effort of the parties hereto within sixty (60) days after written notice thereof (with the objective of keeping the financial intent of the parties hereunder materially the same), then either party may at its option terminate this Agreement.

6.5 Rights Upon Termination. In the event of the termination of this Agreement by Advisor under Section 6.1 hereunder, by the Company under Section 10.1(c) of the Purchase Agreement (but only if Buyer or Advisor offers to extend the Outside Date and the Company rejects such offer) or by Advisor or Buyer under Section 10.1(d) of the Purchase Agreement, Advisor shall be paid by Seller, within 120 days after such termination, any accrued and unpaid Advisory Service Fees. For the avoidance of doubt, in the event a Closing occurs under the Purchase Agreement or does not occur, as set forth in Section 2.5 hereof, Advisor shall not be entitled to receive any Advisory Service Fee hereunder.

The right to terminate this Agreement, and to receive payment of any amounts owing as of the effective date of termination, shall be in addition to any other remedy available pursuant to the provisions hereof. The termination of this Agreement for any reason shall be without prejudice to any payments or obligations that may have accrued or become due hereunder prior to the effective date of termination or that may become due after such termination.

6.6 Cessation of Use of Proprietary Rights Upon Termination. Upon termination of this Agreement, each party shall immediately discontinue the use of, and shall promptly return to the other party, as applicable, all Confidential Information (to the extent in tangible format) that was made available to such party by reason of its participation in this Agreement, including any copies that it may have in its possession or control.

6.7 Failure to Terminate. Failure to terminate this Agreement shall not waive any breach of this Agreement.

6.8 Survival. To the extent expressly set forth or contemplated in this Agreement, provisions of this Agreement shall survive the termination of this Agreement.

ARTICLE VII
LIABILITY, INDEMNIFICATION, PROFITABILITY AND INDEPENDENT CONTRACTOR

7.1 Limitation of Liability. Except for Advisor's gross negligence or willful misconduct, Advisor shall not by reason of this Agreement or any Advisory Services rendered pursuant to this Agreement have any liability in connection with the operation of the Business or be deemed to have assumed any liabilities associated with or incident to the operation of the Business. All such liabilities shall remain with the Company. Without limiting the generality of the foregoing, Advisor shall have no liability for any breach of any obligation under this Agreement unless such breach shall constitute gross negligence or willful misconduct; it being understood that in such case of a breach of an obligation that does not constitute gross negligence or willful misconduct, the Company's sole remedies shall be to obtain damages pursuant to Section 15.1 below and/or to terminate this Agreement as provided herein.

7.2 Indemnification.

(a) The Company hereby agrees to defend, indemnify and hold harmless Advisor and its Affiliates, and their respective officers, directors, contractors, members, employees, shareholders, agents, successors and assigns (each, an "Advisor Indemnified Party"), from and against any and all liabilities, causes of action, damages, losses, demands, claims, penalties, judgments, costs and expenses (including, without limitation, reasonable attorneys' fees and related costs) of any kind or nature whatsoever that may be sustained or suffered by any Advisor Indemnified Party arising out of or resulting from (i) any breach by the Company of any of its representations, warranties, covenants, obligations or duties under this Agreement or (ii) the Company's gross negligence or willful misconduct.

(b) Advisor hereby agrees to defend, indemnify and hold harmless the Company, and its Affiliates, and their respective officers, directors, trustees, contractors, members, employees, shareholders, agents, successors and assigns (each a "Company Indemnified Party"), from and against any and all liabilities, causes of action, damages, losses, demands, claims, penalties, judgments, costs and expenses (including, without limitation, reasonable attorneys' fees and related costs) of any kind or nature whatsoever that may be sustained or suffered by any Company Indemnified Party arising out of or resulting from (i) any breach by the Advisor of any of its representations, warranties, covenants, obligations or duties under this Agreement or (ii) Advisor's gross negligence or willful misconduct.

(c) The provisions of this Section 7.2 shall survive the termination of this Agreement.

7.3 No Representation of Profitability, Etc. Advisor does not guarantee or represent that operation of the Business will be profitable, or have a certain amount of revenues or cash flow. Except as otherwise expressly provided herein, Advisor shall not be liable for the Company's losses, whether from operation of the Business or otherwise.

7.4 Independent Contractor Status. Advisor does not under this Agreement act in any capacity other than as an independent contractor and does not, under this Agreement, act as principal in the operation of the Business or the Facilities.

ARTICLE VIII
NON-SOLICITATION

8.1 Covenant Not To Solicit. During the Term and for a period of two (2) years after the Term (the "Non-Solicit Period"), each party shall not, and shall cause its Affiliates not to, directly or indirectly, (a) take any action that may induce any customer, employee, agent, contractor, or vendor of the other party (either individually or in the aggregate) to discontinue his, her or its affiliation with such other party, or (b) solicit or hire the employees or independent contractors of the other party or any Affiliate thereof without the prior written consent of such other party.

8.2 Equitable Relief. In the event of a breach or threatened breach by a party or any of its Affiliates of any of the obligations under this ARTICLE VIII, the other party shall be entitled, upon application to any court of proper jurisdiction, to a temporary restraining order or preliminary injunction to restrain and enjoin the breaching party and/or its Affiliates from such violation without prejudice as to any other remedies the non-breaching party may have at law or in equity. Each party agrees that, in the event of a violation by such party or an Affiliate thereof, it would be virtually impossible for the other party to calculate its monetary damages and that such other party would be irreparably harmed. If the non-breaching party seeks a temporary restraining order or preliminary injunction, such non-breaching party shall not be required to post any bond or other security with respect thereto, or, if, nonetheless, a bond is required, it may be posted without surety thereon. If any restriction contained in this ARTICLE VIII is held by any court to be unenforceable, or unreasonable, as to time, geographic area or business limitation, the parties agree that such provisions shall be and are hereby reformed to the maximum time,

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geographic area or business limitation permitted by applicable laws. The parties further agree that the remaining restrictions contained in this ARTICLE VIII shall be severable and shall remain in effect and shall be enforceable independently of each other. Each party specifically acknowledges, represents and warrants that the covenants set forth in this ARTICLE VIII are reasonable, necessary, and enforceable to protect the legitimate interests of the other party, and that such other party would not have entered into this Agreement in the absence of such covenants.

ARTICLE IX
REPRESENTATIONS AND WARRANTIES

9.1 Of Advisor. Advisor represents and warrants to the Company as follows:

(a) Advisor has been duly organized and validly exists as a corporation in good standing under the laws of the State of Delaware, with full corporate power to own its properties and to conduct its business under such laws.

(b) Advisor has the full corporate power and authority to execute and deliver this Agreement and to perform its obligations hereunder, and all necessary actions for the due authorization, execution, delivery and performance of this Agreement by Advisor have been duly taken. The individual executing this Agreement on behalf of Advisor is duly authorized and has the requisite power and authority to execute this Agreement.

(c) Neither the execution of this Agreement, the performance by Advisor under this Agreement, nor compliance by Advisor with any provision of this Agreement will conflict with or violate Advisor's articles of incorporation or bylaws, any agreements to which Advisor is a party, or any material provision of applicable federal, state and local laws, rules and regulations.

(d) Upon Advisor's execution of this Agreement, this Agreement shall constitute a valid and binding obligation of Advisor, enforceable in accordance with its terms.

(e) Neither Advisor, nor its Affiliates, employees, and agents (i) is currently excluded, debarred or otherwise ineligible to participate in any federal or state health care program, (ii) has been convicted of a criminal offense related to the provision of healthcare items and services, or (iii) is a Specially Designated National or a Blocked Person by the Office of the Foreign Asset Control of the U.S. Department of Treasury.

9.2 Of the Company. The Company represents and warrants to Advisor as follows:

(a) The Company has been duly organized and validly exists as a not-for-profit corporation in good standing under the laws of the State of Rhode Island, with full limited power to own its properties and to conduct its business under such laws.

(b) The Company has the full corporate power and authority as a company to execute and deliver this Agreement and to perform its obligations hereunder, and all necessary actions for the due authorization, execution, delivery and performance of this Agreement by the

Company have been duly taken. The individual executing this Agreement on behalf of the Company is duly authorized and has the requisite power and authority to execute this Agreement.

(c) Neither the execution of this Agreement, the performance by the Company under this Agreement, nor compliance by the Company with any provision of this Agreement will conflict with or violate the Company's articles of incorporation, bylaws, any agreements to which the Company is a party, or any material provision of applicable federal, state and local laws, rules and regulations.

(d) Upon the Company's execution of this Agreement, this Agreement shall constitute a valid and binding obligation of the Company, enforceable in accordance with its terms.

(e) Neither the Company nor its Affiliates, employees, and agents (i) is currently excluded, debarred or otherwise ineligible to participate in any federal or state health care program, (ii) has been convicted of a criminal offense related to the provision of healthcare items and services, or (iii) is a Specially Designated National or a Blocked Person by the Office of the Foreign Asset Control of the U.S. Department of Treasury.

ARTICLE X
INSURANCE

10.1 Advisor's Required Coverage. During the Term hereof, Advisor shall maintain, at its own expense, workers' compensation coverage in accordance with statutory requirements for Advisor's employees who provide services under this Agreement, and commercial general liability insurance in an amount not less than One Million Dollars ($1,000,000) per occurrence and Three Million Dollars ($3,000,000) in the annual aggregate. The limits above may be satisfied by any combination of self insurance or umbrella policies, and Advisor may carry any insurance required by this Agreement under a blanket policy.

10.2 The Company's Required Coverage. The Company shall maintain, at the Company's expense, at all times during the Term: (a) workers' compensation coverage in accordance with statutory requirements for the Company's employees; (b) commercial property damage and fire/hazard insurance written on full replacement value basis for all of the Company's assets and real property; (c) professional liability insurance covering the Company's employees who perform any work, duties, or obligations against claims for bodily injury, death, malpractice and property damage, which insurance shall provide coverage on a claims-made or occurrence basis with a per occurrence limit of not less than One Million Dollars ($1,000,000) per occurrence and Three Million Dollars ($3,000,000) in the annual aggregate; and (d) comprehensive commercial general liability insurance in an amount not less than One Million Dollars ($1,000,000) per occurrence and Three Million Dollars ($3,000,000) in the annual aggregate. The above limits may be satisfied by any combination of primary and excess or umbrella policies. The Company may carry any insurance required by this Agreement under a blanket policy. Advisor shall be an additional named insured under the Company's general liability insurance policy.

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10.3 Certificates of Insurance. On the Effective Date and at any time upon request, each party shall provide the other party certificates of insurance evidencing the coverages required hereby, and shall notify the other party immediately of the cancellation, termination, or non-renewal of, or material change in, such insurance coverage.

ARTICLE XI
ARMS-LENGTH BARGAINING

The parties agree that the compensation provided herein has been determined in arm's-length bargaining and is consistent with fair market value in arm's length transactions and is not and has not been determined in a manner that takes into account the volume or value of any referrals or business otherwise generated for or with respect to the Facilities or between the parties or any of the undersigned persons or equity holders thereof for which payment may be made in whole or in part under Medicare or any state health care program or under any other payor program.

ARTICLE XII
ASSIGNMENT

Neither party shall, directly or indirectly, assign or otherwise transfer this Agreement, or any interest herein or obligation hereunder, without the prior written consent of the other party, which may be withheld in such other party's sole discretion. In no event may a party assign this Agreement unless the assignee shall have executed and delivered to the other party a written assumption of this Agreement in form and substance satisfactory to such other party in its sole discretion. Notwithstanding the foregoing, Advisor shall be permitted, without the consent of the Company, to assign this Agreement to any Affiliate of Advisor, but Advisor shall remain liable to the Company for the performance and satisfaction of all undertakings and commitments set forth herein.

ARTICLE XIII
NOTICES

All notices required or permitted hereunder shall be given in writing by actual delivery or by certified mail, postage prepaid or by nationally recognized overnight courier service. Notice shall be deemed given upon delivery, or if given by mail, upon receipt or if sent by next day delivery by a nationally recognized overnight courier service, on the next business day. Notice shall be delivered or mailed to the parties at the following addresses or at such other places as a party shall designate in writing:

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If to the Company: East Orange General Hospital, Inc.
[redacted]
East Orange, NJ 07018
[redacted]
President and Chief Executive Officer
phone: [redacted]
e-mail:

with a copy to: McCarter & English, LLP
[redacted]
Newark, NJ 07102
[redacted]

If to Advisor: Prospect Medical Holdings, Inc.
[redacted]
Los Angeles, CA 90025
Attention: Legal Department

with a copy to: Sills Cummis & Gross P.C.
[redacted]
Newark, NJ 07102
[redacted]

ARTICLE XIV
RECORD ACCESS AND RETENTION

14.1 Access to Records. Each party hereto shall permit, and shall ensure that any subcontractor retained by it permits, the United States Department of Health and Human Services and General Accounting Office to review appropriate books and records relating to the performance hereunder to the extent required under Section 1861(v)(1) of the Social Security Act, 42 U.S.C. Section 1395x(v)(1)(I), or any successor law or regulation for a period of four (4) years following the last day Advisor provided services hereunder. The access shall be provided in accordance with the provisions of Title 42, Code of Federal Regulations, Part 420, Subpart D.

14.2 Notification. Each party shall notify the other party immediately of the nature and scope of any request for access to books and records described above and shall provide copies of any books, records or documents to the other party prior to the provision of same to any governmental agent to give such other party an opportunity to lawfully oppose such production of documents. Nothing herein shall be deemed to be a waiver of any applicable privilege (such as the attorney-client privilege) by either party.

ARTICLE XV
MISCELLANEOUS

15.1 Choice of Law; Dispute Resolution; Venue.

(a) Choice of Law. The parties agree that this Agreement shall be governed by and construed in accordance with the Laws of the State of New Jersey, without giving effect to any choice or conflict of law provision or rule thereof that would require the application of any other law.

(b) Dispute Resolution. Except as provided in Section 15.2 below, in the event that any dispute, controversy or claim arises among the parties with respect to this Agreement, including as to the breach, termination or invalidity hereof (a "Dispute"), the parties shall attempt in good faith to resolve such Dispute promptly by negotiation (including at least one in-person meeting) over a period of not less than thirty (30) days, commencing upon one party's delivery of a written notice of Dispute to the other party.

(c) Venue. In the event that any Dispute is not resolved through good faith negotiations as provided in Section 15.1(b) above, either party may submit the matter to a court of law or equity through the filing of a claim. The Parties agree that, except as otherwise expressly provided in Section 15.2 below, venue for any and all claims associated with a Dispute between the Parties shall rest with the state courts of the State of New Jersey.

(d) Waiver of Jury Trial. EXCEPT AS PROVIDED IN SECTION 15.2 BELOW, EACH PARTY HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY AND BY JUDGE IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED ON CONTRACT, TORT OR OTHERWISE) ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY.

15.2 Injunctive Relief. Notwithstanding anything to the contrary contained herein, each party acknowledges and agrees that a party may seek, from a court of competent jurisdiction in the State of New Jersey, injunctive relief against a breaching party pursuant to Sections 4.4 and 8.2 above, without posting any bond or other undertaking.

15.3 Severability. Should any provision of this Agreement be found void or unenforceable, the remainder hereof nevertheless shall continue in full force and effect. A new provision shall be amended to this Agreement that is similar to the provision found unenforceable but which is enforceable.

15.4 Approval or Consent. Except as otherwise provided herein, whenever under any provisions of this Agreement, the approval or consent of either party is required, such approval or consent shall not be unreasonably withheld, conditioned or delayed.

15.5 Entire Agreement. This Agreement contains the entire agreement between the parties with respect to the subject matter hereof, and the parties expressly agree that this

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Agreement supersedes and rescinds any prior agreement between them (verbal or written) pertaining to the subject matter hereof.

15.6 No Third Party Beneficiary. Except as expressly provided in this Agreement, no person or entity that is not a party to this Agreement shall be a third party beneficiary of any rights or obligations hereunder or be entitled to enforce any of said rights or obligations.

15.7 Interpretation. The article and paragraph headings contained herein are for convenience of reference only, do not constitute part of this Agreement, and are not intended to define, limit or describe the scope of intent of any provision of this Agreement. All gender references used in this Agreement shall include all genders, and the singular shall include the plural and the plural shall include the singular whenever and as often as may be appropriate.

15.8 Force Majeure. Advisor shall not be deemed to be in violation of this Agreement, and shall not be liable for any resulting claims, losses, damages, expenses and liabilities if it is prevented, hindered or delayed, either directly or indirectly, from performing any of its obligations hereunder for any reason beyond its reasonable control, including without limitation labor disputes, fires, storms, earthquakes, acts of God, or any statute, regulation or rule of the federal government, any state or local government or any agency thereof.

15.9 Amendments; Course of Dealing. This Agreement may be amended or supplemented only in a writing signed by both parties. The failure of any party to enforce at any time any of the provisions of this Agreement shall in no way be construed to be a waiver of any such provision, nor in any way to affect the validity of this Agreement or any part hereof or the right of any party thereafter to enforce each and every such provision. No waiver of any breach of this Agreement shall be held to be a waiver of any other or subsequent breach.

15.10 Cooperation; Further Assistance. From time to time, as and when reasonably requested by either party hereto, the other party will (at the expense of the requesting party) execute and deliver, or cause to be executed or delivered, all such documents, instruments and consents and will use reasonable efforts to take all such action as may be reasonably requested or necessary to carry out the intent and purpose of this Agreement.

15.11 Execution of this Agreement. The parties may execute this Agreement in counterparts, each of which shall be deemed an original and both of which together shall constitute but one and the same instrument. A signature delivered by facsimile or PDF shall be sufficient for all purposes between the parties.

[*signature page follows*]

IN WITNESS WHEREOF, the parties have executed this Agreement, through their duly authorized representatives, effective as of the date first above written.

ADVISOR:

PROSPECT MEDICAL HOLDINGS, INC., a Delaware corporation

By: _____
Name: Sam Lee
Title: CEO

THE COMPANY:

EAST ORANGE GENERAL HOSPITAL, INC., a New Jersey not-for-profit corporation

By: _____
Name:
Title:

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IN WITNESS WHEREOF, the parties have executed this Agreement, through their duly authorized representatives, effective as of the date first above written.

ADVISOR:

PROSPECT MEDICAL HOLDINGS, INC., a Delaware corporation

By:_____
Name:
Title:

THE COMPANY:

EAST ORANGE GENERAL HOSPITAL, INC., a New Jersey nonprofit corporation

By: Redacted
Name: Redacted
Title: President and Chief Executive Officer

EXHIBIT A
LIST OF ADVISORY SERVICES

In consideration of the payments to be made hereunder, Advisor shall from time to time and as appropriate provide, either directly or indirectly through one or more of its Affiliates, the following services to the Company:

1. Advise the Company regarding trends in the industry, make recommendations regarding new and/or expanded services and programs, physician alignment & recruitment, IT/EMR capabilities and improvements, technology implementation, ACOs and other reform-driven strategies, and managed care strategies.

2. Review, assess and provide recommendations regarding potential service consolidation and restructurings to achieve efficiencies.

3. Review, assess and provide recommendations regarding new clinical service lines, programs and locations.

4. Review, assess and provide recommendations regarding physician-alignment strategies, joint ventures and other strategic initiatives.

5. Advise the Company regarding expenditure and spending patterns, evaluate standard procurement lifecycle methodologies including working cash vs. discount modeling, invoice synchronization and vendor payment management. Such expenditures and contracts would include without limitation:

    - Third party service providers
    - Supply contracts
    - Contracts with outside contractors or consultants
    - Preventive maintenance with respect to equipment and building
    - Upkeep and maintenance of the physical facilities

6. Advise the Company regarding third- party reimbursement strategies and consultation on strategy and compliance with all applicable reimbursement rules.

7. Assist the Company to develop, implement and maintain a compliance program that is committed to promoting, preventing, detecting and resolving instances of conduct that do not conform to federal or state laws.

8. Assist the Company to develop strategies with respect to labor relations matters.

9. Review, assess and provide recommendations regarding a physician-led and focused clinical documentation program.

10. Review, assess and provide recommendations regarding the Company's case management program and length of stay initiatives.

11. Provide other Advisory Services as mutually agreed upon in writing by the parties from time to time.

EXHIBIT B
BUSINESS ASSOCIATE AGREEMENT

THIS BUSINESS ASSOCIATE AGREEMENT ("Agreement") is entered into as of the last date of signature (the "Effective Date") by and between East Orange General Hospital, Inc., by and on behalf of its covered entity subsidiaries, affiliates and related organizations (collectively, "Covered Entity"), and Prospect Medical Holdings, Inc., by and on behalf of its business associate subsidiaries, affiliates and related organizations (collectively, the "Business Associate").

RECITALS

Covered Entity and Business Associate have entered into a signed Interim Management Advisory Agreement and/or other documented arrangement (collectively, the "Services Agreement") pursuant to which Business Associate provides services to Covered Entity ("Services") that may require Business Associate to access, create and use health information that is protected by state and/or federal law; and

WHEREAS, the Business Associate is obligated to protect the privacy and security of individually identifiable health information ("Protected Health Information" or "PHI") and electronic protected health information ("EPHI") created and/or maintained by Covered Entity in accordance with the Health Insurance Portability and Accountability Act of 1996 and its implementing privacy and security regulations at 45 C.F.R. Parts 160 and 164 promulgated by the U.S. Department of Health and Human Services ("HHS"), as amended by the federal Health Information Technology for Economic and Clinical Health Act ("HITECH Act") and its implementing regulations (collectively "HIPAA"); and

WHEREAS, Covered Entity and Business Associate desire to enter into this Agreement in order to comply with HIPAA, as may be modified or amended, including future issuance of regulations and guidance by HHS, and reflect their understanding of the use, disclosure and general confidentiality obligations of Business Associate as it relates to the Services Agreement.

NOW, THEREFORE, in consideration of the mutual promises and other consideration contained in this Agreement, the parties agree as follows:

ARTICLE I
DEFINITIONS

Capitalized terms used herein but not otherwise defined in this Agreement shall have the same meanings as set forth in HIPAA, as may be modified or amended, including future issuance of regulations and guidance by HHS.

ARTICLE II
OBLIGATIONS AND ACTIVITIES OF BUSINESS ASSOCIATE

2.1 Business Associate agrees to not use or disclose PHI other than as permitted or required by this Agreement or as permitted or required by law.

2.2 Business Associate may use and disclose PHI for the proper management and administration of Business Associate; provided that with respect to any disclosures of PHI, such disclosures are required by law or Business Associate obtains reasonable assurances from the person to whom the information is disclosed that it will remain confidential and be used or further disclosed only as required by law or for the purpose for which it was disclosed to the person. Business Associate may, in accordance with the Privacy Rule, de-identify PHI. Without limitation of the foregoing, Covered Entity acknowledges that the legal structure of the Business Associate and its affiliates, including Prospect Medical Holdings, Inc., affords the Business Associate the opportunity to be characterized for HIPAA purposes as a participant in an affiliated covered entity arrangement as part of such legal structure ("HIPAA Arrangement"), and as such Covered Entity agrees that disclosure of PHI may be made to the other participants in such HIPAA Arrangement and that such other participants in such HIPAA Arrangement may use or disclose PHI, only in compliance with the terms of this Agreement.

2.3 Business Associate agrees to use appropriate physical and technical safeguards to prevent the use or disclosure of Covered Entity's PHI for any purpose other than the provision of Services under this Agreement.

2.4 Upon written request from the Covered Entity, Business Associate agrees to report to Covered Entity, in writing, any use or disclosure of PHI not in compliance with this Agreement.

2.5 In the event Business Associate engages any agent or subcontractor to perform the services under this Agreement and discloses PHI to such agent or subcontractor, Business Associate will require any such agent or subcontractor to agree to the same restrictions and conditions required in this Agreement.

2.6 Upon written request from the Covered Entity, Business Associate agrees to make PHI available to individuals in accordance with 45 CFR Section 164.524 of HIPAA governing access of individuals to PHI.

2.7 Upon written request from the Covered Entity, Business Associate agrees to make PHI available for amendment and incorporate any amendments in accordance with 45 CFR Section 164.526 of HIPAA governing amendments to PHI.

2.8 Upon written request from the Covered Entity, Business Associate agrees to make any and all information available for the purpose of providing patients an accounting of disclosures in accordance with 45 CFR Section 164.528 of HIPAA governing accounting for disclosures.

2.9 Business Associate agrees to make its internal practices, books and records related to the use and disclosure of PHI received from, created or received by Business Associate on behalf of Covered Entity, available to the Secretary of HHS and the HHS Office for Civil Rights for the purposes of determining Covered Entity's compliance with HIPAA.

2.10 Business Associate shall implement and maintain safeguards that reasonably and appropriately protect the confidentiality, integrity, and availability of the EPHI that it creates, receives, maintains or transmits on behalf of Covered Entity.

2.11 Business Associate and Covered Entity agree to comply with all applicable rules and regulations promulgated under HIPAA in effect during the term of this Agreement.

2.12 Business Associate will report to Covered Entity within a reasonable time period of discovery, any (a) Security Incident, or (b) Security Breach as defined at 45 C.F.R. Part 164, Subpart D. Business Associate may supplement its initial report as information becomes available in order to identify:

(a) The nature of the non-permitted use or disclosure including how such use or disclosure was made;

(b) The unsecured PHI used or disclosed;

(c) If possible and applicable, the identity of the person/entity who received the unsecured PHI;

(d) What corrective action Business Associate took;

(e) What Business Associate did to mitigate any deleterious effect; and

(f) Such other information as Covered Entity may request.

2.13 At all times during the term of this Agreement, Business Associate will comply with all applicable federal, state and local laws, rules and regulations applicable to business associates and pertaining to patient records and the confidentiality of patient information, including Covered Entity's PHI.

ARTICLE III
OBLIGATIONS OF COVERED ENTITY

3.1 Covered Entity will notify Business Associate of any agreement Covered Entity makes regarding any restriction or requirement for confidential communication with respect to the use or disclosure of PHI, to the extent that such restriction agreement or confidential communication requirement may affect Business Associate's use or disclosure of PHI.

3.2 Covered Entity will: (i) use safeguards to maintain and ensure the confidentiality, privacy and security of PHI transmitted to Business Associate, until such PHI is received by

Business Associate; and (ii) inform Business Associate of any consent or authorization, including any changes in or withdrawal of any such consent or authorization, provided to the Covered Entity by an individual.

ARTICLE IV
TERM AND TERMINATION

4.1 This Agreement shall remain in effect until such time as the Services Agreement expires or is terminated.

(a) Except for the requirements set forth in Section 4.2, which shall survive as set forth therein, and except as otherwise provided in Section 4.1(b), this Agreement will terminate on the date that the Services Agreement is terminated or expires.

(b) This Agreement may be terminated by Covered Entity upon the breach of any material provision of this Agreement by Business Associate, which breach is not corrected within thirty (30) days after written notice of such breach is given to Business Associate. If cure of the breach and termination of this Agreement is not feasible, Covered Entity may report the breach to HHS as required by law.

4.2 Business Associate agrees that, upon termination of the Services Agreement and this Agreement, Business Associate will return or destroy all PHI received from or created or received on behalf of Covered Entity. In the event Business Associate determines that return or destruction is not feasible, Business Associate will extend the protections required in this Agreement to the PHI and limit further uses and disclosures to only those purposes that make the return or destruction of the information infeasible.

ARTICLE V
MISCELLANEOUS

5.1 Regulatory References. A reference to HIPAA or the HITECH Act, or a section thereof, and its regulations and requirements means the provisions and section(s) in effect, as may be modified or amended, including issuance of regulations and guidance by HHS.

5.2 Amendment. Both parties agree that the provisions of HIPAA and the HITECH Act, including provisions which apply to business associates and that are required to be incorporated into a HIPAA business associate agreement, are hereby incorporated into this Agreement as if set forth in this Agreement in their entirety and are effective as of the Effective Date. Notwithstanding the foregoing, the parties agree to take such action as is required by law to amend this Agreement pursuant to additional regulations or amendment of HIPAA and the HITECH Act.

5.3 Notices. Any notices to be delivered hereunder shall be delivered to the addresses set forth in and consistent with the requirements for delivery contained in, the Services Agreement. Notice shall be in writing and shall be deemed effective when personally delivered

or, if mailed, three (3) calendar days after the date deposited in the United States mail, first class, postage prepaid, to the addressee at its current business address.

5.4 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original and when taken together shall constitute one agreement.

5.5 Choice of Law. All issues and questions concerning the validity, enforcement and interpretation of this Agreement shall be governed by, and construed in accordance with, the laws of the state identified in the Services Agreement.

5.6 Voluntary Execution. Each party has read and understands this Agreement, and represents that this Agreement is executed voluntarily and should not be construed against any party hereto solely because it drafted all or a portion hereof.

5.7 Severability. If any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability will not affect any other provision and this Agreement will be reformed, construed, and enforced as if such invalid, illegal or unenforceable provision had never been contained herein.

5.8 No Modification. No modification of this Agreement will be effective unless made in writing and executed by each party hereto, except as otherwise provided hereunder.

5.9 Entire Agreement. This Agreement supersedes any and all prior agreements and understandings between the parties related to the subject matter hereof.

5.10 Independent Contractor. None of the provisions of this Agreement are intended to create any relationship between the parties other than that of independent entities contracting with each other for the purpose of effecting the provisions of this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Business Associate Agreement to be executed and delivered as of the day and year first above written.

COVERED ENTITY:	BUSINESS ASSOCIATE:
EAST ORANGE GENERAL HOSPITAL, INC.	PROSPECT MEDICAL HOLDINGS, INC.
SPECIMEN – DO NOT SIGN	SPECIMEN – DO NOT SIGN
BY: _____	BY: _____
NAME: _____	NAME: _____
ITS: _____	ITS: _____
DATE_____	DATE: _____

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EXHIBIT C
UNSECURED PROMISSORY NOTE

_____, 201__

Amount: $_____

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR APPLICABLE STATE SECURITIES LAWS. THIS NOTE IS BEING ACQUIRED FOR INVESTMENT AND MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF REGISTRATION UNDER THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS, OR AN OPINION OF COUNSEL THAT SUCH REGISTRATION IS NOT REQUIRED THEREUNDER.

Payee and Payor and various of their respective affiliates are parties to that certain Asset Purchase Agreement (the "Asset Purchase Agreement") and that certain Interim Management Advisory Services Agreement (the "Interim Agreement"), both of even date herewith. As set forth in the Interim Agreement, the parties desire for Payee to make available to Payor prior to the closing of the Asset Purchase Agreement (the "Closing") certain funds for use by Payor. The parties further desire to confirm their agreement regarding the repayment of such funds by Payor, either directly or through the application of such amounts toward satisfaction of other commitments undertaken by Payee pursuant to the Asset Purchase Agreement.

FOR VALUE RECEIVED, the undersigned ("Payor") promises to pay to the order of Prospect Medical Holdings, Inc. ("Payee") the sum of _____ Dollars ($_____), plus interest (if any) accrued hereunder. Principal due hereunder shall be payable at the Closing of the Asset Purchase Agreement ("Maturity"). As of such date, all amounts hereunder shall be deemed paid and satisfied in full by crediting Payee dollar for dollar against the amounts otherwise due pursuant to Section 12.1(d) of the Asset Purchase Agreement.

NOTWITHSTANDING THE FOREGOING, if the Asset Purchase Agreement is terminated for any reason prior to the Closing of the transactions contemplated thereby, except as set forth in Sections 2.5 and 3.3 of the Interim Agreement, then effective as of such termination date, Payor shall become obligated to repay the sum of all amounts previously advanced by Payee to Payor and the Advisory Service Fee, with the sum of such amounts treated as principal indebtedness due and owing from Payor to Advisor. Payor shall repay the principal indebtedness, plus interest accruing thereon at nine percent (9%) per annum commencing as of the date on which the Asset Purchase Agreement is terminated, in twelve (12) equal monthly installments commencing one month after such termination date. Payor may prepay any principal amounts payable hereunder without penalty, provided that any such prepayments shall be first applied to any accrued but unpaid interest hereunder. After the date of any Default (defined below), interest on the principal balance remaining from time to time unpaid shall be at

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the lower of the per annum rate of four percent (4%) in excess of the aforesaid rate or the maximum rate allowed by law.

Schedule 1 sets forth the dates and amount of advances hereunder ("Advances"), which Advances may be drawn by Payor from time to time in writing. Schedule 1 shall be updated from time to time to reflect the date and amount of each Advance and any repayment of any Advance. Schedule 1 shall also reflect the amount of the Advisory Services Fee. The Borrower may prepay hereunder.

Interest on this Note shall be computed based upon a 360-day year for the actual number of days elapsed. If payment is due and payable on a Saturday, Sunday or legal holiday, the due date shall be extended to the next business day.

Payor hereby waives presentment, demand, notice of dishonor, protest and all other notices whatsoever, and agrees that the Payee may in his sole discretion, from time to time, extend or renew this Note for any period of time and grant any releases, compromises, extensions, renewals or indulgences with respect to (i) this Note, or (ii) Payor, all without notice to or consent of Payor without affecting in any manner the Liabilities. Upon and after any Default, the Payee may in its sole discretion, declare any or all of the Liabilities to be immediately due and payable without notice or demand to the undersigned or any other person.

Payor shall pay Payee all costs and expenses incurred by Payee in connection with enforcement of this Note, including but not limited to reasonable attorneys' fees and costs for (i) enforcing any of Payee's rights and remedies, (ii) collecting the Liabilities. Until the Liabilities are fully paid, such costs and expenses shall be added to the Liabilities, be payable on demand and bear interest at the highest rate applicable under this Note.

Payee reserves the right to waive or refrain from waiving any right or remedy under this Note. No delay or omission on the part of Payee in exercising any right or remedy hereunder shall operate as a waiver of such right or remedy or of any other right or remedy under this Note or any other instrument, document, agreement or other writing relating thereto. A waiver on any one occasion shall not be deemed a waiver of any such right or remedy on any future occasion. No waiver shall be deemed to have been made, unless in writing and signed by an authorized officer of Payee.

The following definitions apply to the words and phrases used herein:

A. "Payee" shall include any legal holder of this Note, and their respective successors and assigns.

B. "Default" means any one or more of the following: (i) Payor fails to make timely payment of any amount due hereunder within thirty days after the date such payment is due; (ii) Payor's insolvency or inability to pay his debts as they mature; (iii) any written admission by Payor of the inability to pay any of his debts as they mature; (iv) the execution of any assignment

for the benefit of Payor's creditors or the filing or commencement of any proceedings for relief under the Bankruptcy Code, as amended, or insolvency laws or any laws relating to the relief of debtors, readjustment of any indebtedness, reorganization, composition, extension of debt, or the appointment of a receiver or a trustee for, by or against Payor.

C. "Liabilities" means any and all liabilities, obligations and indebtedness of Payor to Payee for payment of any and all amounts due under this Note.

D. "Maturity" means the Closing, as defined in the Asset Purchase Agreement.

This Note shall be binding upon Payor and his successors and assigns, and shall inure to the benefit of Payee and his successors and assigns.

SIGNED AND DELIVERED in _____, by the undersigned as of the ___ day of _____, 201__.

PAYOR:

EAST ORANGE GENERAL HOSPITAL, INC.

Signed:_____

Print Name:_____

Print Title:_____

MEI 17824161v.5

Schedule 1

Advance Amount	Date

Advisory Services Fee $_____

Prospect Medical Holdings, Inc.

Consolidated Financial Statements

For the Years Ended
September 30, 2014 and 2013

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.

Prospect Medical Holdings, Inc.

Consolidated Financial Statements

For the Years Ended September 30, 2014 and 2013

Prospect Medical Holdings, Inc.

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CONFIDENTIAL BUSINESS INFORMATION

Independent Auditor's Report

Board of Directors
Prospect Medical Holdings, Inc.
Los Angeles, California

We have audited the accompanying consolidated financial statements of Prospect Medical Holdings, Inc. (the "Company"), which comprise the consolidated balance sheets as of September 30, 2014 and 2013, and the related consolidated statements of income, statements of stockholder's deficit, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Prospect Medical Holdings, Inc. and its subsidiaries as of September 30, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

December 17, 2014

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.

Consolidated Financial Statements

Prospect Medical Holdings, Inc.

Consolidated Balance Sheets
(in thousands except par value and share amounts)

September 30,	**2014**	2013
Assets		
Current assets:		
Cash and cash equivalents	$ **39,072**	$ 86,315
Restricted cash	**4,976**	563
Investments, primarily restricted money market funds	**642**	637
Patient accounts receivable, net of allowance for doubtful accounts of $49,727 and $28,050	**123,733**	75,606
Due from government payers	**42,518**	27,408
Other receivables	**15,947**	8,034
Income taxes receivable, net	**57**	2,365
Deferred income taxes, net	**68,304**	8,254
Inventories	**10,448**	4,679
Hospital fee program receivable	**-**	18,895
Prepaid expenses and other current assets	**14,317**	8,967
Total current assets	**320,014**	241,723
Property, improvements and equipment, net	**229,474**	126,532
Deferred financing costs, net	**9,457**	11,625
Deferred income taxes, net	**-**	6,361
Goodwill	**158,864**	158,864
Intangible assets, net	**35,274**	31,325
Other assets	**8,234**	2,516
Total assets	$ **761,317**	$ 578,946

See accompanying notes to the consolidated financial statements.

CONFIDENTIAL BUSINESS INFORMATION

Prospect Medical Holdings, Inc.

Consolidated Balance Sheets
(in thousands except par value and share amounts)

September 30,	2014	2013
Liabilities and Stockholder's Deficit		
Current liabilities:		
Accrued medical claims and other healthcare costs payable	$ 39,314	$ 30,352
Accounts payable and other accrued liabilities	88,218	52,151
Accrued salaries, wages and benefits	53,808	30,057
Hospital fee program liability and deferred revenue	2,806	8,609
Due to government payers	26,584	19,634
Income taxes payable, net	5,879	1,288
Revolving line of credit	20,000	-
Current portion of capital leases	4,691	5,429
Current portion of long-term debt	133	178
Other current liabilities	1,659	485
Total current liabilities	243,092	148,183
Long-term debt, net of current portion	421,755	420,889
Deferred income taxes, net	70,447	24,869
Malpractice reserves	4,590	4,660
Capital leases, net of current portion	10,463	11,816
Asset retirement obligations	4,310	-
Other long-term liabilities	7,866	570
Total liabilities	762,523	610,987
Commitments, contingencies and subsequent events		
Stockholder's deficit:		
Common stock, $0.01 par value; 100 shares authorized, issued and outstanding at September 30, 2014 and 2013	1	1
Additional paid-in capital	18,457	15,334
Accumulated deficit	(28,481)	(47,496)
Total stockholder's deficit attributable to Prospect Medical Holdings, Inc.	(10,023)	(32,161)
Non-controlling interests	8,817	120
Total stockholder's deficit	(1,206)	(32,041)
Total liabilities and stockholder's deficit	$ 761,317	$ 578,946

See accompanying notes to the consolidated financial statements.

CONFIDENTIAL BUSINESS INFORMATION

Prospect Medical Holdings, Inc.

Consolidated Statements of Income
(in thousands)

For the Years Ended September 30,	**2014**	2013
Revenues:		
Net Hospital Services revenues	**$ 618,956**	$ 518,206
Provision for bad debts	**(32,945)**	(34,067)
Net Hospital Services revenues less provision for bad debts	**586,011**	484,139
Medical Group revenues	**253,980**	221,743
Other revenues	**14,525**	7,700
Total net revenues	**854,516**	713,582
Operating Expenses:		
Hospital operating expenses	**449,742**	348,961
Medical Group cost of revenues	**185,342**	164,457
General and administrative	**133,056**	99,935
Depreciation and amortization	**23,580**	16,814
Impairment of intangible assets	**-**	3,476
Total operating expenses	**791,720**	633,643
Operating income from unconsolidated joint venture	**3,356**	2,217
Operating income	**66,152**	82,156
Other (income) expense:		
Interest expense and amortization of deferred financing costs, net	**41,437**	38,860
Gain on bargain purchase	**(4,817)**	-
Other expense	**419**	244
Total other (income) expense, net	**37,039**	39,104
Income before income taxes	**29,113**	43,052
Income tax provision	**10,561**	9,810
Net income	**18,552**	33,242
Net income attributable to non-controlling interests	**(463)**	7
Net income attributable to Prospect Medical Holdings, Inc.	**$ 19,015**	$ 33,235

See accompanying notes to the consolidated financial statements.

CONFIDENTIAL BUSINESS INFORMATION

Prospect Medical Holdings, Inc.

Consolidated Statements of Stockholder's Deficit
(in thousands except share amounts)

	Number of Common Shares	Common Stock	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Prospect Medical Holdings, Inc. Stockholder's Deficit	Non-controlling Interests	Total Stockholder's Deficit
Balance at September 30, 2012	100	$ 1	$ 11,634	$ 19,269	$ 30,904	$ 113	$ 31,017
Options exercised	-	-	105	-	105	-	105
Stock-based compensation	-	-	3,595	-	3,595	-	3,595
Distribution to Ivy Holdings Inc. (Parent)	-	-	-	(100,000)	(100,000)	-	(100,000)
Net income	-	-	-	33,235	33,235	7	33,242
Balance at September 30, 2013	100	1	15,334	(47,496)	(32,161)	120	(32,041)
Stock-based compensation	-	-	2,673	-	2,673	-	2,673
Investment in Chaparral Medical Group (see Note 1)	-	-	450	-	450	-	450
Non-controlling interest attributed to PCC Seller (see Note 4)	-	-	-	-	-	9,160	9,160
Net income	-	-	-	19,015	19,015	(463)	18,552
Balance at September 30, 2014	100	$ 1	$ 18,457	$ (28,481)	$ (10,023)	$ 8,817	$ (1,206)

See accompanying notes to the consolidated financial statements.

CONFIDENTIAL BUSINESS INFORMATION

Prospect Medical Holdings, Inc.

Consolidated Statements of Cash Flows
(in thousands)

For the Years Ended September 30,	2014	2013
Operating activities		
Net income	$ 18,552	$ 33,242
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	23,580	16,814
Amortization of deferred financing costs, net	2,218	2,071
Amortization of original issue discount and premium, net	992	1,002
Provision for bad debts	32,945	34,067
Deferred income taxes, net	(8,111)	(340)
Stock-based compensation	2,673	3,595
Income from equity method investments	(178)	-
Impairment of intangible assets	-	3,476
Loss on disposal of assets	-	28
Gain on bargain purchase	(4,817)	-
Changes in operating assets and liabilities, net of business combinations:		
Patient accounts receivable and other receivables	(50,596)	(47,956)
Due to/from government payers, net	(8,827)	(14,962)
Prepaid expenses and other current assets	(1,682)	560
Hospital fee program receivable	18,895	14,578
Inventories	(814)	(12)
Hospital fee program liability and deferred revenue	(5,803)	(11,168)
Income taxes payable/receivable, net	6,899	(10,286)
Deposits and other assets	1,338	(960)
Accrued medical claims and other healthcare costs payable	8,962	3,367
Accounts payable and other accrued liabilities	16,177	11,831
Net cash provided by operating activities	52,403	38,947
Investing activities		
Purchases of property, improvements and equipment	(50,107)	(14,283)
Cash paid for acquisitions, net of cash received and working capital adjustments	(58,300)	(3,085)
Cash paid for investment in Chaparral Medical Group, Inc. (see Note 1)	(1,100)	-
Change in note receivable (net)	66	63
Increase in restricted investments	(5)	(3)
Net cash used in investing activities	(109,446)	(17,308)
Financing activities		
Borrowings of 2019 Notes	-	102,000
Borrowings on line of credit, net	20,000	-
Repayments of long-term debt	(176)	(211)
Repayments on SCH Culver City Creditors Trust Note	-	(500)
Repayments of capital leases	(5,435)	(4,370)
Cash paid for deferred financing costs, net	(50)	(3,948)

CONFIDENTIAL BUSINESS INFORMATION

Prospect Medical Holdings, Inc.

Consolidated Statements of Cash Flows (Continued)
(in thousands)

For the Years Ended September 30,	2014	2013
Change in restricted cash	(2,676)	(300)
Cash paid for lender consent fees - 2019 Notes	-	(8,914)
Distribution to Ivy Holdings Inc. (Parent)	-	(100,000)
Proceeds from exercises of stock options and warrants	-	105
Repayments of insurance premium financing	(1,863)	(1,613)
Net cash provided by (used in) financing activities	9,800	(17,751)
(Decrease) Increase in cash and cash equivalents	(47,243)	3,888
Cash and cash equivalents, beginning of year	86,315	82,427
Cash and cash equivalents, end of year	$ 39,072	$ 86,315
Supplemental disclosure of cash flow information		
Interest paid	$ 37,608	$ 32,435
Income taxes paid, net	$ 12,004	$ 20,438
Schedule of non-cash investing and financing activities		
Equipment acquired under capital leases	$ 2,028	$ 4,274
Building lease capitalized	$ -	$ 5,675
Tenant improvement allowance	$ -	$ 1,227
Conversion of note payables to capital leases	$ -	$ 804
Insurance premium financed	$ 1,842	$ 1,635
Long-term liability assumed from acquisition of PCC (see Note 4)	$ 6,440	$ -

See accompanying notes to the consolidated financial statements.

CONFIDENTIAL BUSINESS INFORMATION

1. Organization

Prospect Medical Holdings, Inc. ("Prospect" or the "Company" or the "Parent Entity") is a Delaware corporation and a wholly owned indirect subsidiary of Ivy Holdings Inc. ("Ivy Holdings").

During the year ended September 30, 2013, the Company incorporated Prospect Health Plan, Inc. ("PHP"), a Delaware corporation and a wholly owned indirect subsidiary of Prospect. On November 4, 2014, the California Department of Managed Health Care ("DMHC") approved PHP's application and issued its license to operate as a Knox-Keene Health Care Service Plan for the purpose of managing "plan-to-plan" contracts with fully licensed Medicare Advantage ("MA") health plans. As part of the strategic effort to expand the Company's plan-to-plan global capitation structure into other geographic markets, Prospect Health Services, Inc. ("PHS") and Prospect Health Services RI, Inc. ("PHSRI") were incorporated during the year ended September 30, 2014, in Texas and Rhode Island, respectively. Collectively, PHP, PHS, and PHSRI will become a new segment in Prospect's operations. For the year ended September 30, 2014, PHP, PHS, and PHSRI did not have any operations.

The Company's operations are currently organized into three primary reportable segments: Hospital Services, Medical Group and Corporate, as discussed below.

Hospital Services Segment

The Company owns 13 acute care and behavioral hospitals and extended care facilities in Southern California, the Greater San Antonio, Texas region, and Rhode Island with a total of 2,258 licensed beds, and a network of specialty and primary care clinics, through its subsidiaries, Southern California Healthcare System, Inc. ("SCHS"), Alta Los Angeles Hospitals, Inc. ("Alta Los Angeles Hospitals"), Alta Newport Hospital, Inc., Prospect Hospital Holdings, LLC ("Nix Health"), and Prospect CharterCARE, LLC ("PCC") (collectively, the "Hospital Services segment"). The Hospital Services segment subsidiaries are wholly owned by Prospect, except for PCC, in which Prospect has an 85% interest (see Note 4).

Effective January 1, 2013, the Company merged its Brotman Medical Center subsidiary into its Alta Hollywood Hospitals, Inc. subsidiary. The surviving entity was renamed Southern California Healthcare System, Inc. on June 26, 2013. In connection with the merger, the Company changed the names of the hospitals owned by SCHS to Southern California Hospital at Hollywood ("SCH Hollywood") fka Hollywood Community Hospital, Southern California Hospital at Van Nuys ("SCH Van Nuys") fka Van Nuys Community Hospital, and Southern California Hospital at Culver City ("SCH Culver City") fka Brotman Medical Center.

Effective April 16, 2013, Nix Health acquired Community General Hospital of Dilley, Texas, Inc., through its newly created subsidiary, Nix Community General Hospital, LLC ("Nix CGH"). Nix CGH operates a hospital with 18 licensed beds in the city of Dilley, Texas.

Effective May 6, 2014, Prospect acquired substantially all of the assets and associated real estate of Newport Specialty Hospital ("NSH") through Prospect's newly created subsidiary, Alta Newport Hospital, Inc., and Bellflower Medical Center (subsequently renamed Los Angeles Community Hospital at Bellflower or "LACH Bellflower") through Prospect's subsidiary Alta Los Angeles Hospitals, Inc. NSH, located in Tustin, California, was substantially closed in 2013 except for its pediatric sub-acute unit. LACH Bellflower, located in Bellflower, California, was closed in 2013 and has been non-operational since that time. Prospect intends to fully reopen both facilities, including maintaining the NSH pediatric sub-acute unit.

Effective June 20, 2014, Prospect acquired, through its subsidiary, PCC, substantially all of the assets of CharterCARE Health Partners and its subsidiaries. PCC's operating subsidiaries include Prospect CharterCARE RWMC, LLC ("Roger Williams Medical Center"), Prospect CharterCARE SJHSRI, LLC ("St. Joseph Health Services of Rhode Island"), and Prospect CharterCARE Elmhurst, LLC ("Elmhurst Extended Care"), which include hospitals, medical centers and assisted living facilities located in Rhode Island with 785 licensed beds (collectively, "CharterCARE"). PCC is 85% owned by Prospect and 15% by CharterCARE Community Board (formerly known as CharterCARE Health Partners).

The Company's three community hospitals in Hollywood, Los Angeles and Norwalk offer a comprehensive range of medical and surgical services, including general acute care hospital services, pediatrics, obstetrics and gynecology, pediatric sub-acute care, general surgery, medical-surgical services, orthopedic surgery, and diagnostic, outpatient, skilled nursing and urgent care services. The Company's psychiatric hospital in Van Nuys provides acute inpatient and outpatient psychiatric services on a voluntary basis. SCH Culver City offers a comprehensive range of inpatient and outpatient services, including general surgery, orthopedic, spine, cardiology, diagnostic outpatient, rehabilitation, psychiatric and detox services. In addition, SCH Culver City has an active emergency room that plays an integral part in providing emergency services to the West Los Angeles area.

Nix Health provides comprehensive service offerings at various locations throughout the greater San Antonio, Texas region. These locations include Nix Medical Center, which provides inpatient acute care, geriatric psychiatry services, and emergency room services, Nix Specialty Health Center, which provides a full range of behavioral health and rehabilitation services for children, adolescents, and adults, and a range of health clinics and provider based clinics throughout San Antonio, Texas, and Nix CGH, which operates an inpatient acute hospital in Dilley, Texas and a medical clinic in Pearsall, Texas. Nix Health also opened a 73-bed behavioral health center during the year ended September 30, 2014, which provides psychiatric emergency services and crisis intervention unit.

CharterCARE provides a comprehensive range of services at both Roger Williams Medical Center and St. Joseph's Health Services Rhode Island as well as multiple levels of elder care at Elmhurst Extended Care.

Admitting physicians are primarily practitioners in the local area. The hospitals have payment arrangements with Medicare, Medicaid (Medi-Cal in California) and other third party payers, including commercial insurance carriers, health maintenance organizations ("HMOs") and preferred provider organizations ("PPOs").

Medical Group Segment

The Medical Group segment is a healthcare management services organization that provides management services to affiliated physician organizations that operate as independent physician associations ("Medical Groups" or "IPAs"). The affiliated physician organizations enter into agreements with HMOs to provide HMO enrollees with a full range of medical services in exchange for fixed, prepaid monthly fees known as "capitation" payments. The Medical Groups contract with physicians (primary care and specialist) and other healthcare providers to provide enrollees with all medical services. Prospect currently manages the provision of prepaid healthcare services for its affiliated physician organizations in Southern California. The network consists of the following physician organizations as of September 30, 2014 (stand alone or individually referred to as, an "Affiliate"):

Prospect Medical Group, Inc. ("PMG")
Prospect Health Source Medical Group, Inc. ("PHS")

Prospect Professional Care Medical Group, Inc. ("PPCM")
Genesis HealthCare of Southern California, Inc. ("Genesis")
Prospect NWOC Medical Group, Inc. ("PNW")
StarCare Medical Group, Inc. ("PSC")
AMVI/Prospect Medical Group ("AMVI/Prospect")
Nuestra Familia Medical Group, Inc. ("Nuestra")
Upland Medical Group, a Professional Medical Group ("UMG")*
Pomona Valley Medical Group, Inc. ("PVMG")*

* PVMG and UMG are collectively referred to as the "ProMed Entities."

These Affiliates are managed by the following two medical management company subsidiaries that are wholly-owned by Prospect:

Prospect Medical Systems, Inc. ("PMS")
ProMed Healthcare Administrators ("PHCA")

All of the Affiliates are wholly-owned by PMG, with the exception of Nuestra, which was 66.95% owned by PMG as of September 30, 2014, and AMVI/Prospect which is a 50/50 Joint Venture between AMVI Care Health Network, Inc. ("AMVI") and PMG. The operations of all of these entities, with the exception of AMVI/Prospect, are consolidated in the accompanying consolidated financial statements. PMG is owned by a nominee physician shareholder pursuant to an assignable option agreement described below.

PMG's ownership in Nuestra increased from 62% as of September 30, 2013 to 66.95% as of September 30, 2014. On October 7, 2013, Nuestra repurchased 109 shares from a physician shareholder that left Nuestra's group medical practice for a de minimis purchase price in accordance with Nuestra's Agreement Concerning Shares of the Company dated September 19, 1995. The repurchase increased the share percentage holdings of all remaining shareholders and Prospect's percentage rose to 66.95% as of October 7, 2013.

The AMVI Joint Venture was formed for the sole purpose of combining enrollment in order to meet minimum enrollment levels required for participation in the CalOptima Medicaid (Medi-Cal in California) program in Orange County, California. The joint venture ownership is set at 50/50 to prevent either party from exerting control over the other; however, AMVI's and PMG's businesses are operated autonomously, and enrollees, financial results and cash flows are each separately tracked and recorded. In accordance with the joint venture partnership agreement, profits and losses are not split in accordance with the partnership ownership interest, but rather, are directly tied to the results generated by each separate portion of the business. Separate from any earnings the Company generates from PMG's portion of business within the joint venture, the Company also earns fees for management services PMS provides to PMG's partner in the joint venture. The Company accounts for PMG's interest in the joint venture partnership using the equity method of accounting. The Company includes in the consolidated financial statements only the net results attributable to those enrollees specifically identified as assigned to the Company, together with the management fee that PMS charges for managing those enrollees specifically assigned to the other joint venture partner.

PMS has entered into an assignable option agreement with PMG and the nominee physician shareholder of PMG. Under the assignable option agreement, Prospect has an assignable option, obtained for a nominal amount from PMG and the nominee shareholder to designate the purchaser (successor physician) for all or part of PMG's issued and outstanding stock held by the nominee physician shareholder (the "Stock Option") in its sole discretion. The Company may also assign the assignable option agreement to any person. The assignable option agreement has an initial term of 30 years and is

automatically extended for additional terms of 10 years each, as long as the term of the related management services agreement described below (the "Management Agreement") is automatically extended. Upon termination of the Management Agreement with PMG, the related Stock Option would be automatically and immediately exercised. The Stock Option may be exercised for a purchase price of $1,000. Under these nominee shareholder agreements, Prospect has the unilateral right to establish or effect a change of the nominee, at will, and without the consent of the nominee, on an unlimited basis and at nominal cost throughout the term of the Management Agreement. In addition to the Management Agreement with PMG, Prospect, through one of its management company subsidiaries, has a management agreement with each Affiliate. The term of the Management Agreements is generally 30 years. PMG is the sole shareholder of PHS, PPCM, Genesis, PNW, PSC, UMG, and PVMG.

The Company's Affiliates have entered into Management Agreements with PMS or PHCA, as applicable (each of which is a wholly-owned subsidiary of Prospect). Each Affiliate has agreed to pay a management fee to PMS or PHCA, as applicable. The fee is based in part on the costs to the management company and on a percentage of revenues the Affiliate receives (i) for the performance of medical services by the Affiliate's employees and independent contractor physicians and physician extenders, and (ii) for all other services performed by the Affiliates. The revenue from which this fee is determined includes medical capitation, all sums earned from participation in any risk pools and all fee-for-service revenue earned. The management fee also includes a fixed amount for marketing and public relations services. Except in the case of Nuestra and AMVI/Prospect, the Management Agreements had initial terms of 30 years, renewable for successive 10-year periods thereafter, unless terminated by either party for cause. Effective September 1, 2013, the Managements Agreements for the ProMed Entities were consolidated under one new Management Agreement with PHCA. Effective October, 1, 2013, the Management Agreements for the rest of the Affiliates, other than Nuestra and AMVI/Prospect, were consolidated under one new Management Agreement with PMS. Those two new Management Agreements with PHCA and PMS include initial five year terms and are renewable for successive five year periods thereafter. In the case of Nuestra, its Management Agreement had an initial 10 year term renewable for successive one year terms, subsequently amended in January 15, 2009 to an initial 20 year term renewable for two 10 year periods. In the case of AMVI/Prospect, the Management Agreement has a one year term with successive one year renewal terms. In return for payment of the management fee, Prospect (through PMS and PHCA) has agreed to provide financial management, information systems, marketing, advertising, public relations, risk management, and administrative support, including for utilization review and quality of care. At its cost, Prospect has assumed the obligations for all facilities, medical and non-medical supplies, and employment of non-physician personnel of its affiliated medical clinics.

The management fee earned by Prospect fluctuates based on the profitability of each wholly-owned Affiliate. Prospect is allocated a 50% residual interest in any profits after the first 8% of the profits. The remaining balance is retained by the Affiliates.

The Management Agreements are not terminable by the Affiliates except in the case of gross negligence, fraud or other illegal acts of Prospect, or bankruptcy of the Company.

Further, Prospect's rights under the Management Agreements are unilaterally saleable or transferable. Based on the provisions of the Management Agreements and the assignable option agreement with PMG, Prospect has determined that it has a controlling financial interest in the Affiliates, with the exception of AMVI/Prospect. Consequently, under applicable accounting principles, Prospect consolidates the revenues and expenses of all the Affiliates except AMVI/Prospect from the respective dates of execution of the Management Agreements. All significant inter-entity balances have been eliminated in consolidation. In the case of AMVI/Prospect, only that portion of the results which are contractually

identified as Prospect's are recognized in the consolidated financial statements, together with the management fee that the Company charges AMVI for managing AMVI's share of the joint venture operations.

Prospect has also entered into management agreements with unaffiliated third parties to manage services to their HMO enrollees. These management agreements do not have characteristics that give rise to the consolidation of the entities under current accounting literature.

The affiliated physician organizations provided medical services to a combined total of approximately 264,600 and 186,100 HMO enrollees as of September 30, 2014 and 2013, respectively. The enrollees include approximately 87,000 and 34,400 enrollees that the Company manages for the economic benefit of six independent third parties, and for which the Company earns management fee income as of September 30, 2014 and 2013, respectively. The total paid member months including managed enrollees, for the fiscal years ended September 30, 2014 and 2013 was 2,785,000 and 2,193,000, respectively.

Effective October 1, 2012, the Company, through its newly created affiliate, New Genesis Medical Associates, Inc. ("NGMA"), dba Genesis Medical Clinic, acquired substantially all of the assets of a physician medical practice located in Orange County, California. NGMA is controlled through a nominee shareholder arrangement like the Stock Option structure utilized for PMG and discussed above.

On December 19, 2013, the Company, through its subsidiary NGMA, purchased stock of Chaparral Medical Group, Inc. ("CMG"), a California medical corporation. Consideration was composed of $1,100,000 in cash at the closing, $700,000 in future cash consideration to be used for the acquired company's general corporate purposes, and 3,750 shares of Ivy Holdings common stock issued at closing to the selling shareholders. After payment of the entire consideration, including the future cash consideration, Prospect will own 17.29% of the stock of CMG. Pursuant to the terms of the stock purchase agreement, Prospect will have the right and option to make additional stock investments at the same share valuations and prices and upon the same applicable terms and conditions as the initially acquired shares, to bring its aggregate ownership up to 50%. CMG is a 60 physician multi-specialty group serving communities primarily in the Los Angeles and San Bernardino counties. The Company accounts for NGMA's interest in CMG using the equity method as the Company has the ability to exercise significant influence over the operating and financial policies of CMG.

Corporate Segment

The Corporate segment reflects certain expenses incurred at the Parent Entity not specifically allocable to the Hospital Services or Medical Group segments. These include, but are not limited to: salaries, benefits and other compensation for corporate employees; financing expenses; insurance expenses; rent; legal fees; and accounting fees. The Company does not allocate interest expense related to acquisition debt or income taxes to the other reporting segments.

2. Significant Accounting Policies

Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of all controlled subsidiaries, which control is effectuated through ownership of voting common stock or by other means, but do not include the accounts of the parent companies, Ivy Holdings and Ivy Intermediate Holding Inc.

The Medical Group entities (subsidiaries) have been determined to be variable interest entities due to the existence of a call option under which the Company has the ability to require the holders of all of the voting common stock of the underlying subsidiaries to sell their shares at a fixed nominal price ($1,000) to another designated physician chosen by the Company. This call option agreement represents rights provided through a variable interest other than the equity interest itself that caps the returns that could be earned by the equity holders. In addition, the Company has a management agreement with the subsidiaries and the holders of the voting common stock of the subsidiaries which allows the Company to direct all of the activities of the subsidiaries, retain all of the economic benefits and assume all of the risks associated with ownership of the subsidiaries. In this manner, the Company has all of the economic benefits and risks associated with the subsidiaries but has disproportionately few voting rights (based on the terms of the equity). As the Company retains all of the economic benefits and assumes all of the risks associated with ownership of the subsidiaries, the Company is considered to be the primary beneficiary of the activities of the subsidiaries and therefore must consolidate the underlying subsidiaries.

Operating results for NGMA, Nix CGH, CMG, NSH and LACH Bellflower, and PCC are consolidated with the Company's financial statements from their acquisition dates or inception date in the case of LACH Bellflower (October 1, 2012, April 16, 2013, December 19, 2013, May 6, 2014, and June 20, 2014 respectively) (see Note 4). All significant intercompany balances and transactions have been eliminated in consolidation.

Reclassifications

Certain reclassifications were made to the 2013 consolidated financial statements in order to conform to the 2014 presentation.

Revenues

Revenues by reportable segment are comprised of the following amounts (in thousands):

For the Years Ended September 30,	**2014** *(a)*	2013 *(b)*
Net Hospital Services		
Inpatient	$ **440,961**	$ 403,183
Outpatient	**96,802**	63,382
Capitation	**70,077**	44,923
Other	**11,116**	6,718
Total Hospital Services revenues	**618,956**	518,206
Less: Provision for bad debts	**(32,945)**	(34,067)
Total net Hospital Services revenues less provision for bad debts	**586,011**	484,139
Medical Group		
Capitation	**244,573**	215,971
Management fees	**6,586**	2,352
Other	**2,821**	3,420
Total Medical Group revenues	**253,980**	221,743
Other revenues	**14,525**	7,700
Total net revenues	$ **854,516**	$ 713,582

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(a) CMG, NSH, and PCC revenues have been included in the accompanying consolidated financial statements for the period from acquisition, December 19, 2013, May 6, 2014, and June 20, 2014, respectively, through September 30, 2014.

(b) NGMA and Nix CGH revenues have been included in the accompanying consolidated financial statements for the period from acquisition, October 1, 2012 and April 16, 2013, respectively, through September 30, 2013.

Hospital Services Segment

Net Patient Service Revenues

Operating revenue of the Hospital Services segment consists primarily of net patient service revenue. The Company reports net patient service revenue at the estimated net realizable amounts from patients and third-party payers and others in the period in which services are rendered. The Company has agreements with third-party payers, including Medicare, Medicaid (Medi-Cal in California), managed care and other insurance programs that are paid at negotiated rates. These payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments, as further described below. Estimates of contractual allowances are based upon the payment terms specified in the related contractual agreements. The Company accrues for amounts that it believes may ultimately be due to or from the third-party payers. Normal estimation differences between final settlements and amounts accrued in previous years are reported as changes in estimates in the current year. Outstanding receivables, net of allowances for contractual discounts and bad debts, are included in patient accounts receivable in the accompanying consolidated balance sheets.

The following is a summary of sources of patient service revenues (net of contractual allowances and discounts) before provision for bad debts:

September 30,	**2014**	2013
Medicare	**$ 224,984**	$ 211,482
Medicaid	**189,668**	158,048
Managed Care	**95,853**	77,390
Self Pay/Other	**27,258**	19,645
Capitation	**70,077**	44,923
Other	**11,116**	6,718
Total	**$ 618,956**	$ 518,206

A summary of the payment arrangements with major third-party payers follows:

Medicare: Medicare is a federal program that provides certain hospital and medical insurance benefits to persons aged 65 and over, some disabled persons with end-stage renal disease and certain other beneficiary categories. Inpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge, according to a patient classification system based on clinical, diagnostic, and other factors. Outpatient services are paid based on a blend of prospectively determined rates and cost-reimbursed methodologies. The Company is also reimbursed for various disproportionate share and Medicare bad debt components at tentative rates, with final settlement determined after submission of the annual Medicare cost report and audit thereof by the Medicare fiscal intermediary. Normal estimation differences between filed settlements and amounts accrued are reflected in net patient service revenue.

Cost report settlement estimates are recorded based upon as-filed cost reports and are usually not adjusted until a final Notice of Program Reimbursement ("NPR") is issued. The latest updated SSI ratios for 2012 were issued on June 12, 2014. To date, the Company has received final NPRs for Brotman Medical Center, Inc. through 2011 for cost report years prior to its merger into the Alta Hollywood Hospitals, Inc. subsidiary, SCH Hollywood through 2010, Alta Los Angeles Hospitals through 2010, and Nix Health through 2011. Additionally, the Company joined a second round of litigation relating to Medicare's recent settlement with providers relating to the manner in which the Centers for Medicare and Medicaid Services ("CMS") handled the budget neutrality adjustment associated with the rural floor wage index in setting the Medicare inpatient prospective system rates ("Rural Floor"). The Company entered into a settlement agreement with CMS and, as a result, Alta Los Angeles Hospitals, SCH Culver City, and CharterCARE recognized a net benefit of $2,495,000, $1,230,000, and $1,672,000, respectively, during the year ended September 30, 2014 related to the Rural Floor litigation.

Medicaid: Medicaid is a joint federal-state funded healthcare benefit program that is administered by states to provide benefits to qualifying individuals who are unable to afford care. The Company receives reimbursements under the Medicaid program at prospectively determined rates for both inpatient and outpatient services. Medi-Cal is the version of the federal Medicaid program that is applicable to California residents. Inpatient services rendered to Medi-Cal fee-for-service program beneficiaries in California are in the process of a three-year transition to payment at prospectively determined rates based on diagnosis related groups from a contracted per diem rate. Outpatient services are paid based on prospectively determined rates per procedure provided. Inpatient and outpatient services rendered to Medi-Cal managed care beneficiaries in California are paid at either contracted rates or at the Medi-Cal fee-for-service rates. The SCHS and Alta Los Angeles Hospitals are eligible to participate in the State of California Medi-Cal Disproportionate Share ("DSH") programs, under which medical facilities that serve a disproportionate number of low-income patients receive additional reimbursements. Eligibility is determined annually based on prescribed guidelines. Prior to the merger of SCH Culver City with the SCH Hollywood and SCH Van Nuys Hospitals, SCH Culver City did not participate in the program. The Company accrues revenue based on the expected total annual DSH awards. Differences between the estimated and the actual awards are recorded in the period they become known. DSH amounts are subject to retrospective revision prior to finalization and such revisions could lead to material retractions. The Company records retrospective retractions when they are estimable and probable. Retrospective additional DSH revenues are recorded when the amounts are received. The Medi-Cal DSH receivable as of September 30, 2014 and 2013 totaled approximately $9,094,000 and $5,437,000, respectively, and were included in due from government program payers in the accompanying consolidated balance sheets. For fiscal years ended September 30, 2014 and 2013, total Medi-Cal DSH payments received by the SCHS and Alta Los Angeles Hospitals were approximately $16,325,000 and $11,618,000, respectively, and total Medi-Cal DSH revenues recorded were approximately $20,475,000 and $11,218,000, respectively. Additionally, pursuant to an audit of Medi-Cal cost reports and notification sent to the Company, the Company accrued a cost report liability payable to Medi-Cal of $1,803,000 and $1,316,000 as of September 30, 2014 and 2013, respectively.

During the fourth quarter of fiscal 2011, the Company's SCHS and Alta Los Angeles Hospitals received notification that the DSH amounts received related to the State fiscal year 2009-2010 were being re-examined and that the DSH amounts to be received for State fiscal years 2010-2011 would be significantly reduced. The notification was the result of legislation that extended payments under Senate Bill 90 ("SB 90"). During the year ended September 30, 2013, the Company recorded a reduction of $2,146,000 in Medi-Cal DSH revenue related to this matter. The matter had no impact on Medi-Cal DSH revenue during the year ended September 30, 2014.

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Certain of the Company's California hospitals also participate in *the California Hospital Fee Program* (see Note 10).

In Texas, the Medicaid program reimburses under prospectively determined rates for both inpatient and outpatient services. Medicaid reimbursement may be subject to periodic adjustment, as well as to changes in existing payment levels and rates, based on the amount of funding available to the Medicaid program. Nix Health has also been receiving payments from the Texas Health and Human Services Commission under the Section 1115 Waiver ("the waiver") that was recently granted to the state of Texas by CMS. Under the first year of the waiver ending September 30, 2012, a transition payment was paid to Nix Health based upon prior levels of payment under the "Upper Payment Limit" ("UPL") program, which the waiver replaced. Payments for years two through five under the waiver are based upon two pools. One pool is for payments for uncompensated care ("UCC") which includes the shortfall in Medicaid reimbursement as compared to cost and the cost of providing services to uninsured patients. The other pool is the Delivery System Reform Initiative Payments ("DSRIP"), where approved programs and services are undertaken to improve access and services provided. Programs are established by regions and approved by the Texas Health and Human Services Commission and CMS. These programs are assigned a value and milestones are established to measure success and the timing and level of payment from the DSRIP funds. Nix Health recorded revenue related to the UCC pool of $12,366,000 and $12,804,000 for the years ended September 30, 2014 and 2013, respectively. Revenue recorded related to the DSRIP pool was $9,801,000 and $7,078,000 for the years ended September 30, 2014 and 2013, respectively. At September 30, 2014 and 2013, amounts receivable under the Section 1115 Waiver totaled $23,145,000 and $14,781,000, respectively.

Nix Health also recorded $5,746,000 and $9,477,000 during the years ended September 30, 2014 and 2013, respectively, in costs for rural community provision of services. At September 30, 2014 and 2013, amounts payable related to such costs amounted to $0 and $4,754,000, respectively.

The CharterCARE hospitals are participants in the State of Rhode Island's DSH program, which was established in 1995 to assist hospitals that provide a disproportionate amount of uncompensated care. Under the program, Rhode Island hospitals, including the CharterCARE hospitals, receive federal and state Medicaid funds as additional reimbursement for treating a disproportionate share of low income patients. Total DSH payments received and revenues recorded by the CharterCARE hospitals were $3,524,000 from June 20, 2014 (acquisition date) through September 30, 2014. The State of Rhode Island also assesses a license fee to all hospitals in Rhode Island based on each hospital's net patient revenue. The CharterCARE hospitals recorded $4,036,000 of expense from June 20, 2014 through September 30, 2014 as a result of the license fee.

Managed Care: The Company has also entered into payment agreements with certain commercial insurance carriers, HMOs, and PPOs. The basis for payment under these agreements is in accordance with negotiated contracted rates or at the Company's standard charges for services provided. Some of these payments are capitated, meaning that the Company receives an agreed amount per patient for providing an agreed range of services.

Self-Pay: Self-pay patients represent those patients who do not have health insurance and are not covered by some other form of third party arrangement. Such patients are evaluated, at the time of services or shortly thereafter, for their ability to pay based upon federal and state poverty guidelines, qualifications for Medicaid, as well as the Company's local hospital's indigent and charity care policy.

See "Concentrations of Credit Risks" below for discussion of revenues received from the Medicare and Medicaid programs.

The Company accrued $895,000 of liabilities as of September 30, 2013 for ongoing Recovery Audit Contractor ("RAC") audits and other similar programs. Effective August 29, 2014, CMS provided a simplified process and timely partial payment to settle certain previously denied claims with dates of service prior to October 1, 2013 whereby such claims under appeal that had been retracted by CMS were settled with the provider receiving 68% of the face value. As a result, the Company recorded $3,887,000 in revenue during the year ended September 30, 2014 related to claims which were previously subject to ongoing RAC audits and other similar programs.

SCH Culver City Outlier Liability

Following the acquisition of a majority stake in SCH Culver City, effective April 14, 2009, the Company consolidated SCH Culver City's estimated liability to CMS arising out of outlier payments received for services provided by the hospital to Medicare eligible inpatients, primarily for the last four months of calendar year 2005 and all of calendar year 2006.

While SCH Culver City reports financial statements on a fiscal year ending September 30, Medicare cost reports are filed on a calendar year basis. Acute care hospitals receive Medicare reimbursement payments pursuant to a prospective payment methodology primarily based on the diagnosis of the patient, but are entitled to receive additional payments, referred to as "outliers" for patients whose treatment is very costly. When Brotman Medical Center, Inc. acquired the hospital in 2005, CMS provided a ratio of cost to charges (the "RCC") based on the statewide average. Payments received by SCH Culver City on this basis were an interim estimate, subject to final determination upon auditing of SCH Culver City's cost reports. SCH Culver City filed its Medicare cost reports, but determined that its outlier reimbursement for services provided in fiscal years 2005, 2006 and part of 2007 might be subject to adjustment based on certain outlier reconciliation rules. On October 12, 2012, SCH Culver City received from its Medicare fiscal intermediary a proposed outlier adjustment for Medicare fiscal year 2006 in the amount of $12,785,000. SCH Culver City had previously been notified of an adjustment of $2,149,000 for 2005. As of September 30, 2014 and 2013, the Company has accrued $13,834,000 of the estimated $14,934,000 liability to CMS included in the accompanying consolidated balance sheets. The difference between the $14,934,000 asserted by CMS and the $13,834,000 accrued by the Company relates to accrued interest of approximately $1,100,000. The Company does not agree, however, with the outlier reconciliation liability. Accordingly, in accordance with relevant literature related to accounting for contingencies, the Company has recorded to the lower end of the range. In March 2013, the Company received a notice of program reimbursement for the 2006 cost report year which approximated the October 2012 adjustment. The Medicare fiscal intermediary has placed the recoupment on hold while the Company is currently in discussions with CMS to resolve this issue. The ultimate resolution of this item is unknown at this stage. The Company has also filed an appeal of the outlier issue with the Provider Reimbursement Review Board for the 2006 cost reporting period since it received a notice of program reimbursement for the 2006 cost report. The ultimate resolution of this appeal is unknown at this stage.

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The following is a summary of due from and due to governmental payers at September 30 (in thousands):

September 30,	2014	2013
Due from government payers:		
Medi-Cal Disproportionate Share (DSH)	$ 9,094	$ 5,437
Medicare cost report settlements	10,279	7,191
Medicaid Section 1115 receivable	23,145	14,780
	$ 42,518	$ 27,408
Due to government payers:		
Outlier liability	$ 13,834	$ 13,834
Medicare cost report settlements	10,947	4,484
Medi-Cal cost report settlements	1,803	1,316
	$ 26,584	$ 19,634

The Company is not aware of any material claims, disputes, or unsettled matters with any payers that would affect revenues that have not been adequately provided for and disclosed in the accompanying consolidated financial statements.

Charity Care

The Company provides charity care to patients whose income level is below 300% of the Federal Poverty Level. Patients with income levels between 300% and 350% of the Federal Poverty Level qualify to pay a discounted rate under the requirements of California State Assembly Bill 774 (AB 774) based on various government program reimbursement levels. Patients without insurance are offered assistance in applying for Medicaid and other programs they may be eligible for, such as state disability. Patient advocates from the Company's Medical Eligibility Program ("MEP") screen patients in the Hospital and determine potential linkage to financial assistance programs. They also expedite the process of applying for these government programs. The approximate cost of providing charity care was $2,029,000 and $1,003,000 for the years ended September 30, 2014 and 2013, respectively. The Company has estimated the cost of charity care based on a ratio of the cost to charges of operating expenses, excluding depreciation, interest and management fees.

Provisions for Contractual Allowances and Bad Debts

Collection of receivables from third-party payers and patients is the Company's primary source of cash and is critical to its operating performance. The Company closely monitors its historical collection rates, as well as changes in applicable laws, rules and regulations and contract terms, to assure that provisions for contractual allowances are made using the most accurate information available. However, due to the complexities involved in these estimations, actual payments from payers may be materially different from the amounts management estimates and records. The Company's primary collection risks relate to uninsured patients and the portion of the bill which is the patient's responsibility, primarily co-payments and deductibles. Payments for services may also be denied due to issues over patient eligibility for medical coverage, the Company's ability to demonstrate medical necessity for services rendered and payer authorization of hospitalization.

Accounts receivable are reduced by an allowance for doubtful accounts. Valuation of the collectability of accounts receivable and provision for bad debts is based on historical collection experience, payer mix and the age of the receivables. Management routinely reviews accounts receivable balances in conjunction with these factors and other economic conditions which might ultimately affect the collectability of the patient accounts, and makes adjustments to the Company's allowances as warranted. For receivables associated with services provided to patients who have third-party coverage, management analyzes contractually due amounts and subsequently calculates an allowance for doubtful accounts and provision for bad debts once the age of the accounts reaches a specific age category based on historical experience. For receivables associated with self-pay patients, management records a significant provision for bad debts beginning in the period services were provided based on past experience that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The allowance for doubtful accounts as a percent of gross accounts receivable increased from 27% at September 30, 2013 to 29% at September 30, 2014. The allowance for doubtful accounts was $49,727,000 and $28,050,000 for the years ended September 30, 2014 and 2013, respectively. The increase in the allowance for doubtful accounts as a percent of gross accounts receivable and in the allowance for doubtful accounts was due primarily to CharterCARE, which was acquired during the year ended September 30, 2014 and had an allowance for doubtful accounts of $16,839,000 at September 30, 2014.

Legislation

All of the Company's hospital facilities are subject to the Emergency Medical Treatment and Active Labor Act ("EMTALA"). This federal law requires any hospital that participates in the Medicare program to conduct an appropriate medical screening examination of every person who presents to the hospital's emergency department for treatment and, if the patient is suffering from an emergency medical condition, to either stabilize that condition or make an appropriate transfer of the patient to a facility that can handle the condition. The obligation to screen and stabilize emergency medical conditions exists regardless of a patient's ability to pay for treatment. There are severe penalties under EMTALA if a hospital fails to screen or appropriately stabilize or transfer a patient or if the hospital delays appropriate treatment in order to first inquire about the patient's ability to pay. Penalties for violations of EMTALA include civil monetary penalties and exclusion from participation in the Medicare program. In addition, an injured patient, the patient's family or a medical facility that suffers a financial loss as a direct result of another hospital's violation of the law can bring a civil suit against that other hospital. The Company believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that would have a material effect on the Company's financial statements.

See Note 10 regarding the *Affordable Care Act*.

Other Revenues

Other revenues consist primarily of the CMS Rural Floor settlement, meaningful use incentive payments and rental revenue from operating leases, and totaled $14,525,000 and $7,700,000 for the years ended September 30, 2014 and 2013, respectively.

A summary of other revenues recorded during the years follows:

Rural Floor settlement: The Company entered into a settlement agreement with CMS and recognized $6,091,000 of revenue during the year ended September 30, 2014 related to the Rural Floor litigation.

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Meaningful Use incentives: The American Recovery and Reinvestment Act of 2009 ("ARRA") established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that meaningfully use certified electronic health record ("EHR") technology or adopt or implement such technology. The Medicare incentive payments will be paid out to qualifying hospitals over four consecutive years on a transitional schedule. To qualify for Medicare incentives, hospitals and physicians must meet EHR "meaningful use" criteria that become more stringent over three stages.

Medicaid programs and payment schedules vary from state to state. The Medicaid programs require hospitals to register for the program prior to 2016, to engage in efforts to adopt, implement or upgrade certified EHR technology in order to qualify for the initial year of participation, and to demonstrate meaningful use of certified EHR technology in order to qualify for payment for up to three additional years.

For the years ended September 30, 2014 and 2013, the Company recorded revenues of $5,389,000 and $5,872,000, respectively, related to the Medicare and Medicaid programs in the consolidated statements of income. These incentives have been recognized following the grant accounting model, recognizing income ratably over the applicable reporting period as management becomes reasonably assured of meeting the required criteria. Subsequent changes to these estimates will be recognized in the consolidated statement of operations in the period in which additional information is available. Such estimates are subject to audit by the federal government, the state, or its designee.

Rental Revenue: Rental revenue from operating leases is recorded based on the fixed, minimum required rents (base rents) per the lease agreements. Rental revenue from base rents is recorded on the straight-line method over the terms of the related lease agreements. During the years ended September 30, 2014 and 2013, the Company recorded rental revenues of $2,220,000 and $1,600,000, respectively.

Medical Group Segment

Medical Group Revenues

Operating revenue of the Medical Group segment consists primarily of payments for medical services procured by the Affiliates under capitated contracts with various managed care providers including HMOs. Capitation revenue under HMO contracts is prepaid monthly to the Affiliates based on the number of enrollees electing any one of the Affiliates as their health care provider. See "Concentrations of Credit Risks" below for revenues received from the five largest contracted HMOs.

Capitation revenue (net of capitation withheld to fund risk share deficits discussed below) is recognized in the month in which the Affiliates are obligated to provide services. Minor ongoing adjustments to prior months' capitation, primarily arising from contracted HMOs' finalizing of monthly patient eligibility data for additions or subtractions of enrollees, are recognized in the month they are communicated to the Company. Additionally, Medicare pays capitation using a "Risk Adjustment model," which compensates managed care organizations and providers based on the health status (acuity) of each individual enrollee. Health plans and providers with higher acuity enrollees will receive more and those with healthier enrollees will receive less. Under Risk Adjustment, capitation is determined based on health severity, measured using patient encounter data. Capitation is paid on an interim basis based on data submitted for the enrollee for the preceding year and is adjusted in subsequent periods (generally in the Company's fourth quarter) after the final data is compiled. Positive or negative capitation adjustments are made for Medicare enrollees with conditions requiring more or less healthcare services than assumed in the interim payments. Since the Company cannot reliably predict these adjustments,

periodic changes in capitation amounts earned as a result of Risk Adjustment are recognized generally in the fourth quarter when those changes are communicated by the health plans to the Company. The Company received and recorded as additional revenue, approximately $8,889,000 and $6,145,000, respectively, in positive capitation risk adjustments during the years ended September 30, 2014 and 2013, respectively.

HMO contracts also include provisions to share in the risk for hospitalization, whereby the Affiliate can earn additional incentive revenue or incur penalties based upon the utilization of hospital services. Typically, any shared risk deficits are not payable until and unless the Company generates future risk sharing surpluses, or if the HMO withholds a portion of the capitation revenue to fund any risk share deficits. At the termination of the HMO contract, any accumulated risk share deficit is typically extinguished. Due to the lack of access to information necessary to estimate the related costs, shared-risk amounts receivable from the HMOs are only recorded when such amounts are known. Risk pools for the prior contract years are generally final settled in the third or fourth quarter of the following fiscal year. For the years ended September 30, 2014 and 2013, Medical Group revenues included approximately $2,406,000 and $2,880,000, respectively, of additional revenues due to favorable settlements on prior year risk-sharing arrangements. At September 30, 2014 and 2013, contingent liabilities for carry-forward risk-pool deficits expected to be forgiven, or offset against future surpluses were approximately $5,547,000 and $6,365,000, respectively, based on the available information from the health plans.

The Company also receives incentives under “pay-for-performance” programs for quality medical care based on various criteria. These incentives, which are included in other revenues within Medical Group revenues, are generally recorded in the third and fourth quarters of the fiscal year when such amounts are known. Pay-for-performance revenues recorded during the years ended September 30, 2014 and 2013, were $1,886,000 and $2,375,000, respectively.

Management fee revenue is earned in the month the services are rendered. Management fee arrangements with unaffiliated entities provide for compensation ranging from 6.5% to 12.5% of revenues. Management fee revenues recorded during the years ended September 30, 2014 and 2013, were $6,586,000 and $2,352,000, respectively.

Medical Group Cost of Revenues

The cost of health care services consists primarily of capitation and claims payments, pharmacy costs and incentive payments to contracted providers. These costs are recognized in the period incurred, or when the services are provided. Claims costs also include an estimate of the cost of services which have been incurred but not yet reported to the Company. The estimate for accrued medical costs is based on projections of costs using historical studies of claims paid and adjusted for seasonality, utilization and cost trends. These estimates are subject to trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management records its best estimate of the amount of medical claims incurred at each reporting period. Estimates are continually monitored and reviewed and, as settlements are made or estimates adjusted, differences are reflected in current operations. See Note 12 for changes in claims estimates during the years ended September 30, 2014 and 2013.

In addition to contractual reimbursements to providers, the Company also makes discretionary incentive payments to physicians, which are in large part based on the pay-for-performance and shared risk revenues and favorable senior capitation risk adjustment payments received by the Company. Since the Company records these revenues generally in the third or fourth quarter of each fiscal year when the incentives and capitation adjustments due from the health plans are known, the Company also finalizes

the discretionary physician bonuses in the same periods. During the years ended September 30, 2014 and 2013, the Company recorded discretionary physician incentives expense totaling approximately $5,067,000 and $3,993,000, respectively. As of September 30, 2014 and 2013, physician bonus accruals of approximately $4,339,000 and $2,623,000, respectively, were included in accounts payable and other accrued liabilities.

The Company also periodically evaluates the need to establish premium deficiency reserves for the probability that anticipated future health care costs could exceed future capitation payments from HMOs under capitated contracts and, where appropriate, records a premium deficiency reserve.

The Company, for certain matters, maintains stop loss coverage for health care costs that are in excess of set thresholds.

Property, Improvements and Equipment

Property, improvements and equipment are stated on the basis of cost or, in the case of acquisitions, at their acquisition date fair values. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, and amortization of leasehold improvements is provided using the straight-line basis over the shorter of the remaining lease period or the estimated useful lives of the leasehold improvements. Leasehold improvements are generally depreciated over five to ten years, buildings are depreciated over five to 28 years, equipment is depreciated over two to five years and furniture and fixtures are depreciated over two to seven years. Equipment capitalized under capital lease obligations are amortized over the lesser of the life of the lease or the useful life of the asset.

As more fully described in Note 10, the Company is required to comply with certain seismic standards as required by the state of California by January 1, 2020. The useful life of buildings subject to seismic retrofit requirements may be limited if the Company does not make the necessary upgrades by the required compliance date.

Goodwill and Other Intangible Assets

Goodwill totaled approximately $158,864,000 at both September 30, 2014 and 2013 and arose as a result of the ProMed, Alta, SCH Culver City, and Nix Health (including Nix CGH) acquisitions. Goodwill represents the excess of the consideration paid and liabilities assumed over the fair value of the net assets acquired, including identifiable intangible assets.

Goodwill is not amortized; rather it is reviewed annually for impairment for each reporting unit, or more frequently if impairment indicators arise. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. A two-step impairment test is used to identify potential goodwill impairment and to measure the amount of goodwill impairment loss to be recognized, if any. The Company has four reporting units with goodwill, consisting of the Alta Hospitals (which include SCH Hollywood, SCH Van Nuys, Los Angeles Community Hospital, and Norwalk Community Hospital), SCH Culver City, Nix Health, and ProMed (which includes other affiliated physician organizations).

The Company tests for goodwill impairment as of September 30 each year. In evaluating whether indicators of impairment exist, the Company considers adverse changes in market value, laws and regulations, profitability, cash flows, ability to maintain enrollment and renew payer contracts at favorable terms, among other factors. The goodwill impairment test is a two-step process. The first step consists of estimating the fair value of the reporting unit based on a weighted combination of (i) the

guideline company method that utilizes revenue or earnings multiples for comparable publicly-traded companies, and (ii) a discounted cash flow model that utilizes expected future cash flows, the timing of those cash flows, and a discount rate (or weighted average cost of capital, which considers the cost of equity and cost of debt financing expected by a typical market participant) representing the time value of money and the inherent risk and uncertainty of the future cash flows. If the estimated fair value of the reporting unit is less than its carrying value, a second step is performed to compute the amount of the impairment by determining the "implied fair value" of the goodwill, which is compared to its corresponding carrying value. The Company's impairment test related to goodwill at September 30, 2014 resulted in no impairment charge.

Long-Lived Assets and Amortizable Intangibles

Amortizable intangible assets totaled approximately $35,274,000 and $31,325,000, net of accumulated amortization at September 30, 2014 and 2013, respectively, and arose as a result of the ProMed, Alta, SCH Culver City, Nix Health, NGMA, and PCC acquisitions. Intangible assets include customer relationships, trade names, favorable leasehold, and physician guarantees. The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The Company considers assets to be impaired and writes them down to fair value if estimated undiscounted cash flows associated with those assets are less than their carrying amounts. Fair value is based upon the present value of the associated cash flows. Changes in circumstances (for example, changes in laws or regulations, technological advances or changes in strategies) may also reduce the useful lives from initial estimates. Changes in planned use of intangibles may result from changes in customer base, contractual agreements, or regulatory requirements. In such circumstances, management will revise the useful life of the long-lived asset and amortize the remaining net book value over the adjusted remaining useful life. There were no impairments recorded during the year ended September 30, 2014. During the year ended September 30, 2013, the Company changed the original names of the SCHS Hospitals and expects to transition into the new names over the next three years. As a result of the change, the Company recorded an impairment charge of $3,476,000 at September 30, 2013 related to the trade names (see Note 5).

Medical Malpractice Liability Insurance

The individual physicians who contract with the Affiliates carry their own medical malpractice insurance. In the Hospital Services segment, the Company's hospitals carry professional and general liability insurance to cover medical malpractice claims under claims-made policies. Under the policies, insurance premiums cover only those claims actually reported during the policy term. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims related to occurrences during the policy term but reported subsequent to the policy's termination may be uninsured. During the year ended September 30, 2013, the SCHS Hospitals and Alta Los Angeles Hospitals were covered under one professional and general liability insurance policy, and Nix Health was covered under a separate policy. Effective October 1, 2013, the hospitals renewed the professional and general liability insurance under one consolidated policy with separate retentions for each entity that runs through September 30, 2014. LACH Bellflower, NSH, and CharterCARE were included under the consolidated policy from their respective dates of acquisition or inception (LACH Bellflower).

Accounting principles generally accepted in the United States of America require that a health care organization record and disclose the estimated costs of medical malpractice claims in the period of the incident of malpractice, if it is reasonably possible that liabilities may be incurred and losses can be reasonably estimated. The Company has recognized an estimated liability for incurred but not reported claims and the self-insured risks (including deductibles and potential claims in excess of policy limits)

based upon an actuarial valuation of the Company's historical claims experience of the Company's hospitals. At September 30, 2014 and 2013, the total gross claims liability was approximately $4,590,000 and $4,660,000 and insurance receivables were $618,000 and $1,487,000, respectively, and were estimated using a discount factor of 4%.

The claims reserve is based on the best data available to the Company. The estimate, however, is subject to a significant degree of inherent variability. The estimate is continually monitored and reviewed, and as the reserve is adjusted, the difference is reflected in current operations. While the ultimate amount of medical malpractice liability is dependent on future developments, management is of the opinion that the associated liabilities recognized in the accompanying consolidated financial statements are adequate to cover such claims. Management is not aware of any potential medical malpractice claims whose settlement, if any, would have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Workers' Compensation Insurance

The workers' compensation coverage provides the statutory benefits required by law and that the employer's liability limits are $1,000,000 (excluding Nix Health and CharterCARE). Nix Health has opted out of the Texas Workers' Compensation system as a non-subscriber, and provides its employees with benefits for occupational injury or disease through an ERISA plan. Nix Health has an Employer's Excess Indemnity policy with a $25,000 deductible policy with limits of $10,000,000 per occurrence and $25,000,000 aggregate. CharterCARE was fully insured for workers' compensation claims with no deductible from June 20, 2014 through September 30, 2014. From October 1, 2012 to September 30, 2014, the Company's (excluding Nix Health and CharterCARE) workers' compensation coverage was written on a $250,000 incurred loss retro program without an aggregate loss limitation. At September 30, 2014 and 2013, included in accrued salaries, wages and benefits are accruals for uninsured claims and claims incurred but not reported of approximately $7,210,000 and $4,409,000, respectively. The amounts are estimated based upon an actuarial valuation of their claims experience, using a discount factor of 4%.

The claims reserve is based on the best data available to the Company. The estimate, however, is subject to a significant degree of inherent variability. The estimate is monitored and reviewed, and as the reserve is adjusted, the difference is reflected in current operations. While the ultimate amount of the claims liability is dependent on future developments, management is of the opinion that the associated liabilities recognized in the accompanying consolidated financial statements are adequate to cover such claims. Management is not aware of any potential claims whose settlement, if any, would have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Asset Retirement Obligations

The Company recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. Over time, the liability is accreted to its present value each period. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the statement of operations. The Company has accrued $4,310,000 in other long-term liabilities related to asset retirement obligations for the CharterCARE hospitals as of September 30, 2014. There were no asset retirement obligations as of September 30, 2013.

Stock Options

On December 15, 2010, the Board of Directors (the "Ivy Board") of Ivy Holdings adopted the 2010 Stock Option Plan of Ivy Holdings Inc. (the "Ivy Plan") and, on December 16, 2010, the stockholders of Ivy Holdings adopted the Ivy Plan. The Ivy Plan provides that it shall be administered by the Compensation Committee of the Ivy Board. The Ivy Plan includes an Incentive Stock Option Agreement and a Non-Qualified Stock Option Agreement to be used in connection with the grant of options under the Ivy Plan. These options granted under the Ivy Plan are exercisable into Ivy Holdings stock and vest based on a number of criteria, including time, performance and CEO discretion.

Compensation costs for option awards are measured and recognized in the consolidated financial statements based on their grant date fair value, net of estimated forfeitures over the awards' service period. Options subject to variable accounting treatment are subject to revaluation at the end of each reporting period. The Company uses the Black-Scholes option pricing model and a single option award approach to estimate the fair value of stock options granted. The fair value of restricted stock grants are determined on the date of grant, based on the number of shares granted and the quoted price or estimated fair market value of the Company's common stock. Equity-based compensation is classified within the same line items as cash compensation paid to employees.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments with initial maturities of 90 days or less to be cash equivalents. Cash and cash equivalents are primarily comprised of deposits with banks. The Company maintains its cash at banks with high credit-quality ratings.

Restricted Cash

At September 30, 2014 and 2013, $233,000 was held in a restricted account in connection with workers compensation arrangements, and $30,000 was restricted related to a capitation agreement. At September 30, 2014, a further $420,000 was restricted on behalf of Prospect CharterCARE SJHSRI, LLC for its School of Nursing as required by the U.S. Department of Education, $1,993,000 was restricted for research at CharterCARE hospitals, and $2,300,000 was restricted to meet certain regulatory requirements for PHP. At September 30, 2013, $300,000 was restricted in connection with a statutory deposit required by the Department of Managed Health Care for Knox-Keene licensing related to PHP.

Restricted Investments

The Company is required to keep restricted deposits by certain HMOs for the payment of claims. Such restricted deposits are classified as a current asset in the accompanying consolidated balance sheets, as they are restricted for payment of current liabilities. Investments also include certificates of deposit with maturity dates of more than 90 days when purchased.

Inventories

Inventories of supplies are valued at the lower of amounts that approximate the weighted average cost or market. Inventories consist primarily of medical and surgical supplies and pharmaceuticals.

Deferred Financing Costs

Deferred financing costs are amortized over the period in which the related debt is outstanding using the effective interest method. On November 16, 2012, the Company issued $100 million of 8.375% senior secured notes (see note 8) and capitalized deferred financing costs of $3,948,000 associated with the

offering during the year ended September 30, 2013, which are reflected in deferred financing costs in the accompanying consolidated balance sheets.

Deferred financing costs at September 30, 2014 and 2013 are as follows (in thousands):

September 30,	**2014**			2013		
	Gross Book Value	**Accumulated Amortization**	**Net Book Value**	Gross Book Value	Accumulated Amortization	Net Book Value
Deferred financing costs	**$14,398**	**$4,941**	**$9,457**	$14,345	$2,720	$11,625

Income Taxes

Deferred income tax assets and liabilities are recognized for differences between financial and income tax reporting bases of assets and liabilities based on enacted tax rates and laws. To the extent a deferred tax asset cannot be recognized under the preceding criteria, allowances must be established. The impact on deferred taxes of changes in tax rates and laws, if any, are applied to the years during which temporary differences are expected to be settled and reflected in the financial statements in the period of enactment. The Company recognizes interest and penalties associated with income tax matters and unrecognized tax benefits in the income tax expense line item of the statements of operations. For the years ended September 30, 2014 and 2013, no interest and/or penalties related to incomes taxes were accrued and/or expensed.

An entity is required to evaluate its tax positions using a two-step process. First, the entity should evaluate the position for recognition. An entity should recognize the financial statement benefit of a tax position if it determines that it is more likely than not that the position will be sustained on examination. Next, the entity should measure the amount of benefit that should be recognized for those tax positions that meet the more-likely-than-not test.

Consolidated and separate income tax returns are filed with the U.S. Federal jurisdiction and in the State of California, Texas, and Rhode Island. The Company's filed tax returns are generally subject to examination by the IRS and state tax boards for 3 to 4 years.

The net deferred tax liabilities are primarily comprised of temporary differences between book and tax bases for intangible and capital assets acquired and net operating loss carryforwards.

Fair Value of Financial Instruments

Financial instruments consist primarily of cash and cash equivalents, restricted cash investments, patient and other accounts receivables, accrued salaries and benefits, accounts payable and accrued expenses, medical claims and related liabilities, amounts due to government agencies, notes receivable and payable, capital lease obligations, debt, and other liabilities. The carrying amounts of current assets and liabilities approximate their fair value due to the relatively short period of time between the origination of the instruments and their expected realization.

Fair Value Measurement

Relevant accounting guidance establishes a framework for measuring fair value and clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

The guidance requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of inputs as follows: Level 1 quoted prices in active markets for identical assets or liabilities; Level 2 quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; or Level 3 unobservable inputs for the asset or liability, such as discounted cash flow models or valuations. The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The Company's Level 1 assets include cash and cash equivalents and investments (certificates of deposit and money market mutual funds). The inputs for fair value of goodwill and intangible assets (including long lived assets and intangible assets subject to amortization) would be based on Level 3 inputs as data used for such fair value calculations would be based on discounted cash flows that are not observable from the market, directly or indirectly.

Financial Items Measured at Fair Value on a Recurring Basis

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis and where they are classified within the hierarchy (in thousands):

	Total	Level 1	Level 2	Level 3
As of September 30, 2014				
Certificates of deposit and money market mutual funds	$ 642	$ 642	$ -	$ -
As of September 30, 2013				
Certificates of deposit and money market mutual funds	$ 637	$ 637	$ -	$ -

The Company's investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices.

Nonfinancial Items Measured at Fair Value on a Nonrecurring Basis

Nonfinancial assets such as goodwill and identifiable intangible assets are measured at fair value when there is an indicator of impairment and recorded at fair value only when impairment is recognized. The Company performs an annual impairment test on the goodwill, and performs an impairment test on the intangibles when there are indications of impairment.

The following table presents the fair value of intangible assets subject to amortization measured at fair value during the year ended September 30, 2013 and included in the Company's consolidated balance sheet as of September 30, 2013 (in thousands):

	Total	Fair Value Measurement Using			Total impairment
		Level 1	Level 2	Level 3	
Trade names	$ 1,940	$ -	$ -	$ 1,940	$ (3,476)

During the year ended September 30, 2013, the Company recorded $3,476,000 of impairment relating to intangible assets subject to amortization, which is reflected in the accompanying consolidated statements of income. No impairment was recorded during the year ended September 30, 2014.

The Company uses the discounted cash flow approach to estimate the fair value of the Company's trade names. The following table provides quantitative information related to the significant unobservable inputs to determine fair value and impairment as of September 30, 2013:

Fair value of trade names	Valuation Technique	Unobservable Input	Rates
$ 1,940	Discounted cash flow	Weighted average cost of capital	13.0% - 13.5%
		Revenue growth rate	2% - 3%
		Reduction of revenue attributable to trade names	(30%) - (70%)
		Royalty rate	1.0%

Significant increases or decreases in the Company's weighted average cost of capital may result in a significantly lower or higher fair value measurement, respectively. Significant increases or decreases in the revenue growth rate and royalty rates in isolation may result in a significantly higher or lower fair value measurement, respectively. The fair values of the Company's current financial liabilities approximate their reported carrying amounts. The carrying values and the fair values of non-current financial liabilities that qualify as financial instruments under the guidance are as follows (in thousands).

	2014		2013	
September 30,	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Liabilities:				
Long-term debt	$ 421,888	$ 457,620	$ 421,067	$ 449,339

The fair value of the Company's long-term debt was determined based on market prices.

Concentrations of Credit Risk

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits of $250,000 per depositor of each financial institution. The Company has not experienced any losses to date related to these balances.

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Financial instruments that potentially subject the Company to concentrations of credit risk consist of receivables due from Medicare, Medicaid (Medi-Cal in California), patients, health plans including shared-risk arrangements, and notes receivable.

The Company invests excess cash in liquid securities at institutions with strong credit ratings, following established guidelines relative to diversification and maturities to maintain safety and liquidity. These guidelines are periodically reviewed and modified to take into consideration trends in yields and interest rates and principal risk. Management attempts to schedule the maturities of the Company's investments to coincide with the Company's expected cash requirements. Credit risk with respect to receivables is limited since amounts are generally due from large HMOs within the Medical Group Management segment and from the Medicare and Medicaid (Medi-Cal in California) programs within the Hospital Services segment. Notes receivable are fully secured by collateral of equal or greater value. Management reviews the financial condition of these institutions on a periodic basis and does not believe the concentration of cash or receivables results in a high level of risk.

For the years ended September 30, 2014 and 2013, the Hospital Services segment received a total of 67% and 71%, respectively, of its net patient revenues from Medicare and Medicaid programs, and the Medical Group segment received a total of 63% and 69%, respectively, of their capitation revenues from its five largest HMOs, as follows (in thousands):

Years Ended September 30,	2014	% of Total Revenue	2013	% of Total Revenue
Hospital Services:				
Government Payers:				
Medicare	$ 224,984	36%	$ 211,482	41%
Medicaid	189,668	31%	158,048	30%
Total	$ 414,652	67%	$ 369,530	71%
Medical Group:				
HMO A	$ 33,784	14%	$ 36,194	17%
HMO B	31,632	13%	28,346	13%
HMO C	31,481	13%	31,735	15%
HMO D	31,283	13%	28,754	13%
HMO E	25,133	10%	23,159	11%
Totals	$ 153,313	63%	$ 148,188	69%

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities at the dates, and for the periods, that the consolidated financial statements are prepared. Actual results could materially differ from those estimates. Principal areas requiring the use of estimates include third party settlements, settlements under risk sharing programs, allowances for contractual discounts and doubtful accounts, accruals for medical claims, impairment of goodwill, long-lived assets and intangible assets, share-based payments, professional and general

liability claims and workers' compensation claims, reserves for outcome of legislation and valuation allowances against deferred tax assets.

New Accounting Pronouncements

In June 2011, the FASB issued an accounting standards update that specifies that the liability for the annual fee imposed on certain health insurers under the recently enacted Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act, should be estimated and recorded in full once the entity provides qualifying health insurance in the applicable calendar year in which the fee is payable with a corresponding deferred cost that is amortized to expense using a straight-line method of allocation unless another method better allocates the fee over the calendar year that it is payable. This update is effective for calendar years beginning after December 31, 2013, when the fee initially becomes effective. The Company is currently evaluating the effect of this guidance on its consolidated results of operations and consolidated financial position.

In July 2013, the FASB issued an accounting standards update that requires an unrecognized tax benefit or portion of an unrecognized tax benefit to be presented as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward except when certain conditions exist. The amendment is effective for the Company for fiscal years beginning after December 15, 2014, including interim periods in 2014. The Company is currently evaluating the effect of this guidance on its consolidated results of operations and consolidated financial position.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (ASU 2014-09). The core principle of ASU 2014-09 is built on the contract between a vendor and a customer for the provision of goods and services, and attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this objective, the standard requires five basic steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, (v) recognize revenue when (or as) the entity satisfies a performance obligation. Nonpublic entities will apply the new standard for annual periods beginning after December 15, 2017, including interim periods therein. Three basic transition methods are available — full retrospective, retrospective with certain practical expedients, and a cumulative effect approach. Under the third alternative, an entity would apply the new revenue standard only to contracts that are incomplete under legacy U.S. GAAP at the date of initial application (e.g. October 1, 2018) and recognize the cumulative effect of the new standard as an adjustment to the opening balance of retained earnings. That is, prior years would not be restated and additional disclosures would be required to enable users of the financial statements to understand the impact of adopting the new standard in the current year compared to prior years that are presented under legacy U.S. GAAP. Early adoption is prohibited. The Company is currently evaluating the effect of this guidance on its consolidated results of operations and consolidated financial position.

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3. Property, Improvements and Equipment

Property, improvements and equipment, consisted of the following (in thousands):

September 30,	2014	2013
Property, improvements and equipment:		
Land and land improvements	$ 53,381	$ 34,985
Buildings and improvements	119,163	59,270
Leasehold improvements	22,967	4,007
Equipment	87,249	64,842
Furniture and fixtures	7,187	5,759
	289,947	168,863
Less: accumulated depreciation	(60,473)	(42,331)
Property, improvements and equipment, net	$ 229,474	$ 126,532

Effective May 6, 2014, Prospect acquired the property, improvements, and equipment of Bellflower Medical Center, located in Bellflower, California, for cash consideration of $20 million. The assets, including land and building, were named Los Angeles Community Hospital at Bellflower. Bellflower Medical Center was closed in 2013 by its previous owner and was not operational since that time. The Company accounted for this transaction as an acquisition of assets. The primary factors influencing the determination that the acquisition should be accounted for in this manner included the complete closure of the hospital, the fact that there were no inputs and/or processes acquired, the requirement for significant additional capital expenditures and development efforts to reopen the hospital, and the lack of acquired workforce. Accordingly, the Company determined that this transaction lacked the key characteristics for business combination accounting. In addition to the $20 million purchase price, Prospect capitalized $546,000 of transaction costs directly related to the purchase of these assets. The purchase price and transaction costs were allocated to the assets acquired based on the relative fair value of the acquired assets.

On July 18, 2013, Nix Health entered into a lease agreement to rent land and building located in the city of San Antonio, Texas, which was used for a 73-bed behavioral health center which was opened during the year ended September 30, 2014. The Company determined that the lease qualified as a capital lease and recorded fixed assets of $5,675,000 and a capital lease liability of $6,902,000 as of September 30, 2013. The difference of $1,227,000 relates to a tenant improvement allowance from the landlord, which was used for construction costs during the year ended September 30, 2014.

During the years ended September 30, 2014 and 2013, the Company made investments of approximately $7,633,000 and $6,200,000, respectively, in equipment related to implementation of EHR technology and new hospital systems at the Company's hospitals.

At September 30, 2014 and 2013, the Company had assets under capitalized leases of approximately $19,294,000 and $17,288,000, respectively, and related accumulated depreciation of $11,465,000 and $7,350,000, respectively.

Depreciation expense was approximately $18,386,000 and $12,443,000 for the years ended September 30, 2014 and 2013, respectively.

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4. Acquisitions

Newport Specialty Hospital

Effective May 6, 2014, Prospect acquired substantially all of the assets of Newport Specialty Hospital ("NSH") for cash consideration of $15 million. NSH, located in Tustin, California was substantially closed prior to acquisition, operating only its pediatric subacute unit as of the acquisition date.

The acquisition of NSH was accounted for as a business combination using purchase accounting. Under the purchase accounting method, assets acquired and liabilities assumed are recorded based on their estimated fair values. This transaction resulted in a bargain gain of approximately $523,000, which is included in other income in the accompanying consolidated statements of income. The Company incurred $556,000 and $37,000 of transaction costs during the years ended September 30, 2014 and 2013, respectively, which are included in General and Administrative expenses in the accompanying consolidated statements of income.

The following table summarizes the assets acquired and liabilities assumed in connection with the NSH acquisition, as of May 6, 2014 (in thousands):

	Purchase Price Allocation (Preliminary)
Property, improvements and equipment	$ 15,523
Bargain purchase gain	(523)
Net cash consideration	$ 15,000

CharterCARE

Effective June 20, 2014, Prospect, through its newly formed subsidiary, PCC, acquired substantially all of the assets of CharterCARE Health Partners and its subsidiaries in exchange for a 15% interest in PCC, $43.3 million in cash and a commitment to invest at least $50 million in PCC and its subsidiaries for strategic business development and capital improvements over the next four years. As a result of the acquisition, PCC is owned 85% by Prospect and 15% by CharterCARE Health Partners (which was subsequently renamed CharterCARE Community Board).

PCC, through its subsidiaries, operates Roger Williams Medical Center, St. Joseph Health Services of Rhode Island, and Elmhurst Extended Care Facilities, Inc., which operate hospitals, medical centers and assisted living facilities located in Rhode Island with approximately 785 licensed beds.

The acquisition was accounted for as a business combination using purchase accounting. Under the purchase accounting method, assets acquired and liabilities assumed are recorded based on their estimated fair values. This transaction resulted in a bargain gain of approximately $4,294,000, which is included in other income in the accompanying consolidated statements of income. Subsequent to September 30, 2014, the Company received $2,125,000 for a working capital adjustment, which resulted in a reduction in total consideration and an increase in the bargain gain recognized during the year ended September 30, 2014.

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The following table summarizes the assets acquired and liabilities assumed in connection with the PCC acquisition, as of June 20, 2014 (in thousands):

	Purchase Price Allocation (Preliminary)
Restricted cash	$ 1,739
Patient accounts receivable and other receivables	34,264
Prepaid expenses and other current assets	8,777
Property, improvements and equipment	53,642
Intangible assets	8,590
Other long-term assets	4,698
Accounts payable and other liabilities	(44,656)
Capital leases	(1,315)
Long-term debt	(25)
Other long-term liabilities	(4,645)
Net assets acquired	61,069
Less: amount attributable to non-controlling interest	(9,160)
Net assets acquired by Prospect	51,909
Total purchase consideration	47,615
Bargain purchase gain	$ 4,294

The total purchase consideration of $47,615,000 includes net cash consideration of $41,175,000 after the working capital adjustment plus a long-term liability of $6,440,000, which represents the discounted fair value of the non-controlling interest's 15% interest in the $50 million future commitment of the Company to PCC as part of the Purchase Agreement. The Company's long-term liability increased from $6,440,000 as of June 20, 2014 to $6,506,000 as of September 30, 2014 due to accretion of the liability.

The Company incurred $2,145,000 and $976,000 of transaction costs during the years ended September 30, 2014 and 2013, respectively, which are included in General and Administrative expenses in the accompanying consolidated statements of income.

New Genesis Medical Associates

On October 1, 2012, the Company, through its newly created affiliate, New Genesis Medical Associates, Inc. dba Genesis Medical Clinic, a California professional medical corporation, acquired substantially all of the assets of a physician medical practice located in Orange County, California. The consideration for the NGMA acquisition consisted of approximately $400,000 in cash. The acquisition of NGMA is accounted for as a business combination using purchase accounting. Under the purchase accounting method, assets acquired and liabilities assumed are recorded based on their estimated fair values.

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The following table summarizes the assets acquired in connection with the NGMA acquisition, as of October 1, 2012 (in thousands):

	Purchase Price Allocation
Property, improvements and equipment	$ 50
Intangible assets	350
Net cash consideration	$ 400

Nix Community General Hospital

On April 16, 2013, the Company acquired substantially all of the assets and assumed certain liabilities of Community General Hospital of Dilley, Texas Inc. dba Community General Hospital, a hospital with 18 licensed beds, which offers Dilley, Texas and the surrounding communities an array of medical services including primary care. Upon close of the transaction, the hospital was renamed to Nix Community General Hospital. The consideration for the Community General Hospital acquisition included approximately $2,705,000 in cash, contingent cash consideration of $250,000 and assumption of approximately $795,000 in liabilities, for total consideration of approximately $3,750,000. The acquisition of Community General Hospital is accounted for as a business combination using purchase accounting. Under the purchase accounting method, assets acquired and liabilities assumed are recorded based on their estimated fair values. The Company incurred $255,000 of transaction costs during the years ended September 30, 2013, which are included in General and Administrative expenses in the accompanying consolidated statements of income.

The following table summarizes the assets acquired and liabilities assumed in connection with the Community General Hospital acquisition, as of April 16, 2013 (in thousands):

	Purchase Price Allocation
Current assets	$ 7
Property, improvements and equipment	1,267
Goodwill	2,476
Contingent cash consideration	(250)
Accounts payable and other liabilities	(795)
Net cash consideration	$ 2,705

As an asset purchase, the goodwill and the intangible assets acquired in the PCC, NGMA and Nix CGH acquisitions are deductible for tax purposes.

5. Goodwill and Intangible Assets

As of September 30, 2014 and 2013, goodwill and intangible assets relate to the ProMed, Alta, SCH Culver City, Nix Health, NGMA, Nix CGH, and PCC acquisitions. The Company performed its annual goodwill impairment analysis for each reporting unit that constitutes a business for which 1) discrete financial information is produced and reviewed by management, and 2) services that are distinct from the other reporting units.

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For the Medical Group segment, the Company has determined that PHCA and the ProMed Entities (collectively referred to as "ProMed"), as well as PMS and the other affiliated physician organizations as a group (collectively referred to as "Prospect IPAs") each constitutes a separate reporting unit. NGMA is consolidated within the Prospect reporting unit.

For the Hospital Services segment, the reporting unit for the annual goodwill impairment analysis is determined to be at the business unit level. A separate analysis was prepared for Alta Hospitals, SCH Culver City, and Nix Health. Nix CGH is consolidated within the Nix Health business unit.

During the year ended September 30, 2013, the Company recorded additional goodwill of $2,476,000 related to the Nix CGH acquisition. In addition, the Company recorded a working capital adjustment of $157,000 against the goodwill balance related to the Nix Health acquisition.

The carrying value of goodwill for Alta Hospitals, SCH Culver City, Nix Health (including Nix CGH), and ProMed at September 30, 2014 and 2013 was $106,539,000, $24,373,000, $5,613,000, and $22,339,000, respectively.

The following is a rollforward of goodwill from October 1, 2012 to September 30, 2014 (in thousands):

	Amount
Balance, October 1, 2012	$ 156,545
Acquisition of Nix CGH (see Note 4)	2,476
Working capital adjustments - Nix Health (see Note 4)	(157)
Balance, September 30, 2013	158,864
Balance, September 30, 2014	$ 158,864

Identifiable intangible assets are comprised of the following (in thousands):

	September 30, 2014						
	Alta	SCH Culver City	Nix Health	Charter CARE	Prospect	Promed	Total
HMO membership	$ -	$ -	$ -	$ -	$ -	$ 25,200	$ 25,200
Trade names, net of impairment	10,310	1,320	2,740	8,590	-	9,450	32,410
Favorable leasehold	-	-	20	-	-	-	20
Physician guarantees	-	-	1,596	-	-	-	1,596
Customer relationships	-	-	-	-	350	-	350
Gross carrying value	10,310	1,320	4,356	8,590	350	34,650	59,576
Accumulated amortization	(3,670)	(440)	(2,171)	(482)	(100)	(17,439)	(24,302)
Intangible assets, net	$ 6,640	$ 880	$ 2,185	$ 8,108	$ 250	$ 17,211	$ 35,274

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	September 30, 2013					
	Alta	SCH Culver City	Nix Health	Prospect	Promed	Total
HMO membership	$ -	$ -	$ -	$ -	$ 25,200	$ 25,200
Trade names, net of impairment	10,310	1,320	2,740	-	9,450	23,820
Favorable leasehold	-	-	20	-	-	20
Physician guarantees	-	-	1,537	-	-	1,537
Customer relationships	-	-	-	350	-	350
Gross carrying value	10,310	1,320	4,297	350	34,650	50,927
Accumulated amortization	(2,978)	-	(1,513)	(50)	(15,061)	(19,602)
Intangible assets, net	$ 7,332	$ 1,320	$ 2,784	300	$ 19,589	$ 31,325

During the year ended September 30, 2013, the Company changed the names of the hospitals owned by SCHS to SCH Hollywood, SCH Van Nuys, and SCH Culver City. The fair value of the original trade names at September 30, 2013 was estimated using the relief-from-royalty method and their remaining useful lives were reduced to three years based on the Company's planned use of the trade names. As a result of the valuation, the trade names were valued at $1,940,000 and the Company recorded an impairment charge of $3,476,000 for the year ended September 30, 2013, which is presented as part of operating expenses in the accompanying consolidated statements of income. The Company adjusted the cost basis of the trade names to the new fair value, which resulted in writing off $5,510,000 of gross intangibles and accumulated amortization of $2,034,000. There were no impairments recorded for the year ended September 30, 2014.

During the year ended September 30, 2014 and 2013, intangibles related to physician guarantees, covenants not-to-compete and provider networks of $487,000 and $3,300,000, respectively, were fully amortized and removed from intangible assets.

Amortization is recognized on a straight-line basis (management's best estimate of the period of economic benefit) over the respective useful lives and expense for the years ended September 30, 2014 and 2013 was approximately $5,194,000 and $4,371,000, respectively.

Estimated amortization expense for each future fiscal year is as follows (in thousands):

Years ended September 30,	
2015	$ 6,345
2016	6,146
2017	4,869
2018	4,632
2019	4,149
Thereafter	9,133
Total	$ 35,274

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The following table shows the estimated useful lives for each of the intangible assets:

	Estimated useful lives
HMO membership	14 years
Trade names	3 - 20 years
Favorable leasehold	6 years
Physician guarantees	2 to 3 years
Customer relationships	7 years

The weighted-average remaining useful life for the intangible assets was 7.13 years as of September 30, 2014.

6. Related Party Transactions

Jeereddi Prasad, M.D., a shareholder of Ivy Holdings, a director of Ivy Holdings and the Company, and an officer of the ProMed Entities, has ownership interests in physician medical groups that provide medical services to ProMed members, including CMG. For the years ended September 30, 2014 and 2013, the ProMed Entities paid these groups approximately $12,677,000 and $16,742,000, respectively.

Pursuant to a Management Services Agreement, dated December 15, 2010 and amended on May 3, 2012 (the "LGP Management Agreement"), between the Company and Leonard Green & Partners, L.P. ("LGP"), a private equity fund with affiliated funds that collectively constitute the majority shareholder of Ivy Holdings, LGP provides to the Company, (a) certain investment banking services, (b) management, consulting and financial planning services and (c) financial advisory and investment banking services in connection with major financial transactions from time to time. In consideration for the services provided by LGP under the LGP Management Agreement, the Company pays LGP an annual fee of $1,000,000, payable in monthly installments, and reimburses LGP for its related expenses up to $50,000 annually. If approved by the unanimous consent of the Board of Directors of the Company, additional customary fees may be due to LGP pursuant to the terms of the LGP Management Agreement for services rendered in connection with major transactions from time to time.

The Company is a wholly-owned indirect subsidiary of Ivy Holdings. Therefore, Ivy Holdings is the parent of an affiliated group of corporations within the meaning of Section 1504(a) of the Internal Revenue Code of 1986. On December 15, 2010, Ivy Holdings, Ivy Intermediate and the Company entered into a Tax Sharing Agreement. The Tax Sharing Agreement allows the Company to make payments to Ivy Holdings as necessary to fund their payment of any required taxes incurred due to such parent status. During the years ended September 30, 2014 and 2013, the Company made payments under this arrangement of $5,703,000 and $17,477,000, respectively.

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7. Income Taxes

The components of the income tax provision are as follows (in thousands):

For the years ended September 30,	2014	2013
Current:		
Federal	$ 14,430	$ 8,000
State	4,242	2,184
	18,672	10,184
Deferred:		
Federal	(4,529)	(318)
State	(3,582)	(56)
	(8,111)	(374)
Total:		
Federal	9,901	7,682
State	660	2,128
	$ 10,561	$ 9,810

Temporary differences and carry forward items that result in deferred income tax balances as of September 30 are as follows (in thousands):

September 30,	2014	2013
Deferred tax assets:		
State tax benefit	$ 2,593	$ 2,103
Allowances for bad debts	5,119	4,304
Vacation accrual and other	5,440	4,434
Workers compensation	2,656	1,889
Accrued bonuses	3,898	4,847
Malpractice reserves	1,952	1,204
Deferred rent	107	105
Enterprise zone tax credit	2,433	-
Other	359	379
Net operating losses	8,789	8,798
Capital loss carryforward	2,274	2,255
Deferred tax assets	35,620	30,318
Valuation allowance	(10,737)	(10,742)
Net deferred tax assets	24,883	19,576
Deferred tax liabilities:		
Intangible assets	(7,247)	(8,211)
Fixed assets	(17,664)	(21,038)
Deferred compensation	(112)	-
Partnership outside basis difference	(1,982)	-
Prepaid expenses	(21)	(581)
Deferred tax liabilities	(27,026)	(29,830)
Net deferred tax liabilities	$ (2,143)	$ (10,254)

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Deferred tax assets and liabilities reflect the effect of temporary differences between the assets and liabilities recognized for financial reporting purposes and the amounts recognized for income tax purposes.

For the year ended September 30, 2013, the Company released $8,000,000 of deferred tax valuation allowance in connection with net operating losses that became available for use due to the Brotman Medical Center and Alta Hollywood Hospitals merger. The Company maintains approximately $10,737,000 and $10,742,000 as of September 30, 2014 and 2013, respectively, of valuation allowance against its deferred tax assets for capital loss and certain net operation loss carry forwards subject to limitations under tax law. At September 30, 2014, the Company had federal and state net operating loss carryovers of approximately $17,935,000 and $34,039,000 which, if not utilized, will expire beginning 2034 and 2024, respectively. A substantial portion of these net operating loss carry forwards are subject to limitations under Internal Revenue Code Section 382, and their use may be severely limited in the future.

During the year ended September 30, 2013, the Internal Revenue Service ("IRS") concluded its audit of SCH Culver City for the years ended September 30, 2008 through 2010 and its audit of PMG for the year ended September 30, 2010. During the year ended September 30, 2014, the IRS completed its audit of PMH for the year ended September 30, 2010 and the period from October 1, 2010 to December 15, 2010 with no adjustments. The Company's tax years 2010 and after are generally open for federal and state tax examination. At September 30, 2013, the Company has approximately $970,000 of unrealized excess tax benefits related to employee stock options. This amount is not included in the table of deferred tax assets above and the benefit will be recorded as an increase to additional paid in capital if and when realized.

The Company does not have any material unrecognized benefit as of September 30, 2014 and does not anticipate that any material change will occur within the next 12 months.

The differences between the income tax provision at the federal statutory rate and that reflected in the accompanying consolidated statements of operations are summarized as follows:

For the years ended September 30,	**2014**	2013
Tax provision at statutory rate	35%	35%
State taxes, net of federal benefit	6%	6%
Permanent and other items	0%	3%
Enterprize zone tax credits	(7)%	0%
Change in valuation allowances	0%	(19)%
Other	2%	(2)%
	36%	**23%**

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8. Long-Term Debt

Long-term debt consists of the following (in thousands):

September 30,	2014	2013
Prospect's debt:		
Senior secured notes		
2019 Notes	$ 325,000	$ 325,000
Less: discount, net	(6,339)	(7,641)
	318,661	317,359
Additional 2019 Notes	100,000	100,000
Plus: premium, net	1,419	1,729
	101,419	101,729
Other	-	21
	420,080	419,109
Nix Health's debt:		
Mortgage debt	1,801	1,919
Note payable	-	39
	1,801	1,958
Other debt:	7	-
Total Debt:	421,888	421,067
Less: current maturities	(133)	(178)
Long-term debt, net of current maturities	$ 421,755	$ 420,889

Prospect's Debt:

Senior Secured Notes

On May 3, 2012, the Company closed the offering of $325 million in 8.375% senior secured notes due May 1, 2019 ("PMH 2019 Notes"). Interest is payable semi-annually in arrears on May 1 and November 1, commencing on November 1, 2012. The offering was executed in accordance with Rule 144A and Regulation S under the Securities Act of 1933. The terms of the PMH 2019 Notes are governed by an indenture among the Company, certain of its subsidiaries and affiliates (as "Guarantors"), and U.S. Bank National Association (as trustee) (the "Indenture"). The Indenture contains certain covenants that, among other things, limit the Company's ability, and the ability of its restricted subsidiaries (as such term is defined in the Indenture) to: retire and pay dividends or distributions on capital stock or equity interests, prepay subordinated indebtedness or make other restricted payments; incur additional debt; make investments; create liens on assets; enter into transactions with affiliates; engage in other businesses; sell or issue capital stock of restricted subsidiaries; merge or consolidate with another company; transfer and sell assets; create dividend and other payment restrictions affecting subsidiaries; and designate unrestricted subsidiaries. The Credit Agreement (defined below), executed in connection

with the PMH Senior Secured Credit Facility (discussed below), contains a number of customary covenants as well as covenants requiring the Company to maintain a maximum consolidated secured leverage ratio and limiting the amount of capital expenditures.

Concurrent with the issuance of the PMH 2019 Notes, the Company entered into a five year $50 million revolving senior secured credit facility (the "PMH Senior Secured Credit Facility") which replaced the existing senior secured credit facility. The PMH Senior Secured Credit Facility provides, among other things, for borrowings up to the amount of the facility with sublimits of up to (i) $20 million to be available for the issuance of letters of credit and (ii) $10 million to be available for swingline loans. The commitment under the facility may be increased by up to $10 million upon the Company's request at the discretion of the lenders and subject to certain customary requirements. The interest rate per annum applicable to loans under the PMH Senior Secured Credit Facility will be, at the Company's option, either a rate per annum equal to (i) LIBOR plus 3.50% or (ii) an alternate base rate, which will be the higher of the administrative agent's prime rate, the federal funds rate plus 0.50%, and the 1-month LIBOR rate plus 1.00%, plus in each case, 2.50%. In August 2013, the PMH Senior Secured Credit Facility limit was increased to $60 million. As of September 30, 2014, the Company had $20 million outstanding debt related to the PMH Senior Secured Credit Facility.

The PMH 2019 Notes and the PMH Senior Secured Credit Facility are jointly and severally guaranteed on a senior secured basis by all of the Company's subsidiaries (as such term is defined in the Indenture) other than AMVI/Prospect Medical Group, Nuestra and certain immaterial subsidiaries. The PMH 2019 Notes are secured pari passu with the PMH Senior Secured Credit Facility by first-priority Liens and security interests on substantially all of the tangible and intangible assets of the Guarantors, including, but not limited to, the accounts receivable, inventories, other personal property, real property, fixtures and equipment, in each case now owned or hereafter acquired by the Company and the Subsidiary Guarantors, with certain exceptions. The PMH 2019 Notes are effectively senior to all of the Guarantors' existing and future Indebtedness.

The terms of the PMH Senior Secured Credit Facility are governed by the Credit Agreement, dated as of May 3, 2012, (as amended in connection with the Company's November 2012 offering of additional PMH 2019 Notes – see below) among the Company, Morgan Stanley Senior Funding, Inc. (as administrative agent), Royal Bank of Canada and Credit Suisse AG, Cayman Islands Branch (as co-syndication agents) and the lenders party thereto (the "Credit Agreement").

The Company, at its option, may redeem all or part of the notes at a redemption price equal to 106.281%, 104.188%, 102.094% and 100.0% on or after May 1, 2015, 2016, 2017 and 2018, respectively. Prior to May 1, 2015, the Company, at its option, may (i) redeem up to 35% of the original principal amount of the notes with the proceeds of certain equity offerings at a redemption price of 108.375% (ii) redeem up to 10% of the original principal amount of the PMH 2019 Notes during each 12-month period, commencing on May 1 in each of 2012, 2013 and 2014, at a redemption price of 103.0% of the principal amount thereof (this redemption option was terminated in connection with the Company's November 2012 offering of additional PMH 2019 Notes) or (iii) redeem the PMH 2019 Notes, in whole, but not in part, at a redemption price of 100.0% of the aggregate principal plus a make-whole premium. There are no required principal payments on the PMH 2019 Notes until maturity.

On November 16, 2012, the Company closed the offering of $100 million in aggregate principal amount of 8.375% senior secured notes due 2019 (the "Additional 2019 Notes") at a price equal to 102% of the principal amount of the Additional 2019 Notes. The Additional 2019 Notes were issued in a private placement to qualified institutional buyers and form a part of the same series as the PMH 2019 Notes issued on May 3, 2012.

The Additional 2019 Notes were issued under the Indenture, dated May 3, 2012 and described above, as supplemented by two supplemental indentures entered into in connection with the issuance of the Additional 2019 Notes (the "Supplemental Indentures"). The Additional 2019 Notes are treated as a single series with the previously issued PMH 2019 Notes for all purposes under the Indenture, including, without limitation, restrictive covenants, waivers, amendments, redemptions and offers to purchase. Prior to closing the issuance of the Additional 2019 Notes, the Company was required to obtain the consent of the majority in interest of its PMH 2019 Notes issued on May 3, 2012 to certain amendments to the Indenture contained in the first Supplemental Indenture. The Company obtained such consent from the holders of approximately $324 million in aggregate principal amount of outstanding PMH 2019 Notes and paid an aggregate consent fee of approximately $8.9 million. The Company determined that the transaction represents a debt modification under the applicable accounting guidance and capitalized the consent fee and recorded it as a debt discount during the year ended September 30, 2013, which is being amortized over the term of the Additional 2019 Notes using the effective interest method. As of September 30, 2013, the aggregate outstanding principal balance of the PMH 2019 Notes was $425,000,000, net of unamortized original issue discount of $7,641,000 and plus unamortized original issue premium of $1,729,000.

The proceeds from the offering, together with approximately $10.9 million of the Company's available cash, were utilized to pay a dividend to the stockholders of the Company's indirect parent, Ivy Holdings, in an aggregate amount equal to $100 million, to pay the aforementioned $8.9 million consent fee and to pay approximately $2.5 million for other fees and expenses related to the offering.

In connection with the issuance of the Additional 2019 Notes, the Company entered into an amendment of its Credit Agreement governing the PMH Senior Secured Credit Facility that waived and amended certain provisions of the Credit Agreement, including certain restrictive covenants.

As of September 30, 2014 and 2013, the Company was in compliance with the financial covenants of the Indenture and Credit Agreement.

Demand Notes

During the year ended September 30, 2012, the Company obtained a commitment from a bank for a $9.3 million equipment leasing facility to finance various equipment at the Company's hospital facilities. During January 2014, the commitment was increased to $22.3 million. As of September 30, 2014 and 2013, $10.7 million and $8.4 million, respectively, were drawn under the facility and are classified as capital lease arrangements. Draws represent demand notes until conversion to capital leases, and interest accrues on such draws at the bank prime rate plus 1.5% with a floor of 4.5% and payable monthly.

Nix Health's Debt:

Mortgage Debt

In connection with the Nix Health acquisition, Nix SPE, LLC ("Nix SPE") executed a Loan Assumption Agreement, effective as of February 29, 2012, pursuant to which Nix SPE assumed the obligations of the sellers of Nix Health under a mortgage loan facility provided by The Ohio National Life Insurance Company on December 27, 1999. Nix SPE assumed the obligation to pay the outstanding principal amount of the mortgage loan and interest accruing thereafter. The outstanding balance of the mortgage loan as of September 30, 2014 and 2013 was $1,801,000 and $1,919,000, respectively.

Prospect Hospital Holdings, LLC, the parent company of Nix SPE, has provided a guaranty of the obligations of Nix SPE under the loan. The obligations under the loan facility are secured by a deed of trust on a neighborhood medical center known as Nix Alamo Heights. The loan is subject to a 7.0% interest rate and requires monthly installment payments of $20,674, with a balloon payment on the maturity date of November 1, 2019. Prepayment is subject to a fee and the loan contains customary covenants.

Note Payable

Nix Health entered into a note payable due in March of 2014. Interest accrued on this note at 8.96% and was payable monthly. The outstanding balance of this note as of September 30, 2013 was $39,000, and the note payable was repaid during the year ended September 30, 2014.

Scheduled payments under the Company's current and long-term debt as of September 30, 2014 are as follows (in thousands):

Years ending September 30,	
2015	$ 133
2016	135
2017	145
2018	155
2019	420,247
Thereafter	1,073
	$ 421,888

9. Stockholder's Deficit

Equity Based Compensation Plans

Effective December 15, 2010, the Board of Directors of Ivy Holdings adopted the Ivy Plan that authorized the issuance of options exercisable for up to 155,110 shares of the common stock of Ivy Holdings to employees, certain consultants and independent members of the boards of directors, of Ivy Holdings and its subsidiaries (including the Company and its subsidiaries). During the years ended September 30, 2014 and 2013, the Compensation Committee of the Board of Directors of Ivy Holdings ("Compensation Committee") granted 4,113 and 18,462 options to certain members of the Company's management and employees. These options are exercisable into Ivy Holdings stock and vest based on a number of criteria, including time, Company and Business Unit performance based on EBITDA targets and CEO and Compensation Committee discretion. Since the Ivy Holdings stock options were granted to Company employees for their services related to the Company, the related compensation cost has been recorded in the Company's consolidated financial statements.

Under the terms of the Ivy Plan, the exercise price of an incentive stock option ("ISO") may not be less than 100% of the fair market value of the Company's common stock on the date of grant and, if granted to a shareholder owning more than 10% of the Company's common stock, then not less than 110%. Stock options granted under the Ivy Plan have a maximum term of 10 years from the grant date, and are exercisable at such time and upon such terms and conditions as determined by the Compensation Committee. Stock options granted to employees generally vest over four years, subject to continued service, performance, and other criteria. In the case of an ISO, the amount of the aggregate fair market

value of common stock with respect to which the ISO grant is exercisable, for the first time by an employee during any calendar year, may not exceed $100,000.

Stock Options Activity

The following table summarizes information about Ivy Holdings stock options outstanding as of September 30, 2014 and 2013 and activity during the years then ended:

	Shares Subject to Options	Weighted Average Exercise Price	Weighted Average Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term (Months)
Outstanding as of September 30, 2012	112,583	$ 100.00	$ 20.00	104.2
Granted	18,462	120.00	—	—
Exercised	(3,513)	30.00	—	—
Canceled/Forfeited	(9,255)	61.68	—	—
Outstanding as of September 30, 2013 *(1)*	118,277	43.44	76.56	95.8
Granted	4,113	120.00	—	—
Exercised	—	—	—	—
Canceled/Forfeited	(5,957)	58.71	—	—
Outstanding as of September 30, 2014	116,433	$ 45.37	$ 74.63	84.10

(1) The number of options at September 30, 2013 includes 100,611 options modified in connection with the Repricing (see below).

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the estimated fair value of the Company's common stock for those awards that have an exercise price currently below the estimated fair value. As of September 30, 2014, the aggregate intrinsic value of outstanding shares was approximately $8,700,000. As of September 30, 2014, there were 102,931 options that are exercisable at a weighted average exercise price of $38.01.

A summary of Ivy Holdings non-vested options and the changes during the fiscal years ended September 30, 2014 and 2013 is presented as follows:

	Shares	Weighted Average Grant Date Fair Value
Ivy Holdings Stock Options:		
Nonvested at September 30, 2012	62,657	$ 50.73
Granted	18,462	62.83
Vested	(29,492)	92.53
Canceled/Forfeited	(8,435)	79.53
Nonvested at September 30, 2013 *(2)*	43,192	86.99
Granted	4,113	63.81
Vested	(29,890)	92.00
Canceled/Forfeited	(3,913)	82.72
Nonvested at September 30, 2014	13,502	$ 70.20

(2) The number of non-vested options at September 30, 2013 includes 29,930 options modified in connection with the repricing (see below).

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On April 5, 2013, the Compensation Committee approved the repricing of the exercise price of all outstanding stock options as of that date. Pursuant to such resolution of the Ivy Holdings Compensation Committee, as of the effective date, all of the previously granted options were exchanged for new options with a lower exercise price granted on a one-for-one basis. As a result of this repricing, the Company repriced 49,380 vested options and 59,748 unvested options from an original exercise price of $100.00 per share to a new exercise price of $30.00 per share. Other than the exercise price, all other terms of the repriced options, such as vesting and contractual life, remained the same. The Company has accounted for the repricing as a modification and recorded any net incremental fair value related to vested awards as compensation expense on the date of modification. In addition, the Company is recording the incremental fair value related to the unvested awards, together with unamortized stock-based compensation expense associated with the unvested awards, over the remaining requisite service period of the option holders. In connection with the repriced options, the Company recorded stock compensation expense of $1,454,000 on the date of the modification. Incremental compensation cost resulting from the modification was $1,097,000 and $548,000 during the year ended September 30, 2014 and from the modification date through September 30, 2013, respectively.

The original fair value of the options granted ranges from $50.73 to $63.81 per option. In connection with the repricing, the stock compensation expense related to the stock options granted prior to April 5, 2013 is calculated based on a fair value of $97.75. The fair value was determined using the Black-Scholes option pricing model.

Fair value of the repriced options was estimated with the following assumptions for Ivy Holdings:

For the year ended September 30,	2013
Weighted average fair value of repriced options	$97.75
Estimated fair market value of the Company's common stock on the date of grant	$120.00
Weighted average expected life of the options	8.2 years
Risk-free interest rate	1.7%
Weighted average expected volatility	45.9%
Dividend yield	0.00%

Stock-Based Compensation Expense

Stock-based compensation expense for all share-based payments in exchange for employee services (including stock options and restricted stock) is measured at fair value on the date of grant, estimated using an option pricing model and is recognized in the consolidated financial statements, net of estimated forfeitures over the awards requisite service period.

The Company uses the Black-Scholes option pricing model and a single option award approach to estimate the fair value of options granted. Estimated forfeitures will be revised in future periods if actual forfeitures differ from the estimates and will impact compensation cost in the period in which the change in estimate occurs. The determination of fair value using the Black-Scholes option-pricing model is affected by the Company's estimated stock price as well as assumptions regarding a number of complex and subjective variables, including expected stock price volatility, risk-free interest rate, expected dividends and projected employee stock option exercise behaviors.

Fair value for options granted during the years ended September 30, 2014 and 2013 was estimated with the following assumptions for Ivy Holdings:

For the years ended September 30,	**2014**	2013
Weighted average fair value of option grants	**$ 63.81**	$ 62.83
Estimated fair market value of the Company's common stock on the date of grant	**$ 120.00**	$ 120.00
Weighted average expected life of the options	**8.0 years**	8.2 years
Risk-free interest rate	**2.7%**	1.7%
Weighted average expected volatility	**45.0%**	45.9%
Dividend yield	**0.00%**	0.00%

Expected Term - The expected term of options granted represents the period of time that they are estimated to be outstanding.

Risk-Free Interest Rate - The Company bases the risk-free interest rate on the implied yield in effect at the time of option grant on U.S. Treasury zero-coupon issues with equivalent remaining terms.

Expected Volatility—The Company estimates the volatility of the common stock at the date of grant based on the average of the historical volatilities of a group of peer companies. The Company has identified a group of comparable companies to calculate historical volatility from publicly available data for sequential periods approximately equal to the expected terms of the option grants. In selecting comparable companies, Management considered several factors including industry, stage of development, size and market capitalization.

Forfeitures—Share-based compensation is recognized only for those awards that are ultimately expected to vest. Compensation expense is recorded net of estimated forfeitures. Those estimates are revised in subsequent periods if actual forfeitures differ from those estimates. The Company used data since May 2005 to estimate pre-vesting option forfeitures.

Stock-based compensation expense for the Ivy Holdings stock options recognized during the years ended September 30, 2014 and 2013 was approximately $2,673,000 and $3,595,000 (including the impact of the option repricing noted above), respectively. At September 30, 2014, there were 13,502 unvested options which could potentially vest over the next three fiscal years, subject to meeting various vesting requirements which include time, discretion, and various performance targets as defined. The remaining maximum estimated stock compensation expense to be amortized to expense in future periods is approximately $960,000. The stock-based compensation expense is based on a number of criteria, including time, achievement of Company and Business Unit EBITDA targets and CEO and Compensation Committee discretion. Options which are expected to vest based on CEO and Compensation Committee discretion, are treated as variable stock options and are subject to revaluation at each reporting period. Management determined the fair value of the discretionary vested options using a Black Scholes calculation but determined that the change in compensation expense was not material to the consolidated financial statements for the years ended September 30, 2013 and 2014.

Dividends

The Company distributed $100 million in connection with the issuance of the Additional 2019 Notes, during the year ended September 30, 2013, which was recorded against retained earnings, and was ultimately paid to the common stockholders of Ivy Holdings.

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10. Commitments and Contingencies

Leases

The Company leases various office facilities and equipment from third parties under non-cancelable operating and capital lease arrangements expiring at various dates through 2026. Certain operating leases contain rent escalation clauses and renewal options, which have been factored into determining rent expense on a straight-line basis over the lease terms. Capital leases bear interest at rates ranging from 2% to 11% per annum.

The future minimum annual lease payments (net of anticipated sublease income) required under leases in effect at September 30, 2014, are as follows (in thousands):

For the Years ending September 30,	Capital Leases	Operating Leases
2015	$ 5,776	$ 5,772
2016	3,215	4,746
2017	2,046	3,821
2018	1,438	3,098
2019	1,217	2,142
Thereafter	7,433	2,503
Total minimum lease payments	21,125	$ 22,082
Less: amounts representing interest	(5,971)	
	15,154	
Less: current portion	(4,691)	
	$ 10,463	

Rent expense for the years ended September 30, 2014 and 2013 was approximately $9,615,000 and $7,365,000, respectively. Sublease rental income of approximately $271,000 and $209,000, for the years ended September 30, 2014 and 2013, respectively, was recorded as a reduction to rental expense.

Litigation

The Company is subject to a variety of claims and suits that arise from time to time in the ordinary course of its business, acquisitions, or other transactions. While the Company's management currently believes that resolving all of these matters, individually or in the aggregate, will not have a material adverse impact on the Company's consolidated financial position or results of operations, the litigation and other claims that the Company faces are subject to inherent uncertainties and management's view of these matters may change in the future. Should an unfavorable final outcome occur, there exists the possibility of a material adverse impact on the Company's consolidated financial position, results of operations and cash flows for the period in which the effect becomes probable and reasonably estimable.

Following the acquisition of the Company in August 2010, two putative class action complaints were filed against the Company, each of the Company's special committee members, Ivy Holdings, LGP, and certain other parties. These complaints, which were consolidated into a single action, allege generally

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that defendants breached their fiduciary duties, or aided and abetted others' breaches of their fiduciary duties, in connection with the transaction with the Company by, among other things, authorizing the transaction for what plaintiffs claim to be inadequate consideration and pursuant to what plaintiffs claim to be an inadequate process and with inadequate disclosures. An amended complaint was filed in July 2011 alleging the same general facts.

On December 30, 2010, another lawsuit was filed in Delaware Chancery Court by Terrier Partners and five related entities against the same defendants identified above. The complaint alleges generally that the consideration offered to shareholders in connection with the transaction with the Company was inadequate in light of the revenue received under AB 1383 (see California Hospital Fee Program below), and that defendants breached their fiduciary duties, or aided and abetted others' breaches of their fiduciary duties by not obtaining a higher price in light of this additional revenue.

In May 2012, the Court of Chancery granted motions to consolidate the Terrier Partners case and the class action cases, and for class certification, certifying the class as a non-opt out class. The Court also entered a schedule permitting the plaintiffs to file a new amended complaint, and on June 11, 2012, plaintiffs filed their Verified Consolidated Third Amended Class Action Complaint. On July 26, 2012, the director defendants answered the Third Amended Complaint. That same day, Prospect moved to dismiss itself as a party to the Third Amended Complaint. The Court granted the motion to dismiss the Company as a defendant, leaving only the individuals as defendants in the case.

The parties subsequently engaged in discovery, and agreed to stay the matter in order to explore the possibility of mediation, which was unsuccessful. The defendants have vigorously defended the matter, and will continue to do so. No trial date is currently set.

Many of the Company's payer and provider contracts are complex in nature and may be subject to differing interpretations regarding amounts due for the provision of medical services. Such differing interpretations may not come to light until a substantial period of time has passed following contract implementation. Liabilities for claims disputes are recorded when the loss is probable and can be estimated. Any adjustments to reserves are reflected in current operations.

Seismic Standards

Our SCHS Hospitals and Alta Los Angeles Hospitals are required to comply with California's Alfred E. Alquist Hospital Facilities Seismic Safety Act (the "Alquist Act"), which regulates the seismic performance of all aspects of hospital facilities in California. The Alquist Act imposes near-term and long-term compliance deadlines for seismic safety assessment, submission of corrective plans, and the retrofitting or replacement of medical facilities to comply with current seismic standards. The Alquist Act also requires that the California Building Standards Commission adopt earthquake performance categories, seismic evaluation procedures, standards and timeframes for upgrading certain facilities, and seismic retrofit building standards. These regulations require hospitals to meet seismic performance standards to ensure that they are capable of providing medical services to the public after an earthquake or other disaster. The Building Standards Commission completed its adoption of evaluation criteria and retrofit standards in 1998.

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The Alquist Act requires that within three years after the Building Standards Commission had adopted evaluation criteria and retrofit standards:

- Hospitals in California must conduct seismic evaluation and submit these evaluations to the Office of Statewide Health Planning and Development ("OSHPD"), Facilities Development Division for its review and approval;

- Hospitals in California must identify the most critical nonstructural systems that represent the greatest risk of failure during an earthquake and submit timetables for upgrading these systems to the OSHPD, Facilities Development Division for its review and approval; and

- Hospitals in California must prepare a plan and compliance schedule for each regulated building demonstrating the steps a hospital will take to bring the hospital buildings into substantial compliance with the regulations and standards.

The Company was required to conduct engineering studies at its hospitals to determine whether and to what extent modifications to the hospital facilities will be required. Management believes that SCH Culver City meets all current requirements; however, it may be required to make significant capital expenditures in the future to comply with the seismic standards, which could impact its earnings. The cost at September 30, 2014, is unknown at this time but could be material. In addition, such modifications to the hospital facilities could potentially result in environmental remediation liabilities which may be material to the Company.

The OSHPD has a voluntary program to re-evaluate the seismic risk of hospital buildings classified as Structural Performance Category ("SPC") 1. These buildings are considered hazardous and at risk of collapse in the event of an earthquake and they were required to be retrofitted, replaced or removed from providing acute care services by 2013, unless granted an extension. OSHPD is using HAZARDS U.S. ("HAZUS"), a state-of-the-art methodology, to reassess the seismic risk of SPC-1 buildings and those that are determined to pose a low seismic risk may be reclassified to SPC-2. The SPC-2 buildings would have until 2030 to comply with the structural seismic safety standards. Participation in the HAZUS program is optional for hospital owners wishing to have their SPC-1 building(s) re-evaluated. Applications for a HAZUS re-evaluation of the seismic risk were submitted for SCH Hollywood, SCH Culver City and Los Angeles Community Hospital, but there is no assurance they will result in extensions.

In addition, in 2011, the California Legislature enacted Senate Bill 90, which permitted some hospitals to apply for up to an additional seven year extension to the seismic retrofit deadlines, not to extend beyond January 1, 2020. SB 90 also permits OSHPD to extend until January 1, 2018 the date by which the hospitals must obtain a building permit and commence the required retrofit project.

SCH Culver City and Los Angeles Community Hospitals both applied for the SB 90 extension from OSHPD. Two of the buildings owned by SCH Culver City were granted SB 90 extensions until January 2019 and July 2019, respectively. Also, the facility operated by Los Angeles Community Hospital received an SB 90 extension until January 2019. All three extensions are contingent upon the delivery of certain additional plans and reports prior to January 2015 that have either been delivered or are in process at the time of this report. OSHPD is still reviewing the SB 90 extension request filed for a third building owned by SCH Culver City, which is also still subject to our application to be reclassified as a SPC-2 building.

OSHPD has discretion to approve or disapprove SB 90 extension requests, and to determine the length of the extension (up to the maximum seven years), based on eligibility factors including seismic risks associated with the affected buildings (which can be impacted by the updated HAZUS findings), community access to essential hospital services in the area and financial hardships facing the applicant.

Effective May 6, 2014, Prospect acquired the hospital facilities NSH and LACH Bellflower (see Note 4). For the newly acquired facilities, the Company is in the process of pursuing Non-Structural Performance Category ("NPC") 2 classification and the extension of the compliance deadlines that would result.

These requirements can result in significant operational changes and capital outlays. Management is continuing to assess its options and the methods of financing the required retrofits. Based on management's evaluation, the costs of renovation needed to comply with the California seismic safety standards for its acute-care facilities, including asbestos abatement, are not estimable at this time.

Legislation and HIPAA

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

The Company believes that it is in compliance with fraud and abuse regulations as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

The Health Insurance Portability and Accountability Act ("HIPAA") assures health insurance portability, reduces healthcare fraud and abuse, guarantees security and privacy of health information, and enforces standards for health information. The Health Information Technology for Economic and Clinical Health Act ("HITECH Act") expanded upon HIPAA in a number of ways, including establishing notification requirements for certain breaches of protected health information. In addition to these federal rules, California has also developed strict standards for the privacy and security of health information as well as for reporting certain violations and breaches. The Company may be subject to significant fines and penalties if found not to be compliant with these state or federal provisions.

Affordable Care Act

The Patient Protection and Affordable Care Act ("PPACA") will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer-provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible that the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

California Hospital Fee Program

The State of California enacted Assembly Bill 1383 ("AB 1383") effective January 1, 2010, as amended by Assembly Bill 1653 (collectively, the "Program"), to provide supplemental payments to certain hospitals such as the hospitals owned and operated by the Company's subsidiaries. The Program requires participating hospitals to pay fee assessments into a pool of funds to which the federal government contributes matching funds. Most of these funds, including the federal matching funds, are then distributed to qualifying hospitals. In addition, on April 13, 2011 SB 90 was signed into law and provided for a six-month extension of the Hospital Fee Program for dates of service from January 1, 2011 through June 30, 2011. CMS granted final approval of SB 90 on December 29, 2011, at which point the revenue and expense was recognized for the retroactive period. In September 2011, the State of California enacted Senate Bill 335 ("SB 335") which provides a 30-month hospital fee program for dates of service from July 1, 2011 through December 31, 2013. The elements of SB 335 related to the fee for service payments were approved by CMS on June 22, 2012. The payments due under the managed care component are scheduled to be made in three cycles. The first two cycles were previously approved by CMS, and the third cycle was approved by CMS subsequent to September 30, 2014. Certain technical changes to the legislation required by CMS are included in Senate Bill 920.

Governor Brown signed Senate Bill 239 ("SB 239") in October 2013, which enacted a hospital fee program for the period January 1, 2014 through December 31, 2016. This program was approved by CMS on December 5, 2014. SB 239 provides that the hospital fee program will continue through December 31, 2022 in three year cycles and will require authorization of each cycle by the California legislature. The Company has not recognized any amounts related to SB 239 as of and for the years ended September 30, 2014 and 2013.

For the years ended September 30, 2012 and 2011, SCH Culver City received invoices for fee assessments under AB 1383 and SB 90 of approximately $6,310,000 and $19,000,000, respectively, following payment of which, SCH Culver City was scheduled to receive approximately $5,236,000 and $15,000,000, respectively. Management of SCH Culver City estimated that SCH Culver City would be a "net" payer under the Program, since the fee assessments on SCH Culver City exceeded the supplemental payments by approximately $1,074,000 and $4,000,000, respectively. Accordingly, on October 6, 2010, the Company notified the California Department of Healthcare Services ("DHCS") that SCH Culver City was opting out of the Program.

SCH Culver City did not pay the required fee assessments under the Program. Beginning February 14, 2011, the DHCS began withholding against amounts otherwise due SCH Culver City, in the amount of $65,000 per week indicating that withholdings would continue for 108 weeks and would total approximately $7,000,000. Through September 30, 2012, a total of approximately $2,986,000 had been withheld against SCH Culver City's Medi-Cal fee-for-service payments. As of September 30, 2012, SCH Culver City recorded a liability of approximately $5,494,000, representing the accrued loss above, as well as deferred recognition of payments received from managed care plans. On November 15, 2012 the Company entered into a settlement agreement with DHCS with regards to SCH Culver City's liability under AB 1383, SB 90 and SB 335, as discussed above. Under the terms of the agreement, the DHCS agreed to forgive approximately $2,000,000 of the fees due under AB 1383, which was recorded by the Company during the year ended September 30, 2013. The remaining liability due to DHCS of $4,605,000 will be repaid by the Company monthly over a 10-year period without interest or penalties. The Company recorded a net liability of $3,233,000 as of the settlement date, which represents the net present value of the liability due to DHCS discounted at an effective interest rate of 7.5%. As of September 30, 2014 and 2013, the unamortized balance of the liability amounted to $2,806,000 and $3,046,000, respectively. The DHCS will no longer withhold against any other amounts due to SCH Culver City unless the Company is delinquent on payments owed under the agreement.

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As of September 30, 2013, the Company had a receivable related to the California Hospital Fee Program of $18,895,000 in the accompanying consolidated balance sheets. The Company did not have a receivable related to the California Hospital Fee Program as of September 30, 2014. As of September 30, 2014 and 2013, the Company had a liability related to the California Hospital Fee Program of $2,806,000 and $8,609,000, respectively, in the accompanying consolidated balance sheets.

Total California Hospital Fee program revenues and expenses recognized during the years ended September 30, 2014 and 2013 were as follows (in thousands):

Year Ended September 30,	**2014**	2013
Hospital services revenues	$ **11,884**	$ 63,371
Hospital operating expenses	**5,863**	37,925
Net pre-tax impact	$ **6,021**	$ 25,446

Collective Bargaining Agreements

A small group of employees at SCH Hollywood, which is one of the hospitals under the consolidated group of Alta Hospitals System, LLC, and Service Employees International Union, United Healthcare Workers-West ("SEIU") are currently parties to a collective bargaining agreement with a termination date of April 27, 2017. In addition, approximately 77% of the employees of SCH Culver City are part of a collective bargaining agreement with the SEIU or the California Nurses Association ("CNA"). SCH Culver City and CNA are currently parties to a collective bargaining agreement that expires on December 21, 2015. SEIU and SCH Culver City are currently parties to a three-year term agreement that expires on April 27, 2017.

As of September 30, 2014, approximately 25% of the employees at CharterCARE St. Joseph's are subject to a collective bargaining agreement with United Nurses and Allied Professionals ("UNAP"), which expires July 31, 2016. An additional 1% are subject to a collective bargaining agreement with the Federation of Nurses and Health Professionals ("FNHP"), which expires April 30, 2016.

Tangible Net Equity ("TNE") requirement

The Company's affiliated physician organizations must comply with a minimum working capital requirement, Tangible Net Equity ("TNE") requirement, cash-to-claims ratio and claims payment requirements prescribed by the California Department of Managed Health Care. TNE is defined as net assets, less intangibles and amounts due from affiliates, plus subordinated obligations. At September 30, 2014 and 2013, the Company and the affiliated physician organizations were in compliance with these regulatory requirements.

Employee Health Plans

From October 1, 2012 through December 31, 2012, the Company (except for SCH Culver City and Nix Health) was fully insured for its HMO and PPO plans to employees. For the fully insured groups, health benefits were administered by a commercial insurance carrier, based on plan coverage and eligibility guidelines determined by the Company. The insurance policies had guaranteed cost and the Medical Group and Corporate segment incurred no claim liability if terminated. SCH Culver City and Nix were self-insured for their EPO/HMO and PPO plans.

Effective January 1, 2013 the Company offered self-insured EPO/HMO and PPO plans to all eligible employees. The CharterCARE hospitals were not included under such plans from the date of acquisition through September 30, 2014 and have a separate low-deductible plan. Employee health benefits are administered by a third party claims administrator, based on plan coverage and eligibility guidelines determined by the Company, as well as by collective bargaining agreements (as reflected above). A commercial insurance policy covers losses in excess of $250,000 per occurrence for the Hospital Segment and $175,000 for the Medical Group and Corporate segments. An actuarially estimated liability of approximately $1,828,000 and $1,788,000 for incurred but not reported claims has been included in accrued salaries, wages, and benefits as of September 30, 2014 and 2013, respectively.

Provider Contracts

Many of the Company's payer and provider contracts are complex in nature and may be subject to differing interpretations regarding amounts due for the provision of medical services. Such differing interpretations may not come to light until a substantial period of time has passed following contract implementation. Liabilities for claims disputes are recorded when the loss is probable and can be estimated. Any adjustments to reserves are reflected in current operations.

11. Defined Contribution Plan

The Company sponsors a defined contribution plan covering substantially all employees who meet certain eligibility requirements. Under this plan, employees can contribute up to 100% of their compensation up to the IRS deferred annual maximum. There is currently no company match offered under the plan, except at Nix Health and PCC, for which the expense for the employer match was $576,000 and $463,000 for the years ended September 30, 2014 and 2013, respectively. Total expenses under the plan were approximately $197,000 and $87,000 during the years ended September 30, 2014 and 2013, respectively.

12. Accrued Medical Claims and Other Healthcare Costs Payable

The following table presents the roll-forward of incurred but not reported ("IBNR"), claims reserves (Medical Group and full risk contracts) as of and for each of the fiscal years ended September 30, 2014 and 2013 (in thousands):

September 30,	**2014**	2013
IBNR as of beginning of year	**$ 30,352**	$ 26,985
Claim expenses incurred during the year:		
Related to current year	**161,088**	128,747
Related to prior year	**(3,571)**	(3,646)
Total incurred	**157,517**	125,101
Claims paid during the year:		
Related to current year	**(124,393)**	(100,301)
Related to prior year	**(24,162)**	(21,433)
Total paid	**(148,555)**	(121,734)
IBNR as of end of year	**$ 39,314**	$ 30,352

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Following is a table showing the details of the medical group cost of revenues per the consolidated statements of operations (in thousands):

Years Ended September 30,	**2014**	2013
Capitation expense	$ **85,754**	$ 76,918
Fee-for-service claims expense	**94,749**	82,846
Other physician compensation	**5,066**	3,993
Other cost of revenues	**(227)**	700
Total cost of revenues	$ **185,342**	$ 164,457

13. Joint Venture

The Company (through Prospect Medical Group, Inc.) and an unrelated third party, AMVI Care Health Network, Inc. ("AMVI") are partners in a joint venture initially formed to service Medi-Cal members under the CalOptima program in Orange County, California. Healthy Families and OneCare members were subsequently added to the joint venture arrangement. Effective January 1, 2013, all Healthy Family participants were transferred to the Company's Medi-Cal line of business and therefore no longer part of the joint venture. The Company does not consolidate the joint venture. The Company includes in its consolidated financial statements only the net results attributable to those enrollees specifically identified as assigned to it, together with the management fee that it charges the joint venture partner for managing those enrollees specifically assigned to AMVI. Costs incurred by the Company in managing the joint venture are included in general and administrative expenses in the accompanying consolidated financial statements. As of September 30, 2014 and 2013, the net liability balances of the Company investment in the joint venture under the equity method were approximately $1,594,000 and $2,000,000, respectively, and were included in accounts payable and other accrued liabilities in the accompanying consolidated financial statements.

Summarized unaudited financial information for the unconsolidated joint venture as of and for each of the years ended September 30, 2014 and 2013 is as follows (in thousands):

September 30,	**2014**	2013
Cash	$ **1,753**	$ 742
Receivables	**2,232**	2,037
Total assets	$ **3,985**	$ 2,779
Accrued medical claims	$ **1,658**	$ 1,556
Other payables	**1,470**	34
Other partner's capital	**856**	1,188
Prospect's capital	**1**	1
Total liabilities and partner's capital	$ **3,985**	$ 2,779

Years Ended September 30,	**2014**	2013
Revenues	$ **19,289**	$ 16,307
Income before income taxes	$ **2,915**	$ 2,206
Prospect's equity income	$ **3,295**	$ 2,150
Management fees earned by Prospect	$ **1,141**	$ 1,016

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14. Segment Information

The Company's operations are organized into three reporting segments: (i) Hospital Services — which is comprised of the Alta Hospitals, SCH Culver City, Nix Health, and PCC reporting units, owns 13 hospitals or extended care facilities — Los Angeles Community Hospital, Norwalk Community Hospital, Los Angeles Community Hospital at Bellflower, Newport Specialty Hospital, SCH Hollywood, SCH Van Nuys, SCH Culver City, Nix Medical Center, Nix Specialty Health Center, Nix CGH, Roger Williams Medical Center, Saint Joseph's Health Services of Rhode Island, and Elmhurst Extended Care; (ii) Medical Group — which is comprised of the Prospect and ProMed reporting units, provides management services to affiliated physician organizations that operate as independent physician associations or medical practice groups and certain unaffiliated independent physician associations; and (iii) Corporate, which represents expenses incurred in Prospect Medical Holdings, Inc., that were not allocated to the other reporting segments.

The accounting policies of the reporting segments are the same as those described in the summary of significant accounting policies (see Note 2). The Company evaluates financial performance and allocates resources primarily based on earnings from operations before interest expense, interest income, income taxes, depreciation and amortization, as well as income or loss from operations before income taxes, excluding infrequent or unusual items.

The reporting segments are strategic business units that offer different services within the healthcare industry. Business in each reporting segment is conducted by one or more direct or indirect wholly-owned subsidiaries of the Company and certain affiliated physician organizations controlled through assignable option agreements and management services agreements. The Company voluntarily discloses the following table which summarizes certain information for each of the reporting segments regularly provided to and reviewed by the chief operating decision maker (in thousands):

	As of and for the Year Ended September 30, 2014				
	Hospital Services *(3)*	Medical Group *(2)*	Corporate *(1)*	Intersegment Eliminations	Consolidated
Revenues from external customers	$ 600,536	$ 253,980	$ -	$ -	$ 854,516
Intersegment revenues	-	1,039	-	(1,039)	-
Total revenues	600,536	255,019	-	(1,039)	854,516
Depreciation and amortization	20,694	2,846	40	-	23,580
Operating income (loss)	57,748	29,080	(20,676)	-	66,152
Other (income) expense	(3,037)	(26)	38,480	1,622	37,039
Income (loss) before income taxes	60,785	29,106	(59,156)	(1,622)	29,113
Provision for income tax	-	-	10,561	-	10,561
Net income (loss)	$ 60,785	$ 29,106	$ (69,717)	$ (1,622)	$ 18,552
Identifiable segment assets	$ 599,516	$ 75,612	$ 86,189	$ -	$ 761,317
Segment capital expenditures, net of dispositions	$ 49,181	$ 924	$ 2	$ -	$ 50,107
Segment goodwill	$ 136,525	$ 22,339	$ -	$ -	$ 158,864

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	As of and for the Year Ended September 30, 2013				
	Hospital Services *(3)*	Medical Group *(2)*	Corporate *(1)*	Intersegment Eliminations	Consolidated
Revenues from external customers	$ 491,839	$ 221,743	$ -	$ -	$ 713,582
Intersegment revenues	-	727	-	(727)	-
Total revenues	491,839	222,470	-	(727)	713,582
Depreciation and amortization	14,062	2,715	37	-	16,814
Operating income (loss)	75,199	24,399	(17,442)	-	82,156
Other (income) expense	1,314	(49)	37,839	-	39,104
Income (loss) before income taxes	73,885	24,448	(55,281)	-	43,052
Provision for income tax	-	-	9,810	-	9,810
Net income (loss)	$ 73,885	$ 24,448	$ (65,091)	$ -	$ 33,242
Identifiable segment assets	$ 453,232	$ 117,556	$ 8,158	$ -	$ 578,946
Segment capital expenditures, net of dispositions	$ 13,583	$ 650	$ 50	$ -	$ 14,283
Segment goodwill	$ 136,526	$ 22,338	$ -	$ -	$ 158,864

(1) Prospect files consolidated tax returns and allocates costs for shared services and corporate overhead to each of the reporting segments. With the exception of Nix Health and PCC, all debt, including debt related to the Medical Group and Hospital Services segment, is recorded at the Parent Entity level. The Company does not allocate interest expense related to acquisition debt to the operating segments.

(2) Prospect Medical Group, Inc. (which serves as a holding company for the other affiliated physician organizations) files consolidated tax returns. The Medical Group segment includes the results for NGMA from October 1, 2012 (acquisition date) through September 30, 2014.

(3) The Hospital Services segment includes the results for Nix CGH, Los Angeles Community Hospital at Bellflower and Newport Specialty Hospital, and CharterCARE from the acquisition dates of April 16, 2013, May 6, 2014, and June 20, 2014, respectively, through September 30, 2014. Included in revenues from external customers are $14,525,000 and $7,700,000 of other revenues related primarily to the CMS Rural Floor settlement, meaningful use incentive payments and rental revenue from operating leases for the years ended September 30, 2014 and 2013, respectively.

15. Subsequent Events (Unaudited)

The Company has evaluated subsequent events through December 17, 2014, the date the Company's consolidated financial statements were available for issuance.

Acquisitions

Effective October 21, 2014, the Company, through its subsidiary, Prospect CharterCARE Physicians, LLC ("PCCP"), entered into two separate asset purchase agreements pursuant to which PCCP will acquire substantially all of the assets of physician medical practices located in Rhode Island.

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Pursuant to the first purchase agreement, PCCP will acquire substantially all of the assets of Physicians of Rhode Island Medical Enterprises, Inc., a primary care practice group with one physician and five nurse practitioners located in Cumberland, Rhode Island, and PMA, LLC, a primary care practice group with one physician and one nurse practitioner located in Pawtucket, Rhode Island. Pursuant to the same purchase agreement, on October 21, 2014, PCCP acquired 49% of the issued and outstanding membership interests in Partners in Clinical Research, LLC, a clinical research business located in Cumberland, Rhode Island. The Company paid $2,410,000 as consideration under the asset purchase agreement.

Pursuant to the second purchase agreement, PCCP will acquire substantially all of the assets of Physicians of East Side Primary Care, LLC, a primary care practice group with one physician, two physician assistants and one nurse practitioner located in Providence, Rhode Island. The Company paid $860,000 as consideration under this asset purchase agreement. Additionally, on each of the first four (4) anniversaries of the October 21st closing date, the Company will pay to the seller an EBITDA bonus based on the performance of the acquired practice.

The majority of the assets of the groups were acquired on October 21, 2014. However, the acquisition of certain professional licenses and related assets, and the employment of certain professional staff, will occur at a later date after all necessary licensing and credentialing by PCCP has occurred. PCCP and the sellers of the groups have entered into Interim Administrative Services Agreements that will provide for the administration of the seller entities during the period prior to such second acquisition dates. PCCP and the two physicians that are the principal owners of the seller entities have entered into employment agreements and non-compete restrictions. Additionally, PCCP entered into three (3) separate office leases with five (5) year terms that provide for the lease of the spaces currently occupied by the practices. The lessors under each office lease are the employed physicians that are the former principal owners of the groups.

California Hospital Fee Program

Governor Brown signed SB 239 in October 2013, which enacted a hospital fee program for the period January 1, 2014 through December 31, 2016. The fee for service component of the program was approved by CMS on December 5, 2014, and the managed care component has not yet been approved. The Company has not recognized any amounts related to SB 239 as of and for the year ended September 30, 2014. The Company anticipates a net benefit from the program for service periods from January 1, 2014 to December 31, 2016.

Prospect Medical Holdings, Inc.

Consolidated Financial Statements

For the Years Ended
September 30, 2015 and 2014

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.

Prospect Medical Holdings, Inc.

Consolidated Financial Statements

For the Years Ended September 30, 2015 and 2014

Prospect Medical Holdings, Inc.

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Independent Auditor's Report

Board of Directors
Prospect Medical Holdings, Inc.
Los Angeles, California

We have audited the accompanying consolidated financial statements of Prospect Medical Holdings, Inc. (the "Company"), which comprise the consolidated balance sheets as of September 30, 2015 and 2014, and the related consolidated statements of income, statements of stockholder's equity (deficit), and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Prospect Medical Holdings, Inc. and its subsidiaries as of September 30, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

December 10, 2015

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Consolidated Financial Statements

Prospect Medical Holdings, Inc.

Consolidated Balance Sheets
(in thousands except par value and share amounts)

September 30,	**2015**	2014
Assets		
Current assets		
Cash and cash equivalents	$ **65,606**	$ 39,072
Restricted cash	**4,585**	4,976
Restricted investments	**1,266**	642
Patient accounts receivable, net of allowance for doubtful accounts of $52,707 and $49,727	**139,696**	123,733
Due from government payers	**41,586**	42,518
Other receivables	**6,821**	15,947
Inventories	**12,294**	10,448
Hospital fee program receivable	**32,285**	-
Prepaid expenses and other current assets	**17,889**	14,374
Total current assets	**322,028**	251,710
Property, improvements and equipment, net	**240,337**	229,474
Deferred financing costs, net	**7,233**	9,457
Deferred income taxes, net	**11,865**	1,165
Goodwill	**162,296**	158,864
Intangible assets, net	**29,162**	35,274
Other assets	**9,930**	8,234
Total assets	$ **782,851**	$ 694,178

See accompanying notes to the consolidated financial statements.

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Prospect Medical Holdings, Inc.

Consolidated Balance Sheets
(in thousands except par value and share amounts)

September 30,	2015	2014
Liabilities and Stockholder's Equity (Deficit)		
Current liabilities:		
Accrued medical claims and other healthcare costs payable	$ 53,531	$ 39,314
Accounts payable and other accrued liabilities	102,936	88,218
Accrued salaries, wages and benefits	57,432	53,808
Hospital fee program liability	15,022	2,806
Due to government payers	27,078	26,584
Income taxes payable, net	15,110	5,879
Revolving line of credit	20,000	20,000
Current portion of capital leases	2,905	4,691
Current portion of long-term debt	135	133
Other current liabilities	2,168	1,659
Total current liabilities	296,317	243,092
Long-term debt, net of current portion	422,700	421,755
Deferred income taxes, net	-	3,308
Malpractice reserves	6,632	4,590
Capital leases, net of current portion	9,296	10,463
Asset retirement obligations	4,583	4,310
Other long-term liabilities	6,883	7,866
Total liabilities	746,411	695,384
Commitments, contingencies and subsequent event		
Stockholder's equity (deficit):		
Common stock, $0.01 par value; 100 shares authorized, issued and outstanding at September 30, 2015 and 2014	1	1
Additional paid-in capital	20,037	18,457
Retained earnings (accumulated deficit)	6,158	(28,481)
Total stockholder's equity (deficit) attributable to Prospect Medical Holdings, Inc.	26,196	(10,023)
Non-controlling interests	10,244	8,817
Total stockholder's equity (deficit)	36,440	(1,206)
Total liabilities and stockholder's equity (deficit)	$ 782,851	$ 694,178

See accompanying notes to the consolidated financial statements.

CONFIDENTIAL BUSINESS INFORMATION

Prospect Medical Holdings, Inc.

Consolidated Statements of Income
(in thousands)

For the Years Ended September 30,	**2015**	2014
Revenues:		
Net Hospital Services revenues	**$ 1,047,517**	$ 619,809
Provision for bad debts	**(44,087)**	(32,945)
Net Hospital Services revenues less provision for bad debts	**1,003,430**	586,864
Medical Group revenues	**333,238**	253,980
Net Global Risk Management revenues	**3,440**	-
Other revenues	**5,436**	13,672
Total net revenues	**1,345,544**	854,516
Operating Expenses:		
Hospital operating expenses	**788,366**	449,742
Medical Group cost of revenues	**224,028**	185,342
Global Risk Management cost of revenues	**3,119**	-
General and administrative	**193,997**	133,056
Depreciation and amortization	**34,374**	23,580
Total operating expenses	**1,243,884**	791,720
Operating income from unconsolidated joint venture	**6,400**	3,356
Operating income	**108,060**	66,152
Other (income) expense:		
Interest expense and amortization of deferred financing costs, net	**42,063**	41,437
Adjustment to (Gain on) bargain purchase	**319**	(4,817)
Other expense	**230**	419
Total other (income) expense, net	**42,612**	37,039
Income before income taxes	**65,448**	29,113
Income tax provision	**31,146**	10,561
Net income	**34,302**	18,552
Net income attributable to non-controlling interests	**(337)**	(463)
Net income attributable to Prospect Medical Holdings, Inc.	**$ 34,639**	$ 19,015

See accompanying notes to the consolidated financial statements.

CONFIDENTIAL BUSINESS INFORMATION

Prospect Medical Holdings, Inc.

Consolidated Statements of Stockholder's Equity (Deficit)
(in thousands except share amounts)

	Number of Common Shares	Common Stock	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Prospect Medical Holdings, Inc. Stockholder's Equity (Deficit)	Non-controlling Interests	Total Stockholder's Equity (Deficit)
Balance at September 30, 2013	100	$ 1	$ 15,334	$ (47,496)	$ (32,161)	$ 120	$ (32,041)
Stock-based compensation	-	-	2,673	-	2,673	-	2,673
Investment in Chaparral Medical Group (see Note 1)	-	-	450	-	450	-	450
Non-controlling interest attributed to PCC Seller (see Note 4)	-	-	-	-	-	9,160	9,160
Net income	-	-	-	19,015	19,015	(463)	18,552
Balance at September 30, 2014	100	1	18,457	(28,481)	(10,023)	8,817	(1,206)
Options exercised	-	-	396	-	396	-	396
Stock-based compensation	-	-	1,184	-	1,184	-	1,184
Non-controlling interest attributed to PCC Seller (see Note 4)	-	-	-	-	-	1,764	1,764
Net income	-	-	-	34,639	34,639	(337)	34,302
Balance at September 30, 2015	100	$ 1	$ 20,037	$ 6,158	$ 26,196	$ 10,244	$ 36,440

See accompanying notes to the consolidated financial statements.

CONFIDENTIAL BUSINESS INFORMATION

Prospect Medical Holdings, Inc.

Consolidated Statements of Cash Flows
(in thousands)

For the Years Ended September 30,	2015	2014
Operating activities		
Net income	$ 34,302	$ 18,552
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	34,374	23,580
Amortization of deferred financing costs, net	2,223	2,218
Amortization of original issue discount and premium, net	1,080	992
Provision for bad debts	44,087	32,945
Deferred income taxes, net	(14,008)	(8,111)
Stock-based compensation	1,184	2,673
Undistributed earnings from equity method investments	(135)	(178)
Loss on disposal of assets	271	-
Adjustment to (Gain on) bargain purchase	319	(4,817)
Gain on sale of equity method investment	(296)	-
Changes in operating assets and liabilities, net of business combinations:		
Patient accounts receivable and other receivables	(53,076)	(50,596)
Due to/from government payers, net	1,426	(8,827)
Prepaid expenses and other current assets	901	(1,682)
Hospital fee program receivable	(32,285)	18,895
Inventories	(1,839)	(814)
Hospital fee program liability and deferred revenue	12,216	(5,803)
Income taxes payable/receivable, net	9,289	6,899
Deposits and other assets	(660)	1,338
Accrued medical claims and other healthcare costs payable	14,217	8,962
Accounts payable and other accrued liabilities	21,235	16,177
Net cash provided by operating activities	74,825	52,403
Investing activities		
Purchases of property, improvements and equipment	(37,502)	(50,107)
Cash paid for acquisitions, net of cash received and working capital adjustments	(1,740)	(58,300)
Proceeds from sale of property and improvements	987	-
Proceeds from sale of equity method investment	1,233	-
Cash paid for equity method investments	(1,880)	-
Cash paid for investment in Chaparral Medical Group, Inc. (see Note 1)	-	(1,100)
Change in note receivable (net)	70	66
Increase in restricted investments	(624)	(5)
Net cash used in investing activities	(39,456)	(109,446)

CONFIDENTIAL BUSINESS INFORMATION

Prospect Medical Holdings, Inc.

Consolidated Statements of Cash Flows (Continued)
(in thousands)

For the Years Ended September 30,	2015	2014
Financing activities		
Borrowings on line of credit, net	-	20,000
Repayments of long-term debt	(133)	(176)
Repayments of capital leases	(4,935)	(5,435)
Proceeds from exercise of stock options	396	-
Cash paid for deferred financing costs, net	-	(50)
Change in restricted cash	391	(2,676)
Repayments of insurance premium financing	(4,554)	(1,863)
Net cash (used in) provided by financing activities	(8,835)	9,800
Increase (decrease) in cash and cash equivalents	26,534	(47,243)
Cash and cash equivalents, beginning of year	39,072	86,315
Cash and cash equivalents, end of year	$ 65,606	$ 39,072
Supplemental disclosure of cash flow information		
Interest paid	$ 38,099	$ 37,608
Income taxes paid, net	$ 35,778	$ 12,004
Schedule of non-cash investing and financing activities		
Equipment acquired under capital leases	$ 1,999	$ 2,028
Insurance premium financed	$ 4,472	$ 1,842
Long-term liability assumed from acquisition of PCC (see Note 4)	$ -	$ 6,440
Partial satisfaction of long-term liability assumed from acquisition of PCC (see Note 4)	$ 1,446	$ -

See accompanying notes to the consolidated financial statements.

CONFIDENTIAL BUSINESS INFORMATION

1. Organization

Prospect Medical Holdings, Inc. ("Prospect" or the "Company" or the "Parent Entity") is a Delaware corporation and a wholly-owned indirect subsidiary of Ivy Holdings Inc. ("Ivy Holdings").

The Company's operations are currently organized into four primary reportable segments: Hospital Services, Medical Group, Global Risk Management and Corporate, as discussed below.

The Global Risk Management segment is a new segment in Prospect's operations and commenced operations during the year ended September 30, 2015. The Global Risk Management segment includes Prospect Health Plan, Inc. ("PHP") with operations in California, Prospect Health Services TX, Inc. ("PHSTX") with operations in Texas, Prospect Health Services RI, Inc. ("PHSRI") with operations in Rhode Island, and Coordinated Regional Care Group, Inc. ("CRCG") with operations in various states. PHP, PHSTX, and PHSRI have entered into global capitation arrangements with certain third-party health plans and manage the provision of care for members in coordination with the Hospital Services and Medical Group segments.

Hospital Services Segment

The Company owns 13 acute care and behavioral hospitals and multi-level elder care facilities in Southern California, the Greater San Antonio, Texas region, and Rhode Island with a total of 2,258 licensed beds, and a network of specialty and primary care clinics, through its subsidiaries, Southern California Healthcare System, Inc. ("SCHS"), Alta Los Angeles Hospitals, Inc. ("Alta Los Angeles Hospitals"), Alta Newport Hospital, Inc., Prospect Hospital Holdings, LLC ("Nix Health"), and Prospect CharterCARE, LLC ("PCC") (collectively, the "Hospital Services segment"). The Hospital Services segment subsidiaries are wholly-owned by Prospect, except for PCC, in which Prospect has an 85% interest (see Note 4).

Effective May 6, 2014, Prospect acquired substantially all of the assets and associated real estate of Newport Specialty Hospital, which was subsequently renamed Foothill Regional Medical Center ("FRMC"), through Prospect's newly created subsidiary, Alta Newport Hospital, Inc., and Bellflower Medical Center (subsequently renamed Los Angeles Community Hospital at Bellflower or "LACH Bellflower") through Prospect's subsidiary Alta Los Angeles Hospitals, Inc. FRMC, located in Tustin, California, was substantially closed in 2013 except for its pediatric sub-acute unit. LACH Bellflower, located in Bellflower, California, was closed in 2013 and was non-operational when acquired by the Company. Bellflower opened its 32-bed voluntary adult behavioral health unit during July 2015. Prospect intends to fully reopen both facilities, including maintaining the FRMC pediatric sub-acute unit.

Effective June 20, 2014, Prospect acquired, through its subsidiary, PCC, substantially all of the assets of CharterCARE Health Partners and its subsidiaries. PCC's operating subsidiaries include Prospect CharterCARE RWMC, LLC ("Roger Williams Medical Center"), Prospect CharterCARE SJHSRI, LLC ("St. Joseph Health Services of Rhode Island"), Prospect CharterCARE Elmhurst, LLC ("Elmhurst Extended Care"), and Prospect CharterCARE Physicians, LLC ("CharterCARE Physicians") which include hospitals, medical centers, multi-level elder care facilities, and a network of approximately 60 contracted primary care and specialist physicians located in Rhode Island with 785 licensed beds (collectively, "CharterCARE"). PCC is 85% owned by Prospect and 15% by CharterCARE Community Board (formerly known as CharterCARE Health Partners).

The Company's three community hospitals in Hollywood, Los Angeles and Norwalk offer a comprehensive range of medical and surgical services, including general acute care hospital services, pediatrics, obstetrics and gynecology, pediatric sub-acute care, general surgery, medical-surgical services, orthopedic surgery, and diagnostic, outpatient, skilled nursing and urgent care services. The Company's psychiatric hospital in Van Nuys provides acute inpatient and outpatient psychiatric services on a voluntary basis. The Company's hospital in Culver City ("SCH Culver City") offers a comprehensive range of inpatient and outpatient services: including general surgery, orthopedic, spine, cardiology, diagnostic outpatient, rehabilitation, psychiatric and detox services. In addition, SCH Culver City has an active emergency room that plays an integral part in providing emergency services to the West Los Angeles area.

Nix Health provides comprehensive service offerings at various locations throughout the greater San Antonio, Texas region. These locations include Nix Medical Center, which provides inpatient acute care, geriatric psychiatry services, and emergency room services; Nix Specialty Health Center, which provides a full range of behavioral health and rehabilitation services for children, adolescents, and adults, and a range of health clinics and provider based clinics throughout San Antonio, Texas; and Nix Community General Hospital ("Nix CGH"), which operates an inpatient acute hospital in Dilley, Texas and a medical clinic in Pearsall, Texas. Nix Health also opened a 73-bed behavioral health center during the year ended September 30, 2014, which provides psychiatric emergency services and a crisis intervention unit.

CharterCARE provides a comprehensive range of services at both Roger Williams Medical Center and St. Joseph's Health Services Rhode Island as well as multiple levels of elder care at Elmhurst Extended Care.

Admitting physicians are primarily practitioners in the local area. The hospitals have payment arrangements with Medicare, Medicaid (Medi-Cal in California) and other third party payers, including commercial insurance carriers, health maintenance organizations ("HMOs") and preferred provider organizations ("PPOs").

Medical Group Segment

The Medical Group segment is a healthcare management services organization that provides management services to affiliated physician organizations that operate as independent physician associations ("Medical Groups" or "IPAs"). The affiliated physician organizations enter into agreements with HMOs to provide HMO enrollees with a full range of medical services in exchange for fixed, prepaid monthly fees known as "capitation" payments. The Medical Groups contract with physicians (primary care and specialist) and other healthcare providers to provide enrollees with medical services. Prospect currently manages the provision of prepaid healthcare services for its affiliated physician organizations in Southern California, Texas and Rhode Island. The network consists of the following physician organizations as of September 30, 2015 (individually referred to as an "Affiliate"):

Prospect Medical Group, Inc. ("PMG")
Prospect Health Source Medical Group, Inc. ("PHS")
Prospect Professional Care Medical Group, Inc. ("PPCM")
Genesis HealthCare of Southern California, Inc. ("Genesis")
Prospect NWOC Medical Group, Inc. ("PNW")
StarCare Medical Group, Inc. ("PSC")
AMVI/Prospect Medical Group ("AMVI/Prospect")
Nuestra Familia Medical Group, Inc. ("Nuestra")
Upland Medical Group, a Professional Medical Group ("UMG")*
Pomona Valley Medical Group, Inc. ("PVMG")*

* PVMG and UMG are collectively referred to as the "ProMed Entities."

These Affiliates are managed by the following two medical management company subsidiaries that are wholly-owned by Prospect (collectively, "MSOs"):

Prospect Medical Systems, Inc. ("PMS")
ProMed Healthcare Administrators ("PHCA")

In addition to the Affiliates and MSOs, the Medical Group segment includes Prospect Health Services, TX, Inc. ("PHSTX") and Prospect Provider Group RI, LLC ("PPGRI"), both of which are indirect wholly-owned subsidiaries of the Company.

All of the Affiliates are wholly-owned by PMG, with the exception of Nuestra, which was 66.95% owned by PMG as of September 30, 2015 and 2014, and AMVI/Prospect which is a 50/50 Joint Venture between AMVI Care Health Network, Inc. ("AMVI") and PMG. The operations of all of these entities, with the exception of AMVI/Prospect, are consolidated in the accompanying consolidated financial statements. PMG is owned by a nominee physician shareholder pursuant to an assignable option agreement described below.

PMG's ownership in Nuestra increased from 62% to 66.95% during the year ended September 30, 2014. On October 7, 2013, Nuestra repurchased 109 shares from a physician shareholder that left Nuestra's group medical practice for a de minimis purchase price in accordance with Nuestra's Agreement Concerning Shares of the Company dated September 19, 1995. The repurchase increased the share percentage holdings of all remaining shareholders and PMG's percentage rose to 66.95% as of October 7, 2013.

The AMVI Joint Venture was formed for the sole purpose of combining enrollment in order to meet minimum enrollment levels required for participation in the CalOptima Medicaid (Medi-Cal in California) program in Orange County, California. The joint venture ownership is set at 50/50 to prevent either party from exerting control over the other; however, AMVI's and PMG's businesses are operated autonomously, and enrollees, financial results and cash flows are each separately tracked and recorded. In accordance with the joint venture partnership agreement, profits and losses are not split in accordance with the partnership ownership interest, but rather, are directly tied to the results generated by each separate portion of the business. Separate from any earnings the Company generates from PMG's portion of business within the joint venture, the Company also earns fees for management services PMS provides to PMG's partner in the joint venture. The Company accounts for PMG's interest in the joint venture partnership using the equity method of accounting. The Company includes in the consolidated financial statements only the net results attributable to those enrollees specifically identified as assigned to the Company, together with the management fee that PMS charges for managing those enrollees specifically assigned to the other joint venture partner.

PMS has entered into an assignable option agreement with PMG and the nominee physician shareholder of PMG. Under the assignable option agreement, Prospect has an assignable option, obtained for a nominal amount from PMG and the nominee shareholder to designate the purchaser (successor physician) for all or part of PMG's issued and outstanding stock held by the nominee physician shareholder (the "Stock Option") in its sole discretion. The Company may also assign the assignable option agreement to any person. The assignable option agreement has an initial term of 30 years and is automatically extended for additional terms of 10 years each, as long as the term of the related management services agreement described below (the "Management Agreement") is automatically extended. Upon termination of the Management Agreement with PMG, the related Stock Option would be automatically and immediately exercised. The Stock Option may be exercised for a purchase price of $1,000. Under these nominee shareholder agreements, Prospect has the unilateral right to establish or

effect a change of the nominee, at will, and without the consent of the nominee, on an unlimited basis and at nominal cost throughout the term of the Management Agreement. In addition to the Management Agreement with PMG, Prospect, through one of its management company subsidiaries, has a management agreement with each Affiliate. The term of the Management Agreements is generally 30 years. PMG is the sole shareholder of PHS, PPCM, Genesis, PNW, PSC, UMG, and PVMG. New Genesis Medical Associates, Inc. ("NGMA") is controlled through a nominee shareholder arrangement like the Stock Option structure utilized for PMG and discussed above.

The Company's Affiliates and NGMA have entered into Management Agreements with PMS or PHCA, as applicable (each of which is a wholly-owned subsidiary of Prospect). Each Affiliate has agreed to pay a management fee to PMS or PHCA, as applicable. The fee is based in part on the costs to the management company and on a percentage of revenues the Affiliate receives (i) for the performance of medical services by the Affiliate's employees and independent contractor physicians and physician extenders, and (ii) for all other services performed by the Affiliates. The revenue from which this fee is determined includes medical capitation (except for NGMA which provides professional and ancillary services), all sums earned from participation in any risk pools and all fee-for-service revenue earned. The management fee also includes a fixed amount for marketing and public relations services. Except in the case of Nuestra and AMVI/Prospect, the Management Agreements had initial terms of 30 years, renewable for successive 10-year periods thereafter, unless terminated by either party for cause. Effective September 1, 2013, the Managements Agreements for the ProMed Entities were consolidated under one new Management Agreement with PHCA. Effective October, 1, 2013, the Management Agreements for the rest of the Affiliates, other than Nuestra and AMVI/Prospect, were consolidated under one new Management Agreement with PMS. Those two new Management Agreements with PHCA and PMS include initial five year terms and are renewable for successive five year periods thereafter. In the case of Nuestra, its Management Agreement had an initial 10 year term renewable for successive one year terms, subsequently amended in January 15, 2009 to an initial 20 year term renewable for two 10 year periods. In the case of AMVI/Prospect, the Management Agreement has a one year term with successive one year renewal terms. The management agreement for NGMA was effective October 1, 2012 with an initial term of 30 years, renewable for successive 10-year periods thereafter, unless terminated by either party for cause. In return for payment of the management fee, Prospect (through PMS and PHCA) has agreed to provide financial management, information systems, marketing, advertising, public relations, risk management, and administrative support, including for utilization review and quality of care. At its cost, Prospect has assumed the obligations for all facilities, medical and non-medical supplies, and employment of non-physician personnel of its affiliated medical clinics.

The management fee earned by Prospect fluctuates based on the profitability of each Affiliate. Prospect is allocated a 50% residual interest in any profits after the first 8% of the profits. The remaining balance is retained by the Affiliates.

The Management Agreements are not terminable by the Affiliates except in the case of gross negligence, fraud or other illegal acts of Prospect, or bankruptcy of the Company.

Further, Prospect's rights under the Management Agreements are unilaterally saleable or transferable. Based on the provisions of the Management Agreements and the assignable option agreement with PMG, Prospect has determined that it has a controlling financial interest in the Affiliates, with the exception of AMVI/Prospect. Consequently, under applicable accounting principles, Prospect consolidates the revenues and expenses of all the Affiliates except AMVI/Prospect from the respective dates of execution of the Management Agreements. All significant inter-entity balances have been eliminated in consolidation. In the case of AMVI/Prospect, only that portion of the results which are contractually identified as Prospect's are recognized in the consolidated financial statements, together with the

management fee that the Company charges AMVI for managing AMVI's share of the joint venture operations.

Prospect has also entered into management agreements with unaffiliated third parties to manage services to their HMO enrollees. These management agreements do not have characteristics that give rise to the consolidation of the entities under current accounting literature.

The affiliated physician organizations provided medical services to a combined total of approximately 258,900 and 264,600 HMO enrollees as of September 30, 2015 and 2014, respectively. The enrollees include approximately 63,700 and 87,000 enrollees that the Company manages for the economic benefit of certain independent third parties, and for which the Company earns management fee income as of September 30, 2015 and 2014, respectively. The total paid member months including managed enrollees, for the fiscal years ended September 30, 2015 and 2014 was approximately 3,067,200 and 2,785,000, respectively.

On December 19, 2013, NGMA, an Affiliate of the Company, purchased stock of Chaparral Medical Group, Inc. ("CMG"), a California medical corporation. Consideration was composed of $1,100,000 in cash at the closing, $700,000 in future cash consideration to be used for the acquired company's general corporate purposes, and 3,750 shares of Ivy Holdings common stock issued at closing to the selling shareholders. As of December 19, 2013, NGMA owned 13.44% of the stock of CMG. During June 2015, CMG repurchased shares from a physician shareholder, which increased NGMA's ownership to 13.57%. After payment of the entire consideration, including the future cash consideration, NGMA will own 18.39% of the stock of CMG. Pursuant to the terms of the stock purchase agreement, NGMA will have the right and option to make additional stock investments at the same share valuations and prices and upon the same applicable terms and conditions as the initially acquired shares, to bring its aggregate ownership up to 50%. CMG is a multi-specialty group serving communities primarily in the Los Angeles and San Bernardino counties. The Company accounts for NGMA's interest in CMG using the equity method as the Company has the ability to exercise significant influence over the operating and financial policies of CMG.

Global Risk Management Segment

The Global Risk Management segment commenced operations during the year ended September 30, 2015 and entered into global capitation arrangements with certain unrelated third-party health plans. The Global Risk Management segment also manages the provision of care for members in coordination with the Hospital and Medical Group segments.

Corporate Segment

The Corporate segment reflects certain expenses incurred at the Parent Entity not specifically allocable to the Hospital Services, Medical Group, or Global Risk Management segments. These include, but are not limited to: salaries, benefits and other compensation for corporate employees; financing expenses; insurance expenses; rent; legal fees; and accounting fees. The Company does not allocate interest expense related to acquisition debt or income taxes to the other reporting segments.

2. Significant Accounting Policies

Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of all controlled subsidiaries, of which control is effectuated through ownership of voting common stock or by other means, but do not include the accounts of the parent companies, Ivy Holdings and Ivy Intermediate Holding Inc. The Medical Group segment Affiliates and NGMA have been determined to be variable interest entities due to the existence of a call option under which the Company has the ability to require the holders of all of the voting common stock of the underlying subsidiaries to sell their shares at a fixed nominal price ($1,000) to another designated physician chosen by the Company. This call option agreement represents rights provided through a variable interest other than the equity interest itself that limits the returns that could be earned by the equity holders. In addition, the Company has management agreements with the Affiliates and NGMA and the holders of the voting common stock which allows the Company to direct the activities of the Affiliates and NGMA that most significantly impact their economic performance, retain the right to receive expected residual returns and assume the obligation to absorb losses. Although the Company has disproportionately few voting rights (based on the terms of the equity), the Company is considered to be the primary beneficiary of the activities of the Affiliates and NGMA. As a result, the Affiliates and NGMA are consolidated within the accompanying consolidated financial statements.

Operating results for CMG, FRMC and LACH Bellflower, PCC and the CharterCARE Physicians medical practices acquisitions are consolidated with the Company's financial statements from their acquisition dates or inception date in the case of LACH Bellflower (December 19, 2013, May 6, 2014, June 20, 2014, and various dates during the year ended September 30, 2015, respectively) (see Note 4). All significant intercompany balances and transactions have been eliminated in consolidation.

Reclassifications

Certain reclassifications were made to the 2014 consolidated financial statements in order to conform to the 2015 presentation.

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Revenues

Revenues by reportable segment are comprised of the following amounts (in thousands):

For the Years Ended September 30,	**2015** *(a)*	2014 *(b)*
Net Hospital Services		
Inpatient	$ **736,340**	$ 440,961
Outpatient	**195,692**	96,802
Capitation	**98,993**	70,077
Other	**16,492**	11,969
Total Hospital Services revenues	**1,047,517**	619,809
Less: Provision for bad debts	**(44,087)**	(32,945)
Total net Hospital Services revenues less provision for bad debts	**1,003,430**	586,864
Medical Group		
Capitation	**312,031**	244,573
Management fees	**7,814**	6,586
Other	**13,393**	2,821
Total Medical Group revenues	**333,238**	253,980
Global Risk Management		
Capitation	**3,440**	-
Other revenues	**5,436**	13,672
Total net revenues	$ **1,345,544**	$ 854,516

(a) The revenues of various medical practices acquired by CharterCARE Physicians have been included in the accompanying consolidated financial statements from their various dates of acquisition during the year ended September 30, 2015.

(b) CMG, Bellflower and FRMC, and PCC revenues have been included in the accompanying consolidated financial statements for the period from acquisition or inception date in the case of LACH Bellflower, December 19, 2013, May 6, 2014, and June 20, 2014, respectively, through September 30, 2014.

Hospital Services Segment

Net Patient Service Revenues

Operating revenue of the Hospital Services segment consists primarily of net patient service revenue. The Company reports net patient service revenue at the estimated net realizable amounts from patients and third-party payers and others in the period in which services are rendered. The Company has agreements with third-party payers, including Medicare, Medicaid (Medi-Cal in California), managed care and other insurance programs that are paid at negotiated rates. These payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments, as further described below. Estimates of contractual allowances are based upon the payment terms specified in the related contractual agreements. The Company accrues for amounts that it believes may ultimately be due to or from the third-party payers. Normal estimation differences between final settlements and amounts accrued in previous years are reported as changes in estimates

in the current year. Outstanding receivables, net of allowances for contractual discounts and bad debts, are included in patient accounts receivable in the accompanying consolidated balance sheets.

The following is a summary of sources of patient service revenues (net of contractual allowances and discounts) before provision for bad debts:

September 30,	**2015**	2014
Medicare	**$ 321,282**	$ 224,984
Medicaid	**379,821**	189,668
Managed Care	**168,553**	95,853
Self Pay/Other	**62,376**	27,258
Capitation	**98,993**	70,077
Total patient service revenue	**$ 1,031,025**	$ 607,840

A summary of the payment arrangements with major third-party payers follows:

Medicare: Medicare is a federal program that provides certain hospital and medical insurance benefits to persons aged 65 and over, some disabled persons with end-stage renal disease and certain other beneficiary categories. Inpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge, according to a patient classification system based on clinical, diagnostic, and other factors. Outpatient services are paid based on a blend of prospectively determined rates and cost-reimbursed methodologies. The Company is also reimbursed for various disproportionate share and Medicare bad debt components at tentative rates, with final settlement determined after submission of the annual Medicare cost report and audit thereof by the Medicare fiscal intermediary. Normal estimation differences between filed settlements and amounts accrued are reflected in net patient service revenue.

Cost report settlement estimates are recorded based upon as-filed cost reports and are adjusted for tentative settlements, if any, and when a final Notice of Program Reimbursement ("NPR") is issued. The latest updated SSI ratios for 2013 were issued on May 14, 2015. To date, the Company has received final NPRs for SCH Culver City (formerly named Brotman Medical Center, Inc.) through 2012 for cost report years prior to its merger into the Alta Hollywood Hospitals, Inc. subsidiary, SCH Hollywood through 2010, Alta Los Angeles Hospitals through 2011, Nix Health through 2012, and Elmhurst through 2014. No NPR has been issued for Roger Williams Medical Center or St. Joseph's Health Services of Rhode Island.

The Company joined a second round of litigation relating to Medicare's settlement with providers relating to the manner in which the Centers for Medicare and Medicaid Services ("CMS") handled the budget neutrality adjustment associated with the rural floor wage index in setting the Medicare inpatient prospective system rates ("Rural Floor"). The Company entered into a settlement agreement with CMS and, as a result, Alta Los Angeles Hospitals, SCH Culver City, and CharterCARE recognized a net benefit of $2,495,000, $1,230,000, and $1,672,000, respectively, during the year ended September 30, 2014 related to the Rural Floor litigation.

Medicaid: Medicaid is a joint federal-state funded healthcare benefit program that is administered by states to provide benefits to qualifying individuals who are unable to afford care. The Company receives reimbursements under the Medicaid program at prospectively determined rates for both inpatient and outpatient services. Medi-Cal is the version of the federal Medicaid program that is

applicable to California residents. Inpatient services rendered to Medi-Cal fee-for-service program beneficiaries in California are in the process of a three-year transition to payment at prospectively determined rates based on diagnosis related groups from a contracted per diem rate. Outpatient services are paid based on prospectively determined rates per procedure provided. Inpatient and outpatient services rendered to Medi-Cal managed care beneficiaries in California are paid at either contracted rates or at the Medi-Cal fee-for-service rates.

The SCHS and Alta Los Angeles Hospitals are eligible to participate in the State of California Medi-Cal Disproportionate Share ("DSH") programs, under which medical facilities that serve a disproportionate number of low-income patients receive additional reimbursements. Eligibility is determined annually based on prescribed guidelines. The Company accrues revenue based on the expected total annual DSH awards. Differences between the estimated and the actual awards are recorded in the period they become known. DSH amounts are subject to retrospective revision prior to finalization and such revisions could lead to material retractions. The Company records retrospective retractions when they are estimable and probable. Retrospective additional DSH revenues are recorded when the amounts are received. The Medi-Cal DSH receivable as of September 30, 2015 and 2014 totaled approximately $13,787,000 and $9,094,000, respectively, and were included in due from government payers in the accompanying consolidated balance sheets. For the fiscal years ended September 30, 2015 and 2014, total Medi-Cal DSH payments received by the SCHS and Alta Los Angeles Hospitals were approximately $15,690,000 and $16,325,000, respectively, and total Medi-Cal DSH revenues recorded were approximately $19,005,000 and $20,475,000, respectively. Additionally, pursuant to an audit of Medi-Cal cost reports and notification sent to the Company, the Company accrued a cost report liability payable to Medi-Cal of $1,743,000 and $1,803,000 as of September 30, 2015 and 2014, respectively.

Certain of the Company's California hospitals also participate in *the California Hospital Fee Program* (see Note 10).

In Texas, the Medicaid program reimburses under prospectively determined rates for inpatient services and based on costs for outpatient services. Medicaid reimbursement may be subject to periodic adjustment, as well as to changes in existing payment levels and rates, based on the amount of funding available to the Medicaid program. Nix Health has also been receiving payments from the Texas Health and Human Services Commission under the Section 1115 Waiver ("the waiver") that was recently granted to the state of Texas by CMS. Under the first year of the waiver ending September 30, 2012, a transition payment was paid to Nix Health based upon prior levels of payment under the "Upper Payment Limit" ("UPL") program, which the waiver replaced. Payments for years two through five under the waiver are based upon two pools. One pool is for payments for uncompensated care ("UCC") which includes the shortfall in Medicaid reimbursement as compared to cost and the cost of providing services to uninsured patients. The other pool is the Delivery System Reform Initiative Payments ("DSRIP"), where approved programs and services are undertaken to improve access and services provided. Programs are established by regions and approved by the Texas Health and Human Services Commission and CMS. These programs are assigned a value and milestones are established to measure success and the timing and level of payment from the DSRIP funds. Nix Health recorded revenue related to the UCC pool of $10,962,000 and $12,366,000 for the years ended September 30, 2015 and 2014, respectively. Revenue recorded related to the DSRIP pool was $11,356,000 and $9,801,000 for the years ended September 30, 2015 and 2014, respectively. At September 30, 2015 and 2014, amounts receivable under the Section 1115 Waiver totaled $23,615,000 and $23,145,000, respectively.

Nix Health also recorded $12,000,000 and $5,746,000 during the years ended September 30, 2015 and 2014, respectively, in costs for rural community provision of services. No amounts payable related to the provision of such services were included in the consolidated balance sheets as of September 30, 2015 and 2014.

The CharterCARE hospitals are participants in the State of Rhode Island's DSH program, which was established in 1995 to assist hospitals that provide a disproportionate amount of uncompensated care. Under the program, Rhode Island hospitals, including the CharterCARE hospitals, receive federal and state Medicaid funds as additional reimbursement for treating a disproportionate share of low income patients. The CharterCARE hospitals recognized revenue related to DSH and Upper Payment Limit ("UPL") reimbursement of $16,636,000 and $3,965,000 during the year ended September 30, 2015 and the period from June 20, 2014 (acquisition date) through September 30, 2014, respectively. DSH and UPL payments received were $16,135,000 and $3,932,000 during the year ended September 30, 2015 and the period from June 20, 2014 (acquisition date) through September 30, 2014, respectively. The State of Rhode Island also assesses a license fee to all hospitals in Rhode Island based on each hospital's net patient revenue. The CharterCARE hospitals recorded $15,058,000 and $4,036,000 of expense during the year ended September 30, 2015 and from June 20, 2014 through September 30, 2014 as a result of the license fee.

Managed Care: The Company has also entered into payment agreements with certain commercial insurance carriers, HMOs, and PPOs. The basis for payment under these agreements is in accordance with negotiated contracted rates or at the Company's standard charges for services provided. Some of these payments are capitated, meaning that the Company receives an agreed amount per patient for providing an agreed range of services.

Self-Pay: Self-pay patients represent those patients who do not have health insurance and are not covered by some other form of third party arrangement. Such patients are evaluated, at the time of services or shortly thereafter, for their ability to pay based upon federal and state poverty guidelines, qualifications for Medicaid, as well as the Company's local hospital's indigent and charity care policy.

See "Concentrations of Credit Risks" below for discussion of revenues received from the Medicare and Medicaid programs.

Effective August 29, 2014, CMS provided a simplified process and timely partial payment to settle certain previously denied claims with dates of service prior to October 1, 2013 whereby such claims under appeal that had been retracted by CMS were settled with the provider receiving 68% of the face value. As a result, the Company recorded $3,887,000 in revenue during the year ended September 30, 2014 related to claims which were previously subject to ongoing Recovery Audit Contractor ("RAC") audits and other similar programs. As of September 30, 2015 and 2014, the Company accrued $262,000 and none, respectively, in due to government payors in the accompanying consolidated balance sheets related to such programs.

SCH Culver City Outlier Liability

Following the acquisition of a majority stake in SCH Culver City, effective April 14, 2009, the Company consolidated SCH Culver City's estimated liability to CMS arising out of outlier payments received for services provided by the hospital to Medicare eligible inpatients, primarily for the last four months of calendar year 2005 and all of calendar year 2006.

While SCH Culver City (formerly Brotman Medical Center, Inc.) reports financial statements on a fiscal year ending September 30, Medicare cost reports are filed on a calendar year basis. Acute care hospitals receive Medicare reimbursement payments pursuant to a prospective payment methodology primarily based on the diagnosis of the patient, but are entitled to receive additional payments, referred to as "outliers" for patients whose treatment is very costly. When Brotman Medical Center, Inc. acquired the hospital in 2005, CMS provided a ratio of cost to charges (the "RCC") based on the statewide average. Payments received by SCH Culver City on this basis were an interim estimate, subject to final determination upon audit of SCH Culver City's cost reports. SCH Culver City filed its Medicare cost reports, but determined that its outlier reimbursement for services provided in fiscal years 2005, 2006 and part of 2007 might be subject to adjustment based on certain outlier reconciliation rules.

On October 12, 2012, SCH Culver City received from its Medicare fiscal intermediary a proposed outlier adjustment for Medicare fiscal year 2006 in the amount of $12,785,000. SCH Culver City had previously been notified of an adjustment of $2,149,000 for 2005. As of September 30, 2015 and 2014, the Company accrued $13,834,000 of the estimated $14,934,000 liability to CMS included in the accompanying consolidated balance sheets. The difference between the $14,934,000 asserted by CMS and the $13,834,000 accrued by the Company relates to accrued interest of approximately $1,100,000. The Company does not agree, however, with the outlier reconciliation liability. Accordingly, in accordance with relevant literature related to accounting for contingencies, the Company recorded the lower end of the range of the liability.

The Company has also filed an appeal of the outlier issue with the Provider Reimbursement Review Board for the 2006 cost reporting period since it received a notice of program reimbursement for the 2006 cost report. Mediation was held with CMS and the U.S. Department of Justice in March 2015 for settlement of fiscal years 2005 and 2006. The terms of a final settlement have been approved by CMS and the Health and Human Services Office of the General Counsel. As the Company is waiting for final approval of the settlement by the U.S. Department of Justice, the settlement has not been recognized in the accompanying consolidated financial statements.

The following is a summary of due from and due to governmental payers at September 30 (in thousands):

September 30,	**2015**	2014
Due from government payers:		
Medi-Cal Disproportionate Share (DSH)	**$ 13,787**	$ 9,094
Medicare cost report settlements	**3,953**	10,279
Medi-Cal cost report settlements	**231**	-
Medicaid Section 1115 receivable	**23,615**	23,145
	$ 41,586	$ 42,518
Due to government payers:		
Outlier liability	**$ 13,834**	$ 13,834
Medicare cost report settlements	**11,501**	10,947
Medi-Cal cost report settlements	**1,743**	1,803
	$ 27,078	$ 26,584

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The Company is not aware of any material claims, disputes, or unsettled matters with any payers that would affect revenues that have not been adequately provided for and disclosed in the accompanying consolidated financial statements.

Charity Care

The Company provides charity care to patients whose income level is below 300% of the Federal Poverty Level. Patients at the Company's California facilities with income levels between 300% and 350% of the Federal Poverty Level qualify to pay a discounted rate under the requirements of California State Assembly Bill 774 (AB 774) based on various government program reimbursement levels. Patients without insurance are offered assistance in applying for Medicaid and other programs they may be eligible for, such as state disability. Patient advocates from the Company's Medical Eligibility Program ("MEP") screen patients in the Hospital and determine potential linkage to financial assistance programs. They also expedite the process of applying for these government programs. The approximate cost of providing charity care was $1,683,000 and $2,029,000 for the years ended September 30, 2015 and 2014, respectively. The Company has estimated the cost of charity care based on a ratio of the cost to charges, with cost consisting of operating expenses, excluding depreciation, interest and management fees.

Provisions for Contractual Allowances and Bad Debts

Collection of receivables from third-party payers and patients is the Company's primary source of cash and is critical to its operating performance. The Company closely monitors its historical collection rates, as well as changes in applicable laws, rules and regulations and contract terms, to assure that provisions for contractual allowances are made using the most accurate information available. However, due to the complexities involved in these estimations, actual payments from payers may be materially different from the amounts management estimates and records. The Company's primary collection risks relate to uninsured patients and the portion of the bill which is the patient's responsibility, primarily co-payments and deductibles. Payments for services may also be denied due to issues over patient eligibility for medical coverage, the Company's ability to demonstrate medical necessity for services rendered and payer authorization of hospitalization.

Accounts receivable are reduced by an allowance for doubtful accounts. Valuation of the collectability of accounts receivable and provision for bad debts is based on historical collection experience, payer mix and the age of the receivables. Management routinely reviews accounts receivable balances in conjunction with these factors and other economic conditions which might ultimately affect the collectability of the patient accounts, and makes adjustments to the Company's allowances as warranted. For receivables associated with services provided to patients who have third-party coverage, management analyzes contractually due amounts and subsequently calculates an allowance for doubtful accounts and provision for bad debts once the age of the accounts reaches a specific age category based on historical experience. For receivables associated with self-pay patients, management records a significant provision for bad debts beginning in the period services were provided based on past experience that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The allowance for doubtful accounts as a percent of gross accounts receivable decreased from 29% at September 30, 2014 to 27% at September 30, 2015. The allowance for doubtful accounts was $52,707,000 and $49,727,000 for the years ended September 30, 2015 and 2014, respectively. The decrease in the allowance for doubtful accounts as a percent of gross accounts receivable was due primarily to a reduction in self pay patient admissions and patient dates at the CharterCARE hospitals. As a result of the shift in payor mix, the allowance for doubtful accounts as a

percent of gross accounts receivable decreased from 31% at September 30, 2014 to 20% at September 30, 2015 at the CharterCARE hospitals.

Legislation

All of the Company's hospital facilities are subject to the Emergency Medical Treatment and Active Labor Act ("EMTALA"). This federal law requires any hospital that participates in the Medicare program to conduct an appropriate medical screening examination of every person who presents to the hospital's emergency department for treatment and, if the patient is suffering from an emergency medical condition, to either stabilize that condition or make an appropriate transfer of the patient to a facility that can handle the condition. The obligation to screen and stabilize emergency medical conditions exists regardless of a patient's ability to pay for treatment. There are severe penalties under EMTALA if a hospital fails to screen or appropriately stabilize or transfer a patient or if the hospital delays appropriate treatment in order to first inquire about the patient's ability to pay. Penalties for violations of EMTALA include civil monetary penalties and exclusion from participation in the Medicare program. In addition, an injured patient, the patient's family or a medical facility that suffers a financial loss as a direct result of another hospital's violation of the law can bring a civil suit against that other hospital. The Company believes that it is in compliance with EMTALA and is not aware of any pending or threatened EMTALA investigations involving allegations of potential wrongdoing that would have a material effect on the Company's consolidated financial statements.

See Note 10 regarding the *Affordable Care Act*.

Other Revenues

Other revenues consist primarily of the CMS Rural Floor settlement recognized during the year ended September 30, 2014, meaningful use incentive payments, rental revenue from operating leases, and tuition revenue and totaled $5,436,000 and $13,672,000 for the years ended September 30, 2015 and 2014, respectively.

A summary of other revenues recorded during the years follows:

Rural Floor settlement: Certain of the Company's subsidiaries entered into a settlement agreement with CMS and recognized $6,091,000 of revenue during the year ended September 30, 2014 related to the Rural Floor litigation.

Meaningful Use incentives: The American Recovery and Reinvestment Act of 2009 ("ARRA") established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that meaningfully use certified electronic health record ("EHR") technology or adopt or implement such technology. The Medicare incentive payments will be paid out to qualifying hospitals over four consecutive years on a transitional schedule. To qualify for Medicare incentives, hospitals and physicians must meet EHR "meaningful use" criteria that become more stringent over three stages.

Medicaid programs and payment schedules vary from state to state. The Medicaid programs require hospitals to register for the program prior to 2016, to engage in efforts to adopt, implement or upgrade certified EHR technology in order to qualify for the initial year of participation, and to demonstrate meaningful use of certified EHR technology in order to qualify for payment for up to three additional years.

For the years ended September 30, 2015 and 2014, the Company recorded revenues of $1,150,000 and $4,683,000, respectively, related to the Medicare and Medicaid programs in the consolidated statements of income. These incentives have been recognized following the grant accounting model, recognizing income ratably over the applicable reporting period as management becomes reasonably assured of meeting the required criteria. Subsequent changes to these estimates will be recognized in the consolidated statement of operations in the period in which additional information is available. Such estimates are subject to audit by the federal government, the state, or its designee.

Rental Revenue: Rental revenue from operating leases is recorded based on the fixed, minimum required rents (base rents) per the lease agreements. Rental revenue from base rents is recorded on the straight-line method over the terms of the related lease agreements. During the years ended September 30, 2015 and 2014, the Company recorded rental revenues of $2,417,000 and $2,220,000, respectively.

Tuition Revenue: St. Joseph Health Services of Rhode Island operates the St. Joseph School of Nursing and recorded tuition revenue of $1,639,000 and $471,000 during the year ended September 30, 2015 and the period from June 20, 2014 (acquisition date) through September 30, 2014, respectively.

Medical Group Segment

Medical Group Revenues

Operating revenue of the Medical Group segment consists primarily of payments for medical services procured by the Affiliates under capitated contracts with various managed care providers including HMOs. Capitation revenue under HMO contracts is prepaid monthly to the Affiliates based on the number of enrollees electing any one of the Affiliates as their health care provider. See "Concentrations of Credit Risks" below for revenues received from the five largest contracted HMOs.

Capitation revenue (net of capitation withheld to fund risk share deficits discussed below) is recognized in the month in which the Affiliates are obligated to provide services. Minor ongoing adjustments to prior months' capitation, primarily arising from contracted HMOs' finalizing of monthly patient eligibility data for additions or subtractions of enrollees, are recognized in the month they are communicated to the Company. Additionally, Medicare pays capitation using a "Risk Adjustment model," which compensates managed care organizations and providers based on the health status (acuity) of each enrollee. Health plans and providers with higher acuity enrollees will receive more and those with healthier enrollees will receive less. Under Risk Adjustment, capitation is determined based on health severity, measured using patient encounter data. Capitation is paid on an interim basis based on data submitted for the enrollee for the preceding year and is adjusted in subsequent periods (generally in the Company's fourth quarter) after the final data is compiled. Positive or negative capitation adjustments are made for Medicare enrollees with conditions requiring more or less healthcare services than assumed in the interim payments. Since the Company cannot reliably predict these adjustments, periodic changes in capitation amounts earned as a result of Risk Adjustment are recognized generally in the fourth quarter when those changes are communicated by the health plans to the Company. The Company received and recorded as additional revenue, approximately $17,503,000 and $8,889,000, respectively, in positive capitation risk adjustments for the Medical Group segment during the years ended September 30, 2015 and 2014, respectively.

HMO contracts also include provisions to share in the risk for hospitalization, whereby the Affiliate can earn additional incentive revenue or incur penalties based upon the utilization of hospital services. Typically, any shared risk deficits are not payable until and unless the Company generates future risk

sharing surpluses, or if the HMO withholds a portion of the capitation revenue to fund any risk share deficits. At the termination of the HMO contract, any accumulated risk share deficit is typically extinguished. Due to the lack of access to information necessary to estimate the related costs, shared-risk amounts receivable from the HMOs are only recorded when such amounts are known. Risk pools for the prior contract years are generally final settled in the third or fourth quarter of the following fiscal year. For the years ended September 30, 2015 and 2014, Medical Group revenues included approximately $8,402,000 and $2,406,000, respectively, of additional revenues due to favorable settlements on prior year risk-sharing arrangements. At September 30, 2015 and 2014, contingent liabilities for carry-forward risk-pool deficits expected to be forgiven, or offset against future surpluses were approximately $6,422,000 and $5,547,000, respectively, based on the available information from the health plans.

The Company also receives incentives under "pay-for-performance" programs for quality medical care based on various criteria. These incentives, which are included in other revenues within Medical Group revenues, are generally recorded in the third and fourth quarters of the fiscal year when such amounts are known. During the year ended September 30, 2015, the Company recognized $9,059,000 related to a shared savings incentive program with one health plan. Pay-for-performance revenues recorded during the years ended September 30, 2015 and 2014 were $11,387,000 and $1,886,000, respectively.

Management fee revenue is earned in the month the services are rendered. Management fee arrangements with unaffiliated entities provide for compensation ranging from 6.5% to 12% of revenues. Management fee revenues recorded during the years ended September 30, 2015 and 2014 were $7,814,000 and $6,586,000, respectively.

Medical Group Cost of Revenues

The cost of health care services consists primarily of capitation and claims payments, pharmacy costs and incentive payments to contracted providers. These costs are recognized in the period incurred, or when the services are provided. Claims costs also include an estimate of the cost of services which have been incurred but not yet reported to the Company. The estimate for accrued medical costs is based on projections of costs using historical studies of claims paid and adjusted for seasonality, utilization and cost trends. These estimates are subject to trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management records its best estimate of the amount of medical claims incurred at each reporting period. Estimates are continually monitored and reviewed and, as settlements are made or estimates adjusted, differences are reflected in current operations. See Note 12 for changes in claims estimates during the years ended September 30, 2015 and 2014.

In addition to contractual reimbursements to providers, the Company also makes discretionary incentive payments to physicians, which are in large part based on the pay-for-performance and shared risk revenues and favorable senior capitation risk adjustment payments received by the Company. Since the Company records these revenues generally in the third or fourth quarter of each fiscal year when the incentives and capitation adjustments due from the health plans are known, the Company also finalizes the discretionary physician bonuses in the same periods. During the years ended September 30, 2015 and 2014, the Company recorded discretionary physician incentives expense totaling approximately $14,082,000 and $5,067,000, respectively. As of September 30, 2015 and 2014, physician bonus accruals of approximately $9,021,000 and $4,339,000, respectively, were included in accounts payable and other accrued liabilities.

The Company also periodically evaluates the need to establish premium deficiency reserves for the probability that anticipated future health care costs could exceed future capitation payments from HMOs under capitated contracts and, where appropriate, records a premium deficiency reserve.

The Company, for certain matters, maintains stop loss coverage for health care costs that are in excess of set thresholds.

Global Risk Management Segment

Global Risk Management Revenues

Operating revenue of the Global Risk Management segment consists primarily of payments for medical services procured under global capitation arrangements from third-party health plans. Capitation revenue under these global capitation contracts is prepaid monthly to the Global Risk Management segment based on the number of enrollees. Entities within the Global Risk Management segment entered into Management Services Agreements with our Hospital and Medical Group segments, under which 98% of capitation revenue received is transferred to these segments.

Similar to the Medical Group segment, capitation revenue is recognized in the month in which the Global Risk Management segment is obligated to provide services. Minor ongoing adjustments to prior months' capitation, primarily arising from contracted HMOs' finalizing of monthly patient eligibility data for additions or subtractions of enrollees, are recognized in the month they are communicated to the Company. Additionally, Medicare pays capitation using a "Risk Adjustment model," which compensates managed care organizations and providers based on the health status (acuity) of each enrollee. Health plans and providers with higher acuity enrollees will receive more and those with healthier enrollees will receive less. Under Risk Adjustment, capitation is determined based on health severity, measured using patient encounter data. Capitation is paid on an interim basis based on data submitted for the enrollee for the preceding year and is adjusted in subsequent periods (generally in the Company's fourth quarter) after the final data is compiled. Positive or negative capitation adjustments are made for Medicare enrollees with conditions requiring more or less healthcare services than assumed in the interim payments. Since the Company cannot reliably predict these adjustments, periodic changes in capitation amounts earned as a result of Risk Adjustment are recognized generally in the fourth quarter when those changes are communicated by the health plans to the Company. The Global Risk Management Segment did not have any capitation risk adjustments for the year ended September 30, 2015 as it was the segment's first year of operations.

Global Risk Management Cost of Revenues

The cost of health care services consists primarily of the transfer of capitation revenue to the Hospital and Medical Group segments under the Management Services Agreements, and capitation and claims payments. These costs are recognized in the period incurred, or when the services are provided. Claims costs also include an estimate of the cost of services which have been incurred but not yet reported to the Company. The estimate for accrued medical costs is based on projections of costs using historical studies of claims paid and adjusted for seasonality, utilization and cost trends. These estimates are subject to trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management records its best estimate of the amount of medical claims incurred at each reporting period. Estimates are continually monitored and reviewed and, as settlements are made or estimates adjusted, differences are reflected in current operations.

The Company also periodically evaluates the need to establish premium deficiency reserves for the probability that anticipated future health care costs could exceed future capitation payments from HMOs under capitated contracts and, where appropriate, records a premium deficiency reserve.

The Company, for certain matters, maintains stop loss coverage for health care costs that are in excess of set thresholds.

Property, Improvements and Equipment

Property, improvements and equipment are stated on the basis of cost or, in the case of acquisitions, at their acquisition date fair values. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, and amortization of leasehold improvements is provided using the straight-line basis over the shorter of the remaining lease period or the estimated useful lives of the leasehold improvements. Leasehold improvements are generally depreciated over five to ten years, buildings are depreciated over five to 28 years, equipment is depreciated over two to five years and furniture and fixtures are depreciated over two to seven years. Equipment capitalized under capital lease obligations are amortized over the lesser of the life of the lease or the useful life of the asset.

As more fully described in Note 10, the Company is required to comply with certain seismic standards as required by the state of California by January 1, 2020. The useful life of buildings subject to seismic retrofit requirements may be limited if the Company does not make the necessary upgrades by the required compliance date.

Goodwill and Other Intangible Assets

Goodwill totaled $162,296,000 and $158,864,000 at September 30, 2015 and 2014, respectively, and arose as a result of the ProMed, Alta, SCH Culver City, Nix Health (including Nix CGH), and Prospect CharterCARE Physicians medical practices acquisitions. Goodwill represents the excess of the consideration paid and liabilities assumed over the fair value of the net assets acquired, including identifiable intangible assets.

Goodwill is not amortized; rather it is reviewed annually for impairment for each reporting unit, or more frequently if impairment indicators arise. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. A two-step impairment test is used to identify potential goodwill impairment and to measure the amount of goodwill impairment loss to be recognized, if any. The Company has five reporting units with goodwill, consisting of the Alta Hospitals (which include SCH Hollywood, SCH Van Nuys, Los Angeles Community Hospital, and Norwalk Community Hospital), SCH Culver City, Nix Health, the MSOs and Medical Groups located in California ("California Medical Groups"), and CharterCARE. The California Medical Groups represent a change in reporting units during the year ended September 30, 2015; see Note 5.

The Company tests for goodwill impairment as of September 30 each year. In evaluating whether indicators of impairment exist, the Company considers adverse changes in market value, laws and regulations, profitability, cash flows, ability to maintain enrollment and renew payer contracts at favorable terms, among other factors. The goodwill impairment test is a two-step process. The first step consists of estimating the fair value of the reporting unit based on a weighted combination of (i) the guideline company method that utilizes revenue or earnings multiples for comparable publicly-traded companies, and (ii) a discounted cash flow model that utilizes expected future cash flows, the timing of those cash flows, and a discount rate (or weighted average cost of capital, which considers the cost of equity and cost of debt financing expected by a typical market participant) representing the time value

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of money and the inherent risk and uncertainty of the future cash flows. If the estimated fair value of the reporting unit is less than its carrying value, a second step is performed to compute the amount of the impairment by determining the "implied fair value" of the goodwill, which is compared to its corresponding carrying value. The Company's impairment test related to goodwill during the years ended September 30, 2015 and 2014, resulted in no impairment charge.

Long-Lived Assets and Amortizable Intangibles

Amortizable intangible assets totaled $29,162,000 and $35,274,000, net of accumulated amortization at September 30, 2015 and 2014, respectively, and arose as a result of the ProMed, Alta, SCH Culver City, Nix Health, NGMA, PCC, and CharterCARE Physicians medical practices acquisitions. Intangible assets include customer relationships, trade names, favorable leasehold, and physician guarantees. The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The Company considers assets to be impaired and writes them down to fair value if estimated undiscounted cash flows associated with those assets are less than their carrying amounts. Fair value is based upon the present value of the associated cash flows. Changes in circumstances (for example, changes in laws or regulations, technological advances or changes in strategies) may also reduce the useful lives from initial estimates. Changes in planned use of intangibles may result from changes in customer base, contractual agreements, or regulatory requirements. In such circumstances, management will revise the useful life of the long-lived asset and amortize the remaining net book value over the adjusted remaining useful life. There were no impairments recorded during the years ended September 30, 2015 and 2014.

Medical Malpractice Liability Insurance

The individual physicians who contract with the Affiliates carry their own medical malpractice insurance. In the Hospital Services segment, the Company's hospitals carry professional and general liability insurance to cover medical malpractice claims under claims-made policies. Under the policies, insurance premiums cover only those claims actually reported during the policy term. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims related to occurrences during the policy term but reported subsequent to the policy's termination may be uninsured. Effective October 1, 2013, the Company's hospitals renewed the professional and general liability insurance under one consolidated policy with separate retentions for each entity. LACH Bellflower, FRMC, and CharterCARE were included under the consolidated policy from their respective dates of acquisition or inception (LACH Bellflower).

GAAP requires that a health care organization record and disclose the estimated costs of medical malpractice claims in the period of the incident of malpractice, if it is reasonably possible that liabilities may be incurred and losses can be reasonably estimated. The Company has recognized an estimated liability for incurred but not reported claims and the self-insured risks (including deductibles and potential claims in excess of policy limits) based upon an actuarial valuation of the Company's historical claims experience of the Company's hospitals. At September 30, 2015 and 2014, the total gross claims liability was $6,632,000 and $4,590,000 and insurance receivables were $1,406,000 and $618,000, respectively, and were estimated using a discount factor of 4%.

The claims reserve is based on the best data available to the Company. The estimate, however, is subject to a significant degree of inherent variability. The estimate is continually monitored and reviewed, and as the reserve is adjusted, the difference is reflected in current operations. While the ultimate amount of medical malpractice liability is dependent on future developments, management is of the opinion that the associated liabilities recognized in the accompanying consolidated financial

statements are adequate to cover such claims. Management is not aware of any potential medical malpractice claims whose settlement, if any, would have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Workers' Compensation Insurance

The workers' compensation coverage provides the statutory benefits required by law with a $250,000 deductible policy with limits of $1,000,000 per occurrence and aggregate for the hospitals located in California. Nix Health has opted out of the Texas Workers' Compensation system as a non-subscriber, and provides its employees with benefits for occupational injury or disease through an ERISA plan. Nix Health has an Employer's Excess Indemnity policy with a $25,000 deductible policy with limits of $10,000,000 per occurrence and $25,000,000 aggregate. CharterCARE was fully insured for workers' compensation claims with no deductible from June 20, 2014 through September 30, 2015. At September 30, 2015 and 2014, included in accrued salaries, wages and benefits are accruals for uninsured claims and claims incurred but not reported of approximately $8,766,000 and $7,210,000, respectively. The amounts are estimated based upon an actuarial valuation of their claims experience, using a discount factor of 4%.

The claims reserve is based on the best data available to the Company. The estimate, however, is subject to a significant degree of inherent variability. The estimate is monitored and reviewed, and as the reserve is adjusted, the difference is reflected in current operations. While the ultimate amount of the claims liability is dependent on future developments, management is of the opinion that the associated liabilities recognized in the accompanying consolidated financial statements are adequate to cover such claims. Management is not aware of any potential claims whose settlement, if any, would have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Asset Retirement Obligations

The Company recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. Over time, the liability is accreted to its present value each period. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the statement of operations. The Company has accrued $4,583,000 and $4,310,000 in other long-term liabilities related to asset retirement obligations for the CharterCARE hospitals as of September 30, 2015 and 2014, respectively.

Stock Options

On December 15, 2010, the Board of Directors (the "Ivy Board") of Ivy Holdings adopted the 2010 Stock Option Plan of Ivy Holdings Inc. (the "Ivy Plan") and, on December 16, 2010, the stockholders of Ivy Holdings adopted the Ivy Plan. The Ivy Plan provides that it shall be administered by the Compensation Committee of the Ivy Board. The Ivy Plan includes an Incentive Stock Option Agreement and a Non-Qualified Stock Option Agreement to be used in connection with the grant of options under the Ivy Plan. These options granted under the Ivy Plan are exercisable into Ivy Holdings stock and vest based on a number of criteria.

On June 30, 2015, the Board of Directors of Ivy Holdings adopted the First Amendment to the Ivy Plan and concurrently, on June 30, 2015, the stockholders of Ivy Holdings approved the First Amendment to the Ivy Plan (the "Amended Ivy Plan"). Pursuant to the Amended Ivy Plan, the Board of Directors

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authorized the issuance of options exercisable for an additional 13,972 shares of common stock of Ivy Holdings to employees, certain consultants and independent members of the boards of directors of Ivy Holdings and its subsidiaries (including the Company and its subsidiaries). These options granted under the Amended Ivy Plan are exercisable into Ivy Holdings stock and vest based on a number of criteria, including the same criteria as options granted under the Ivy Plan as well as the occurrence of certain corporate transactions, including a change in control of Ivy Holdings, as defined in the Incentive Stock Option Agreements; see Note 9.

Compensation costs for option awards are measured and recognized in the consolidated financial statements based on their grant date fair value, net of estimated forfeitures over the awards' service period. Options subject to variable accounting treatment are subject to revaluation at the end of each reporting period. The Company uses the Black-Scholes option pricing model and a single option award approach to estimate the fair value of stock options granted. The fair value of restricted stock grants are determined on the date of grant, based on the number of shares granted and the quoted price or estimated fair market value of the Company's common stock. Equity-based compensation is classified within the same line items as cash compensation paid to employees. Compensation costs related to stock options that vest or are exercisable when certain corporate transactions occur, including a change in control, are recognized at the time that such an event occurs.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments with initial maturities of 90 days or less to be cash equivalents. Cash and cash equivalents are primarily comprised of deposits with banks. The Company maintains its cash at banks with high credit-quality ratings.

Restricted Cash

At September 30, 2015 and 2014, $2,000,000 was restricted to meet certain regulatory requirements for PHP. Prospect contributed $2,000,000 of restricted cash to PHP, which is not a guarantor of Prospect's long-term debt, in order for PHP to maintain compliance with tangible net equity requirements (see Note 10). $1,277,000 and $1,993,000 was restricted for research at CharterCARE hospitals as of September 30, 2015 and 2014, respectively. An additional $1,308,000 and $983,000 was restricted for various other purposes including workers' compensation insurance arrangements and various letters of credit as of September 30, 2015 and 2014, respectively.

Restricted Investments

The Company is required to keep restricted deposits by certain HMOs for the payment of claims. Such restricted deposits are classified as a current asset in the accompanying consolidated balance sheets, as they are restricted for payment of current liabilities. Investments also include certificates of deposit with maturity dates of more than 90 days when purchased.

Inventories

Inventories of supplies are valued at the lower of amounts that approximate the weighted average cost or market. Inventories consist primarily of medical and surgical supplies and pharmaceuticals.

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Deferred Financing Costs

Deferred financing costs are amortized over the period in which the related debt is outstanding using the effective interest method.

Deferred financing costs at September 30, 2015 and 2014 are as follows (in thousands):

	2015			2014		
	Gross Book Value	**Accumulated Amortization**	**Net Book Value**	Gross Book Value	Accumulated Amortization	Net Book Value
Deferred financing costs	**$14,398**	**$7,165**	**$7,233**	$14,398	$4,941	$9,457

Income Taxes

Deferred income tax assets and liabilities are recognized for differences between financial and income tax reporting bases of assets and liabilities based on enacted tax rates and laws. To the extent a deferred tax asset cannot be recognized under the preceding criteria, allowances must be established. The impact on deferred taxes of changes in tax rates and laws, if any, are applied to the years during which temporary differences are expected to be settled and reflected in the financial statements in the period of enactment. The Company recognizes interest and penalties associated with income tax matters and unrecognized tax benefits in the income tax expense line item of the statements of operations. For the years ended September 30, 2015 and 2014, no interest and/or penalties related to incomes taxes were accrued and/or expensed.

An entity is required to evaluate its tax positions using a two-step process. First, the entity should evaluate the position for recognition. An entity should recognize the financial statement benefit of a tax position if it determines that it is more likely than not that the position will be sustained on examination. Next, the entity should measure the amount of benefit that should be recognized for those tax positions that meet the more-likely-than-not test.

Consolidated federal tax returns are filed, with the exception of PMG and NGMA, which file their own federal tax returns. The Company files separate state tax returns for California, Texas, and Rhode Island. The Company's filed tax returns are generally subject to examination by the IRS and state tax boards for 3 to 4 years.

Fair Value of Financial Instruments

Financial instruments consist primarily of cash and cash equivalents, restricted cash investments, patient and other accounts receivables, accrued salaries and benefits, accounts payable and accrued expenses, medical claims and related liabilities, amounts due to government agencies, notes receivable and payable, capital lease obligations, debt, and other liabilities. The carrying amounts of current assets and liabilities approximate their fair value due to the relatively short period of time between the origination of the instruments and their expected realization.

Fair Value Measurement

Relevant accounting guidance establishes a framework for measuring fair value and clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

The guidance requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of inputs as follows: Level 1 quoted prices in active markets for identical assets or liabilities; Level 2 quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; or Level 3 unobservable inputs for the asset or liability, such as discounted cash flow models or valuations. The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The Company's Level 1 assets include cash and cash equivalents and investments (certificates of deposit and money market mutual funds). The inputs for fair value of goodwill and intangible assets (including long lived assets and intangible assets subject to amortization) would be based on Level 3 inputs as data used for such fair value calculations would be based on discounted cash flows that are not observable from the market, directly or indirectly.

Financial Items Measured at Fair Value on a Recurring Basis

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis and where they are classified within the hierarchy (in thousands):

	Total	Level 1	Level 2	Level 3
As of September 30, 2015				
Certificates of deposit and money market mutual funds	$ 1,266	$ 1,266	$ -	$ -
As of September 30, 2014				
Certificates of deposit and money market mutual funds	$ 642	$ 642	$ -	$ -

The Company's investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices.

Nonfinancial Items Measured at Fair Value on a Nonrecurring Basis

Nonfinancial assets such as goodwill and identifiable intangible assets are measured at fair value when there is an indicator of impairment and recorded at fair value only when impairment is recognized. The Company performs an annual impairment test on the goodwill, and performs an impairment test on the intangibles when there are indications of impairment.

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Significant increases or decreases in the Company's weighted average cost of capital may result in a significantly lower or higher fair value measurement, respectively. Significant increases or decreases in the revenue growth rate and royalty rates in isolation may result in a significantly higher or lower fair value measurement, respectively. The fair values of the Company's current financial liabilities approximate their reported carrying amounts. The carrying values and the fair values of non-current financial liabilities that qualify as financial instruments under the guidance are as follows (in thousands):

	2015		2014	
September 30,	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Liabilities:				
Long-term debt	**$ 422,835**	**$ 445,269**	$ 421,888	$ 457,620

The fair value of the Company's long-term debt was determined based on market prices.

Concentrations of Credit Risk

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits of $250,000 per depositor of each financial institution. The Company has not experienced any losses to date related to these balances.

Financial instruments that potentially subject the Company to concentrations of credit risk consist of receivables due from Medicare, Medicaid (Medi-Cal in California), patients, and health plans including shared-risk arrangements.

The Company invests excess cash in liquid securities at institutions with strong credit ratings, following established guidelines relative to diversification and maturities to maintain safety and liquidity. These guidelines are periodically reviewed and modified to take into consideration trends in yields and interest rates and principal risk. Management attempts to schedule the maturities of the Company's investments to coincide with the Company's expected cash requirements. Credit risk with respect to receivables is limited since amounts are generally due from large HMOs within the Medical Group Management segment and from the Medicare and Medicaid (Medi-Cal in California) programs within the Hospital Services segment. Management reviews the financial condition of these institutions on a periodic basis and does not believe the concentration of cash or receivables results in a high level of risk.

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For the years ended September 30, 2015 and 2014, the Hospital Services segment received a total of 67% of its net patient revenues from Medicare and Medicaid programs, and the Medical Group segment received a total of 59% and 58%, respectively, of their capitation revenues from its five largest HMOs, as follows (in thousands):

Years Ended September 30,	2015	% of Total Revenue	2014	% of Total Revenue
Hospital Services:				
Government Payers:				
Medicare	$ 321,282	31%	$ 224,984	36%
Medicaid	379,821	36%	189,668	31%
Total	$ 701,103	67%	$ 414,652	67%
Medical Group:				
HMO A	$ 39,759	13%	$ 12,721	5%
HMO B	38,934	12%	33,784	14%
HMO C	37,900	12%	31,632	13%
HMO D	34,806	11%	31,481	13%
HMO E	32,239	11%	31,283	13%
Total	$ 183,638	59%	$ 140,901	58%

The Global Risk Management segment received 100% of their revenues from four health plans during the year ended September 30, 2015.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities at the dates, and for the periods, that the consolidated financial statements are prepared. Actual results could materially differ from those estimates. Principal areas requiring the use of estimates include third party settlements, settlements under risk sharing programs, allowances for contractual discounts and doubtful accounts, accruals for medical claims, impairment of goodwill, long-lived assets and intangible assets, share-based payments, professional and general liability claims and workers' compensation claims, reserves for outcome of legislation and valuation allowances against deferred tax assets.

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New Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU") that requires an unrecognized tax benefit or portion of an unrecognized tax benefit to be presented as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward except when certain conditions exist. The amendment is effective for the Company for fiscal years beginning after December 15, 2014, including interim periods in 2014. The Company is currently evaluating the effect of this guidance on its consolidated results of operations and consolidated financial position.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (ASU 2014-09)," as amended by ASU 2015-14. The core principle of ASU 2014-09 is built on the contract between a vendor and a customer for the provision of goods and services, and attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this objective, the standard requires five basic steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, (v) recognize revenue when (or as) the entity satisfies a performance obligation. Nonpublic entities will apply the new standard for annual periods beginning after December 15, 2018, including interim periods therein. Three basic transition methods are available — full retrospective, retrospective with certain practical expedients, and a cumulative effect approach. Under the third alternative, an entity would apply the new revenue standard only to contracts that are incomplete under legacy U.S. GAAP at the date of initial application (e.g. January 1, 2019) and recognize the cumulative effect of the new standard as an adjustment to the opening balance of retained earnings. That is, prior years would not be restated and additional disclosures would be required to enable users of the financial statements to understand the impact of adopting the new standard in the current year compared to prior years that are presented under legacy U.S. GAAP. Early adoption is permitted for fiscal years beginning after December 15, 2016. The Company is currently evaluating the effect of this guidance on its consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements - Going Concern: Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern." This ASU provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Specifically, this ASU provides a definition of the term substantial doubt and requires an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). It also requires certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans and requires an express statement and other disclosures when substantial doubt is not alleviated. The new standard will be effective for reporting periods beginning after December 15, 2016, with early adoption permitted. The Company will apply the provisions of this standard upon adoption.

In April 2015, the FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs." This ASU amends existing guidance to require the presentation of debt issuance cost on the balance sheet as a deduction from the carrying amount of the related debt, instead of an asset. This ASU is effective for reporting periods beginning after December 15, 2015 and early adoption is permitted. The Company is currently evaluating the effect of this guidance on its consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, "Income Taxes (Topic 740), Balance Sheet Presentation of Deferred Tax Assets and Liabilities". This ASU amends existing guidance by simplifying the presentation of deferred income taxes on a net basis as non-current deferred tax assets or liabilities. ASU No. 2015-17 did not modify the requirement that deferred tax assets and liabilities of a tax-paying component of an entity be offset and presented as a single amount. This ASU is effective for reporting reports beginning after December 15, 2017 with earlier adoption permitted.

The Company elected early adoption of ASU No. 2015-17 effective October 1, 2013. The previous requirement to separate deferred income tax assets and liabilities into current and non-current amounts was not beneficial to the users of the consolidated financial statements as classification did not necessarily align with the time period in which the recognized deferred tax amounts were expected to be recovered or settled.

The following table discloses the impact of the adoption of ASU No. 2015-17 on the amounts previously reported in the consolidated balance sheet (in thousands):

Balance Sheet as of September 30, 2014	As Previously Reported	Impact of ASU No. 2015-17	As Reported
Deferred income taxes, net (current asset)	$ 68,304	$ (68,304)	$ -
Total current assets	$ 320,014	$ (68,304)	$ 251,710
Deferred income taxes, net (long-term asset)	$ -	$ 1,165	$ 1,165
Total assets	$ 761,317	$ (67,139)	$ 694,178
Deferred income taxes, net (long-term liability)	$ 70,447	$ (67,139)	$ 3,308
Total liabilities	$ 762,523	$ (67,139)	$ 695,384
Total liabilities and stockholder's equity	$ 761,317	$ (67,139)	$ 694,178

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3. Property, Improvements and Equipment

Property, improvements and equipment, consisted of the following (in thousands):

September 30,	**2015**	2014
Property, improvements and equipment:		
Land and land improvements	**$ 53,416**	$ 53,381
Buildings and improvements	**136,137**	119,163
Leasehold improvements	**20,344**	22,967
Equipment	**107,785**	87,249
Furniture and fixtures	**6,891**	7,187
	324,573	289,947
Less: accumulated depreciation	**(84,236)**	(60,473)
Property, improvements and equipment, net	**$ 240,337**	$ 229,474

Effective May 6, 2014, Prospect acquired the property, improvements, and equipment of Bellflower Medical Center, located in Bellflower, California, for cash consideration of $20 million. The assets, including land and building, were named Los Angeles Community Hospital at Bellflower. Bellflower Medical Center was closed in 2013 by its previous owner and was not operational when the Company purchased the related assets. The Company accounted for this transaction as an acquisition of assets. The primary factors influencing the determination that the acquisition should be accounted for in this manner included the complete closure of the hospital, the fact that there were no inputs and/or processes acquired, the requirement for significant additional capital expenditures and development efforts to reopen the hospital, and the lack of acquired workforce. Accordingly, the Company determined that this transaction lacked the key characteristics for business combination accounting. In addition to the $20 million purchase price, Prospect capitalized $546,000 of transaction costs directly related to the purchase of these assets. The purchase price and transaction costs were allocated to the assets acquired based on the relative fair value of the acquired assets.

At September 30, 2015 and 2014, the Company had assets under capitalized leases of approximately $20,299,000 and $19,294,000, respectively, and related accumulated depreciation of $14,356,000 and $11,465,000, respectively.

Depreciation expense was approximately $27,692,000 and $18,386,000 for the years ended September 30, 2015 and 2014, respectively.

4. Acquisitions

CharterCARE Physicians Medical Practices

During the year ended September 30, 2015, CharterCARE Physicians entered into asset purchase agreements to acquire 11 medical practices with primary care physicians as well as physicians with specialties in general surgery, bariatric surgery and urology. Total cash consideration for the medical practices was $3,865,000, with cash consideration for each practice ranging from $9,000 to $2,100,000.

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The acquisitions of the medical practices were accounted for as a business combination using purchase accounting. Under the purchase accounting method, assets acquired and liabilities assumed are recorded based on their estimated fair values.

The following table summarizes the assets acquired and liabilities assumed in connection with the CharterCARE Physician medical practices acquisitions (in thousands):

	Purchase Price Allocation (Preliminary)
Inventory	$ 8
Improvements and equipment	328
Intangible assets	97
Goodwill	3,432
Net cash consideration	$ 3,865

As asset purchases, the goodwill and intangible assets acquired are deductible for tax purposes.

University Medical Group

Effective December 18, 2014, New University Medical Group ("New UNMG"), a wholly-owned subsidiary of RWMC, entered into an Asset Purchase Agreement, pursuant to which New UNMG will acquire substantially all of the assets of University Medical Group ("UNMG"), a physician medical practice with approximately 35 primary care and specialist physicians with various specialties. As consideration for the acquisition, New UNMG will assume certain liabilities of UNMG.

As of December 18, 2014, New UNMG acquired certain assets of the practice and assumed certain liabilities related to the administrative functions of UNMG ("Initial Close"). At a later date, New UNMG will acquire certain additional assets and assume certain additional liabilities ("Second Close"). Concurrent with the Initial Close, UNMG and New UNMG entered into an Interim Administrative Services Agreement, which is effective until the Second Close occurs. New UNMG also entered into the First Amendment to the Interim Administrative Services Agreement effective December 18, 2014. In addition, Prospect, RWMC and CharterCARE Physicians have receivables from various transactions of $4,345,000 due from UNMG as of September 30, 2015, which are included in other assets in the accompanying consolidated balance sheet.

Because Second Close had not occurred as of September 30, 2015, the acquisition of UNMG is not reported in the accompanying consolidated financial statements. As a result of the Asset Purchase Agreement, Interim Administrative Services Agreement (as amended), and various transactions, New UNMG has the obligation to absorb certain losses of UNMG and the right to receive certain benefits from UNMG. However, New UNMG does not have the power to direct the activities of UNMG which most significantly impact its performance based on the terms of the Interim Administrative Services Agreement (as amended) and the governance of UNMG. As a result, New UNMG is not the primary beneficiary of UNMG, and the results of UNMG are not consolidated in the accompanying consolidated financial statements.

Newport Specialty Hospital

Effective May 6, 2014, Prospect acquired substantially all of the assets of Newport Specialty Hospital (subsequently renamed Foothill Regional Medical Center) for cash consideration of $15 million. Newport Specialty Hospital, located in Tustin, California was substantially closed prior to acquisition, operating only its pediatric subacute unit as of the acquisition date.

The acquisition of Newport Specialty Hospital was accounted for as a business combination using purchase accounting. This transaction resulted in a bargain gain of $523,000, which is included in other income in the accompanying consolidated statements of income. The Company incurred $556,000 of transaction costs during the year ended September 30, 2014, which are included in General and Administrative expenses in the accompanying consolidated statements of income.

The following table summarizes the assets acquired and liabilities assumed in connection with the Newport Specialty Hospital acquisition, as of May 6, 2014 (in thousands):

	Purchase Price Allocation
Property, improvements and equipment	$ 15,523
Bargain purchase gain	(523)
Net cash consideration	$ 15,000

CharterCARE

Effective June 20, 2014, Prospect, through its newly formed subsidiary, PCC, acquired substantially all of the assets of CharterCARE Health Partners and its subsidiaries in exchange for a 15% interest in PCC, $43.3 million in cash and a commitment to invest at least $50 million in PCC and its subsidiaries for strategic business development and capital improvements over the next four years. As a result of the acquisition, PCC is owned 85% by Prospect and 15% by CharterCARE Health Partners (which was subsequently renamed CharterCARE Community Board).

PCC, through its subsidiaries, operates Roger Williams Medical Center, St. Joseph Health Services of Rhode Island, and Elmhurst Extended Care Facilities, Inc., which operate hospitals, medical centers and assisted living facilities located in Rhode Island with approximately 785 licensed beds.

The acquisition was accounted for as a business combination using purchase accounting. This transaction resulted in a bargain gain of $4,294,000 during the year ended September 30, 2014. Subsequent to September 30, 2014, PCC received $2,125,000 for a working capital adjustment, which is reflected in prepaid expenses and other current assets resulting in an increase in net assets acquired by Prospect and the non-controlling interest. The gain on bargain purchase was reduced by $319,000 during the year ended September 30, 2015, which is the non-controlling interest's 15% interest in the working capital adjustment. The gain on bargain purchase recognized during the years ended September 30, 2015 and 2014 are included in adjustment to (gain on) bargain purchase in the accompanying consolidated statements of income.

The following table summarizes the assets acquired and liabilities assumed in connection with the PCC acquisition, as of June 20, 2014 (in thousands):

	Purchase Price Allocation (Preliminary)	Purchase Price Allocation (Final)
Restricted cash	$ 1,739	$ 1,739
Patient accounts receivable and other receivables	34,264	34,264
Prepaid expenses and other current assets	8,777	10,902
Property, improvements and equipment	53,642	53,642
Intangible assets	8,590	8,590
Other long-term assets	4,698	4,698
Accounts payable and other liabilities	(44,656)	(44,656)
Capital leases	(1,315)	(1,315)
Long-term debt	(25)	(25)
Other long-term liabilities	(4,645)	(4,645)
Net assets acquired	61,069	63,194
Less: amount attributable to non-controlling interest	(9,160)	(9,479)
Net assets acquired by Prospect	51,909	53,715
Total purchase consideration	47,615	49,740
Bargain purchase gain	$ 4,294	$ 3,975

The change in prepaid expenses and other current assets from the preliminary to the final purchase price allocation was due to the working capital adjustment of $2,125,000. The total purchase consideration of $49,740,000 includes net cash consideration of $43,300,000 plus a long-term liability of $6,440,000, which represents the discounted fair value of the non-controlling interest's 15% interest in the $50 million future commitment of the Company to PCC as part of the Purchase Agreement.

During the year ended September 30, 2015, the Company partially satisfied its $50 million future commitment by contributing $9,637,000 to PCC, of which $1,446,000, or 15%, was attributed to the non-controlling interest in PCC. The Company incurred $2,145,000 of transaction costs during the year ended September 30, 2014, which are included in General and Administrative expenses in the accompanying consolidated statements of income.

5. Goodwill and Intangible Assets

As of September 30, 2015 and 2014, goodwill and intangible assets relate to the ProMed, Alta, SCH Culver City, Nix Health, NGMA, Nix CGH, CharterCARE Physicians medical practices acquisitions. The Company performed its annual goodwill impairment analysis for each reporting unit that constitutes a business for which 1) discrete financial information is produced and reviewed by management, and 2) services that are distinct from the other reporting units.

During the year ended September 30, 2015, the Company reorganized its reporting structure for the Medical Group segment due to changes in financial information produced and reviewed by management and the convergence of the economic characteristics of the MSOs and Medical Groups located in

California. Prior to the reorganization of the reporting structure, the Medical Group segment was comprised of two reporting units: PHCA and the ProMed Entities (collectively referred to as the "ProMed IPAs") as well as PMS and the other affiliated physician organizations, including NGMA (collectively, "Prospect IPAs"). As a result of the reorganization of reporting structure, the MSOs and Medical Groups located in California comprise a single reporting unit (collectively, "California Medical Groups").

For the Hospital Services segment, the reporting unit for the annual goodwill impairment analysis has been determined to be at the business unit level. Reporting units consist of Alta Hospitals, SCH Culver City, Nix Health, and CharterCARE.

The carrying value of goodwill by reporting unit is as follows (in thousands):

September 30,	**2015**	2014
Alta Hospitals	**$** 106,539	$ 106,539
SCH Culver City	24,373	24,373
Nix Health	5,613	5,613
CharterCARE	3,432	-
California Medical Groups	22,339	22,339
	$ 162,296	$ 158,864

The following is a roll-forward of goodwill from October 1, 2013 to September 30, 2015 (in thousands):

	Amount
Balance, October 1, 2013	$ 158,864
Balance, September 30, 2014	158,864
Acquisition of CharterCARE Physicians medical practices (see Note 4)	3,432
Balance, September 30, 2015	$ 162,296

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Identifiable intangible assets are comprised of the following (in thousands):

	September 30, 2015						
	Alta	SCH Culver City	Nix Health	Charter CARE *(1)*	Prospect	Promed	Total
HMO membership	$ -	$ -	$ -	$ -	$ -	$ 25,200	$ 25,200
Trade names, net of impairment	10,310	1,320	2,740	8,590	-	9,450	32,410
Favorable leasehold	-	-	20	-	-	-	20
Physician guarantees	-	-	1,530	-	-	-	1,530
Customer relationships	-	-	-	-	350	-	350
Other	-	-	-	97	-	-	97
Gross carrying value	10,310	1,320	4,290	8,687	350	34,650	59,607
Accumulated amortization	(4,361)	(880)	(2,964)	(2,200)	(150)	(19,890)	(30,445)
Intangible assets, net	$ 5,949	$ 440	$ 1,326	$ 6,487	$ 200	$ 14,760	$ 29,162

(1) CharterCARE includes intangible assets related to the acquisitions of CharterCARE effective June 20, 2014 and various CharterCARE Physicians acquisitions effective on various dates during the year ended September 30, 2015 (see Note 4).

	September 30, 2014						
	Alta	SCH Culver City	Nix Health	Charter CARE	Prospect	Promed	Total
HMO membership	$ -	$ -	$ -	$ -	$ -	$ 25,200	$ 25,200
Trade names, net of impairment	10,310	1,320	2,740	8,590	-	9,450	32,410
Favorable leasehold	-	-	20	-	-	-	20
Physician guarantees	-	-	1,596	-	-	-	1,596
Customer relationships	-	-	-	-	350	-	350
Gross carrying value	10,310	1,320	4,356	8,590	350	34,650	59,576
Accumulated amortization	(3,670)	(440)	(2,171)	(482)	(100)	(17,439)	(24,302)
Intangible assets, net	$ 6,640	$ 880	$ 2,185	$ 8,108	$ 250	$ 17,211	$ 35,274

During the years ended September 30, 2015 and 2014, intangibles related to physician guarantees of $539,000 and $487,000, respectively, were fully amortized and removed from intangible assets.

Amortization is recognized on a straight-line basis (management's best estimate of the period of economic benefit) over the respective useful lives and expense for the years ended September 30, 2015 and 2014 was $6,682,000 and $5,194,000, respectively.

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Estimated amortization expense for each future fiscal year is as follows (in thousands):

Years ended September 30,	
2016	$ 6,312
2017	5,155
2018	4,635
2019	4,099
2020	2,813
Thereafter	6,148
Total	$ 29,162

The following table shows the estimated useful lives for each of the intangible assets:

	Estimated useful lives
HMO membership	14 years
Trade names	3 - 20 years
Favorable leasehold	6 years
Physician guarantees	2 to 3 years
Customer relationships	7 years
Other	5 years

The weighted-average remaining useful life for the intangible assets was 6.4 years as of September 30, 2015.

6. Related Party Transactions

Jeereddi Prasad, M.D., a shareholder of Ivy Holdings, a director of Ivy Holdings and the Company, and an officer of the ProMed Entities, has ownership interests in physician medical groups that provide medical services to ProMed members, including CMG. For the years ended September 30, 2015 and 2014, the ProMed Entities paid these groups approximately $18,170,000 and $12,677,000, respectively. As of September 30, 2015 and 2014, the Company had accounts payable and other accrued liabilities due to these related parties of $531,000 and none, respectively.

Pursuant to a Management Services Agreement, dated December 15, 2010 and amended on May 3, 2012 (the "LGP Management Agreement"), between the Company and Leonard Green & Partners, L.P. ("LGP"), a private equity fund with affiliated funds that collectively constitute the majority shareholder of Ivy Holdings, LGP provides to the Company, (a) certain investment banking services, (b) management, consulting and financial planning services and (c) financial advisory and investment banking services in connection with major financial transactions from time to time. In consideration for the services provided by LGP under the LGP Management Agreement, the Company pays LGP an annual fee of $1,000,000, payable in monthly installments, and reimburses LGP for its related expenses up to $50,000 annually. If approved by the unanimous consent of the Board of Directors of the Company, additional customary fees may be due to LGP pursuant to the terms of the LGP Management Agreement for services rendered in connection with major transactions from time to time. No amounts were payable related to these related party transactions as of September 30, 2015 or 2014.

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The Company is a wholly-owned indirect subsidiary of Ivy Holdings. Therefore, Ivy Holdings is the parent of an affiliated group of corporations within the meaning of Section 1504(a) of the Internal Revenue Code of 1986. On December 15, 2010, Ivy Holdings, Ivy Intermediate and the Company entered into a Tax Sharing Agreement. The Tax Sharing Agreement allows the Company to make payments to Ivy Holdings as necessary to fund their payment of any required taxes incurred due to such parent status. During the years ended September 30, 2015 and 2014, the Company made payments under this arrangement of $24,977,000 and $5,703,000, respectively.

7. Income Taxes

The components of the income tax provision are as follows (in thousands):

For the years ended September 30,	2015	2014
Current:		
Federal	$ 35,445	$ 14,430
State	9,709	4,242
	45,154	18,672
Deferred:		
Federal	(12,957)	(4,529)
State	(1,051)	(3,582)
	(14,008)	(8,111)
Total:		
Federal	22,488	9,901
State	8,658	660
	$ 31,146	$ 10,561

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Temporary differences and carry forward items that result in deferred income tax balances as of September 30, are as follows (in thousands):

September 30,	2015	2014
Deferred tax assets:		
State tax benefit	$ 2,306	$ 2,593
Allowances for bad debts	7,889	5,119
Vacation accrual and other	4,800	5,440
Workers compensation	3,991	2,656
Accrued bonuses	4,837	3,898
Malpractice reserves	2,546	1,952
Deferred rent	139	107
Enterprise zone tax credit	1,261	2,433
Net operating losses	302	8,789
Partnership outside basis difference	8,323	-
Capital loss carryforward	-	2,274
Other	157	359
Deferred tax assets	36,551	35,620
Valuation allowance	(984)	(10,737)
Net deferred tax assets	35,567	24,883
Deferred tax liabilities:		
Intangible assets	(6,448)	(7,247)
Fixed assets	(17,035)	(17,664)
Deferred compensation	-	(112)
Partnership outside basis difference	-	(1,982)
Prepaid expenses	-	(21)
Other	(219)	-
Deferred tax liabilities	(23,702)	(27,026)
Net deferred tax assets (liabilities)	$ 11,865	$ (2,143)

Deferred tax assets and liabilities reflect the effect of temporary differences between the assets and liabilities recognized for financial reporting purposes and the amounts recognized for income tax purposes.

As of September 30, 2014, the Company had a valuation allowance of $10,737,000 related to deferred tax assets. Certain deferred tax assets, including carryforwards of net operating losses and capital losses, were written off due to the inability to use certain carryovers as a result of IRC 382 limitations, as well as due to the carry over expiration during the year ended September 30, 2015. However, such removal had no impact on the income tax provision because of the corresponding impact of the change in the valuation allowance. As of September 30, 2015, the Company maintains a valuation allowance of $984,000 on a certain portion of the California Enterprise credit and net operating losses of non-consolidated and separately filed entities for federal and state purposes, as it is more likely than not that the deferred tax asset will not be realized.

As of September 30, 2015, the Company has $1,261,000 of California Enterprise Zone credit carryforwards which can be carried over indefinitely. The Company has approximately $483,000 and $1,506,000 of net operating loss carryforwards for federal and California which expire through September 30, 2036 and September 30, 2026, respectively.

The Company is currently undergoing an IRS examination for fiscal year 2012. Additionally, the Company received a notice of review from the Franchise Tax Board of California for refunds claimed on its California returns reflecting additional Enterprise tax credits.

Generally, the Company's tax years 2011 through 2014 are open for state tax examination. As of September 30, 2015, the Company does not have material unrecognized tax benefits. The Company believes that it is reasonably possible that an increase in unrecognized tax benefits may be necessary within the coming year, and these unrecognized tax benefits would primarily impact deferred taxes and taxes payable, and the expected range of potential increase in the unrecognized tax benefits is not expected to be material to the balance sheet nor the income statement.
The FASB issued ASU No. 2015-17, which requires entities to offset deferred tax assets and liabilities for each tax paying jurisdiction within each tax paying component. The deferred taxes must be reported as non-current. The Company elected early adoption of the ASU (see Note 2 under New Accounting Pronouncements).

The differences between the income tax provision at the federal statutory rate and that reflected in the accompanying consolidated statements of operations are summarized as follows:

For the years ended September 30,	**2015**	2014
Tax provision at statutory rate	**35%**	35 %
State taxes, net of federal benefit	**7%**	6 %
Enterprise zone tax credits	**0%**	(7)%
Other	**6%**	2 %
	48%	36 %

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8. Long-Term Debt

Long-term debt consists of the following (in thousands):

September 30,	**2015**	2014
Prospect's debt:		
Senior secured notes		
2019 Notes	**$ 325,000**	$ 325,000
Less: discount, net	**(4,950)**	(6,339)
	320,050	318,661
Additional 2019 Notes	**100,000**	100,000
Plus: premium, net	**1,110**	1,419
	101,110	101,419
	421,160	420,080
Nix Health's debt:		
Mortgage debt	**1,675**	1,801
Other debt:	**-**	7
Total Debt:	**422,835**	421,888
Less: current maturities	**(135)**	(133)
Long-term debt, net of current maturities	**$ 422,700**	$ 421,755

Prospect's Debt:

Senior Secured Notes

On May 3, 2012, the Company closed the offering of $325 million in 8.375% senior secured notes due May 1, 2019 ("PMH 2019 Notes"). Interest is payable semi-annually in arrears on May 1 and November 1, commencing on November 1, 2012. The offering was executed in accordance with Rule 144A and Regulation S under the Securities Act of 1933. The terms of the PMH 2019 Notes are governed by an indenture among the Company, certain of its subsidiaries and affiliates (as "Guarantors"), and U.S. Bank National Association (as trustee) (the "Indenture"). The Indenture contains certain covenants that, among other things, limit the Company's ability, and the ability of its restricted subsidiaries (as such term is defined in the Indenture) to: retire and pay dividends or distributions on capital stock or equity interests, prepay subordinated indebtedness or make other restricted payments; incur additional debt; make investments; create liens on assets; enter into transactions with affiliates; engage in other businesses; sell or issue capital stock of restricted subsidiaries; merge or consolidate with another company; transfer and sell assets; create dividend and other payment restrictions affecting subsidiaries; and designate unrestricted subsidiaries. The Credit Agreement (defined below), executed in connection with the PMH Senior Secured Credit Facility (discussed below), contains a number of customary covenants as well as covenants requiring the Company to maintain a maximum consolidated secured leverage ratio and limiting the amount of capital expenditures.

Concurrent with the issuance of the PMH 2019 Notes, the Company entered into a five year $50 million revolving senior secured credit facility (the "PMH Senior Secured Credit Facility") which replaced the existing senior secured credit facility. The PMH Senior Secured Credit Facility provides, among other things, for borrowings up to the amount of the facility with sublimits of up to (i) $20 million to be available for the issuance of letters of credit and (ii) $10 million to be available for swingline loans. The commitment under the facility may be increased by up to $10 million upon the Company's request at the discretion of the lenders and subject to certain customary requirements. The interest rate per annum applicable to loans under the PMH Senior Secured Credit Facility will be, at the Company's option, either a rate per annum equal to (i) LIBOR plus 3.50% or (ii) an alternate base rate, which will be the higher of the administrative agent's prime rate, the federal funds rate plus 0.50%, and the 1-month LIBOR rate plus 1.00%, plus in each case, 2.50%. In August 2013, the PMH Senior Secured Credit Facility limit was increased to $60 million. As of September 30, 2015 and 2014, the Company had $20 million outstanding debt related to the PMH Senior Secured Credit Facility. As of September 30, 2015, the interest rate for the PMH Senior Secured Credit Facility was 3.95%.

The PMH 2019 Notes and the PMH Senior Secured Credit Facility are jointly and severally guaranteed on a senior secured basis by all of the Company's subsidiaries (as such term is defined in the Indenture) other than AMVI/Prospect Medical Group, Nuestra, PHP and certain immaterial subsidiaries. The PMH 2019 Notes are secured pari passu with the PMH Senior Secured Credit Facility by first-priority Liens and security interests on substantially all of the tangible and intangible assets of the Guarantors, including, but not limited to, the accounts receivable, inventories, other personal property, real property, fixtures and equipment, in each case now owned or hereafter acquired by the Company and the Subsidiary Guarantors, with certain exceptions. The PMH 2019 Notes are effectively senior to all of the Guarantors' existing and future Indebtedness.

The terms of the PMH Senior Secured Credit Facility are governed by the Credit Agreement, dated as of May 3, 2012, (as amended in connection with the Company's November 2012 offering of additional PMH 2019 Notes - see below) among the Company, Morgan Stanley Senior Funding, Inc. (as administrative agent), Royal Bank of Canada and Credit Suisse AG, Cayman Islands Branch (as co-syndication agents) and the lenders party thereto (the "Credit Agreement").

The Company, at its option, may redeem all or part of the notes at a redemption price equal to 106.281%, 104.188%, 102.094% and 100.0% on or after May 1, 2015, 2016, 2017 and 2018, respectively. Prior to May 1, 2015, the Company, at its option, may (i) redeem up to 35% of the original principal amount of the notes with the proceeds of certain equity offerings at a redemption price of 108.375% (ii) redeem up to 10% of the original principal amount of the PMH 2019 Notes during each 12-month period, commencing on May 1 in each of 2012, 2013 and 2014, at a redemption price of 103.0% of the principal amount thereof (this redemption option was terminated in connection with the Company's November 2012 offering of additional PMH 2019 Notes) or (iii) redeem the PMH 2019 Notes, in whole, but not in part, at a redemption price of 100.0% of the aggregate principal plus a make-whole premium. There are no required principal payments on the PMH 2019 Notes until maturity.

On November 16, 2012, the Company closed the offering of $100 million in aggregate principal amount of 8.375% senior secured notes due 2019 (the "Additional 2019 Notes") at a price equal to 102% of the principal amount of the Additional 2019 Notes. The Additional 2019 Notes were issued in a private placement to qualified institutional buyers and form a part of the same series as the PMH 2019 Notes issued on May 3, 2012.

The Additional 2019 Notes were issued under the Indenture, dated May 3, 2012 and described above, as supplemented by two supplemental indentures entered into in connection with the issuance of the

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Additional 2019 Notes (the "Supplemental Indentures"). The Additional 2019 Notes are treated as a single series with the previously issued PMH 2019 Notes for all purposes under the Indenture, including, without limitation, restrictive covenants, waivers, amendments, redemptions and offers to purchase. Prior to closing the issuance of the Additional 2019 Notes, the Company was required to obtain the consent of the majority in interest of its PMH 2019 Notes issued on May 3, 2012 to certain amendments to the Indenture contained in the first Supplemental Indenture. The Company obtained such consent from the holders of approximately $324 million in aggregate principal amount of outstanding PMH 2019 Notes and paid an aggregate consent fee of approximately $8.9 million. The Company determined that the transaction represents a debt modification under the applicable accounting guidance and capitalized the consent fee and recorded it as a debt discount during the year ended September 30, 2013, which is being amortized over the term of the Additional 2019 Notes using the effective interest method.

In connection with the issuance of the Additional 2019 Notes, the Company entered into an amendment of its Credit Agreement governing the PMH Senior Secured Credit Facility that waived and amended certain provisions of the Credit Agreement, including certain restrictive covenants.

As of September 30, 2015 and 2014, the Company was in compliance with the financial covenants of the Indenture and Credit Agreement.

Demand Notes

During the year ended September 30, 2012, the Company obtained a commitment from a bank for a $9.3 million equipment leasing facility to finance various equipment at the Company's hospital facilities. During January 2014, the commitment was increased to $15.0 million. As of September 30, 2015 and 2014, $11.5 million and $10.7 million, respectively, were drawn under the facility and are classified as capital lease arrangements. Draws represent demand notes until conversion to capital leases, and interest accrues on such draws at the bank prime rate plus 1.5% with a floor of 4.5% and payable monthly.

Nix Health's Debt:

Mortgage Debt

In connection with the Nix Health acquisition, Nix SPE, LLC ("Nix SPE") executed a Loan Assumption Agreement, effective as of February 29, 2012, pursuant to which Nix SPE assumed the obligations of the sellers of Nix Health under a mortgage loan facility provided by The Ohio National Life Insurance Company on December 27, 1999. Nix SPE assumed the obligation to pay the outstanding principal amount of the mortgage loan and interest accruing thereafter. The outstanding balance of the mortgage loan as of September 30, 2015 and 2014 was $1,675,000 and $1,801,000, respectively.

Prospect Hospital Holdings, LLC, the parent company of Nix SPE, has provided a guaranty of the obligations of Nix SPE under the loan. The obligations under the loan facility are secured by a deed of trust on a neighborhood medical center known as Nix Alamo Heights. The loan is subject to a 7.0% interest rate and requires monthly installment payments of $21,000, with a balloon payment on the maturity date of November 1, 2019. Prepayment is subject to a fee and the loan contains customary covenants.

Note Payable

Nix Health entered into a note payable during September 2012 due in March of 2014 for $141,000. Interest accrued on this note at 8.96% and was payable monthly. The note payable was repaid during the year ended September 30, 2014.

Scheduled payments under the Company's current and long-term debt as of September 30, 2015 are as follows (in thousands):

Years ending September 30,	
2016	$ 135
2017	145
2018	155
2019	421,326
2020	1,074
	$ 422,835

9. Stockholder's Equity (Deficit)

Equity Based Compensation Plans

Effective December 15, 2010, the Board of Directors of Ivy Holdings adopted the Ivy Plan that authorized the issuance of options exercisable for up to 155,110 shares of the common stock of Ivy Holdings ("Initial Options") to employees, certain consultants and independent members of the boards of directors, of Ivy Holdings and its subsidiaries (including the Company and its subsidiaries). During the years ended September 30, 2015 and 2014, the Compensation Committee of the Board of Directors of Ivy Holdings ("Compensation Committee") granted 37,814 and 4,113 options, respectively, to certain members of the Company's management and employees. These options are exercisable into Ivy Holdings stock and vest based on a number of criteria, including time, Company and Business Unit performance based on EBITDA targets and CEO and Compensation Committee discretion. Since the Ivy Holdings stock options were granted to Company employees for their services related to the Company, the related compensation cost has been recorded in the Company's consolidated financial statements.

Effective June 30, 2015, the Board of Directors of Ivy Holdings adopted the First Amendment to the Ivy Plan, pursuant to which the Board of Directors authorized the issuance of options exercisable for an additional 13,972 shares of common stock of Ivy Holdings ("New Options") to employees, certain consultants and independent members of the boards of directors of Ivy Holdings and its subsidiaries (including the Company and its subsidiaries). Concurrently, the Compensation Committee granted 13,972 options to certain members of the Company's management and employees. The New Options are exercisable into Ivy Holdings stock and vest based on a number of criteria, including the same criteria as the Initial Options however, they only become exercisable on the occurrence of certain corporate transactions, including a change in control of Ivy Holdings, as defined in the Incentive Stock Option Agreements ("Corporate Transaction"). Because the occurrence and timing of a Corporate Transaction is not determinable as of September 30, 2015, no compensation cost has been recorded in the Company's consolidated financial statements.

Under the terms of the Ivy Plan, the exercise price of an incentive stock option ("ISO") may not be less than 100% of the fair market value of the Company's common stock on the date of grant and, if granted

to a shareholder owning more than 10% of the Company's common stock, then not less than 110%. Stock options granted under the Ivy Plan have a maximum term of 10 years from the grant date, and are exercisable at such time and upon such terms and conditions as determined by the Compensation Committee. Stock options granted to employees generally vest over four years, subject to continued service, performance, and other criteria. In the case of an ISO, the amount of the aggregate fair market value of common stock with respect to which the ISO grant is exercisable, for the first time by an employee during any calendar year, may not exceed $100,000.

Stock Options Activity

The following table summarizes information about Ivy Holdings stock options outstanding as of September 30, 2015 and 2014 and activity during the years then ended for the Initial Options and the New Options:

	Shares Subject to Options	Weighted Average Exercise Price	Weighted Average Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term (Months)
Outstanding as of September 30, 2013 *(1)*	118,277	$ 43.44	$ 76.56	95.8
Granted	4,113	120.00	—	—
Exercised	—	—	—	—
Canceled/Forfeited	(6,915)	58.71	—	—
Outstanding as of September 30, 2014	115,475	45.37	74.63	84.1
Granted *(2)*	51,786	176.00	—	—
Exercised	(12,620)	31.38	—	—
Canceled/Forfeited	(3,808)	46.24	—	—
Outstanding as of September 30, 2015	150,833	$ 91.42	$ 436.51	88.2

(1) The number of options at September 30, 2013 includes 100,611 options modified in connection with the Repricing (see below).
(2) The options granted include 37,814 Initial Options and 13,972 New Options.

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the estimated fair value of the Company's common stock for those awards that have an exercise price currently below the estimated fair value. As of September 30, 2015, the aggregate intrinsic value of outstanding shares was approximately $60,000,000. As of September 30, 2015, there were 106,078 options that are exercisable at a weighted average exercise price of $55.08.

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A summary of Ivy Holdings non-vested options and the changes during the fiscal years ended September 30, 2015 and 2014 is presented as follows for the Initial Options and New Options:

	Shares	Weighted Average Grant Date Fair Value
Ivy Holdings Stock Options:		
Nonvested at September 30, 2013 *(3)*	43,192	$ 86.99
Granted	4,113	63.81
Vested	(28,797)	92.00
Canceled/Forfeited	(4,871)	85.15
Nonvested at September 30, 2014	13,637	70.47
Granted	51,786	72.03
Vested	(19,267)	73.60
Canceled/Forfeited	(1,401)	88.08
Nonvested at September 30, 2015	44,755	$ 70.38

(3) The number of non-vested options at September 30, 2013 includes 29,930 options modified in connection with the repricing (see below).

On April 5, 2013, the Compensation Committee approved the repricing of the exercise price of all outstanding stock options as of that date. Pursuant to such resolution of the Ivy Holdings Compensation Committee, as of the effective date, all of the previously granted options were exchanged for new options with a lower exercise price granted on a one-for-one basis. As a result of this repricing, the Company repriced 49,380 vested options and 59,748 unvested options from an original exercise price of $100.00 per share to a new exercise price of $30.00 per share. Other than the exercise price, all other terms of the repriced options, such as vesting and contractual life, remained the same. The Company has accounted for the repricing as a modification and recorded any net incremental fair value related to vested awards as compensation expense on the date of modification. In addition, the Company is recording the incremental fair value related to the unvested awards, together with unamortized stock-based compensation expense associated with the unvested awards, over the remaining requisite service period of the option holders. In connection with the repriced options, the Company recorded stock compensation expense of $1,454,000 on the date of the modification. Incremental compensation cost resulting from the modification was $113,000 and $1,097,000 during the years ended September 30, 2015 and 2014, respectively.

The original fair value of the options granted ranged from $50.73 to $98.65 per option. In connection with the repricing, the stock compensation expense related to the stock options granted prior to April 5, 2013 is calculated based on a fair value of $97.75. The fair value was determined using the Black-Scholes option pricing model.

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Fair value of the repriced options was estimated with the following assumptions for Ivy Holdings:

For the year ended September 30,	2013
Weighted average fair value of repriced options	$97.75
Estimated fair market value of the Company's common stock on the date of grant	$120.00
Weighted average expected life of the options	8.2 years
Risk-free interest rate	1.7%
Weighted average expected volatility	45.9%
Dividend yield	0.0%

Stock-Based Compensation Expense

Stock-based compensation expense for all share-based payments in exchange for employee services (including stock options and restricted stock) is measured at fair value on the date of grant, estimated using an option pricing model and is recognized in the consolidated financial statements, net of estimated forfeitures over the awards requisite service period.

The Company uses the Black-Scholes option pricing model and a single option award approach to estimate the fair value of options granted. Estimated forfeitures will be revised in future periods if actual forfeitures differ from the estimates and will impact compensation cost in the period in which the change in estimate occurs. The determination of fair value using the Black-Scholes option-pricing model is affected by the Company's estimated stock price as well as assumptions regarding a number of complex and subjective variables, including expected stock price volatility, risk-free interest rate, expected dividends and projected employee stock option exercise behaviors.

Fair value for options granted during the years ended September 30, 2015 and 2014 was estimated with the following assumptions for Ivy Holdings:

For the years ended September 30,	**2015**	2014
Weighted average fair value of option grants	**$ 98.65**	$ 63.81
Estimated fair market value of the Company's common stock on the date of grant	**$ 176.00**	$ 120.00
Weighted average expected life of the options	**9.8 years**	8.0 years
Risk-free interest rate	**1.8%**	2.7%
Weighted average expected volatility	**45.0%**	45.0%
Dividend yield	**0.00%**	0.00%

Expected Term - The expected term of options granted represents the period of time that they are estimated to be outstanding.

Risk-Free Interest Rate - The Company bases the risk-free interest rate on the implied yield in effect at the time of option grant on U.S. Treasury zero-coupon issues with equivalent remaining terms.

Expected Volatility - The Company estimates the volatility of the common stock at the date of grant based on the average of the historical volatilities of a group of peer companies. The Company has identified a group of comparable companies to calculate historical volatility from publicly available data for sequential periods approximately equal to the expected terms of the option grants. In

selecting comparable companies, Management considered several factors including industry, stage of development, size and market capitalization.

Forfeitures—Share-based compensation is recognized only for those awards that are ultimately expected to vest. Compensation expense is recorded net of estimated forfeitures. Those estimates are revised in subsequent periods if actual forfeitures differ from those estimates. The Company used data since December 2010 to estimate pre-vesting option forfeitures.

Stock-based compensation expense for the Ivy Holdings stock options recognized by the Company during the years ended September 30, 2015 and 2014 was $1,184,000 and $2,673,000 (including the impact of the option repricing noted above), respectively. At September 30, 2015, there were 44,755 unvested options, which could potentially vest over the next three fiscal years, subject to meeting the vesting requirements noted above. The remaining maximum estimated stock compensation expense to be amortized to expense in future periods is approximately $3,000,000. Options which are expected to vest based on CEO and Compensation Committee discretion are treated as variable stock options and are subject to revaluation at each reporting period. Management determined the fair value of the discretionary vested options using a Black Scholes calculation but determined that the change in compensation expense was not material to the consolidated financial statements for the years ended September 30, 2015 and 2014.

10. Commitments and Contingencies

Leases

The Company leases various office facilities and equipment from third parties under non-cancelable operating and capital lease arrangements expiring at various dates through 2026. Certain operating leases contain rent escalation clauses and renewal options, which have been factored into determining rent expense on a straight-line basis over the lease terms. Capital leases bear interest at rates ranging from 2% to 11% per annum.

The future minimum annual lease payments (net of anticipated sublease income) required under leases in effect at September 30, 2015, are as follows (in thousands):

For the Years ending September 30,	Capital Leases	Operating Leases
2016	$ 3,913	$ 4,157
2017	2,589	3,395
2018	1,725	2,693
2019	1,414	2,210
2020	1,274	2,175
Thereafter	6,434	932
Total minimum lease payments	17,349	$ 15,562
Less: amounts representing interest	(5,148)	
	12,201	
Less: current portion	(2,905)	
	$ 9,296	

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Rent expense for the years ended September 30, 2015 and 2014 was approximately $15,258,000 and $9,615,000, respectively. Sublease rental income of approximately $107,000 and $271,000, for the years ended September 30, 2015 and 2014, respectively, was recorded as a reduction to rental expense.

Litigation

The Company is subject to a variety of claims and suits that arise from time to time in the ordinary course of its business, acquisitions, or other transactions. While the Company's management currently believes that resolving all of these matters, individually or in the aggregate, will not have a material adverse impact on the Company's consolidated financial position or results of operations, the litigation and other claims that the Company faces are subject to inherent uncertainties and management's view of these matters may change in the future. Should an unfavorable final outcome occur, there exists the possibility of a material adverse impact on the Company's consolidated financial position, results of operations and cash flows for the period in which the effect becomes probable and reasonably estimable.

Following the acquisition of the Company in August 2010, two putative class action complaints were filed against the Company, each of the Company's special committee members, Ivy Holdings, LGP, and certain other parties. These complaints, which were consolidated into a single action, allege generally that defendants breached their fiduciary duties, or aided and abetted others' breaches of their fiduciary duties, in connection with the transaction with the Company by, among other things, authorizing the transaction for what plaintiffs claim to be inadequate consideration and pursuant to what plaintiffs claim to be an inadequate process and with inadequate disclosures.

On December 30, 2010, another lawsuit was filed in Delaware Chancery Court by Terrier Partners and five related entities against the same defendants identified above. The complaint alleges generally that the consideration offered to shareholders in connection with the transaction with the Company was inadequate in light of the revenue received under AB 1383 (see California Hospital Fee Program below), and that defendants breached their fiduciary duties, or aided and abetted others' breaches of their fiduciary duties by not obtaining a higher price in light of this additional revenue.

In May 2012, the Court of Chancery granted motions to consolidate the Terrier Partners case and the class action cases and certified a class as a non-opt out class. On June 11, 2012, plaintiffs filed their Verified Consolidated Third Amended Class Action Complaint. On July 26, 2012, the director defendants answered the Third Amended Complaint. That same day, Prospect moved to dismiss itself as a party to the Third Amended Complaint. The Court granted the motion to dismiss the Company as a defendant, leaving only the individuals as defendants in the case.

The parties subsequently engaged in discovery, and following mediation, have agreed to settle the dispute as to all parties and all claims. Pursuant to the terms of the Settlement Agreement, Prospect and its insurers have agreed to contribute $6.5 million as a settlement amount, which will be used to pay all claims to the class as well as fees for plaintiffs' class counsel. All defendants will be released from all claims in return for entry into the settlement. The settlement is subject to approval by the Delaware Chancery Court, which has scheduled a hearing for January 21, 2016 to consider the proposed settlement and determine, among other things, whether the settlement is fair, reasonable, and adequate to the class and should be approved by the Court. Notice has been sent out advising class members of the settlement, the date of the hearing and their right to object. Because it is a non-opt-out class, if the settlement is approved it should fully dispose of the claim as to all potential plaintiffs. The Company has no reason to believe that the settlement will not be approved by the Court, since it has been stipulated to by all parties and multiple counsel for plaintiffs; however, if the Court rejects

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the settlement or for some other reason the settlement is not consummated, the defendants will vigorously defend the lawsuit.

Seismic Standards

Our SCHS Hospitals, Alta Los Angeles Hospitals, and FRMC are required to comply with California's Alfred E. Alquist Hospital Facilities Seismic Safety Act (the "Alquist Act"), which regulates the seismic performance of all aspects of hospital facilities in California. The Alquist Act imposes near-term and long-term compliance deadlines for seismic safety assessment, submission of corrective plans, and the retrofitting or replacement of medical facilities to comply with current seismic standards. The Alquist Act also requires that the California Building Standards Commission adopt earthquake performance categories, seismic evaluation procedures, standards and timeframes for upgrading certain facilities, and seismic retrofit building standards. These regulations require hospitals to meet seismic performance standards to ensure that they are capable of providing medical services to the public after an earthquake or other disaster. The Building Standards Commission completed its adoption of evaluation criteria and retrofit standards in 1998.

The Alquist Act requires that within three years after the Building Standards Commission had adopted evaluation criteria and retrofit standards:

- Hospitals in California must conduct seismic evaluation and submit these evaluations to the Office of Statewide Health Planning and Development ("OSHPD"), Facilities Development Division for its review and approval;

- Hospitals in California must identify the most critical nonstructural systems that represent the greatest risk of failure during an earthquake and submit timetables for upgrading these systems to the OSHPD, Facilities Development Division for its review and approval; and

- Hospitals in California must prepare a plan and compliance schedule for each regulated building demonstrating the steps a hospital will take to bring the hospital buildings into substantial compliance with the regulations and standards.

The Company was required to conduct engineering studies at its hospitals to determine whether and to what extent modifications to the hospital facilities will be required. Management believes that SCH Culver City meets all current requirements; however, it may be required to make significant capital expenditures in the future to comply with the seismic standards, which could impact its earnings. The cost at September 30, 2015, is unknown at this time but could be material. In addition, such modifications to the hospital facilities could potentially result in environmental remediation liabilities which may be material to the Company.

The OSHPD has a voluntary program to re-evaluate the seismic risk of hospital buildings classified as Structural Performance Category ("SPC") 1. These buildings are considered hazardous and at risk of collapse in the event of an earthquake and they were required to be retrofitted, replaced or removed from providing acute care services by 2013, unless granted an extension. OSHPD is using HAZARDS U.S. ("HAZUS"), a state-of-the-art methodology, to reassess the seismic risk of SPC-1 buildings and those that are determined to pose a low seismic risk may be reclassified to SPC-2. The SPC-2 buildings would have until 2030 to comply with the structural seismic safety standards. Participation in the HAZUS program is optional for hospital owners wishing to have their SPC-1 building(s) re-evaluated. Applications for a HAZUS re-evaluation of the seismic risk were submitted for SCH Hollywood, SCH Culver City and Los Angeles Community Hospital, but there is no assurance they will result in extensions.

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In addition, in 2011, the California Legislature enacted Senate Bill 90, which permitted some hospitals to apply for up to an additional seven year extension to the seismic retrofit deadlines, not to extend beyond January 1, 2020. SB 90 also permits OSHPD to extend until January 1, 2018 the date by which the hospitals must obtain a building permit and commence the required retrofit project.

SCH Culver City and Los Angeles Community Hospitals both applied for the SB 90 extension from OSHPD. Three of the buildings owned by SCH Culver City were granted SB 90 extensions until January 2019 or July 2019. Also, the facility operated by Los Angeles Community Hospital received an SB 90 extension until January 2019.

OSHPD has discretion to approve or disapprove SB 90 extension requests, and to determine the length of the extension (up to the maximum seven years), based on eligibility factors including seismic risks associated with the affected buildings (which can be impacted by the updated HAZUS findings), community access to essential hospital services in the area and financial hardships facing the applicant.

Effective May 6, 2014, Prospect acquired the hospital facilities FRMC and LACH Bellflower (see Note 4). The Company is in the process of pursuing Non-Structural Performance Category ("NPC") 2 classification and the extension of the compliance deadlines that would result for FRMC. LACH Bellflower is not currently subject to the requirements of SB90 as the facility currently only provides psychiatric services.

These requirements can result in significant operational changes and capital outlays. Management is continuing to assess its options and the methods of financing the required retrofits. Based on management's evaluation, the costs of renovation needed to comply with the California seismic safety standards for its acute-care facilities, including asbestos abatement, are not estimable at this time.

Legislation and HIPAA

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

The Company believes that it is in compliance with fraud and abuse regulations as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

The Health Insurance Portability and Accountability Act ("HIPAA") assures health insurance portability, reduces healthcare fraud and abuse, guarantees security and privacy of health information, and enforces standards for health information. The Health Information Technology for Economic and Clinical Health Act ("HITECH Act") expanded upon HIPAA in a number of ways, including establishing notification requirements for certain breaches of protected health information. In addition to these federal rules, California has also developed strict standards for the privacy and security of health information as well as for reporting certain violations and breaches. The Company may be subject to significant fines and penalties if found not to be compliant with these state or federal provisions.

Affordable Care Act

The Patient Protection and Affordable Care Act ("PPACA") will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer-provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible that the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

California Hospital Fee Program

The State of California enacted Assembly Bill 1383 ("AB 1383") effective January 1, 2010, as amended by Assembly Bill 1653 (collectively, the "Program"), to provide supplemental payments to certain hospitals such as the hospitals owned and operated by the Company's subsidiaries. The Program requires participating hospitals to pay fee assessments into a pool of funds to which the federal government contributes matching funds. Most of these funds, including the federal matching funds, are then distributed to qualifying hospitals. In addition, on April 13, 2011 SB 90 was signed into law and provided for a six-month extension of the Hospital Fee Program for dates of service from January 1, 2011 through June 30, 2011. CMS granted final approval of SB 90 on December 29, 2011, at which point the revenue and expense was recognized for the retroactive period. In September 2011, the State of California enacted Senate Bill 335 ("SB 335") which provides a 30-month hospital fee program for dates of service from July 1, 2011 through December 31, 2013. The elements of SB 335 related to the fee for service payments were approved by CMS on June 22, 2012. The payments due under the managed care component are scheduled to be made in three cycles. The first two cycles were previously approved by CMS, and the third cycle was approved by CMS during the year ended September 30, 2015. Certain technical changes to the legislation required by CMS are included in Senate Bill 920.

Governor Brown signed Senate Bill 239 ("SB 239") in October 2013, which enacted a hospital fee program for the period January 1, 2014 through December 31, 2016. SB 239 provides that the hospital fee program will continue through December 31, 2022 in three year cycles and will require authorization of each cycle by the California legislature. The fee for service component of SB 239 was approved by CMS during December 2014, and the first cycle of the managed care component from January 2014 through June 2014 was approved by CMS during July 2015.

For the years ended September 30, 2012 and 2011, SCH Culver City received invoices for fee assessments under AB 1383 and SB 90 of approximately $6,310,000 and $19,000,000, respectively, following payment of which, SCH Culver City was scheduled to receive approximately $5,236,000 and $15,000,000, respectively. Management of SCH Culver City estimated that SCH Culver City would be a "net" payer under the Program, since the fee assessments on SCH Culver City exceeded the supplemental payments by approximately $1,074,000 and $4,000,000, respectively. Accordingly, on October 6, 2010, the Company notified the California Department of Healthcare Services ("DHCS") that SCH Culver City was opting out of the Program.

SCH Culver City did not pay the required fee assessments under the Program. Beginning February 14, 2011, the DHCS began withholding against amounts otherwise due SCH Culver City, in the amount of $65,000 per week indicating that withholdings would continue for 108 weeks and would total approximately $7,000,000. Through September 30, 2012, a total of approximately $2,986,000 had been withheld against SCH Culver City's Medi-Cal fee-for-service payments. As of September 30, 2012, SCH Culver City recorded a liability of approximately $5,494,000, representing the accrued loss above, as well as deferred recognition of payments received from managed care plans. On November 15, 2012 the Company entered into a settlement agreement with DHCS with regards to SCH Culver City's liability under AB 1383, SB 90 and SB 335, as discussed above. Under the terms of the agreement, the DHCS agreed to forgive approximately $2,000,000 of the fees due under AB 1383, which was recorded by the Company during the year ended September 30, 2013. The remaining liability due to DHCS of $4,605,000 will be repaid by the Company monthly over a 10-year period without interest or penalties. The Company recorded a net liability of $3,233,000 as of the settlement date, which represents the net present value of the liability due to DHCS discounted at an effective interest rate of 7.5%. As of September 30, 2015 and 2014, the unamortized balance of the liability amounted to $2,547,000 and $2,806,000, respectively. The DHCS will no longer withhold against any other amounts due to SCH Culver City unless the Company is delinquent on payments owed under the agreement.

As of September 30, 2015, the Company had a receivable related to the California Hospital Fee Program of $32,285,000 in the accompanying consolidated balance sheets. The Company did not have a receivable related to the California Hospital Fee Program as of September 30, 2014. As of September 30, 2015 and 2014, the Company had a liability related to the California Hospital Fee Program of $15,022,000 and $2,806,000, respectively, in the accompanying consolidated balance sheets.

Total California Hospital Fee program revenues and expenses recognized during the years ended September 30, 2015 and 2014 were as follows (in thousands):

Years Ended September 30,	**2015**	2014
Hospital services revenues	**$ 134,604**	$ 11,884
Hospital operating expenses	**91,325**	5,863
Net pre-tax impact	**$ 43,279**	$ 6,021

Collective Bargaining Agreements

A small group of employees at SCH Hollywood, which is one of the hospitals under the consolidated group of Alta Hospitals System, LLC, and Service Employees International Union, United Healthcare Workers-West ("SEIU") are currently negotiating a new collective bargaining agreement. This agreement expired on May 3, 2015. In addition, approximately 84% of the employees of SCH Culver City are part of a collective bargaining agreement with the SEIU or the California Nurses Association ("CNA"). SCH Culver City and CNA are currently parties to a collective bargaining agreement that expires on December 21, 2015. The parties have commenced negotiations for a new agreement. SEIU and SCH Culver City are currently parties to a three-year term agreement that expires on April 27, 2017.

As of September 30, 2014, approximately 25% of the employees at Our Lady of Fatima Hospital ("Fatima") are subject to a collective bargaining agreement with United Nurses and Allied Professionals ("UNAP"), which expires July 31, 2016. An additional 1% are subject to a collective bargaining agreement with the Federation of Nurses and Health Professionals ("FNHP"), which expires April 30,

2016. During April 2015, a hospital unit consisting of approximately 400 service employees of Fatima elected to be represented by UNAP. Negotiations over a first collective bargaining agreement for this unit are ongoing.

Tangible Net Equity ("TNE") Requirement

The Company's affiliated physician organizations and PHP must comply with a minimum working capital requirement, Tangible Net Equity ("TNE") requirement, cash-to-claims ratio and claims payment requirements prescribed by the California Department of Managed Health Care ("DMHC"). Additionally, PHP has a TNE requirement as prescribed by the California Department of Managed Health Care. TNE is defined as net assets, less intangibles and amounts due from affiliates, plus subordinated obligations. At September 30, 2015, PHP was in compliance with these regulatory requirements.

The California DMHC determined that, as of March 31, 2015, PMG, on a consolidated basis with its subsidiaries, was not in compliance with the California DMHC's positive TNE requirement for a Risk Bearing Organizations ("RBO"). As a result, the California DMHC required PMG to develop and implement a six-month corrective action plan ("CAP") for such deficiency. Such six-month period has expired, and PMG believes that it has fully complied with all related requirements. As of the date of this report, PMG has not yet received the California DMHC's official release of the CAP.

The Company contributed $2,000,000 of Restricted Cash and $300,000 of Restricted Investments to PHP in conjunction with PHP's commencement of operations during the year ended September 30, 2015 (see Note 2 regarding Restricted Cash and Restricted Investments).

Employee Health Plans

Effective January 1, 2013 the Company offered self-insured EPO/HMO and PPO plans to all eligible employees. The CharterCARE hospitals had a separate low-deductible employee health plan from the date of acquisition through December 31, 2014. Effective January 1, 2015, the CharterCARE hospitals changed to self-insured EPO/HMO and PPO plans for all eligible employees.

Employee health benefits are administered by a third party claims administrator, based on plan coverage and eligibility guidelines determined by the Company, as well as by collective bargaining agreements (as reflected above). Commercial insurance policies cover per occurrence losses in excess of $275,000 for the CharterCARE hospitals, $250,000 for all other hospitals and $175,000 for the Medical Group and Corporate segments. An actuarially estimated liability of approximately $3,850,000 and $1,828,000 for incurred but not reported claims has been included in accrued salaries, wages, and benefits as of September 30, 2015 and 2014, respectively.

Provider Contracts

Many of the Company's payer and provider contracts are complex in nature and may be subject to differing interpretations regarding amounts due for the provision of medical services. Such differing interpretations may not come to light until a substantial period of time has passed following contract implementation. Liabilities for claims disputes are recorded when the loss is probable and can be estimated. Any adjustments to reserves are reflected in current operations.

11. Defined Contribution Plan

The Company sponsors two defined contribution plans covering substantially all employees who meet certain eligibility requirements. Under these plans, employees can contribute up to 50% of their compensation up to the IRS deferred annual maximum. There is currently no company match offered under the plans, except at Nix Health and PCC, for which the expense for the employer match was $1,865,000 and $576,000 for the years ended September 30, 2015 and 2014, respectively. Total expenses under the plan were approximately $480,000 and $197,000 during the years ended September 30, 2015 and 2014, respectively.

12. Accrued Medical Claims and Other Healthcare Costs Payable

The following table presents the roll-forward of incurred but not reported ("IBNR"), claims reserves (Medical Group segment, Global Risk Management segment, and full risk contracts) as of and for each of the fiscal years ended September 30, 2015 and 2014 (in thousands):

September 30,	**2015**	2014
IBNR as of beginning of year	**$ 39,314**	$ 30,352
Claim expenses incurred during the year:		
Related to current year	**203,400**	161,088
Related to prior year	**1,606**	(3,571)
Total incurred	**205,006**	157,517
Claims paid during the year:		
Related to current year	**(156,485)**	(124,393)
Related to prior year	**(34,304)**	(24,162)
Total paid	**(190,789)**	(148,555)
IBNR as of end of year	**$ 53,531**	$ 39,314

Following is a table showing the details of the Medical Group and Global Risk Management segments cost of revenues per the consolidated statements of operations (in thousands):

Years Ended September 30,	**2015**	2014
Capitation expense	**$ 93,340**	$ 85,754
Fee-for-service claims expense	**118,529**	94,749
Other physician compensation	**14,082**	5,066
Other cost of revenues	**1,196**	(227)
Total cost of revenues	**$ 227,147**	$ 185,342

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13. Joint Ventures and Unconsolidated Equity Investments

AMVI

The Company (through Prospect Medical Group, Inc.) and an unrelated third party, AMVI Care Health Network, Inc. ("AMVI") are partners in a joint venture initially formed to service Medi-Cal members under the CalOptima program in Orange County, California. Healthy Families and OneCare members were subsequently added to the joint venture arrangement. Effective January 1, 2013, all Healthy Family participants were transferred to the Company's Medi-Cal line of business and therefore no longer part of the joint venture. The Company does not consolidate the joint venture. The Company includes in its consolidated financial statements only the net results attributable to those enrollees specifically identified as assigned to it, together with the management fee that it charges the joint venture partner for managing those enrollees specifically assigned to AMVI. Costs incurred by the Company in managing the joint venture are included in general and administrative expenses in the accompanying consolidated financial statements. As of September 30, 2015 and 2014, the net liability balances of the Company investment in the joint venture under the equity method were approximately $1,944,000 and $1,594,000, respectively, and were included in accounts payable and other accrued liabilities in the accompanying consolidated financial statements.

Summarized unaudited financial information for the unconsolidated joint venture as of and for each of the years ended September 30, 2015 and 2014 is as follows (in thousands):

September 30,		**2015**		2014
Cash	$	**(96)**	$	1,753
Receivables		**2,344**		2,232
Total assets	$	**2,248**	$	3,985
Accrued medical claims	$	**1,652**	$	1,658
Other payables		**158**		1,470
Other partner's capital		**437**		856
Prospect's capital		**1**		1
Total liabilities and partner's capital	$	**2,248**	$	3,985

Years Ended September 30,		**2015**		2014
Revenues	$	**19,817**	$	19,289
Income before income taxes	$	**4,532**	$	2,915
Prospect's equity income	$	**5,867**	$	3,295
Management fees earned by Prospect	$	**1,106**	$	1,141

RWRT and SNERCC

Roger Williams Medical Center and an unrelated third party are owners of Roger Williams Radiation Therapy ("RWRT") and Southern New England Regional Cancer Center, LLC ("SNERCC"), which provide radiation therapy services. As of September 30, 2014, RWMC owned 29% of RWRT and 20% of SNERCC. On January 6, 2015, RWMC sold a 9% interest in RWRT for $1,233,000, reducing its ownership in RWRT from 29% to 20%. Also on January 6, 2015, RWMC increased its investment in SNERCC by $1,600,000 in

connection with SNERCC's acquisition of a radiation oncology business. RWMC's interest in SNERCC remained at 20% after the additional investment as RWMC's additional investment was its pro rata portion of the radiation oncology business purchase price. Roger Williams accounts for these investments using the equity method of accounting.

RWMC is not liable for any obligations insured by RWRT or SNERCC nor is it obligated to make any further capital contributions or lend funds to RWRT or SNERCC. As of September 30, 2015 and 2014, RWMC's investments in RWRT and SNERCC under the equity method were approximately $4,217,000 and $3,522,000 respectively, and are included in equity method investments in the accompanying consolidated balance sheets. For the year ended September 30, 2015, the Company recognized approximately $455,000 as its share of the financial results of RWRT and SNERCC and received $423,000 in distributions. For the period from June 20, 2014 (Roger Williams Medical Center inception) through September 30, 2014 and for the year ended September 30, 2015, the Company recognized $132,000 as its share of the financial results of RWRT and SNERCC and received no distributions.

Summarized combined unaudited financial information for RWRT and SNERCC as of September 30, 2015 and 2014 and for the year ended September 30, 2015 and for the period from June 20, 2014 (inception) through September 30, 2014 is as follows (in thousands):

September 30,	**2015**	2014
Cash	$ **1,299**	$ 1,165
Receivables	**1,547**	1,130
Other current assets	**274**	372
Total current assets	**3,120**	2,667
Property, improvements and equipment, net	**7,432**	6,715
Goodwill	**7,142**	629
Intangible assets	**943**	-
Other long-term assets	**1,663**	1,756
Total assets	$ **20,300**	$ 11,767
Accounts payable and accrued liabilities	$ **1,618**	$ 1,070
Other long-term liabilities	**345**	336
Equity	**18,337**	10,361
Total liabilities and partner's capital	$ **20,300**	$ 11,767

Years ended September 30,	**2015**	2014
Revenues	$ **14,626**	$ 3,175
Net income	$ **2,000**	$ 455
Roger Williams Medical Center's income from equity method investments	$ **455**	$ 132

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14. Segment Information

The Company's operations are organized into four reporting segments: (i) Hospital Services — which is comprised of the Alta Hospitals, SCH Culver City, Nix Health, and PCC reporting units, owns 13 hospitals and extended care facilities — Los Angeles Community Hospital, Norwalk Community Hospital, Los Angeles Community Hospital at Bellflower, Foothill Regional Medical Center, SCH Hollywood, SCH Van Nuys, SCH Culver City, Nix Medical Center, Nix Specialty Health Center, Nix CGH, Roger Williams Medical Center, Saint Joseph's Health Services of Rhode Island, and Elmhurst Extended Care; (ii) Medical Group — which is comprised of entities which provide management services to affiliated physician organizations that operate as independent physician associations or medical practice groups and certain unaffiliated independent physician associations; (iii) Global Risk Management - which is comprised of PHP, PHSTX and PHSRI which manage the provision of care for its members under global capitation arrangements in coordination with our Hospital and Medical Group segments and (iv) Corporate, which represents expenses incurred in Prospect Medical Holdings, Inc., that were not allocated to the other reporting segments.

The accounting policies of the reporting segments are the same as those described in the summary of significant accounting policies (see Note 2). The Company evaluates financial performance and allocates resources primarily based on earnings from operations before interest expense, interest income, income taxes, depreciation and amortization, as well as income or loss from operations before income taxes, excluding infrequent or unusual items.

The reporting segments are strategic business units that offer different services within the healthcare industry. Business in each reporting segment is conducted by one or more direct or indirect wholly-owned subsidiaries of the Company and certain affiliated physician organizations controlled through assignable option agreements and management services agreements. The Company voluntarily discloses the following table which summarizes certain information for each of the reporting segments regularly provided to and reviewed by the chief operating decision maker (in thousands):

	As of and for the Year Ended September 30, 2015					
	Hospital Services *(3)*	Medical Group *(2)*	Global Risk Management	Corporate *(1)*	Intersegment Eliminations	Consolidated
Revenues from external customers	$ 1,008,866	$ 333,238	$ 3,440	$ -	$ -	$ 1,345,544
Intersegment revenues	-	1,762	16,661	-	(18,423)	-
Total revenues	1,008,866	335,000	20,101	-	(18,423)	1,345,544
Depreciation and amortization	31,148	3,178	-	48	-	34,374
Operating income (loss)	63,413	66,142	(3,163)	(18,332)	-	108,060
Other (income) expense	2,240	(271)	-	42,926	(2,283)	42,612
Income (loss) before income taxes	61,173	66,413	(3,163)	(61,258)	2,283	65,448
Provision for income tax	-	10,600	-	20,546	-	31,146
Net income (loss)	$ 61,173	$ 55,813	$ (3,163)	$ (81,804)	$ 2,283	$ 34,302
Identifiable segment assets	$ 655,540	$ 96,289	$ 6,725	$ 24,297	$ -	$ 782,851
Segment capital expenditures, net of dispositions	$ 35,332	$ 981	$ -	$ 202	$ -	$ 36,515
Segment goodwill	$ 139,957	$ 22,339	$ -	$ -	$ -	$ 162,296

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	As of and for the Year Ended September 30, 2014				
	Hospital Services *(3)*	Medical Group *(2)*	Corporate *(1)*	Intersegment Eliminations	Consolidated
Revenues from external customers	$ 600,536	$ 253,980	$ -	$ -	$ 854,516
Intersegment revenues	-	1,039	-	(1,039)	-
Total revenues	600,536	255,019	-	(1,039)	854,516
Depreciation and amortization	20,694	2,846	40	-	23,580
Operating income (loss)	57,748	29,080	(20,676)	-	66,152
Other (income) expense	(3,037)	(26)	38,480	1,622	37,039
Income (loss) before income taxes	60,785	29,106	(59,156)	(1,622)	29,113
Provision for income tax	-	5,765	4,796	-	10,561
Net income (loss)	$ 60,785	$ 29,106	$ (69,717)	$ (1,622)	$ 18,552
Identifiable segment assets	$ 599,516	$ 75,605	$ 19,057	$ -	$ 694,178
Segment capital expenditures, net of dispositions	$ 49,181	$ 924	$ 2	$ -	$ 50,107
Segment goodwill	$ 136,525	$ 22,339	$ -	$ -	$ 158,864

(1) Prospect files consolidated tax returns, with the exception of PMG and NGMA, which file their own federal tax returns, and allocates costs for shared services and corporate overhead to each of the reporting segments. With the exception of Nix Health and PCC, all debt, including debt related to the Medical Group and Hospital Services segment, is recorded at the Parent Entity level. The Company does not allocate interest expense related to acquisition debt to the operating segments.

(2) Prospect Medical Group, Inc. (which serves as a holding company for the other affiliated physician organizations) files consolidated tax returns.

(3) The Hospital Services segment includes the results for LACH Bellflower and FRMC, CharterCARE, and the CharterCARE Physicians medical practices from the acquisition dates of May 6, 2014, June 20, 2014, and various dates during the year ended September 30, 2015, respectively, through September 30, 2015. Included in revenues from external customers are $5,436,000 and $13,672,000 of other revenues related primarily to the CMS Rural Floor settlement, meaningful use incentive payments and rental revenue from operating leases for the years ended September 30, 2015 and 2014, respectively.

15. Subsequent Event (Unaudited)

The Company has evaluated subsequent events through December 10, 2015, the date the Company's consolidated financial statements were available for issuance.

Effective December 1, 2015, NGMA entered into a Stock Purchase Agreement to acquire all issued and outstanding shares of Primary and Multi-Specialty Clinics of Anaheim, Inc. ("PMCA"). PMCA operates a medical practice consisting of primary and multi-specialty clinics in Orange County, California. Concurrent with the Stock Purchase Agreement, NGMA entered into a Promissory Note payable to the former shareholders of PMCA for $3,288,000, for which principal shall be payable on December 8, 2015.

The purchase price consists of $4,445,000 due December 8, 2015, less certain liabilities and certain other adjustments as specified in the Stock Purchase Agreement ("Initial Payment") and an additional $1,080,000 due on December 1, 2016. The Promissory Note represents a portion of the Initial Payment.



Consolidated Financial Statements

As of and for the Years Ended
September 30, 2017 and 2016

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.



Prospect Medical Holdings, Inc.

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Independent Auditor's Report

Board of Directors
Prospect Medical Holdings, Inc.
Los Angeles, California

We have audited the accompanying consolidated financial statements of Prospect Medical Holdings, Inc. (the "Company"), which comprise the consolidated balance sheets as of September 30, 2017 and 2016, and the related consolidated statements of operations, statements of comprehensive income (loss), statements of stockholder's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Prospect Medical Holdings, Inc. and its subsidiaries as of September 30, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

December 30, 2017

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Prospect Medical Holdings, Inc.

Consolidated Balance Sheets
(in thousands, except par value and share amounts)

September 30,	2017	2016
Assets		
Current assets		
Cash and cash equivalents	$ 27,109	$ 29,587
Restricted cash	30,761	6,117
Restricted investments	15,810	4,568
Patient accounts receivable, net of allowance for doubtful accounts of $141,775 and $91,723 at September 30, 2017 and 2016, respectively	358,914	262,497
Due from government payers	51,152	38,806
Other receivables, prepaid expenses and other current assets	191,190	99,228
Income taxes receivable, net	-	24,731
Inventories	36,967	25,590
Hospital fee program receivable	59,209	43,039
Current assets held for sale	-	10,494
Total current assets	771,112	544,657
Property, improvements and equipment, net	576,933	441,352
Deferred income taxes, net	104,323	25,294
Goodwill	310,695	341,488
Intangible assets, net	40,794	41,897
Other assets	58,543	42,560
Long-term assets held for sale	-	2,384
Total assets	$ 1,862,400	$ 1,439,632

See accompanying notes to the consolidated financial statements.

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Prospect Medical Holdings, Inc.

Consolidated Balance Sheets
(in thousands, except par value and share amounts)

September 30,	2017	2016
Liabilities and Stockholder's Equity		
Current liabilities:		
Accrued medical claims and other healthcare costs payable	$ 55,485	$ 52,761
Accounts payable and other accrued liabilities	320,246	205,946
Accrued salaries, wages and benefits	144,287	108,795
Hospital fee program liability	1,968	18,684
Due to government payers	23,754	23,002
Income taxes payable, net	42,793	-
Revolving line of credit, net	113,061	55,000
Current portion of capital leases	11,315	6,894
Current portion of long-term debt	12,509	6,951
Other current liabilities	17,762	10,293
Current liabilities held for sale	-	2,630
Total current liabilities	743,180	490,956
Long-term debt, net of current portion	625,719	613,005
Malpractice reserves	60,722	34,757
Capital leases, net of current portion	37,612	33,334
Asset retirement obligations	6,022	5,056
Other long-term liabilities	21,377	22,235
Pension obligations	300,364	209,658
Long-term liabilities held for sale	-	787
Total liabilities	1,794,996	1,409,788
Commitments, contingencies and subsequent events		
Stockholder's equity:		
Common stock, $0.01 par value; 100 shares authorized, issued and outstanding at September 30, 2017 and 2016	1	1
Additional paid-in capital	22,398	21,277
Accumulated other comprehensive income	8,148	11,338
Retained earnings (accumulated deficit)	24,253	(9,999)
Total stockholder's equity attributable to Prospect Medical Holdings, Inc.	54,800	22,617
Non-controlling interests	12,604	7,227
Total stockholder's equity	67,404	29,844
Total liabilities and stockholder's equity	$ 1,862,400	$ 1,439,632

See accompanying notes to the consolidated financial statements.

CONFIDENTIAL BUSINESS INFORMATION

Prospect Medical Holdings, Inc.

Consolidated Statements of Operations
(in thousands)

For the Years Ended September 30,	2017	2016
Revenues:		
Net Hospital Services revenues	$ 2,538,695	$ 1,273,038
Provision for bad debts	(91,203)	(41,427)
Net Hospital Services revenues less provision for bad debts	2,447,492	1,231,611
Medical Group revenues	391,120	369,730
Net Global Risk Management revenues	20,752	19,635
Other revenues	55,133	9,582
Total net revenues	2,914,497	1,630,558
Operating Expenses:		
Hospital operating expenses	2,003,706	990,385
Medical Group cost of revenues	274,639	248,063
Global Risk Management cost of revenues	10,396	17,661
General and administrative	454,576	270,988
Depreciation and amortization	104,348	47,106
Total operating expenses	2,847,665	1,574,203
Operating income (loss) from unconsolidated joint ventures	5,388	(931)
Operating income	72,220	55,424
Other (income) expense:		
Interest expense and amortization of deferred financing costs, net	73,190	48,616
Loss on debt extinguishment	-	26,561
Bargain purchase gain	(30,010)	-
Other (income) expense, net	(1,861)	(315)
Total other expense, net	41,319	74,862
Income (loss) before income taxes	30,901	(19,438)
Income tax provision (benefit)	554	(4,750)
Net income (loss) from continuing operations	30,347	(14,688)
Income (loss) from discontinued operations:		
Income (loss) from discontinued operations	7,738	(8,277)
Income tax provision (benefit)	2,966	(3,373)
Income (loss) on discontinued operations, net of taxes	4,772	(4,904)
Net income (loss) income before allocation to non-controlling interests	35,119	(19,592)
Net income (loss) attributable to non-controlling interests	867	(3,435)
Net income (loss) attributable to Prospect Medical Holdings, Inc.	$ 34,252	$ (16,157)

See accompanying notes to the consolidated financial statements.

CONFIDENTIAL BUSINESS INFORMATION

Prospect Medical Holdings, Inc.

Consolidated Statements of Comprehensive Income (Loss)
(in thousands)

For the Years Ended September 30,	**2017**	2016
Net income (loss) attributable to Prospect Medical Holdings, Inc.	**$ 34,252**	$ (16,157)
Other comprehensive income, net of tax:		
Pension obligation and other post-retirement benefits adjustment (net of $(1,794) and $7,797 tax)	**(3,646)**	11,332
Debt and equity securities, unrealized gain	**456**	6
Total other comprehensive (loss) income, net of tax	**(3,190)**	11,338
Total comprehensive income (loss)	**$ 31,062**	$ (4,819)

See accompanying notes to the consolidated financial statements.

CONFIDENTIAL BUSINESS INFORMATION

Prospect Medical Holdings, Inc.

Consolidated Statements of Stockholder's Equity
(in thousands, except share amounts)

	Number of Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings (Accumulated Deficit)	Prospect Medical Holdings, Inc. Stockholder's Equity	Non-controlling Interests	Total Stockholder's Equity
Balance at October 1, 2015	100	$ 1	$ 20,037	$ -	$ 6,158	$ 26,196	$ 10,244	$ 36,440
Options exercised	-	-	121	-	-	121	-	121
Stock-based compensation	-	-	1,119	-	-	1,119	-	1,119
Non-controlling interest attributed to PCC Seller	-	-	-	-	-	-	418	418
Net loss	-	-	-	-	(16,157)	(16,157)	(3,435)	(19,592)
Other comprehensive income, net of tax	-	-	-	11,338	-	11,338	-	11,338
Balance at September 30, 2016	100	1	21,277	11,338	(9,999)	22,617	7,227	29,844
Options exercised	-	-	3	-	-	3	-	3
Stock-based compensation	-	-	1,118	-	-	1,118	-	1,118
Non-controlling interest attributed to minority shareholders	-	-	-	-	-	-	4,510	4,510
Net income	-	-	-	-	34,252	34,252	867	35,119
Other comprehensive income, net of tax	-	-	-	(3,190)	-	(3,190)	-	(3,190)
Balance at September 30, 2017	100	$ 1	$ 22,398	$ 8,148	$ 24,253	$ 54,800	$ 12,604	$ 67,404

See accompanying notes to the consolidated financial statements.

CONFIDENTIAL BUSINESS INFORMATION

Prospect Medical Holdings, Inc.

Consolidated Statements of Cash Flows
(in thousands)

For the Years Ended September 30,	2017	2016
Operating activities		
Net income (loss)	$ 35,119	$ (19,592)
Adjustments to reconcile net income (loss) to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	104,348	47,106
Amortization of deferred financing costs, net	2,090	2,245
Gain on outlier settlement	-	(5,741)
Write-off of deferred financing costs	-	5,587
Amortization of original issue discount and premium, net	1,909	1,200
Write-off of asset retirement obligation	(272)	-
Write-off of original issue discount and premium	-	3,030
Provision for bad debts	91,203	41,427
Pension obligation net periodic benefit cost (credit)	13,688	(1,356)
Deferred income taxes, net	(50,248)	20,863
Stock-based compensation	1,118	1,119
Undistributed earnings from equity method investments	(5,552)	(4)
Gain on sale of equity method investment	(2,974)	-
Gain on disposal of assets	(2,870)	-
Bargain purchase gain	(30,010)	-
Changes in operating assets and liabilities, net of business combinations:		
Patient accounts receivable	(147,130)	(68,660)
Due to/from government payers, net	(14,063)	(9,942)
Other receivables, prepaid expenses and other current assets	(76,754)	(20,946)
Hospital fee program receivable	(16,170)	(10,754)
Inventories	(2,489)	(2,095)
Hospital fee program liability and deferred revenue	(16,716)	3,662
Income taxes payable/receivable, net	67,523	(39,841)
Deposits and other assets	19,593	(8,293)
Accrued medical claims and other healthcare costs payable	2,980	(769)
Accounts payable and other accrued liabilities	83,713	47,215
Pension obligation	(7,174)	(100,000)
Net cash and cash equivalents used in operating activities from discontinued operations	(623)	(583)
Net cash and cash equivalents provided by (used in) operating activities	50,239	(115,122)
Investing activities		
Purchases of property, improvements and equipment	(56,807)	(38,642)
Purchases of long-term investments	(991)	-
Proceeds from sale of equity method investment	4,334	-
Cash paid for acquisitions, net of cash received and working capital adjustments	(18,373)	(72,259)
Cash in escrow for acquisitions	-	(22,854)
Change in restricted cash for acquisitions	(21,562)	-
Proceeds from sale of property and improvements	7,840	-
Change in note receivable (net)	-	42
Increase in restricted investments	(10,786)	(3,302)
Net cash and cash equivalents used in investing activities from discontinued operations	5,884	(150)
Net cash and cash equivalents used in investing activities	(90,461)	(137,165)

CONFIDENTIAL BUSINESS INFORMATION

Prospect Medical Holdings, Inc.

Consolidated Statements of Cash Flows (Continued)
(in thousands)

For the Years Ended September 30,	2017	2016
Financing activities		
Borrowings on Senior Secured Notes, net of original issue discount	-	615,625
Repayments on Senior Secured Notes	(6,250)	(1,563)
Repayment of Retired Senior Secured Notes	-	(425,000)
Borrowings on line of credit, net	59,515	55,000
Promissory note	3,500	-
Repayments on retired line of credit, net	-	(20,000)
Proceeds of other long-term debt	1,413	-
Repayments of long-term debt	(1,179)	(1,634)
Proceeds from financing leases, net	9,646	17,072
Repayment of financing leases	(683)	-
Repayments of capital leases	(12,313)	(4,350)
Proceeds from exercise of stock options	3	121
Cash paid for deferred financing costs	(2,990)	(12,251)
Change in restricted cash	(3,082)	(1,532)
Repayments of insurance premium financing	(9,836)	(5,513)
Net cash and cash equivalents provided by financing activities	37,744	215,975
Decrease in cash and cash equivalents	(2,478)	(36,312)
Cash and cash equivalents, beginning of year	29,587	65,899
Cash and cash equivalents, end of year, continuing operations	$ 27,109	$ 29,587
Supplemental disclosure of cash flow information		
Interest paid (including cash paid on debt extinguishment)	$ 52,593	$ 54,688
Income taxes paid, net	$ 13,739	$ 12,255
Schedule of non-cash investing and financing activities		
Equipment acquired under capital leases	$ 12,959	$ 11,575
Insurance premium financed	$ 9,836	$ 5,513
Partial satisfaction of long-term liability assumed from acquisition of PCC	$ 1,537	$ 418

See accompanying notes to the consolidated financial statements.

CONFIDENTIAL BUSINESS INFORMATION

1. Organization

Prospect Medical Holdings, Inc. ("Prospect" or the "Company" or the "Parent Entity") is a Delaware corporation and a wholly-owned indirect subsidiary of Ivy Holdings Inc. ("Ivy Holdings").

The Company's operations are currently organized into four primary reportable segments: Hospital Services, Medical Group, Global Risk Management and Corporate, as discussed below.

Hospital Services Segment

As of September 30, 2017, the Company owns 20 acute care and behavioral hospitals and multi-level elder care facilities in Southern California, Texas, Rhode Island, New Jersey, Pennsylvania and Connecticut with approximately 3,800 licensed beds, and a network of specialty and primary care clinics, through its subsidiaries. The Hospital Services segment subsidiaries are wholly-owned by Prospect, except for the facilities in Rhode Island, in which Prospect has an 85% interest in the subsidiary that owns such facilities. The Hospital Services segment has a captive insurance company based in the Cayman Islands, Connecticut Healthcare Insurance Company ("CHIC"), which provides hospital and physician professional and general liability coverage to the Company's hospitals and affiliated subsidiaries in Connecticut.

Admitting physicians are primarily practitioners in the local area. The hospitals have payment arrangements with Medicare, Medicaid and other third party payers, including commercial insurance carriers, health maintenance organizations ("HMOs") and preferred provider organizations ("PPOs").

Medical Group Segment

The Medical Group segment is a healthcare management services organization that provides management services to affiliated physician organizations that operate as independent physician associations ("Medical Groups" or "IPAs"). The affiliated physician organizations enter into agreements with HMOs to provide HMO enrollees with a full range of medical services in exchange for fixed, prepaid monthly fees ("Capitation"). The Medical Groups contract with physicians (primary care and specialist) and other healthcare providers to provide enrollees with medical services. Prospect currently manages the provision of prepaid healthcare services for its affiliated physician organizations in Southern California, Texas and Rhode Island. The California network consists of various physician organizations that are generally wholly-owned by Prospect Medical Group, Inc. ("PMG") and managed by the two medical management company subsidiaries that are wholly-owned by Prospect. PMG is owned by a nominee physician shareholder pursuant to an assignable option agreement, under which Prospect has an assignable option, obtained for a nominal amount from PMG and the nominee shareholder to designate the purchaser (successor physician) for all or part of PMG's issued and outstanding stock held by the nominee physician shareholder (the "Stock Option") in its sole discretion.

Most of the physician organizations have entered into Management Service Agreements ("MSA") with Prospect Medical Systems Inc., ("PMS"), and have agreed to pay a management fee to PMS, which is based in part on the costs to the management company and on a percentage of revenues. In return for payment of the management fee, PMS has agreed to provide financial management, information systems, marketing, advertising, public relations, risk management, and administrative support, including for utilization review and quality of care. At its cost, PMS has assumed the obligations for all facilities, medical and non-medical supplies, and employment of non-physician personnel of its affiliated medical clinics. The management fee earned fluctuates based on the profitability of each physician organization.

The Management Agreements are not terminable by the physician organization except in the case of gross negligence, fraud or other illegal acts of Prospect, or bankruptcy of the Company.

Prospect consolidates the revenues and expenses of all the physician organizations (except for one entity that is a 50/50 joint venture, which is accounted for under the equity method) from the respective dates of execution of the Management Agreements. All significant inter-entity balances have been eliminated in consolidation. In the case of the joint venture, only that portion of the results which are contractually identified as Prospect's are recognized in the consolidated financial statements, together with the management fee that the Company charges the joint venture for managing the other owners' share of the joint venture operations.

Prospect has also entered into management services agreements with unaffiliated third parties to manage services to their HMO enrollees. These management agreements do not have characteristics that give rise to the consolidation of the entities under current accounting literature. These management services agreements are terminable in accordance with the agreements.

The affiliated physician organizations provided medical services to a combined total of approximately 355,000 and 307,000 enrollees as of September 30, 2017 and 2016, respectively. The enrollees include approximately 159,000 and 109,000 enrollees that the Company manages for the economic benefit of certain independent third parties, and for which the Company earns management fee income as of September 30, 2017 and 2016, respectively. The total paid member months including managed enrollees, for the fiscal years ended September 30, 2017 and 2016 was approximately 3,991,000 and 3,600,500, respectively.

Global Risk Management Segment

The Global Risk Management segment has entered into global capitation arrangements with certain unrelated third-party health plans. The Global Risk Management segment also manages the provision of care for members in coordination with the Hospital Services and Medical Group segments.

Corporate Segment

The Corporate segment primarily reflects certain expenses incurred at the Parent Entity not specifically allocable to the Hospital Services, Medical Group, or Global Risk Management segments. These include, but are not limited to: salaries, benefits and other compensation for corporate employees; financing expenses; insurance expenses; rent; legal fees; and accounting fees. The Company established a captive insurance company, Prospect Medical Holding Risk Retention Group, Inc. ("RRG") on June 20, 2016 in the state of Vermont. RRG was formed to provide primary insurance coverage for hospital and physician professional and general liability risks for the Company's subsidiary health care organizations. RRG is a wholly owned subsidiary of the Company with all intercompany balances and transactions being eliminated upon consolidation. The Company does not allocate interest expense related to acquisition debt or income taxes to the other reporting segments.

2. Significant Accounting Policies

Principles of Consolidations and Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of all controlled subsidiaries, of which control is effectuated through ownership of voting common stock or by other means, but do not include the accounts of the parent companies, Ivy Holdings Inc. and Ivy Intermediate Holding Inc. The Company has a variable interest in various entities under the Medical Group segment due to the existence of a call option, under which the Company has the ability to require the holders of all of the voting common stock of the underlying subsidiaries to sell their shares at a fixed nominal price ($1,000) to another designated physician chosen by the Company. This call option agreement represents rights provided through a variable interest other than the equity interest itself that limits the returns that could be earned by the equity holders. In addition, the Company has management agreements with the physician organizations under the Medical Group segment which allows the Company to direct the activities of such physician organizations that most significantly impact their economic performance, retain the right to receive expected residual returns and assume the obligation to absorb losses. Accordingly, the Company is considered to be the primary beneficiary and these entities are consolidated within the accompanying consolidated financial statements.

Operating results for acquisitions are consolidated with the Company's financial statements from their acquisition dates. All significant intercompany balances and transactions have been eliminated in consolidation. Non-controlling interests in less-than-wholly-owned consolidated subsidiaries of the Company are presented as a component of total equity to distinguish between the interests of the Company and the interests of the non-controlling owners.

The consolidation of these entities does not change any legal ownership, and does not change the assets or the liabilities and equity of the Parent Entity as a stand-alone entity. These entities had total revenues of approximately $356,533,000 and $352,657,000 and total net income of approximately $21,886,000 and $23,327,000 for the years ended September 30, 2017 and 2016, respectively.

The assets and liabilities of the variable interest entities are as follows (in thousands):

September 30,	**2017**	2016
Assets		
Total current assets	**$ 151,729**	$ 131,541
Total non-current assets	**20,631**	16,625
Total assets	**$ 172,360**	$ 148,166
Liabilities		
Total current liabilities	**$ 52,548**	$ 43,294
Total long-term liabilities	**700**	700
Total liabilities	**$ 53,248**	$ 43,994

CONFIDENTIAL BUSINESS INFORMATION

Revenues

Revenues by reportable segment are comprised of the following amounts (in thousands):

For the Years Ended September 30,	2017	2016
Net Hospital Services		
Inpatient	$ 1,423,273	$ 826,128
Outpatient	955,543	332,243
Capitation	110,330	94,232
Other	49,549	20,435
Total Hospital Services revenues	2,538,695	1,273,038
Less: Provision for bad debts	(91,203)	(41,427)
Total net Hospital Services revenues less provision for bad debts	2,447,492	1,231,611
Medical Group		
Capitation	369,185	335,542
Management fees	7,977	10,760
Other	13,958	23,428
Total Medical Group revenues	391,120	369,730
Global Risk Management		
Capitation	13,097	19,635
Other	7,655	-
Total Global Risk Management revenue	20,752	19,635
Other revenues	55,133	9,582
Total net revenues	$ 2,914,497	$ 1,630,558

The revenues of acquisitions have been included in the accompanying consolidated financial statements for the period from their respective acquisition dates. These revenues also exclude revenues from discontinued operations.

Hospital Services Segment

Net Patient Service Revenues

Operating revenue of the Hospital Services segment consists primarily of net patient service revenue. The Company reports net patient service revenue at the estimated net realizable amounts from patients and third-party payers and others in the period in which services are rendered. The Company has agreements with third-party payers, including Medicare, Medicaid, managed care and other insurance programs that are paid at negotiated rates. These payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments, as further described below. Estimates of contractual allowances are based upon the payment terms specified in the related contractual agreements. The Company accrues for amounts that it believes may

ultimately be due to or from the third-party payers. Normal estimation differences between final settlements and amounts accrued in previous years are reported as changes in estimates in the current year. Outstanding receivables, net of allowances for contractual discounts and bad debts, are included in patient accounts receivable in the accompanying consolidated balance sheets.

The following is a summary of sources of patient service revenues (net of contractual allowances and discounts) before provision for bad debts and exclude revenues from discontinued operations (in thousands):

Years ended September 30,	**2017**	2016
Medicare	**$ 848,221**	$ 410,147
Medicaid	**699,340**	437,968
Managed Care	**607,362**	231,146
Self-Pay/Other	**223,893**	79,110
Capitation	**110,330**	94,232
Other	**49,549**	20,435
Total patient service revenue	**$ 2,538,695**	$ 1,273,038

A summary of the payment arrangements with major third-party payers follows:

Medicare: Medicare is a federal program that provides certain hospital and medical insurance benefits to persons aged 65 and over, some persons with end-stage renal disease and certain other beneficiary categories, including eligible disabled person. Most inpatient hospital services rendered to Medicare program beneficiaries are paid on a fee-for-service basis at prospectively determined rates per discharge, according to a patient classification system based on clinical, diagnostic, and other factors. Most outpatient services also are paid on a fee-for-service basis generally using prospectively determined rates. The Company is also reimbursed, as appropriate, for Medicare disproportionate share hospital and bad debt payments at tentative rates, with final settlement determined after submission of the annual Medicare cost report and audit thereof by the Medicare Administrative Contractor. The Company also receives Medicare outlier payments on an ongoing basis during the year for cases that are unusually costly, and under certain circumstances these payments may be reconciled to more closely reflect the costs in excess of outlier thresholds after the submission and audit of the annual Medicare cost report. Normal estimation differences between filed settlements and amounts accrued are reflected in net patient service revenue.

The Company is reimbursed by Medicare for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare Administrative Contractor. The estimated amounts due to or from the program are reviewed and adjusted annually based on the status of such audits and any subsequent appeals. Differences between final settlements and amounts accrued in previous years are reported as adjustments to net patient service revenue in the year that examination is substantially completed.

Although services for most Medicare beneficiaries are paid by the Federal government on a fee-for-service basis, approximately one-third of Medicare beneficiaries are enrolled in a "Medicare Advantage" plan, which is a type of Medicare health plan offered by a health plan that contracts with Medicare to provide hospital and medical benefits. Medicare Advantage Plans include Health Maintenance Organizations, Preferred Provider Organizations, Private Fee-For-Service Plans, Special Needs Plans, and Medicare Medical Savings Account Plans. For Medicare beneficiaries enrolled in a

Medicare Advantage plan, most Medicare services are covered by the plan and are not paid for under fee-for-service Medicare. Certain Medicare Advantage plans make capitation payment using a "Risk Adjustment model," which compensates providers based on the health status (acuity) of each enrollee. Providers with higher acuity enrollees generally will receive more and those with healthier enrollees will receive less.

Medicaid: Medicaid is a joint federal-state funded healthcare benefit program that is administered by states to provide benefits to qualifying individuals who are unable to afford care. The Company receives reimbursements under the Medicaid programs in each state in which it operates at prospectively determined rates for inpatient services and a mixture of fee schedules and cost reimbursement methodologies for outpatient services depending on the specific state regulations. Cost report settlements are recorded based upon as-filed cost reports (if required by the respective facility's state) and adjusted for tentative and final settlements, if any.

The various states in which the Company operates have additional programs in which certain of the Company's facilities participate in, related to medical facilities serving a disproportionate number of low-income patients. The following table shows the revenues generated by these programs during the years ended September 30, 2017 and 2016 (in thousands), which are reflected in Net Hospital Services revenues in the accompanying consolidated statements of operations:

For the years ended September 30,	2017	2016
California Medi-Cal Disproportional Share ("CA DSH") *(a)*	$ 21,460	$ 19,926
Texas Section 1115 Waiver - UCC Pool *(b)*	10,492	12,368
Texas Section 1115 Waiver - DSRIP Pool *(b)*	12,712	11,356
Rhode Island DSH and UPL *(c)*	24,402	20,496
New Jersey Health Care Subsidy Funds *(d)*	9,040	8,569
Pennsylvania State Programs *(e)*	30,719	24,257
Connecticut Medicaid DSH revenue *(f)*	14,301	-
	$ 123,126	$ 96,972

(a) Revenues are accrued based on the expected total annual awards. Differences between the estimated and the actual awards are recorded in the period they become known, and are subject to retrospective revision prior to finalization, which could lead to material retractions. The Company records retrospective retractions when they are estimable and probable. Retrospective additional revenues are recorded when the amounts are received.

(b) Under the Section 1115 Waiver that was recently extended by the Center for Medicare and Medicaid Services ("CMS") to September 30, 2022, payments to hospitals under the waiver are based upon two pools. One pool is for payments for uncompensated care ("UCC") which includes the shortfall in Medicaid reimbursement as compared to cost and the cost of providing services to uninsured patients. The other pool is the Delivery System Reform Initiative Payments ("DSRIP"), where approved programs and services are undertaken to improve access and services provided. The most recent Section 1115 Waiver extension provides for changes to both pools, including the future revision of the UCC disbursement methodology, to align the methodology with nationally applied federal policies, and a phase out of federal funding for DSRIP by the year 2022. For DSRIP, there will be level funding over the next two years.

(c) Rhode Island hospitals receive federal and state Medicaid funds as additional reimbursement for treating a disproportionate share of low income patients. The State of Rhode Island also assesses a license fee to all hospitals in Rhode Island based on each hospital's net patient revenue. The Company recorded $20,137,000 and $16,199,000 of expense during the years ended September 30, 2017 and 2016, respectively, as a result of the license fee.

(d) The New Jersey Health Care Reform Act of 1992 established Health Care Subsidy Funds to provide certain hospitals in New Jersey with funds necessary to provide charity care and other forms of uncompensated care.

(e) The Pennsylvania Act 49 of 2010 ("Act 49") imposes a statewide hospital assessment, Medicaid Modernization Assessment ("MMA"), on net inpatient revenue of Pennsylvania licensed acute for the periods July 1, 2010 through June 30, 2016. It has been extended through June 30, 2018 by Act 92 of 2015. The assessments have enabled the Commonwealth of Pennsylvania to maintain the updated inpatient payment system, make changes to existing disproportionate share/supplemental payments, and to create new payments where applicable. The Company has also recognized revenues from the Pennsylvania Community Access Fund ("CAF") for the year ended September 30, 2017 and the period from July 1, 2016 (inception) through September 30, 2016.

(f) Connecticut's Disproportionate Share Hospital ("DSH") and supplemental payments provide hospitals with additional reimbursement for treating a disproportionate share of low income patients.

Managed Care: The Company has also entered into payment agreements with certain commercial insurance carriers, HMOs, and PPOs. The basis for payment under these agreements is in accordance with negotiated contracted rates or at the Company's standard charges for services provided. Some of these payments are capitated, meaning that the Company receives an agreed amount per patient for providing an agreed range of services.

Self-Pay: Self-pay patients represent those patients who do not have health insurance and are not covered by some other form of third party arrangement. Such patients are evaluated, at the time of services or shortly thereafter, for their ability to pay based upon federal and state poverty guidelines, qualifications for Medicaid, as well as the Company's local hospital's indigent and charity care policy.

Laws and regulations governing the third-party payor arrangements are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Normal estimation differences between subsequent cash collections on patient accounts receivable and net patient accounts receivable estimated in the prior year are reported as adjustments to net patient service revenue in the current period (See Note 12).

The following is a summary of due from and due to governmental payers at September 30, 2017 and 2016 (in thousands):

September 30,	2017	2016
Due from government payers:		
Medicaid Disproportionate Share (DSH)	$ 20,414	$ 12,146
Medicare cost report settlements	7,707	5,686
Medicaid Section 1115 receivable	23,031	20,974
	$ 51,152	$ 38,806
Due to government payers:		
Medicare cost report settlements	$ 17,712	$ 21,238
Medicaid cost report settlements	6,042	1,764
	$ 23,754	$ 23,002

The Company is not aware of any material claims, disputes, or unsettled matters with any payers that would affect revenues that have not been adequately provided for and disclosed in the accompanying consolidated financial statements.

California Hospital Fee Program

The Company recognizes revenues related to supplemental Medi-Cal payments under California provider fee programs. These programs are funded by quality assurance fees paid by participating hospitals and matching federal funds.

Based on formulas contained in the legislation as well as modeling done by the California Hospital Association, the Company recognized supplemental payments, included in net patient service revenue, and quality assurance fee expense, included in general and administrative expenses in the accompanying consolidated statements of operations and comprehensive income (loss) as follows (in thousands):

Years Ended September 30,	2017	2016
Hospital services revenues	$ 70,620	$ 91,929
General and administrative expenses	46,127	60,376
Net pre-tax impact	$ 24,493	$ 31,553

As of September 30, 2017 and 2016, the Company had a receivable related to the California Hospital Fee Program of $59,209,000 and $43,039,000, respectively, in the accompanying consolidated balance sheets. As of September 30, 2017 and 2016, the Company had a liability related to the California Hospital Fee Program of $1,968,000 and $18,684,000, respectively, in the accompanying consolidated balance sheets.

Legislation approved by the State of California in October 2013 created the framework for the hospital fee program to continue in perpetuity without requiring further legislation from the State. In November 2016, California voters approved Proposition 52, which made the hospital fee program permanent and prohibits lawmakers from diverting Medi-Cal funds to pay for anything other than their intended purpose. In December 2017, CMS approved the fee for service inpatient and outpatient payments and taxes for the period from January 1, 2017 to June 30, 2019 (see Note 15).

Charity Care

The Company provides charity care to patients who lack financial resources and are deemed to be medically indigent based on criteria established under the Company's charity care policy. This care is provided without charge or at amounts less than the Company's established rates. Because the Company does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue. The direct and indirect costs related to this care totaled approximately $10,653,000 and $2,645,000 for the years ended September 30, 2017 and 2016, respectively. Direct and indirect costs for providing charity care are estimated by calculating a ratio of cost to gross charges and then multiplying that ratio by the gross uncompensated charges associated with providing care to charity patients. In addition, the Company provides services to other medically indigent patients under various state Medicaid programs. Such programs pay amounts that are less than the cost of the services provided to the recipients. The Company has not changed its charity care or uninsured discount policies during the years ended September 30, 2017 or 2016.

Provisions for Contractual Allowances and Bad Debts

Collection of receivables from third-party payers and patients is the Company's primary source of cash and is critical to its operating performance. The Company closely monitors its historical collection rates, as well as changes in applicable laws, rules and regulations and contract terms, to assure that provisions for contractual allowances are made using the most accurate information available. However, due to the complexities involved in these estimations, actual payments from payers may be materially different from the amounts management estimates and records. The Company's primary collection risks relate to uninsured patients and the portion of the bill which is the patient's responsibility, primarily co-payments and deductibles. Payments for services may also be denied due to issues over patient eligibility for medical coverage, the Company's ability to demonstrate medical necessity for services rendered and payer authorization of hospitalization.

Accounts receivable are reduced by an allowance for doubtful accounts. Valuation of the collectability of accounts receivable and provision for bad debts is based on historical collection experience, payer mix and the age of the receivables. Management routinely reviews accounts receivable balances in conjunction with these factors and other economic conditions which might ultimately affect the collectability of the patient accounts, and makes adjustments to the Company's allowances as warranted. For receivables associated with services provided to patients who have third-party coverage, management analyzes contractually due amounts and subsequently calculates an allowance for doubtful accounts and provision for bad debts once the age of the accounts reaches a specific age category based on historical experience. For receivables associated with self-pay patients, management records a significant provision for bad debts beginning in the period services were provided based on past experience that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The allowance for doubtful accounts as a percent of gross accounts receivable was 28% and 26% at September 30, 2017 and September 30, 2016, respectively. The allowance for doubtful accounts was $141,775,000 and $91,723,000 as of September 30, 2017 and 2016, respectively.

Legislation

All of the Company's hospital facilities are subject to the Emergency Medical Treatment and Active Labor Act ("EMTALA"). This federal law requires any hospital that participates in the Medicare program to conduct an appropriate medical screening examination of every person who presents to the hospital's emergency department for treatment and, if the patient is suffering from an emergency medical condition, to either stabilize that condition or make an appropriate transfer of the patient to a facility that can handle the condition. The obligation to screen and stabilize emergency medical conditions exists regardless of a patient's ability to pay for treatment. There are severe penalties under EMTALA if a hospital fails to screen or appropriately stabilize or transfer a patient or if the hospital delays appropriate treatment in order to first inquire about the patient's ability to pay. Penalties for violations of EMTALA include civil monetary penalties and exclusion from participation in the Medicare program. In addition, an injured patient, the patient's family or a medical facility that suffers a financial loss as a direct result of another hospital's violation of the law can bring a civil suit against that other hospital. The Company believes that it is in compliance with EMTALA and is not aware of any pending or threatened EMTALA investigations involving allegations of potential wrongdoing that would have a material effect on the Company's consolidated financial statements.

Medical Group Segment

Medical Group Revenues

Operating revenue of the Medical Group segment consists primarily of payments for medical services procured by the Affiliates under capitated contracts with various managed care providers including HMOs. Capitation revenue under HMO contracts is prepaid monthly to the Affiliates based on the number of enrollees electing any one of the Affiliates as their health care provider. See "Concentrations of Credit Risks" below for revenues received from the five largest contracted HMOs.

Capitation revenue (net of capitation withheld to fund risk share deficits discussed below) is recognized in the month in which the physician organizations are obligated to provide services. Minor ongoing adjustments to prior months' capitation, primarily arising from contracted HMOs' finalizing of monthly patient eligibility data for additions or subtractions of enrollees, are recognized in the month they are communicated to the Company. Additionally, Medicare pays capitation using a "Risk Adjustment model," which compensates managed care organizations and providers based on the health status (acuity) of each enrollee. Health plans and providers with higher acuity enrollees will receive more and those with healthier enrollees will receive less. Under Risk Adjustment, capitation is determined based on health severity, measured using patient encounter data. Capitation is paid on an interim basis based on data submitted for the enrollee for the preceding year and is adjusted in subsequent periods (generally in the Company's fourth quarter) after the final data is compiled. Positive or negative capitation adjustments are made for Medicare enrollees with conditions requiring more or less healthcare services than assumed in the interim payments. Since the Company cannot reliably predict these adjustments, periodic changes in capitation amounts earned as a result of Risk Adjustment are recognized generally in the fourth quarter when those changes are communicated by the health plans to the Company. The Company returned and recognized as a reduction in revenue, approximately $13,105,000 as a result of the final Hierarchical Condition Category ("HCC") reconciliation during the year ended September 30, 2017. The Company received and recorded as additional revenue, approximately $13,601,000 in positive capitation risk adjustments for the Medical Group segment during the year ended September 30, 2016.

HMO contracts also include provisions to share in the risk for hospitalization, whereby the physician organization can earn additional incentive revenue or incur penalties based upon the utilization of hospital services. Typically, any shared risk deficits are not payable until and unless the Company generates future risk sharing surpluses, or if the HMO withholds a portion of the capitation revenue to fund any risk share deficits. At the termination of the HMO contract, any accumulated risk share deficit is typically extinguished. Due to the lack of access to information necessary to estimate the related costs, shared-risk amounts receivable from the HMOs are only recorded when such amounts are known. Risk pools for the prior contract years are generally final settled in the third or fourth quarter of the following fiscal year. For the years ended September 30, 2017 and 2016, Medical Group revenues included approximately $73,454,000 and $11,827,000, respectively, of additional revenues due to favorable settlements on prior year risk-sharing arrangements. At September 30, 2017 and 2016, contingent liabilities for carry-forward risk-pool deficits expected to be forgiven, or offset against future surpluses were approximately $30,543,000 and $7,953,000, respectively, based on the available information from the health plans.

The Company also receives incentives under “pay-for-performance” programs for quality medical care based on various criteria. These incentives, which are included in other revenues within Medical Group revenues, are generally recorded in the third and fourth quarters of the fiscal year when such amounts are known. During the year ended September 30, 2017 and 2016, the Company recognized $1,100,000 and $3,560,000, respectively, related to a shared savings incentive program with one health plan. Pay-for-performance revenues recorded during the years ended September 30, 2017 and 2016 were $2,682,000 and $6,263,000, respectively.

Management fee revenue is earned in the month the services are rendered. Management fee arrangements with unaffiliated entities provide for compensation ranging from 6.5% to 12% of revenues. Management fee revenues recorded during the years ended September 30, 2017 and 2016 were $7,977,000 and $10,760,000, respectively.

Medical Group Cost of Revenues

The cost of health care services consists primarily of capitation and claims payments, pharmacy costs and incentive payments to contracted providers. These costs are recognized in the period incurred, or when the services are provided. Claims costs also include an estimate of the cost of services which have been incurred but not yet reported to the Company. The estimate for accrued medical costs is based on projections of costs using historical studies of claims paid and adjusted for seasonality, utilization and cost trends. These estimates are subject to trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management records its best estimate of the amount of medical claims incurred at each reporting period. Estimates are continually monitored and reviewed and, as settlements are made or estimates adjusted, differences are reflected in current period. See Note 13 for changes in claims estimates during the years ended September 30, 2017 and 2016.

The Company has contractual reimbursement payment to providers and discretionary incentive payment to physicians. These payments are in large part predicated on the pay-for-performance, shared risk revenues, and favorable senior capitation risk adjustment payments received by the Company from the health plans. The Company records these revenues generally in the third or fourth quarter of each fiscal year when the incentives and capitation adjustments due from the health plans are known. During this period, the Company also finalizes the physician discretionary incentive. For the years ended September 30, 2017 and 2016, the Company recorded physician incentives expense totaling approximately $41,807,965 and $16,311,000, respectively. As of September 30, 2017 and 2016, physician

incentive accruals of approximately $31,193,000 and $9,665,000, respectively, were included in accounts payable and other accrued liabilities in the accompanying consolidated financial statements.

The Company also periodically evaluates the need to establish premium deficiency reserves for the probability that anticipated future health care costs could exceed future capitation payments from HMOs under capitated contracts and, where appropriate, records a premium deficiency reserve. There were no such premium deficiencies recorded at September 30, 2017 and 2016, respectively.

The Company, for certain matters, maintains stop loss coverage for health care costs that are in excess of set thresholds.

Global Risk Management Segment

Global Risk Management Revenues

Operating revenue of the Global Risk Management segment consists primarily of payments for medical services procured under global capitation arrangements from third-party health plans. Capitation revenue under these global capitation contracts is prepaid monthly to the Global Risk Management segment based on the number of enrollees. Entities within the Global Risk Management segment entered into Management Services Agreements with the Hospital Services and Medical Group segments, under which 98% of capitation revenue received is transferred to these segments.

Similar to the Medical Group segment, capitation revenue is recognized in the month in which the Global Risk Management segment is obligated to provide services. Minor ongoing adjustments to prior months' capitation, primarily arising from contracted HMOs' finalizing of monthly patient eligibility data for additions or subtractions of enrollees, are recognized in the month they are communicated to the Company. Additionally, Medicare pays capitation using a "Risk Adjustment model," which compensates managed care organizations and providers based on the health status (acuity) of each enrollee. Health plans and providers with higher acuity enrollees will receive more and those with healthier enrollees will receive less. Under Risk Adjustment, capitation is determined based on health severity, measured using patient encounter data. Capitation is paid on an interim basis based on data submitted for the enrollee for the preceding year and is adjusted in subsequent periods (generally in the Company's fourth quarter) after the final data is compiled. Positive or negative capitation adjustments are made for Medicare enrollees with conditions requiring more or less healthcare services than assumed in the interim payments. Since the Company cannot reliably predict these adjustments, periodic changes in capitation amounts earned as a result of Risk Adjustment are recognized generally in the fourth quarter when those changes are communicated by the health plans to the Company. During the years ended September 30, 2017 and 2016, the Global Risk Management Segment recognized capitation risk adjustments of $3,234,000 and $2,108,000.

Global Risk Management Cost of Revenues

The cost of health care services consists primarily of the transfer of capitation revenue to the Hospital Services and Medical Group segments under the Management Services Agreements, and capitation and claims payments. These costs are recognized in the period incurred, or when the services are provided. Claims costs also include an estimate of the cost of services which have been incurred but not yet reported to the Company. The estimate for accrued medical costs is based on projections of costs using historical studies of claims paid and adjusted for seasonality, utilization and cost trends. These estimates are subject to trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management records its best estimate of the amount of medical claims

incurred at each reporting period. Estimates are continually monitored and reviewed and, as settlements are made or estimates adjusted, differences are reflected in current operations.

The Company also periodically evaluates the need to establish premium deficiency reserves for the probability that anticipated future health care costs could exceed future capitation payments from HMOs under capitated contracts and, where appropriate, records a premium deficiency reserve. There were no such premium deficiencies recorded at September 30, 2017 or 2016.

The Company, for certain matters, maintains stop loss coverage for health care costs that are in excess of set thresholds.

Property, Improvements and Equipment

Property, improvements and equipment are stated on the basis of cost or, in the case of acquisitions, at their acquisition date fair values. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, and amortization of leasehold improvements is provided using the straight-line basis over the shorter of the remaining lease period or the estimated useful lives of the leasehold improvements. Leasehold improvements are generally depreciated over 5 to 40 years, buildings are depreciated over 5 to 40 years, equipment is depreciated over 2 to 15 years and furniture and fixtures are depreciated over 2 to 20 years. Equipment capitalized under capital lease obligations are amortized over the lesser of the life of the lease or the useful life of the asset.

As more fully described in Note 12, the Company is required to comply with certain seismic standards as required by the state of California by January 1, 2020. The useful life of buildings subject to seismic retrofit requirements may be limited if the Company does not make the necessary upgrades by the required compliance date.

Goodwill

Goodwill represents the excess of the consideration paid and liabilities assumed over the fair value of the net assets acquired, including identifiable intangible assets.

Goodwill is not amortized; rather it is reviewed annually for impairment for each reporting unit, or more frequently if impairment indicators arise. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value.

The Company tests for goodwill impairment as of September 30 each year, at the reporting unit level, by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. The fair value of the reporting units are estimated. In evaluating whether indicators of impairment exist, the Company considers adverse changes in market value, laws and regulations, profitability, cash flows, ability to maintain enrollment and renew payer contracts at favorable terms, among other factors. The goodwill impairment test is a two-step process. The first step consists of estimating based on a weighted combination of (i) the guideline company method that utilizes revenue or earnings multiples for comparable publicly-traded companies, and (ii) a discounted cash flow model. If the estimated fair value of the reporting unit is less than its carrying value, this indicates that goodwill may be impaired and a second step is performed to measure the amount of the impairment, if any. The Company recorded goodwill impairment related to the closure of a facility in Texas and classification as discontinued operations effective September 30, 2016 (see Note 5). The Company's impairment test related to goodwill during the years ended September 30, 2017 and 2016, resulted in no additional impairment charges.

Intangible Assets

Intangible assets include customer relationships, trade names, favorable leasehold, and physician guarantees. The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The Company considers assets to be impaired and writes them down to fair value if estimated undiscounted cash flows associated with those assets are less than their carrying amounts. Fair value is based upon the present value of the associated cash flows. Changes in circumstances (for example, changes in laws or regulations, technological advances or changes in strategies) may also reduce the useful lives from initial estimates. Changes in planned use of intangibles may result from changes in customer base, contractual agreements, or regulatory requirements. In such circumstances, management will revise the useful life of the long-lived asset and amortize the remaining net book value over the adjusted remaining useful life. There were no impairments recorded during the years ended September 30, 2017 and 2016.

Insurance Reserves

Medical Malpractice Liability Insurance

The individual physicians who contract with the physician organizations carry their own medical malpractice insurance. In the Hospital Services segment, the Company's hospitals carry professional and general liability insurance to cover medical malpractice claims under claims-made policies. Under the policies, insurance premiums cover only those claims actually reported during the policy term. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims related to occurrences during the policy term but reported subsequent to the policy's termination may be uninsured. The Company's hospitals have a consolidated policy for professional and general liability insurance with separate retentions for each entity. The Pennsylvania MCARE fund provides the $500,000 in excess of $500,000 RRG malpractice coverage for Crozer.

For the current fiscal year, the RRG provided primary malpractice insurance ($500,000 per occurrence and $2,500,000 in the aggregate) and general liability ($1,000,000 per occurrence and $2,000,000 in the aggregate). In addition, the RRG provided coverage for losses of $4,000,000 in excess of $1,000,000 for each hospital professional liability claim with no aggregate limit. The RRG also provides additional layers of excess coverage over $5,000,000 up to $20,000,000, which are 100% reinsured by third party insurance carriers through multiple layers. The excess coverage provided for general liability is over $10,000,000 up to $50,000,000, which is also 100% reinsured by third party carriers.

CHIC provides malpractice ($3,000,000 per occurrence and $9,000,000 in the aggregate) and general liability ($1,000,000 per occurrence and $3,000,000 in the aggregate) coverage for ECHN and Waterbury for the year ended September 30, 2017. CHIC also provided an excess healthcare professional liability and umbrella liability insurance policy on a claims-made basis covering healthcare professional liability, general care liability, automobile liability, employers' liability, helipad liability and non-owned aircraft liability. The limit provided was $30,000,000 for each loss event and in the annual aggregate excess of the primary coverage layers described above. This coverage was fully reinsured by third party carriers.

GAAP requires that a health care organization record and disclose the estimated costs of medical malpractice claims in the period of the incident of malpractice, if it is reasonably possible that liabilities may be incurred and losses can be reasonably estimated. The Company has recognized an estimated liability for incurred but not reported claims and the self-insured risks (including deductibles and potential claims in excess of policy limits) based upon an actuarial valuation of the Company's historical

claims experience of the Company's hospitals. At September 30, 2017 and 2016, the total gross claims liability, was $60,722,000 and $34,757,000 and reinsurance recoverable on unpaid losses were $9,059,000 and $4,107,000, respectively, included in other assets on the accompanying consolidated balance sheets, and were estimated using a discount factor of 4%.

Workers' Compensation Insurance

The workers' compensation coverage provides the statutory benefits required by law with a $250,000 deductible policy with limits of $1,000,000 per occurrence and aggregate for the Companies' entities located in California. The facilities in Texas have opted out of the Texas Workers' Compensation system as a non-subscriber, and provide their employees with benefits for occupational injury or disease through an ERISA plan, and have an Employer's Excess Indemnity policy with a $25,000 deductible with limits of $10,000,000 per occurrence and $25,000,000 aggregate. The facilities in Rhode Island were fully insured for workers' compensation claims with no deductible. East Orange was fully insured for workers' compensation claims with no deductible from March 1, 2016 through September 30, 2016. Crozer has a workers' compensation policy with a $500,000 deductible, with limits of $1,000,000 per occurrence and aggregate. At September 30, 2017 and 2016, included in accrued salaries, wages and benefits are accruals for uninsured claims and claims incurred but not reported of approximately $28,329,000 and $17,675,000 and reinsurance recoverable on unpaid losses were $7,246,000 and $5,829,000, respectively, included in other assets on the accompanying consolidated balance sheets. The amounts are estimated based upon an actuarial valuation of their claims experience, using a discount factor of 4%.

Reserve Methodology

The claims reserve is based on the best data available to the Company. The estimate, however, is subject to a significant degree of inherent variability. The estimate is continually monitored and reviewed, and as the reserve is adjusted, the difference is reflected in current operations. While the ultimate amount of the medical malpractice and workers' compensation claims liability is dependent on future developments, management is of the opinion that the associated liabilities recognized in the accompanying consolidated financial statements are adequate to cover such claims. Management is not aware of any potential claims whose settlement, if any, would have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Stock Options

Ivy Holdings has a stock option plan (the "Ivy Plan"), which is administered by the Compensation Committee of the Ivy Holdings Board. The plan includes an Incentive Stock Option Agreement and a Non-Qualified Stock Option Agreement to be used in connection with the grant of options under the plan. These options granted under the Ivy Plan are exercisable into Ivy Holdings stock and vest based on a number of criteria.

Compensation costs for option awards are measured and recognized in the consolidated financial statements based on their grant date fair value, net of estimated forfeitures over the awards' service period. Options subject to variable accounting treatment are subject to revaluation at the end of each reporting period. The Company uses the Black-Scholes option pricing model and a single option award approach to estimate the fair value of stock options granted. The fair value of restricted stock grants are determined on the date of grant, based on the number of shares granted and the quoted price or estimated fair market value of the Company's common stock. Equity-based compensation is classified within the same line items as cash compensation paid to employees. Compensation costs related to

stock options that vest or are exercisable when certain corporate transactions occur, including a change in control, are recognized at the time that such an event occurs.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments with initial maturities of 90 days or less to be cash equivalents. Cash and cash equivalents are primarily comprised of deposits with banks. The Company maintains its cash at banks with high credit-quality ratings.

Restricted Cash

The Company's certain cash are restricted for various purposes including research, regulatory requirements and letters of credit. In addition, as of September 30, 2017, approximately $22 million of internally restricted cash was held related to arbitration with the seller of Crozer. Such funds were disbursed to the seller in December 2017.

Restricted Investments

The Company is required to keep restricted deposits by certain HMOs for the payment of claims. Such restricted deposits are classified as a current asset in the accompanying consolidated balance sheets, as they are restricted for payment of current liabilities. Investments also include certificates of deposit with maturity dates of more than 90 days when purchased.

Inventories

Inventories of supplies are valued at the lower of amounts that approximate the weighted average cost or market. Inventories consist primarily of medical and surgical supplies and pharmaceuticals.

Deferred Financing Costs

Deferred financing costs are amortized over the period in which the related debt is outstanding using the effective interest method and are classified as a deduction from the carrying amount of the related debt.

Income Taxes

Deferred income tax assets and liabilities are recognized for differences between financial and income tax reporting bases of assets and liabilities based on enacted tax rates and laws. To the extent a deferred tax asset cannot be recognized under the preceding criteria, allowances must be established. The impact on deferred taxes of changes in tax rates and laws, if any, are applied to the years during which temporary differences are expected to be settled and reflected in the financial statements in the period of enactment. The Company recognizes interest and penalties associated with income tax matters and unrecognized tax benefits in the income tax expense line item of the statements of operations. For the years ended September 30, 2017 and 2016, the Company incurred $960,000 and $225,000 of interest and penalties related to income taxes, respectively.

An entity is required to evaluate its tax positions using a two-step process. First, the entity should evaluate the position for recognition. An entity should recognize the financial statement benefit of a tax position if it determines that it is more likely than not that the position will be sustained on examination. Next, the entity should measure the amount of benefit that should be recognized for those tax positions that meet the more-likely-than-not test.

Consolidated federal tax returns are filed, with the exception of PMG, New Genesis Medical Associates, Inc., ("NGMA") and Nuestra Familia Medical Group Inc., ("Nuestra"), which file their own federal tax returns. The Company files separate state tax returns for California, Texas, Rhode Island, Pennsylvania, Connecticut, New Jersey and Florida. The Company's filed tax returns are generally subject to examination by the IRS and state tax boards for 3 to 4 years.

Sale-Leaseback Transactions

The Company evaluates sale-leaseback transactions by determining whether the transaction meets the qualifying criteria to be recognized as a sale-leaseback, including the transfer of risk and rewards of ownership as well as the absence of continuing involvement of the Company. When the qualifying criteria for a sale-leaseback transaction are not met, the Company accounts for the transaction as a financing, see Note 9.

Comprehensive Income (Loss)

Comprehensive income consists of net income and other gains and losses affecting stockholder's equity that, under generally accepted accounting principles, are excluded from net income (loss) attributable to the Company. For the Company, such items consist primarily of unrealized gains or losses on debt and equity securities as well as changes related to pension and other postretirement liabilities that are not recognized immediately in net periodic benefit costs (see Note 11).

Fair Value of Financial Instruments

Financial instruments consist primarily of cash and cash equivalents, restricted cash, restricted investments, patient and other accounts receivables, accrued salaries and benefits, accounts payable and accrued expenses, medical claims and related liabilities, amounts due to government agencies, notes receivable and payable, capital lease obligations, debt, and other liabilities. The carrying amounts of current assets and liabilities approximate their fair value due to the relatively short period of time between the origination of the instruments and their expected realization.

Fair Value Measurement

Relevant accounting guidance establishes a framework for measuring fair value and clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

The guidance requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of inputs as follows: Level 1 quoted prices in active markets for identical assets or liabilities; Level 2 quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; or Level 3 unobservable inputs for the asset or liability, such as discounted cash flow models or valuations. The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The Company's Level 1 assets include cash and cash equivalents and investments (certificates of deposit and money market mutual funds). The inputs for fair value of goodwill and intangible assets (including long lived assets and intangible assets subject to amortization) would be based on Level 3 inputs as data used for such fair value calculations would be based on discounted cash flows that are not observable from the market, directly or indirectly.

Financial Items Measured at Fair Value on a Recurring Basis

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis and where they are classified within the hierarchy (in thousands):

	Total	Level 1	Level 2	Level 3
As of September 30, 2017				
Certificates of deposit	$ 850	$ 850	$ -	$ -
Mutual funds	14,960	14,960	-	-
Total	$ 15,810	$ 15,810	$ -	$ -
As of September 30, 2016				
Certificates of deposit	$ 1,302	$ 1,302	$ -	$ -
Mutual funds	3,266	3,266	-	-
Total	$ 4,568	$ 4,568	$ -	$ -

The Company's investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices. The Company's defined benefit pension plan assets are also measured at fair value (see Note 11).

The Company's carrying amount of long-term debt approximated fair value as of September 30, 2017 and 2016, respectively.

Nonfinancial Items Measured at Fair Value on a Nonrecurring Basis

Nonfinancial assets such as goodwill and identifiable intangible assets are measured at fair value when there is an indicator of impairment and recorded at fair value only when impairment is recognized. The Company performs an annual impairment test on the goodwill, and performs an impairment test on the intangible assets when there are indications of impairment.

Concentrations of Credit Risk

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits of $250,000 per depositor of each financial institution. The Company has not experienced any losses to date related to these balances.

Financial instruments that potentially subject the Company to concentrations of credit risk consist of receivables due from Medicare, Medicaid, patients, and health plans including shared-risk arrangements.

The Company invests excess cash in liquid securities at institutions with strong credit ratings, following established guidelines relative to diversification and maturities to maintain safety and liquidity. These guidelines are periodically reviewed and modified to take into consideration trends in yields and interest rates and principal risk. Management attempts to schedule the maturities of the Company's investments to coincide with the Company's expected cash requirements. Credit risk with respect to receivables is limited since amounts are generally due from large HMOs within the Medical Group segment and from the Medicare and Medicaid programs within the Hospital Services segment. Management reviews the financial condition of these institutions on a periodic basis and does not believe the concentration of cash or receivables results in a high level of risk.

For the years ended September 30, 2017 and 2016, the Hospital Services segment received a total of 61% and 66% of its net patient revenues from Medicare and Medicaid programs, respectively, and the Medical Group segment received a total of 64% and 65% for the years ended September 30, 2017 and 2016, respectively, of their capitation revenues from its five largest HMOs, as follows (in thousands):

Years Ended September 30,	**2017**	**% of Total Revenue**		2016	% of Total Revenue
Hospital Services:					
Government Payers:					
Medicare	**$ 848,221**	**33%**		$ 410,147	32%
Medicaid	**699,340**	**28%**		437,968	34%
Total	**$ 1,547,561**	**61%**		$ 848,115	66%
Medical Group:					
HMO A	**$ 61,624**	**21%**	HMO A	64,346	20%
HMO F	**34,950**	**12%**	HMO B	42,417	13%
HMO B	**32,923**	**11%**	HMO F	37,137	12%
HMO D	**29,617**	**10%**	HMO C	35,300	11%
HMO C	**28,585**	**10%**	HMO E	27,898	9%
Total	**$ 187,699**	**64%**		$ 207,098	65%

The Global Risk Management segment received all of their revenues from seven and four health plans during the years ended September 30, 2017 and 2016, respectively.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities at the dates, and for the periods, that the consolidated financial statements are prepared. Actual results could materially differ from those estimates. Principal areas requiring the use of estimates include third party settlements, settlements under risk sharing programs, allowances for contractual discounts and doubtful accounts, accruals for medical claims, impairment of goodwill, long-lived assets and intangible assets, share-based payments, professional and general liability claims and workers' compensation claims, reserves for pension obligations and other postretirement benefit reserves, reserves for outcome of legislation and valuation allowances against deferred tax assets.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" which defers the effective date of the revenue standard ASU 2015-14. The core principle of ASU 2014-09 is built on the contract between a vendor and a customer for the provision of goods and services, and attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this objective, the standard requires five basic steps: (i) identify the

contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, (v) recognize revenue when (or as) the entity satisfies a performance obligation. Nonpublic entities will apply the new standard for annual periods beginning after December 15, 2018, including interim periods therein. Three basic transition methods are available — full retrospective, retrospective with certain practical expedients, and a cumulative effect approach. Under the third alternative, an entity would apply the new revenue standard only to contracts that are incomplete under legacy U.S. GAAP at the date of initial application (e.g. October 1, 2019) and recognize the cumulative effect of the new standard as an adjustment to the opening balance of retained earnings. That is, prior years would not be restated and additional disclosures would be required to enable users of the financial statements to understand the impact of adopting the new standard in the current year compared to prior years that are presented under legacy U.S. GAAP. Early adoption is permitted for fiscal years beginning after December 15, 2016. The Company is currently evaluating the effect of this guidance on its consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, “Presentation of Financial Statements - Going Concern: Disclosures of Uncertainties about an Entity’s Ability to Continue as a Going Concern (Subtopic 205-40)” This ASU provides guidance about management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. Specifically, this ASU provides a definition of the term substantial doubt and requires an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). It also requires certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans and requires an express statement and other disclosures when substantial doubt is not alleviated. The new standard will be effective for reporting periods beginning after December 15, 2016, with early adoption permitted. The Company has early adopted this guidance and such adoption did not have a material impact on its consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, “Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustment”. ASU 2015-16 requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. Prior to the issuance of the standard, entities were required to retrospectively apply adjustments made to provisional amounts recognized in a business combination. The standard will be effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is permitted, and the Company adopted this standard in the current fiscal year. The adoption of this guidance did not have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments (Subtopic 825-10)”. ASU 2016-01 requires all equity investments to be measured at fair value with changes in fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). ASU 2016-01 also requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition, ASU 2016-01 eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities. ASU 2016-01 is effective for annual and interim periods beginning after December 15, 2017. The Company is currently evaluating the standard and the impact on its consolidated financial statements and footnote disclosures.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)". The core principle of ASU 2016-02 is that a lessee should recognize the assets and liabilities that arise from leases, including operating leases. Under the new requirements, a lessee will recognize in the statement of financial position a liability to make lease payments (the lease liability) and the right-of-use asset representing the right to the underlying asset for the lease term. For leases with a term of 12 months or less, the lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous GAAP. The standard is effective for nonpublic entities for fiscal years beginning after December 15, 2019. Early application of the amendment is permitted. The Company is currently evaluating the standard and the impact on its consolidated financial statements and footnote disclosures.

In March 2016, the FASB issued ASU 2016-07, "Investments - Equity Method and Joint Ventures (Topic 323)". ASC 2016-07 eliminates the requirement for an entity to retroactively adopt the equity method of accounting if an investment qualifies for use of the equity method as a result of an increase in the level of ownership or degree of influence. Rather, ASU 2016-07 requires that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting on a prospective basis upon adoption. The standard is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early application of the amendment is permitted. The Company is currently evaluating the standard and the impact on its consolidated financial statements and footnote disclosures.

In March 2016, the FASB issued ASU 2016-09, "Compensation - Stock Compensation (Topic 718)". The updated standard simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for non-public business entities for annual reporting periods beginning after December 15, 2017, including interim periods within those annual reporting periods. Early adoption is permitted. The Company is currently evaluating the impact of its pending adoption of the new standard on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230)". The updated standard addresses eight specific cash flow issues with the objective of reducing diversity in practice. ASU 2016-15 is effective for non-public business entities for annual reporting periods beginning after December 15, 2018, including interim periods within those annual reporting periods. Early adoption is permitted. The Company is assessing the impact of the adoption of ASU 2016-15 on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business." These amendments clarify the definition of a business. The amendments affect all companies and other reporting organizations that must determine whether they have acquired or sold a business. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The amendments are intended to help companies and other organizations evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted under certain circumstances. The amendments should be applied prospectively as of the beginning of the period of adoption. The Company is evaluating the effect that this update will have on its consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-04, "Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment)". The new guidance is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years, and should be applied on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017, and the Company will adopt this standard effective for the year ending September 30, 2018. The new guidance simplifies the current two-step goodwill impairment test by eliminating Step 2 of the test. The new guidance requires a one-step impairment test in which an entity compares the fair value of a reporting unit with its carrying amount and recognizes an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, if any. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The ASU amends ASC Topic 715, Compensation — Retirement Benefits, to require employers that present a measure of operating income in their statements of income to include only the service cost component of net periodic pension costs and net periodic postretirement benefit cost in operating expenses. The ASU also stipulates that only the service cost component of net benefit cost is eligible for capitalization. This guidance is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted as of the beginning of an annual period for which financial statements have not been issued or made available for issuance. Disclosures of the nature of and reason for the change in accounting principle are required in the first interim and annual periods of adoption. The Company is currently evaluating the provisions of ASU 2017-07 and its impact on the Company's consolidated financial position, results of operations and cash flows.

In May 2017, the FASB issued ASU 2017-09, "Modification Accounting for Share-Based Payment Arrangements (Topic 718)", which identifies and provides guidance on the types of changes to share-based payment awards that an entity would be required to apply modification accounting under ASU 2016-09, Stock Compensation (Topic 718). Specifically, an entity would not apply modification accounting if the fair value, vesting conditions and classification of the awards are the same immediately before and after the modification. ASU 2017-09 is effective for annual periods beginning after December 15, 2017 and will be applied prospectively to awards modified on or after the effective date. The Company is currently evaluating the provisions of ASU 2017-09 and its impact on the Company's consolidated financial position, results of operations and cash flows.

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3. Property, Improvements and Equipment

Property, improvements and equipment, consisted of the following (in thousands):

September 30,	2017	2016
Property, improvements and equipment:		
Land and land improvements	$ 86,214	$ 58,881
Buildings and improvements	352,194	283,269
Leasehold improvements	26,641	21,482
Equipment	274,577	144,413
Furniture and fixtures	5,184	4,715
	744,810	512,760
Less: accumulated depreciation	(219,093)	(123,755)
	525,717	389,005
Construction in Progress	51,216	52,347
Property, improvements and equipment, net	$ 576,933	$ 441,352

At September 30, 2017 and 2016, the Company had assets under capitalized leases of approximately $33,013,000 and $33,118,000, respectively, and related accumulated depreciation of $22,960,000 and $21,766,000, respectively.

Depreciation expense was approximately $96,143,000 and $40,128,000 for the years ended September 30, 2017 and 2016, respectively.

4. Acquisitions

Hospitals

For the years ended September 30, 2017 and 2016, the Company entered into the following material acquisitions. All business combinations were consistent with the Company's strategic growth plan and were accounted for using the acquisition method of accounting. Operating results for each of the acquisitions have been included in the accompanying consolidated financial statements from the date of acquisition. Goodwill arising is primarily attributable to the synergies expected to arise after the acquisitions, and is expected to be deductible for tax purposes for entities that were asset acquisitions.

All assets acquired and liabilities assumed were at fair value with the exception of the defined benefit pension liabilities and other post retirement employee benefits, which allows for an exception to fair value accounting for business combinations in accordance with GAAP. The recognized tax bases (the amount that is attributable for tax purposes) of the assets and liabilities are compared to the financial reporting values of the acquired assets and assumed liabilities (book bases) to determine the appropriate temporary differences. The Company identified temporary differences related to assumed pension liabilities, due primarily to differences in tax law regarding when a liability is or is not assumed in an asset acquisition; this difference in the treatment of the pension liabilities resulted in the recording of deferred tax assets which are reflected in the acquisition accounting and noted in the tables below.

The Company incurred approximately $3.1 million and $7.0 million transaction costs during the years ended September 30, 2017 and 2016, respectively which are included in General and Administrative expenses in the accompanying consolidated statements of operations.

2017 acquisitions

On October 1, 2016, the Company acquired substantially all of the assets, and certain liabilities, of Eastern Connecticut Health Network, Inc. and certain of its subsidiaries (collectively, "ECHN") in exchange for cash consideration of $105 million (subject to certain adjustments). The acquired assets include a network of hospitals, outpatient service centers and providers and specialists serving eastern Connecticut. The acquired hospitals are The Manchester Memorial Hospital and The Rockville General Hospital.

On October 1, 2016, the Company acquired substantially all of the assets, and certain liabilities, of Greater Waterbury Health Network, Inc. and certain of its subsidiaries (collectively, "Waterbury") in exchange for cash consideration of $31.8 million (subject to certain adjustments). The acquired assets include Waterbury Hospital, an acute-care hospital with 357 licensed beds, and a network of outpatient centers and affiliated physicians. Waterbury Hospital provides a comprehensive range of inpatient, outpatient and ancillary services for residents of Waterbury, Connecticut, and its surrounding community.

The following table summarizes the assets acquired and liabilities assumed in connection with each of the acquisitions in 2017 (in thousands):

	ECHN	Waterbury
Cash and cash equivalents	$ 5,292	$ 3,010
Patient accounts receivable and other receivables	31,238	23,442
Prepaid expenses and other current assets	8,893	4,100
Property, improvements and equipment	100,002	46,298
Intangible assets	3,440	2,870
Other assets	24,071	6,108
Accounts payable and other current liabilities	(39,122)	(24,639)
Capital leases and long term debt	(15,307)	(3,646)
Other long-term liabilities	(15,286)	(7,354)
Deferred tax liabilities ("DTL")	(5,474)	(13,360)
Pension obligations	(66,902)	(11,850)
Noncontrolling interests	(421)	(2,504)
Bargain gains, net of DTL of $5,474 and $13,360, respectively	(8,722)	(21,288)
Consideration	$ 21,702	$ 1,187

In connection with the acquisitions of ECHN and Waterbury, the Company recorded bargain gains (net of deferred tax liabilities) of $30,010,000 which are included in gain on bargain purchase in the accompanying consolidated statements of operations. The bargain gains arose primarily because of the future capital commitment requirements associated with the acquisitions.

On May 1, 2017, the Company's wholly-owned subsidiary, Prospect Blackstone Valley Surgicare, LLC ("Prospect Blackstone"), completed an asset acquisition of a freestanding ambulatory surgery center located near the CharterCARE facilities in Rhode Island, in exchange for cash consideration of $1.5 million, of which $100,000 is subject to a one-year indemnification escrow hold-back.

2016 acquisitions

On March 1, 2016, the Company acquired substantially all of the assets and associated real estate of East Orange General Hospital ("East Orange"), located in East Orange, New Jersey in exchange for cash consideration of $22.7 million (subject to certain adjustments). The following table summarizes the assets acquired and liabilities assumed in connection with this acquisition (in thousands):

	East Orange (Final)
Patient accounts receivable and other receivables	$ 9,631
Prepaid expenses and other current assets	2,602
Property, improvements and equipment	38,851
Intangible assets	2,423
Other assets	20
Accounts payable and other current liabilities	(26,150)
Capital leases	(1,691)
Other long-term liabilities	(7,550)
Goodwill	4,572
Consideration	$ 22,708

During the year ended September 30, 2017 the purchase price allocation was finalized. This led to an increase in goodwill of approximately $1.0 million, a decrease in receivables of approximately $0.4 million and an increase in liabilities of approximately $0.6 million.

On July 1, 2016, the Company acquired certain assets and assumed certain liabilities of Crozer-Keystone Health System ("Crozer"), located in Delaware County, Pennsylvania and the surrounding areas in exchange for cash consideration of $56.4 million (subject to certain adjustments). During the year ended September 30, 2017, the purchase price allocation was finalized and in December 2017, the Company paid an additional $22 million as a working capital adjustment and added to the consideration paid. The table below gives effect to the finalization of the purchase price for Crozer.

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The following table summarizes the assets acquired and liabilities assumed in connection with this acquisition (in thousands):

	(Preliminary)	(Final)
Patient accounts receivable and other receivables	$ 89,901	$ 75,361
Prepaid expenses and other current assets	57,147	57,147
Property, improvements and equipment	153,785	176,110
Deferred tax assets	40,746	86,566
Intangible assets	17,620	17,620
Other assets	1,272	1,272
Accounts payable and other current liabilities	(102,162)	(102,162)
Capital leases	(19,116)	(19,746)
Other long-term liabilities	(25,158)	(22,658)
Pension obligation	(330,331)	(330,331)
Goodwill	172,744	138,831
Consideration	$ 56,448	$ 78,010

Medical Groups

Effective December 1, 2015, NGMA entered into a Stock Purchase Agreement pursuant to which it simultaneously closed its acquisition of all issued and outstanding shares of Primary and Multi-Specialty Clinics of Anaheim, Inc. ("PMCA"). PMCA operates a medical practice consisting of primary and multi-specialty clinics in Orange County, California. The purchase price consisted of cash consideration less certain liabilities and adjustments as specified in the Stock Purchase Agreement. Included within the purchase price is $1,080,000 of future consideration which was paid during the year ended September 30, 2017. The Company elected to treat the stock acquisition as a taxable asset acquisition under Internal Revenue Code Section 338. Of the cash consideration of $5.4 million, $5.1 million was allocated to goodwill and the remainder to property, improvements and equipment and other assets.

5. Discontinued Operations

During the year ended September 30, 2016, the Company determined the operations of Prospect CharterCARE Elmhurst Extended Care LLC (dba Elmhurst Extended Care), Nix Community General Hospital LLC ("Nix CGH") and CA ACO, LLC ("CA ACO") would be discontinued. Elmhurst Extended Care and Nix CGH are reported in the Hospital Services segment and the CA ACO is reported in the Global Risk Management segment. During the year ended September 30, 2017, Elmhurst Extended Care was sold (effective December 22, 2016) and Nix CGH ceased operations (effective October 1, 2016). The Company closed and sold the Elmhurst Extended Care business for proceeds of $13,722,000. Effective April 1, 2017, the Company made a decision to no longer discontinue operations of CA ACO and its onward activities are classified as part of the continuing operations on the consolidated financial statements. The Company's decision to discontinue the operations of each of the entities was based on the Company's management's strategy in their respective markets and financial results.

Summarized financial information for discontinued operations is included below (in thousands):

September 30,	2017	2016
Cash	$ -	$ 910
Restricted cash	-	4,296
Patient accounts receivable, net of allowance for doubtful accounts and other receivables	-	3,039
Due from government payors	-	1,894
Other current assets	-	355
Total current assets	-	10,494
Property, plant and equipment, net	-	1,985
Other assets	-	399
Total assets of the disposal groups classified as held for sale in the consolidated balance sheets	$ -	$ 12,878
Accounts payable and other accrued liabilities	$ -	$ 2,630
Long-term liabilities	-	787
Total liabilities of the disposal groups classified as held for sale in the consolidated balance sheets	$ -	$ 3,417

For the Year Ended September 30,	2017	2016
Net Hospital Services revenues	$ 10,178	$ 22,520
Operating expenses	(6,941)	(28,009)
Depreciation and amortization	(80)	(276)
Loss on write-off of goodwill	-	(2,475)
Interest expense	(24)	(37)
Income (loss) on discontinued operations before income taxes	3,133	(8,277)
Gain from sale of discontinued operations	4,605	-
Income tax provision (benefit)	2,966	(3,373)
Income (loss) on discontinued operations	$ 4,772	$ (4,904)

The Company's consolidated financial statements and notes to consolidated financial statements have been retrospectively reclassified for discontinued operations as of and for the year ended September 30, 2016.

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6. Goodwill and Intangible Assets

The carrying value of goodwill by reporting unit is as follows (in thousands):

September 30,	2017	2016
Southern California Hospitals	$ 130,912	$ 130,912
Nix Health	3,138	3,138
CharterCARE	5,822	3,775
California Medical Groups	27,420	27,388
East Orange	4,572	3,531
Crozer	138,831	172,744
Total	$ 310,695	$ 341,488

The changes in the carrying amount of goodwill for the years ended September 30 are as follows (amounts in thousands):

September 30,	2017	2016
Balance, beginning of year	$ 341,488	$ 159,821
Acquisitions	2,047	181,667
Adjustments to prior year acquisitions	(32,840)	-
Balance, end of year	$ 310,695	$ 341,488

Identifiable intangible assets are comprised of the following (in thousands):

September 30,	Useful lives	2017	2016
HMO membership	14 years	$ 25,200	$ 25,200
Trade names, net of impairment	3 - 20 years	52,583	51,373
Physician guarantees	2 to 3 years	723	547
Customer relationships	7 years	350	350
Other	5 - 6 years	117	117
Gross carrying value		78,973	77,587
Accumulated amortization		(38,179)	(35,690)
Intangible assets, net		$ 40,794	$ 41,897

Amortization is recognized on a straight-line basis (management's best estimate of the period of economic benefit) over the respective useful lives and expense for the years ended September 30, 2017 and 2016 was $8,205,000, and $6,978,000, respectively.

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Estimated amortization expense for each future fiscal year is as follows (in thousands):

Years ending September 30,		
2018	$	7,389
2019		6,734
2020		5,564
2021		5,545
2022		3,755
Thereafter		11,807
	$	40,794

The weighted-average remaining useful life for the intangible assets was approximately 8 years as of September 30, 2017.

7. Related Party Transactions

Jeereddi Prasad, M.D., a shareholder of Ivy Holdings, a director of Ivy Holdings and the Company, and an officer of the Upland Medical Group, a Professional Medical Group and Pomona Valley Medical Group, Inc (collectively "ProMed Entities"), has ownership interests in physician medical groups that provide medical services to ProMed members, including Chaparral Medical Group, Inc., (in which the Company beneficially owns a 12.99% interest). For the years ended September 30, 2017 and 2016, the ProMed Entities paid these groups approximately $17,216,000 and $17,125,000, respectively. As of September 30, 2017 and 2016, the Company had accounts payable and other accrued liabilities due to these related parties of $473,000 and $392,000, respectively.

Pursuant to a Management Services Agreement, dated December 15, 2010 and amended on May 3, 2012 (the "LGP Management Agreement"), between the Company and Leonard Green & Partners, L.P. ("LGP"), a private equity fund with affiliated funds that collectively constitute the majority shareholder of Ivy Holdings, LGP provides to the Company, (a) certain investment banking services, (b) management, consulting and financial planning services and (c) financial advisory and investment banking services in connection with major financial transactions from time to time. In consideration for the services provided by LGP under the LGP Management Agreement, the Company pays LGP an annual fee of $1,000,000, payable in monthly installments, and reimburses LGP for its related expenses up to $50,000 annually. If approved by the unanimous consent of the Board of Directors of the Company, additional customary fees may be due to LGP pursuant to the terms of the LGP Management Agreement for services rendered in connection with major transactions from time to time. No amounts were payable related to these related party transactions as of September 30, 2017 or 2016.

The Company is a wholly-owned indirect subsidiary of Ivy Holdings. Therefore, Ivy Holdings is the parent of an affiliated group of corporations within the meaning of Section 1504(a) of the Internal Revenue Code of 1986. On December 15, 2010, Ivy Holdings, Ivy Intermediate and the Company entered into a Tax Sharing Agreement. The Tax Sharing Agreement allows the Company to make payments to Ivy Holdings as necessary to fund their payment of any required taxes incurred due to such parent status. Under this agreement, the Company received refunds (net of payments) of $26,378,000 for the year ended September 30, 2017 and the Company made payments (net of refunds) of $7,460,000 for the year ended September 30, 2016.

8. Income Taxes

The components of the income tax (benefit) provision for continuing operations are as follows (in thousands):

For the years ended September 30,	**2017**	2016
Current:		
Federal	**$ 42,836**	$ (23,645)
State	**8,057**	(1,968)
	50,893	(25,613)
Deferred:		
Federal	**(41,809)**	18,897
State	**(8,529)**	1,966
	(50,338)	20,863
Total:		
Federal	**1,026**	(4,748)
State	**(472)**	(2)
	$ 554	$ (4,750)

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Temporary differences and carry forward items that result in deferred income tax balances as of September 30, are as follows (in thousands):

September 30,	**2017**	2016
Deferred tax assets:		
Allowances for bad debts	**$ 29,057**	$ 21,294
Vacation accrual and other	**10,530**	9,693
Workers compensation	**7,803**	4,956
Accrued bonuses	**13,829**	3,783
Malpractice reserves	**9,819**	6,014
Deferred rent	**335**	125
Tax credits	**2,458**	2,002
Net operating losses	**10,180**	2,615
Partnership outside basis difference	**10,548**	6,310
Transaction Cost	**6,576**	4,519
Claims Payable	**3,609**	688
Accrued Insurance	**920**	-
Pension Deduction	**145,824**	-
Deferred Revenue	**3,061**	113
Other	**531**	116
Deferred tax assets	**255,080**	62,228
Valuation allowance	**(15,859)**	(742)
Net deferred tax assets	**239,221**	61,486
Deferred tax liabilities:		
Intangible assets	**(14,572)**	(5,998)
Fixed assets	**(96,833)**	(16,873)
OCI-Pension liability	**(6,464)**	(8,389)
State tax	**(4,162)**	(3,552)
Capital Lease	**(8,917)**	-
Prepaid Expense	**(3,858)**	(1,290)
Other	**(92)**	(90)
Deferred tax liabilities	**(134,898)**	(36,192)
Net deferred tax assets (liabilities)	**$ 104,323**	$ 25,294

Deferred tax assets and liabilities reflect the effect of temporary differences between the assets and liabilities recognized for financial reporting purposes and the amounts recognized for income tax purposes.

During fiscal 2016, the Company received a notice of review from the Franchise Tax Board of California for refunds claimed on its California returns reflecting additional Enterprise tax credits. Additionally, the Company received a notice from the Internal Revenue Service in connection with the examination of fiscal year 2015 federal tax return.

Generally, the Company's tax years 2012 through 2015 are open for federal and state tax examination. As of September 30, 2017, the Company does not have material unrecognized tax benefits. The Company believes that it is reasonably possible that an increase in unrecognized tax benefits may be

necessary within the coming year, and these unrecognized tax benefits would primarily impact deferred taxes and taxes payable, and the expected range of potential increase in the unrecognized tax benefits is not expected to be material to the balance sheet nor the income statement.

The differences between the income tax provision at the federal statutory rate and that reflected in the accompanying consolidated statements of operations are summarized as follows:

For the years ended September 30,	**2017**	2016
Tax provision at statutory rate	**35%**	35 %
State taxes, net of federal benefit	**(1)%**	0 %
Non-controlling interest	**-**	(6)%
Bargain Purchase Gain	**(34)%**	-
Other	**2%**	(4)%
	2%	25 %

9. Long-Term Debt

Long-term debt consists of the following (in thousands):

September 30,	**2017**	2016
Senior secured notes (net of discount of $7,374 and $8,984)	**$ 609,813**	$ 614,454
Other debt *(1)*	**38,321**	17,151
Less: Deferred financing costs, net ("DFC")	**(9,906)**	(11,649)
Total Debt, net of discount, premium and DFC	**638,228**	619,956
Less: current maturities	**(12,509)**	(6,951)
Long-term debt, net of current maturities	**$ 625,719**	$ 613,005

(1) Other debt includes financing obligations related to sales-leaseback transactions. The financing obligations related to sales-leaseback transactions were $26,027,000 and $17,151,000 for years ended September 30, 2017 and 2016 respectively.

Senior Secured Notes

On June 30, 2016, the Company entered into a six-year $625 million senior secured term loan B (the "Term Loan"), the proceeds of which were used to repay $425 million for PMH's existing 8.375% senior secured notes due during 2019; to repay $60 million for borrowings under the Company's existing revolving credit facility (the "Replaced Revolver"); to fund acquisitions, including the acquisition of Crozer; and to finance transaction fees and expenses. The Term Loan bears interest at LIBOR (subject to a 1.0% floor) plus 6.0%, and the effective interest rate was 7.0% as of September 30, 2017. The Term Loan was issued with an original discount of 1.5%, or $9,375,000.

Additionally, the Company refinanced the Replaced Revolver with a new $100 million asset-based revolving credit facility ("ABL Facility" and together with the Term Loan, the "New Senior Secured Credit Facilities"). The Company has capitalized an additional $785,000 for deferred financing costs in connection with the amendment of ABL facility. Pursuant to amendments dated August 23, 2016, August 21, 2017 and October 6, 2017, the loan limit under the ABL facility was increased to $115 million,

$155 million and then $175 million. The ABL Facility bears interest at a variable base rate plus an applicable spread, contingent on the Company's ABL Facility availability, as defined in the ABL Facility credit agreement. The ABL Facility effective interest rate was 3.25% as of September 30, 2017 and 2016, respectively. The ABL Facility balance as of September 30, 2017 and 2016 was $115,300,000 and $55,000,000 respectively, net of deferred finance charges. As of September 30, 2017, the Company had used letters of credit of $9,800,000, which offset the Company's ability to borrow additional funds, and the ABL Facility had unused lender commitments of $29,900,000 as of September 30, 2017.

The maturity date for the ABL Facility is June 30, 2021, and the maturity date for the Term Loan is June 30, 2022. As of September 30, 2017, the Company was in compliance with the financial covenants of the New Senior Secured Credit Facilities.

The New Senior Secured Credit Facilities are guaranteed on a senior secured basis by all assets of the Company and its subsidiaries ("Guarantors") except Prospect Health Plan, Inc., AMVI/Prospect Medical Group, Nuestra Familia Medical Group, Inc., Prospect Medical Holding Risk Retention Group, Inc., CHIC and certain immaterial subsidiaries. The ABL Facility has a first priority security interest on the working capital assets of the Company and the Guarantors and a second priority security interest on their fixed assets. The Term Loan has a first priority security interest on fixed assets and a second priority security interest on working capital assets. The New Senior Secured Credit Facilities are effectively senior to all of the Company's existing and future indebtedness.

Capitalized deferred financing costs of $14,882,000 related to the New Senior Secured Credit Facilities are being amortized over the term of the related debt using the effective interest method.

Retired Senior Secured Notes

On May 3, 2012, the Company closed the offering of $325 million in 8.375% senior secured notes due May 1, 2019 ("PMH 2019 Notes"). Concurrent with the issuance of the PMH 2019 Notes, the Company entered into a five year $50 million revolving senior secured credit facility (the "PMH Senior Secured Credit Facility") which replaced the existing senior secured credit facility. On November 16, 2012, the Company closed the offering of $100 million in aggregate principal amount of 8.375% senior secured notes due 2019 (the "Additional 2019 Notes") at a price equal to 102% of the principal amount of the Additional 2019 Notes. The Additional 2019 Notes were issued in a private placement to qualified institutional buyers and form a part of the same series as the PMH 2019 Notes issued on May 3, 2012.

In connection with the issuance of the Additional 2019 Notes, the Company entered into an amendment of its Credit Agreement governing the PMH Senior Secured Credit Facility that waived and amended certain provisions of the Credit Agreement, including certain restrictive covenants. In conjunction with the repayment of the PMH 2019 Notes, Additional 2019 Notes, and the PMH Senior Secured Credit facility, the Company recognized a loss on debt extinguishment of $26,561,000. The loss on debt extinguishment included $17,799,000 of bond redemption costs, $3,030,000 of unamortized debt discount and premium, and $5,732,000 of unamortized debt financing costs, which are included within loss on debt extinguishment in the accompanying consolidated statements of operations for the year ended September 30, 2016.

Demand Notes

The Company has a commitment from a bank for a $15 million equipment leasing facility to finance various equipment at the Company's hospital facilities. As of September 30, 2017 and 2016, draws under the facility are classified as capital lease arrangements. Draws represent demand notes until conversion to capital leases, and interest accrues on such draws at the bank prime rate plus 1.5% with a floor of 4.5% and payable monthly. As of September 30, 2017, approximately $12.5 million had been drawn under the line.

Scheduled payments under the Company's current and long-term debt as of September 30, 2017 are as follows (in thousands):

Years ending September 30,	
2018	$ 12,509
2019	9,020
2020	8,990
2021	8,528
2022	594,228
Thereafter	22,233
Total scheduled payments	655,508
Less: Senior Secured Notes discount, net	(7,374)
Less: Deferred financing costs, net	(9,906)
Total long-term debt	$ 638,228

10. Stockholder's Equity

Equity Based Compensation Plans

Effective December 15, 2010, the Board of Directors of Ivy Holdings adopted the Ivy Plan that authorized the issuance of options exercisable for up to 155,110 shares of the common stock of Ivy Holdings ("Initial Options") to employees, certain consultants and independent members of the boards of directors, of Ivy Holdings and its subsidiaries (including the Company and its subsidiaries). During the year ended September 30, 2015, the Compensation Committee of the Board of Directors of Ivy Holdings ("Compensation Committee") granted 37,814 options to certain members of the Company's management and employees. These options are exercisable into Ivy Holdings stock and vest based on a number of criteria, including time, Company and Business Unit performance based on EBITDA targets and CEO and Compensation Committee discretion. Since the Ivy Holdings stock options were granted to Company employees for their services related to the Company, the related compensation cost has been recorded in the Company's consolidated financial statements.

Effective June 30, 2015, the Board of Directors of Ivy Holdings adopted the First Amendment to the Ivy Plan, and on June 30, 2015 the stockholders of Ivy Holdings also approved the First Amendment, pursuant to which the Compensation Committee of the Board of Directors of Ivy Holdings authorized the issuance of options exercisable for an additional 13,972 shares of common stock of Ivy Holdings ("New Options") to employees effective May 18, 2017, the Ivy Plan was further amended, pursuant to which the aggregate number of shares which may be issued upon exercise of options was increased by an additional 33,554 shares to 202,636 shares.

Following such amendments, the Compensation Committee granted 13,972 options, 635 options and 28,319 options, on June 30, 2015, November 4, 2016 and June 23 2017, respectively, to certain members of the Company's management, employees and an independent member of the board of directors of Ivy Holdings' subsidiary. The New Options are exercisable into Ivy Holdings stock and vest based on a number of criteria, including the same criteria as the Initial Options. However, they only become exercisable on the occurrence of certain corporate transactions, including a change in control of Ivy Holdings, as defined in the Incentive Stock Option Agreements ("Corporate Transaction"). Because the occurrence and timing of a Corporate Transaction is not determinable as of September 30, 2017 and 2016 no compensation cost has been recorded in the Company's consolidated financial statements for the years then ended.

Under the terms of the Ivy Plan, the exercise price of an incentive stock option ("ISO") may not be less than 100% of the fair market value of the Company's common stock on the date of grant and, if granted to a shareholder owning more than 10% of the Company's common stock, then not less than 110%. Stock options granted under the Ivy Plan have a maximum term of 10 years from the grant date, and are exercisable at such time and upon such terms and conditions as determined by the Compensation Committee. Stock options granted to employees generally vest over four years, subject to continued service, performance, and other criteria. In the case of an ISO, the amount of the aggregate fair market value of common stock with respect to which the ISO grant is exercisable, for the first time by an employee during any calendar year, may not exceed $100,000.

Stock Options Activity

The following table summarizes information about Ivy Holdings stock options outstanding as of September 30, 2017 and 2016 and activity during the years then ended for the Initial Options and the New Options:

	Shares Subject to Options	Weighted Average Exercise Price	Weighted Average Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term (Months)
Outstanding as of October 1, 2015	150,562	$ 91.42	$ 436.51	$ 88.2
Granted	-	-	—	—
Exercised	(4,063)	30.00	—	—
Canceled/Forfeited	(3,300)	104.37	—	—
Outstanding as of September 30, 2016	143,199	92.94	445.06	76.2
Granted	28,954	568.55	—	—
Exercised	(100)	70.00	—	—
Canceled/Forfeited	(4,214)	162.35	—	—
Outstanding as of September 30, 2017	167,839	$ 173.28	$ 664.72	$ 64.1

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the estimated fair value of the Company's common stock for those awards that have an exercise price currently below the estimated fair value. As of September 30, 2017, the aggregate intrinsic value of outstanding shares was approximately $111,600,000. As of September 30, 2017, there were 118,396 options that are exercisable at a weighted average exercise price of 64.94.

A summary of Ivy Holdings non-vested options and the changes during the fiscal years ended September 30, 2017 and 2016 is presented as follows for the Initial Options and New Options:

	Shares	Weighted Average Grant Date Fair Value
Ivy Holdings Stock Options:		
Nonvested at October 1, 2015	44,746	$ 94.22
Vested	(15,022)	89.03
Canceled/Forfeited	(3,300)	93.29
Nonvested at September 30, 2016	26,424	97.55
Granted	28,954	299.00
Vested	(16,940)	164.82
Canceled/Forfeited	(4,214)	195.21
Nonvested at September 30, 2017	34,224	$ 224.79

Stock-Based Compensation Expense

Stock-based compensation expense for all share-based payments in exchange for employee services (including stock options and restricted stock) is measured at fair value on the date of grant, estimated using an option pricing model and is recognized in the consolidated financial statements, net of estimated forfeitures over the awards requisite service period.

The Company uses the Black-Scholes option pricing model and a single option award approach to estimate the fair value of options granted. Estimated forfeitures will be revised in future periods if actual forfeitures differ from the estimates and will impact compensation cost in the period in which the change in estimate occurs. The determination of fair value using the Black-Scholes option-pricing model is affected by the Company's estimated stock price as well as assumptions regarding a number of complex and subjective variables, including expected stock price volatility, risk-free interest rate, expected dividends and projected employee stock option exercise behaviors.

Fair value for options granted during the year ended September 30, 2017 was estimated with the following assumptions for Ivy Holdings (no options were granted during the year ended September 30, 2016):

For the year ended September 30,	2017
Weighted average fair value of option grants	$ 299.00
Estimated fair market value of the Company's common stock on the date of grant	$ 568.55
Weighted average expected life of the options	10 years
Risk-free interest rate	1.79%
Weighted average expected volatility	43.8%
Dividend yield	0.00%

Expected Term - The expected term of options granted represents the period of time that they are estimated to be outstanding.

Risk-Free Interest Rate - The Company bases the risk-free interest rate on the implied yield in effect at the time of option grant on U.S. Treasury zero-coupon issues with equivalent remaining terms.

Expected Volatility - The Company estimates the volatility of the common stock at the date of grant based on the average of the historical volatilities of a group of peer companies. The Company has identified a group of comparable companies to calculate historical volatility from publicly available data for sequential periods approximately equal to the expected terms of the option grants. In selecting comparable companies, Management considered several factors including industry, stage of development, size and market capitalization.

Forfeitures - Share-based compensation is recognized only for those awards that are ultimately expected to vest. Compensation expense is recorded net of estimated forfeitures. Those estimates are revised in subsequent periods if actual forfeitures differ from those estimates. The Company used data since December 2010 to estimate pre-vesting option forfeitures.

Stock-based compensation expense for the Ivy Holdings stock options recognized by the Company during the years ended September 30, 2017 and 2016 was $1,118,000 and $1,119,000, respectively. At September 30, 2017, there were 34,224 unvested options, which could potentially vest over the next nine fiscal years, subject to meeting the vesting requirements noted above. The remaining maximum estimated stock compensation expense to be amortized to expense in future periods is approximately $932,000. Options which are expected to vest based on CEO and Compensation Committee discretion are treated as variable stock options and are subject to revaluation at each reporting period. Management determined the fair value of the discretionary vested options using a Black Scholes calculation but determined that the change in compensation expense was not material to the consolidated financial statements for the years ended September 30, 2017 and 2016.

11. Retirement Benefits

In conjunction with the acquisitions of Crozer on July 1, 2016 and ECHN and Waterbury on October 1, 2016, the Company became the sponsor of various employee non-contributory, defined benefit pension plans covering certain full-time employees of the respective facilities.

Upon acquisition, Crozer agreed to pay out of the purchase price $100 million into an escrow, which funds were subsequently used by the Company upon becoming the sponsor of the plan pursuant to IRS rules and regulations to fund in part the underfunded Plan liability then outstanding. Additionally, within five years after acquisition and subject to applicable filing and authorization by the applicable Government Entity, the Company shall adopt a plan amendment to terminate the plan effective within such five year period and shall liquidate, fully fund and satisfy, and pay all benefits owed to participants and beneficiaries of the plan by providing lump sum distributions to participants, purchasing annuities for participants who do not elect a lump sum distribution.

In connection with the acquisition the plan was frozen with all benefit accruals ceased as of July 1, 2016. With respect to each Represented Employee who is a member of the Laborers' International Union of North America, the Monthly Compensation (as defined), the Credited Service (as defined), the Eligibility Service (as defined) and the accrued benefit was frozen and determined as of July 1, 2016. No benefits accrue since that date. Additionally, the plan was amended to provide that for purposes of determining Vesting Service (as defined) for employees who were employed with the Company before

July 1, 2016, years of service shall include all periods of employment completed on and after July 1, 2016, subject to the Break in Service rules (as defined).

On September 3, 2016, the DB Plan was further amended to provide certain Qualifying Participants (as defined) the right to make a Special Benefit Election (as defined) during "2016 Lump Sum Option Window" period from October 15, 2016 through November 30, 2016 to receive or commence receiving his or her vested Accrued Benefit as of December 1, 2016 in accordance with procedures adopted by the Committee.

In conjunction with the acquisition the Company also became the sponsor and assumed CKHS postretirement benefit program (the "OPEB Plan") which is an unfunded medical care and life insurance benefit program, and a supplemental executive retirement plan (the "SERP Plan") which is an unfunded retirement plan that covers a group of current and former executives. These plans were frozen with all benefit accruals ceased as of July 1, 2016. No benefits will accrue since that date. With respect to each Represented Employee who is a member of the Laborers' International Union of North America, benefits will continue to accrue until a settlement of an ongoing union contract negotiation is reached.

ECHN has a defined benefit pension plan that covered substantially all of its employees. The benefits were based upon years of service and compensation for the five highest years during the employee's last 10 years of service. Effective December 31, 2013, ECHN froze the defined-benefit for all remaining participants. During September 2013, the Board passed a resolution to freeze all benefits related to the Defined benefit pension plan. On December 31, 2008, ECHN implemented a soft freeze on the defined benefit pension plan. All qualified employees were eligible to enter into the defined contribution plan, ECHN contributed 3% of eligible employees' salaries. This contribution was non-guaranteed for all employees, except certain union workers covered under a collective bargaining agreement.

ECHN also sponsors a postretirement benefit plan that provides health care benefits to those employees who retired. The criteria to receive this benefit is to be vested in the pension plan, attain age 55 or older and start collecting under the defined benefit plan described above once retired. The retiree must be enrolled into the medical plan on the date of retirement to be eligible for the continuation. Full-time registered nurse retirees from ECHN's Manchester facility (retired prior to October 1, 2005 and were eligible per the collective bargaining agreement) were grandfathered and required to pay at least 50% of the total cost of the medical and dental coverage they elect for themselves under the plan.

Waterbury has a noncontributory defined benefit cash balance plan. It is Waterbury's policy to make contributions to the plan sufficient to meet the minimum funding requirements of applicable laws and regulations. The plan was frozen to non-union participants effective June 30, 2015. Participants who are part of the Connecticut Healthcare Associates Technical Unit remain active in the plan. Non-union employees no longer accrue additional employer contribution credits in the plan. These participants will continue to receive interest credits based on their account balances in accordance with the terms of the plan. They will be entitled to their account balance (the retirement benefit they have earned up to June 30, 2015) plus applicable interest credits after the Plan were frozen.

The activity of the pension plans for the year ended September 30, 2017 and the period from July 1, 2016 (acquisition of Crozer) through September 30, 2016 are as follows (in thousands):

	2017	2016
Changes in benefit obligations		
Projected benefit obligations, beginning of period	$ 953,983	$ 687,612
Service cost	292	20
Interest cost	33,193	5,624
Plan participant contributions	367	-
Actuarial (gain) loss	(31,788)	(3,498)
Benefits paid	(91,045)	(5,995)
Plan changes	(709)	-
Projected benefit obligation, end of year	$ 864,293	$ 683,763
Changes in plan assets		
Fair value of plan assets, beginning of year	$ 656,074	$ 350,393
Actual return on plan assets	(15,980)	22,630
Contributions by plan sponsor	7,174	100,236
Plan participant contributions	367	-
Benefits paid	(91,045)	(5,995)
Fair value of plan assets, end of year	$ 556,590	$ 467,264
Funded status of the plan, end of year	$ (307,703)	$ (216,499)
Accumulated benefit obligation, end of year	$ (307,703)	$ (216,499)

The funded status of the pension plans as of September 30, 2017 and 2016 is as follows (in thousands), split between the pension plans and the post retirement plans:

	2017 Pensions	2017 OPEBs	2016 Pensions	2016 OPEBs
Amounts recognized in the consolidated balance sheets consist of:				
Current liability	$ -	$ 820	$ -	$ 1,050
Non-current liability	300,364	6,519	209,658	5,791
Amount recognized, end of year	$ 300,364	$ 7,339	$ 209,658	$ 6,841

The components of net periodic benefit cost for the year ended September 30, 2017 and the period from July 1, 2016 (Crozer acquisition) through September 30, 2016 were as follows (in thousands):

	2017	2016
Components of net periodic benefit cost:		
Service cost	$ 292	$ 20
Interest cost	33,193	5,624
Expected return on plan assets	(19,477)	(7,000)
Effect of settlement	(2,479)	-
Total net periodic benefit cost (credit)	$ 11,529	$ (1,356)
Other change in benefit obligations recognized in accumulated other comprehensive income:		
Liability (gain) loss due to assumption change	$ (23,922)	$ 2,116
Liability (gain) loss due to participant experience	(7,865)	(5,615)
Asset return (gain) loss	35,456	(15,630)
Prior service cost (credit)	(708)	-
Amount recognized due to settlement	2,479	-
Total recognized in other comprehensive loss (income) and accumulated other comprehensive loss (income)	$ 5,440	$ (19,129)

The assumptions used in determining the actuarial present value of the projected benefit obligations for pension plans as of September 30, 2017 and 2016 and for the year ended September 30, 2017 and the period from July 1, 2016 (Crozer acquisition) through September 30,2016 are as follows:

	2017	2016
Weighted average assumptions used to determine benefit obligations at end of period		
Discount rate	3.23-3.68 %	3.27-3.68 %
Rate of compensation increase	0.00-2.00 %	0.00-2.00 %
Weighted average assumptions used to determine net periodic benefit cost for the period ended		
Discount rate	3.18-4.01 %	3.38 %
Rate of compensation increase	0.00-2.00 %	0.00 %
Expected return on the plan assets	0.00-5.00 %	0.00-6.5%

Assumed health care cost trend rates for the next period used to measure the expected cost of benefits covered by the plan are as follows:

	2017	2016
Health care trend rate assumed for next year	7.0%	7.0%
Rate to which the cost trend is assumed to decline (the ultimate rate)	4.5%	4.5%
Year that the rate reaches the ultimate trend rate	2025	2025

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Assumed health care cost trend rates have a significant effect on amounts reported for other postretirement benefit programs. A one-percentage-point change in assumed health care cost trends would have the following effects (in thousands):

	1% Increase	1% Decrease
Effect on other postretirement benefit obligations	$ 7,512	$ 7,181
Effect on total of service and interest cost components	$ 251	$ 237

The asset allocation percentage by major asset class for the plans and the target allocation for 2017 follows:

	Target	2017
Asset class:		
Cash and cash equivalents	0% - 20%	-
Fixed income	10% - 100%	95.3 %
Domestic equity	0% - 100%	-
International equity	0% - 40%	-
Real estate	0% - 30%	4.2 %
Alternative investments and hedge funds	0% - 30%	-
Annuity Contact		0.5 %
		100 %

The investment objectives of the plans are to invest consistently with the fiduciary standards of ERISA, to provide for the funding and anticipated withdrawals on an ongoing basis, conserve and enhance the capital value of the plans in real terms while maintaining a moderate risk profile, to minimize principal fluctuations over the investment cycle, and achieve a long-term level of return commensurate with contemporary economic conditions. The expected long-term rate of return with respect to the plans is based on an aggregate of expected capital market returns within each asset category.

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The following tables set forth the assets in the plans measured at fair value, by input level (in thousands):

September 30, 2017	Level 1	Level 2	Level 3	Net asset value	Total
Fixed income securities:					
Short-Term Duration	$ -	$ 37,637	$ -	$ -	$ 37,637
Extended Duration	-	163,537	-	-	163,537
Interim Duration	-	53,703	-	-	53,703
Long-Term Duration	-	277,720	-	-	277,720
Real estate	-	-	5,098	-	5,098
Alternative investments	-	-	16,035	-	16,035
Hedge funds	-	-	-	-	-
Cash and cash equivalents	-	-	-	2,860	2,860
Total	$ -	$ 532,597	$ 21,133	$ 2,860	$ 556,590

September 30, 2016	Level 1	Level 2	Level 3	Total
Fixed income securities:				
Short-Term Duration	$ -	$ 7,533	$ -	$ 7,533
Extended Duration	-	135,880	-	135,880
Interim Duration	-	31,614	-	31,614
Long-Term Duration	-	229,541	-	229,541
Collective trust funds:				
Real estate	-	-	8,898	8,898
Alternative investments	-	-	31,203	31,203
Hedge funds	-	-	22,295	22,295
Cash and cash equivalents	300	-	-	300
Total	$ 300	$ 404,568	$ 62,696	$ 467,264

Pension plan assets classified as Level 3 in the fair value hierarchy represent investments in which the trustee has used significant unobservable inputs in the valuation model. The hedge funds consist of equity/long/short funds and multi-strategy funds in which fair values have been estimated using the net asset value per share of the investment. The alternative investments primarily consist of investments in limited partnerships that invest in the Public-Private Investment Program which fair values have been estimated using the net asset value per share of the investment.

On an annual basis, the Company assesses the valuation hierarchy for pension assets recorded at fair value. From time to time, assets will be transferred within the fair value hierarchy as a result of

changes in, among other things, inputs used, liquidity, or valuation methodologies. During the fiscal year 2017 and the period from July 1, 2016 (Crozer acquisition) through September 30, 2016, there were no transfers in classification within the fair value hierarchy.

The following table is a rollforward of the plans' assets classified within Level 3 of the fair value hierarchy (in thousands):

September 30,	**2017**	2016	
Balance, beginning of year	**$ 62,396**	$ 69,528	*(1)*
Actual return on plan assets:			
Realized gain (loss)	**(445)**	282	
Unrealized gain (loss)	**2,283**	1,366	
Purchases	**5,734**	-	
Sales	**(48,835)**	(8,780)	
Balance, end of year	**$ 21,133**	$ 62,396	

(1) Start of period is July 1, 2016, the date of acquisition of Crozer.

The expected long-term future benefit payments to retirees with respect to the plans and are as follows (in thousands):

2018	$ 55,960
2019	54,920
2020	54,400
2021	53,390
2022	53,820
2023 - 2027	259,270
	$ 531,760

Waterbury participates in multi-employer pension plans that cover substantially all union employees. Contributions to the plans are based upon a percentage of each participant's total salary. The risks of participating in these multi-employer plans are different from single employer plans in the following aspects:

- Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of another participating employer.
- If a participating employer stops contributing to the plan, the unfunded obligation of the plan may be borne by the remaining participating employers.
- If Waterbury chose to stop participating in the multi-employer plans, Waterbury may be required to pay those plans an amount based on the underfunded status of the plans, referred to as a withdrawal liability.

The following table presents Waterbury's participation in these plans as of and for the year ended September 30, 2017.

Pension Trust Fund	Pension Plan Employer Identification Number	Pension Protection Act ("PPA") Certified Zone Status (1)	FIP / RP Status Pending Implemented (2)	Contributions	Surcharge Imposed	Expiration Date of Collective Bargaining Agreement (3)
Connecticut Health Care Associates Pension Fund	06-1313462	Green	NA	$ 2,018,000	No	9/30/17
New England Health Care Employees Pension Fund	22-3071963	Green	NA	$ 939,000	No	2/28/17
Total contributions				$ 2,957,000		

(1) The most recent PPA zone status available in 2017 is for the plan's year-ending during 2016. The zone status is based on information received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the orange zone are less than 80 percent funded and have an accumulated funding deficiency in the current year or projected in the next six years, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded.
(2) The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented.
(3) These agreements are under negotiations.

During the year ended September 30, 2017, Waterbury's contributions to the Connecticut Health Care Associates Pension Plan and the New England Health Care Employees Pension Plan represented 98.3% and 2.38% of the total contributions made to the plans by all participating employers, respectively.

Governmental regulations impose certain requirements relative to union-sponsored pension plans. In the event of plan termination or employer withdrawal, an employer may be liable for a portion of the plan's unfunded vested benefits. As of September 30, 2017, Waterbury has not recorded any liabilities for future withdrawal obligations related to the multi-employer plans.

Defined contribution plans

The Company also sponsors four defined contribution plans covering substantially all employees who meet certain eligibility requirements. Under these plans, employees can contribute up to 50% of their compensation up to the IRS deferred annual maximum. There is currently no company match offered under the plans, except at certain facilities in Texas, Rhode Island, Pennsylvania, for which the expense for the employer match was $18,088,000 and $3,417,000 for the years ended September 30, 2017 and 2016, respectively.

12. Commitments and Contingencies

Leases

The Company leases various office facilities and equipment from third parties under non-cancelable operating and capital lease arrangements expiring at various dates through 2030. Certain operating leases contain rent escalation clauses and renewal options, which have been factored into determining rent expense on a straight-line basis over the lease terms. Capital leases bear interest at rates ranging from 2% to 11% per annum.

The future minimum annual lease payments (net of anticipated sublease income of $2,133,000) required under leases in effect at September 30, 2017, are as follows (in thousands):

For the Years ending September 30,	Capital Leases	Operating Leases
2018	$ 13,897	$ 26,450
2019	11,963	22,119
2020	5,982	20,064
2021	3,095	17,439
2022	3,324	14,973
Thereafter	26,820	57,587
Total minimum lease payments	65,081	$ 158,632
Less: amounts representing interest	(16,154)	
	48,927	
Less: current portion	(11,315)	
	$ 37,612	

Rent expense for the years ended September 30, 2017 and 2016 was approximately $49,965,000 and $22,481,000, respectively. Sublease rental income was not material to the consolidated financial statements for the years ended September 30, 2017 and 2016.

Litigation

The Company is subject to a variety of claims and suits that arise from time to time in the ordinary course of its business, acquisitions, or other transactions. While the Company's management currently believes that resolving all of these matters, individually or in the aggregate, will not have a material adverse impact on the Company's consolidated financial position or results of operations, the litigation and other claims that the Company faces are subject to inherent uncertainties and management's view of these matters may change in the future. Should an unfavorable final outcome occur, there exists the possibility of a material adverse impact on the Company's consolidated financial position, results of operations and cash flows for the period in which the effect becomes probable and reasonably estimable.

Seismic Standards

The Company's California Hospitals (with the exception of Bellflower, which currently only provides psychiatric services) are required to comply with laws that regulate the seismic performance of all aspects of hospital facilities in California and imposes near-term and long-term compliance deadlines for seismic safety assessment, submission of corrective plans, and the retrofitting or replacement of medical facilities to comply with current seismic standards. These laws and regulations require hospitals to meet seismic performance standards to ensure that they are capable of providing medical services to the public after an earthquake or other disaster.

The Company was required to conduct engineering studies at its hospitals to determine whether and to what extent modifications to the hospital facilities will be required. Management believes that Southern California Hospitals at Culver City ("SCH Culver City") meets all current requirements; however, it may be required to make significant capital expenditures in the future to comply with the seismic standards, which could impact its earnings. In addition, such modifications to the hospital facilities could potentially result in environmental remediation liabilities which may be material to the Company.

The Office of Statewide Health Planning and Development ("OSHPD") has a voluntary program to re-evaluate the seismic risk of hospital buildings classified as Structural Performance Category ("SPC") 1. These buildings are considered hazardous and at risk of collapse in the event of an earthquake and they were required to be retrofitted, replaced or removed from providing acute care services by 2013, unless granted an extension. OSHPD is using HAZARDS U.S. ("HAZUS"), a state-of-the-art methodology, to reassess the seismic risk of SPC-1 buildings and those that are determined to pose a low seismic risk may be reclassified to SPC-2. The SPC-2 buildings would have until 2030 to comply with the structural seismic safety standards. Participation in the HAZUS program is optional for hospital owners wishing to have their SPC-1 building(s) re-evaluated. Applications for a HAZUS re-evaluation of the seismic risk were submitted for Southern California Hospital at Hollywood ("SCH Hollywood"), SCH Culver City and Los Angeles Community Hospital, but there is no assurance they will result in extensions.

In addition, in 2011, the California Legislature enacted Senate Bill 90, which permitted some hospitals to apply for up to an additional seven year extension to the seismic retrofit deadlines, not to extend beyond January 1, 2020. SB 90 also permits OSHPD to extend until January 1, 2018 the date by which the hospitals must obtain a building permit and commence the required retrofit project. OSHPD has discretion to approve or disapprove SB 90 extension requests, and to determine the length of the extension (up to the maximum seven years), based on eligibility factors including seismic risks associated with the affected buildings (which can be impacted by the updated HAZUS findings), community access to essential hospital services in the area and financial hardships facing the applicant.

SCH Culver City and Los Angeles Community Hospital both applied for the extension from OSHPD. Two of the multi-story buildings owned by SCH Culver City were granted extensions until January 1, 2019 or July 1, 2019. An additional single-story building is classified as SPC-2. Los Angeles Community Hospital received an extension until January 1, 2019. Also, SCH Hollywood received an extension until January 1, 2030 and is currently classified as SPC-2.

The Company is in the process of pursuing Non-Structural Performance Category ("NPC") 2 classification and SB 499 Item 2 extensions of the compliance deadlines that would result for Foothill.

These requirements can result in significant operational changes and capital outlays. Management is continuing to assess its options and the methods of financing the required retrofits. Based on

management's evaluation, the costs of renovation needed to comply with the California seismic safety standards for its acute-care facilities, including asbestos abatement, are not estimable at this time.

Legislation and HIPAA

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

The Company believes that it is in compliance with fraud and abuse regulations as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

The Health Insurance Portability and Accountability Act ("HIPAA") assures health insurance portability, reduces healthcare fraud and abuse, guarantees security and privacy of health information, and enforces standards for health information. The Health Information Technology for Economic and Clinical Health Act ("HITECH Act") expanded upon HIPAA in a number of ways, including establishing notification requirements for certain breaches of protected health information. In addition to these federal rules, California has also developed strict standards for the privacy and security of health information as well as for reporting certain violations and breaches. The Company may be subject to significant fines and penalties if found not to be compliant with these state or federal provisions.

Affordable Care Act

The Patient Protection and Affordable Care Act ("PPACA") has made significant changes to the United States health care system. The legislation impacted multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Under this legislation, 32 states have expanded their Medicaid programs to cover previously uninsured childless adults. In addition, many uninsured individuals have had the opportunity to purchase health insurance via state-based marketplaces, state-based marketplaces using a federal platform, state-partnership marketplaces or the federally-facilitated marketplace. PPACA also implemented a number of health insurance market reforms, such as allowing children to remain an their parents' health insurance until age 26 or prohibiting certain plans from denying coverage based on pre-existing conditions. Nationally, these reforms have reduced number of uninsured.

In light of the transition to a new presidential administration, it is unclear what changes may be made to PPACA. The Tax Cuts and Jobs Act ("TCJA"), passed in December 2017, eliminates the individual mandate under PPACA, effective January 1, 2019. The individual mandate was included in PPACA to address concerns that other market reforms expanding access to coverage might produce adverse selection and higher premiums. The extent to which the repeal of the individual mandate will impact the uninsured rate and 2019 premiums is unclear at this juncture. Future changes to PPACA and in other federal and state legislation could have a material impact on the operations of the Company. The Company is continuing to monitor the legislative environment for risks and uncertainties.

Collective Bargaining Agreements

As of September 30, 2017, the Company had approximately 22,000 employees, of whom approximately 5,300 employees or 24% are represented by various labor organizations. Of those, approximately 1,700 employees or 8% of the Company's employees are employed under union contracts that have expired or will expire before September 30, 2018.

Tangible Net Equity ("TNE") Requirement

The Company's affiliated physician organizations and Prospect Health Plan, Inc. ("PHP") must comply with a minimum working capital requirement, Tangible Net Equity ("TNE") requirement, cash-to-claims ratio and claims payment requirements prescribed by the California Department of Managed Health Care ("DMHC"). TNE is defined as net assets, less intangibles and amounts due from affiliates, plus subordinated obligations. As of September 30, 2017, the Company's affiliated physician organizations and PHP were in compliance with these regulatory requirements.

Employee Health Plans

The Company offers self-insured EPO/HMO and PPO plans to all eligible employees.

Employee health benefits are administered by a third party claims administrator, based on plan coverage and eligibility guidelines determined by the Company, as well as by collective bargaining agreements (as reflected above). Commercial insurance policies cover per occurrence losses in excess of $750,000 for Crozer, $160,000 for East Orange, $275,000 for CharterCARE, $225,000 for ECHN, $350,000 for Waterbury, $250,000 for all other hospitals and $175,000 for the Medical Group and Corporate segments. An actuarially and internally-estimated liability of approximately $10,985,000 and $4,157,000 for incurred but not reported claims has been included in accrued salaries, wages, and benefits as of September 30, 2017 and 2016, respectively.

Provider Contracts

Many of the Company's payer and provider contracts are complex in nature and may be subject to differing interpretations regarding amounts due for the provision of medical services. Such differing interpretations may not come to light until a substantial period of time has passed following contract implementation. Liabilities for claims disputes are recorded when the loss is probable and can be estimated. Any adjustments to reserves are reflected in current operations.

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13. Accrued Medical Claims and Other Healthcare Costs Payable

The following table presents the roll-forward of incurred but not reported ("IBNR"), claims reserves (Medical Group segment, Global Risk Management segment, and full risk contracts) as of and for each of the fiscal years ended September 30, 2017 and 2016 (in thousands):

September 30,	**2017**	2016
IBNR as of beginning of year	**$ 52,761**	$ 53,531
Claim expenses incurred during the year:		
Related to current year	**246,409**	226,431
Related to prior year	**2,899**	2,715
Total incurred	**249,308**	229,146
Claims paid during the year:		
Related to current year	**(205,735)**	(179,457)
Related to prior year	**(40,849)**	(50,459)
Total paid	**(246,584)**	(229,916)
IBNR as of end of year	**$ 55,485**	$ 52,761

Following is a table showing the details of the Medical Group and Global Risk Management segments cost of revenues per the consolidated statements of operations (in thousands):

Years Ended September 30,	**2017**	2016
Capitation expense	**$ 94,141**	$ 100,673
Fee-for-service claims expense	**137,860**	142,674
Other physician compensation	**45,173**	20,436
Other cost of revenues	**7,861**	1,941
Total cost of revenues	**$ 285,035**	$ 265,724

14. Joint Ventures and Unconsolidated Equity Investments

The Company has invested in several joint ventures with unrelated third parties, which are accounted for under the equity method of accounting. As of September 30, 2017, Roger Williams Medical Center owned 20% of Roger Williams Radiation Therapy and 20% of Southern New England Regional Cancer Center, LLC. ECHN owned 50% of Northeast Regional Radiation Oncology Network, Inc., 50% of Aetna Ambulance Service, Inc., 50% of Ambulance Service of Manchester, LLC, and 50% of Evergreen Endoscopy Center, LLC. Waterbury owned 50% of Harold Leever Regional Cancer Center Inc. These joint ventures under the equity method are included in the other assets in the accompanying consolidated balance sheets as of September 30, 2017 and 2016 are $17,371,000 and $4,281,000, respectively. For the years ended September 30, 2017 and 2016, the Company received $1,636,000 and $1,081,000 respectively in distributions.

Summarized combined unaudited financial information for the Company's joint ventures as of September 30, 2017 and 2016 for the years then ended is as follows (in thousands):

September 30,	2017	2016
Cash	$ 15,750	$ 2,567
Receivables	7,304	1,265
Other current assets	1,613	271
Total current assets	24,667	4,103
Property, improvements and equipment, net	29,979	6,495
Goodwill	7,142	7,142
Intangible assets	882	912
Other long-term assets	2,905	1,641
Total assets	$ 65,575	$ 20,293
Accounts payable and accrued liabilities	$ 4,894	$ 1,251
Other long-term liabilities	1,781	378
Equity	58,900	18,664
Total liabilities and partner's capital	$ 65,575	$ 20,293

Years ended September 30,	2017	2016
Revenues	$ 62,397	$ 15,007
Net income	$ 6,219	$ 1,927
PMH's income from equity method investments	$ 2,145	$ 448

15. Subsequent Event (Unaudited)

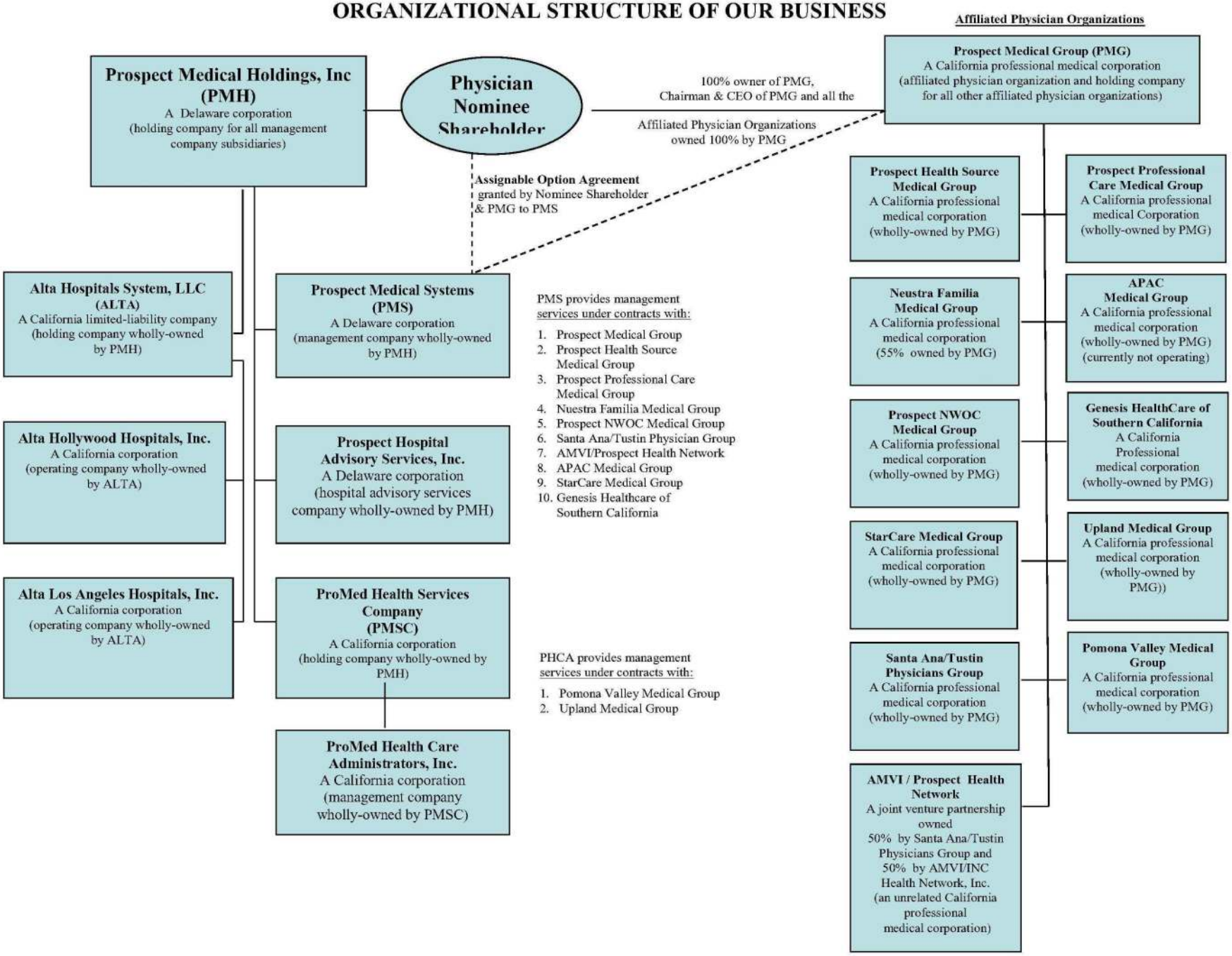
The Company has evaluated subsequent events through December 30, 2017, the date the Company's consolidated financial statements were available for issuance.

In December 2017, New University Medical Group LLC ("New UMG") entered into a Second Closing to acquire the remaining assets of University Medical Group ("UMG") that were not acquired in the initial acquisition in December 2014. As consideration for the acquisition, New UMG has assumed certain designated liabilities of the practice. As part of the transaction, New UMG has assigned all assets acquired from UMG to New UMG's parent company, Prospect CharterCARE Physicians, LLC, dba CharterCARE Medical Associates ("CCMA"). CCMA entered into a Post Closing Administrative Services Agreement pursuant to which CCMA and its affiliates provide services to the seller of the practice in connection with its termination of all operations and the wind up its affairs and operations.

In December 2017, CMS approved the fee for service inpatient and outpatient payments and taxes for the period from January 1, 2017 to June 30, 2019 for the California Hospital Fee Program. The managed care piece of the program has not yet been approved.

A chart of the organizational structure of our business is set forth on the next page, followed by a narrative summary of the chart.

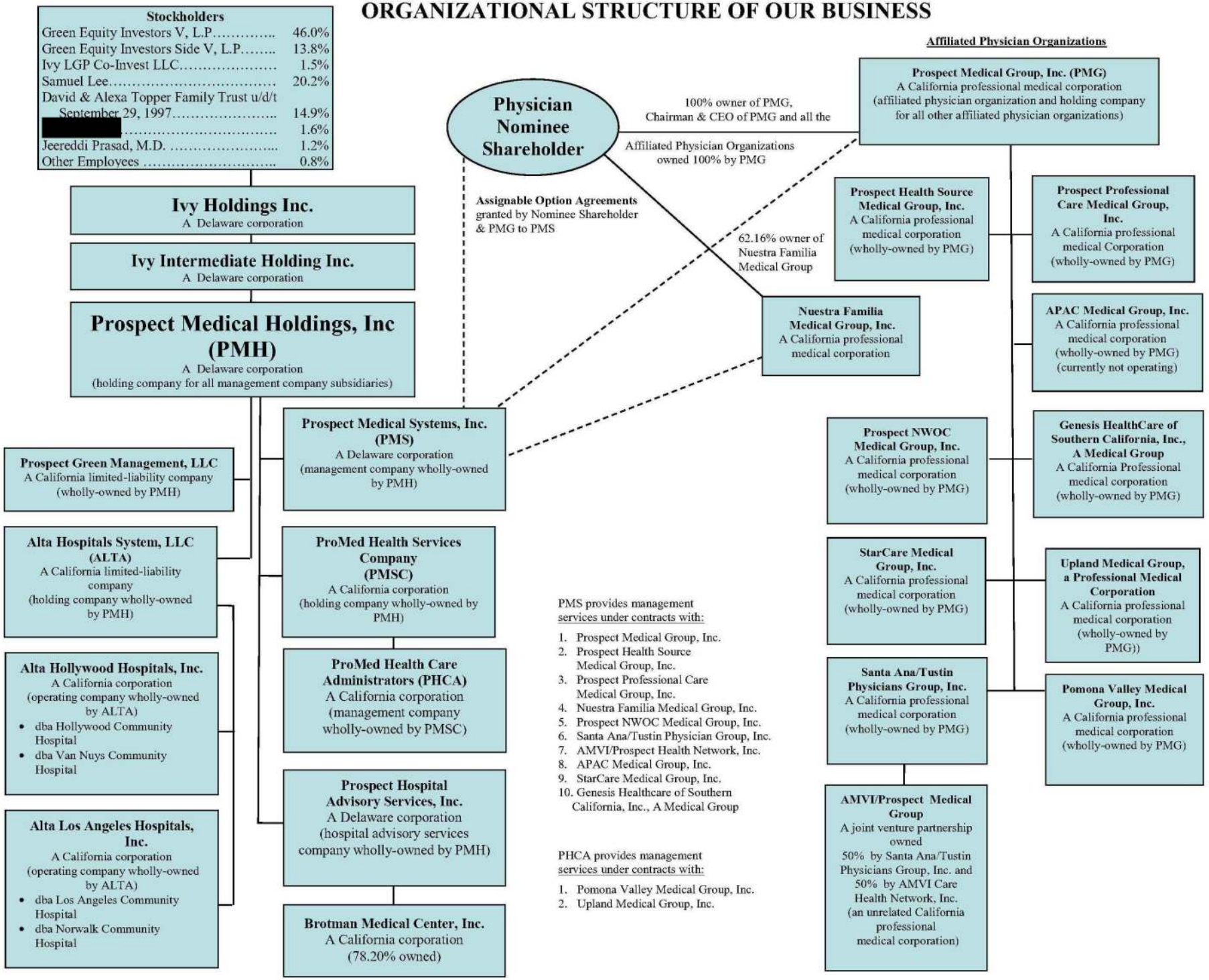
ORGANIZATIONAL STRUCTURE OF OUR BUSINESS



Summary of the Structure of Our Business

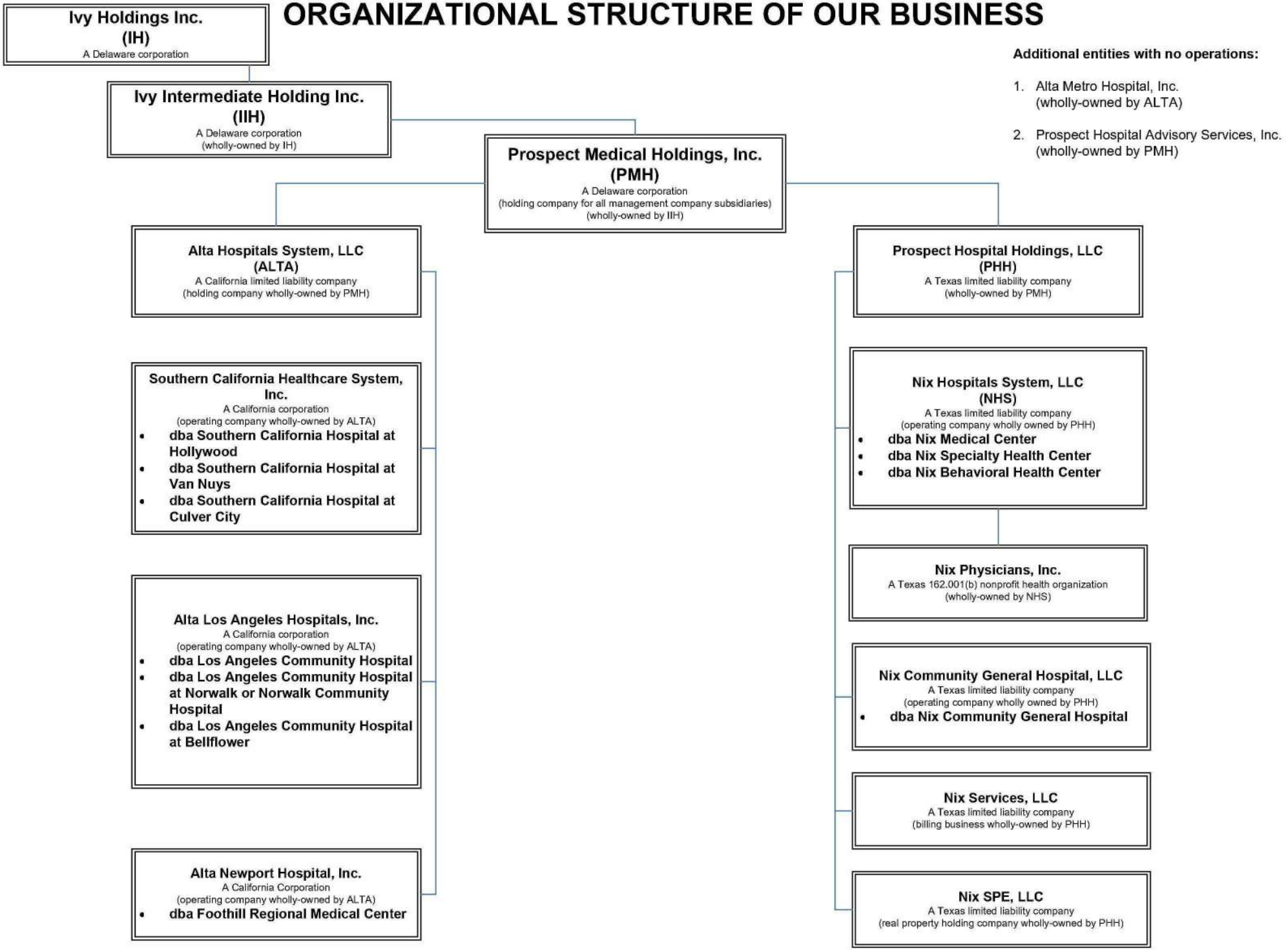
1. Prospect Medical Holdings, Inc. ("PMH") is the owner of 100% of the outstanding membership interests of Alta Hospitals System, LLC, a California limited liability company ("Alta"), the successor by merger to Alta Healthcare System, Inc. Alta, in turn, holds 100% of the outstanding stock of its two subsidiaries, Alta Los Angeles Hospitals, Inc. and Alta Hollywood Hospitals, Inc.
2. Redacted resigned as our Chief Executive Officer effective March 19, 2008 and as Chairman of our Board of Directors effective May 12, 2008. Following Redacted resignation, Samuel S. Lee was appointed our Chief Executive Officer and the Chairman of our Board of Directors, effective March 19, 2008 and May 14, 2008, respectively. Mr. Lee is also the Vice President and a director of ProMed Health Services Company, and the Chief Executive Officer and sole Manager of Alta.
3. Redacted was the nominee shareholder, Chief Executive Office and the sole director of Prospect Medical Group and all of our other affiliated physician organizations, except that Redacted was the Secretary and a director of Nuestra Familia Medical Group, which is 55% owned by Prospect Medical Group; and Chief Executive Officer of Santa Ana-Tustin Physicians Group, which is a 50% joint venture partner in AMVI/Prospect Health Network. Effective August 8, 2008, Redacted was replaced as the nominee shareholder, sole director and Chief Executive Officer of Prospect Medical Group and our other affiliated physician organizations. Redacted currently functions in each of these capacities.
4. Prospect Medical Group is an affiliated physician organization and owns 100% of the stock of all of our other affiliated physician organizations, except that Prospect Medical Group owns 55% of Nuestra Familia Medical Group and, through its subsidiary, Santa Ana Tustin Physicians Group, owns a 50% interest in AMVI/Prospect Health Network.
5. Prospect Medical Systems, Prospect Medical Group and Redacted re parties to an Assignable Option Agreement whereby Prospect Medical Systems can change the owner/shareholder of Prospect Medical Group at any time. Prospect Medical Systems and PMH are deemed to control all the affiliated physician organizations, except AMVI/Prospect Health Network, for financial accounting purposes, dictating a consolidation of the financial statements of all these entities with PMH and its management subsidiaries. We account for our interest in AMVI/Prospect Health Network using the equity method of accounting and we record only the net results derived from our specifically identified portion of the joint venture's operations. In addition, we record the management fee revenue we earn for providing management services to our partner's specifically identified portion of the joint venture operations.
6. All of the affiliated physician organizations operate as independent physician associations ("IPAs").

ORGANIZATIONAL STRUCTURE OF OUR BUSINESS



CONFIDENTIAL BUSINESS INFORMATION

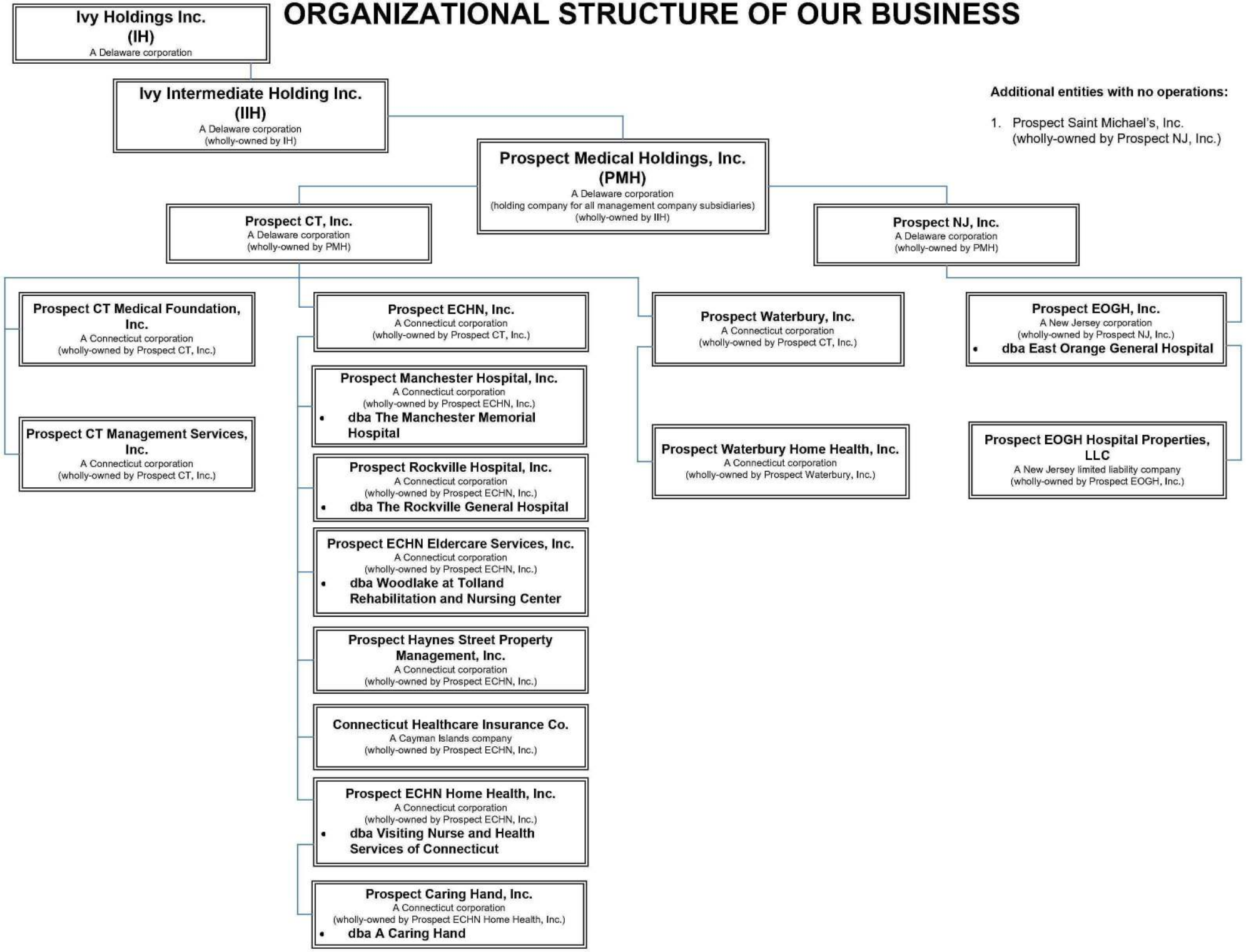
ORGANIZATIONAL STRUCTURE OF OUR BUSINESS



Additional entities with no operations:

1. Alta Metro Hospital, Inc.
   (wholly-owned by ALTA)
2. Prospect Hospital Advisory Services, Inc.
   (wholly-owned by PMH)

ORGANIZATIONAL STRUCTURE OF OUR BUSINESS



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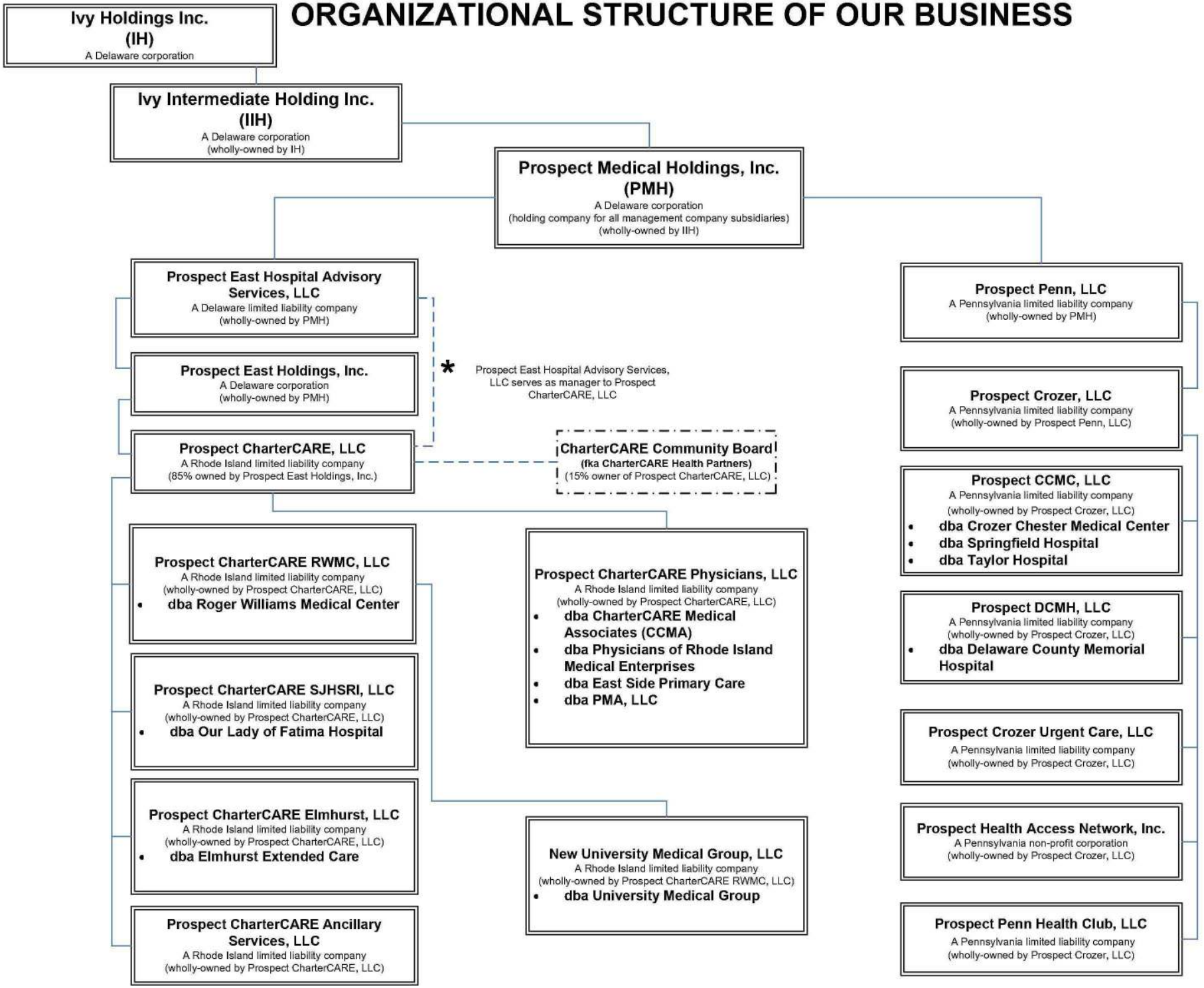

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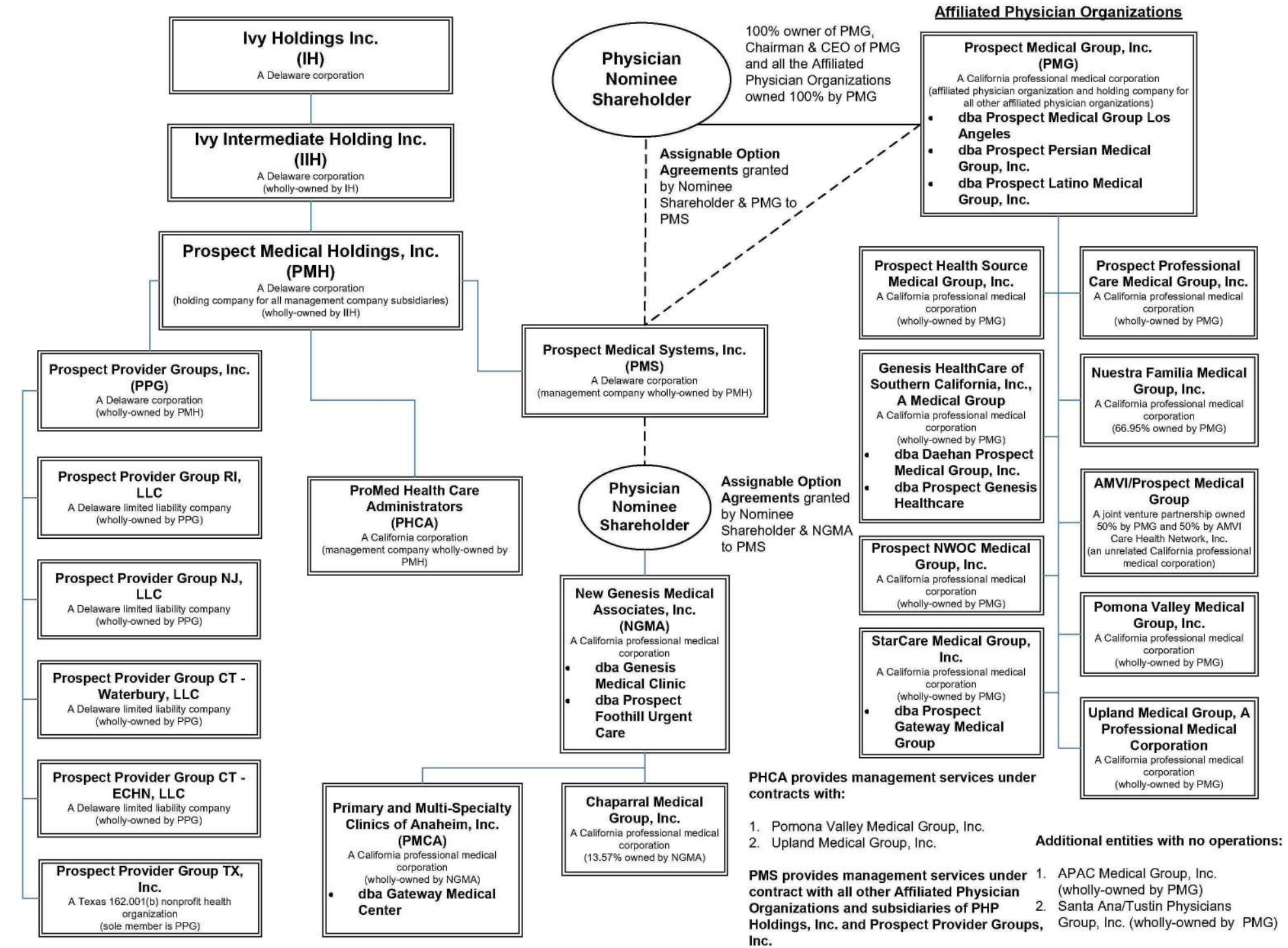

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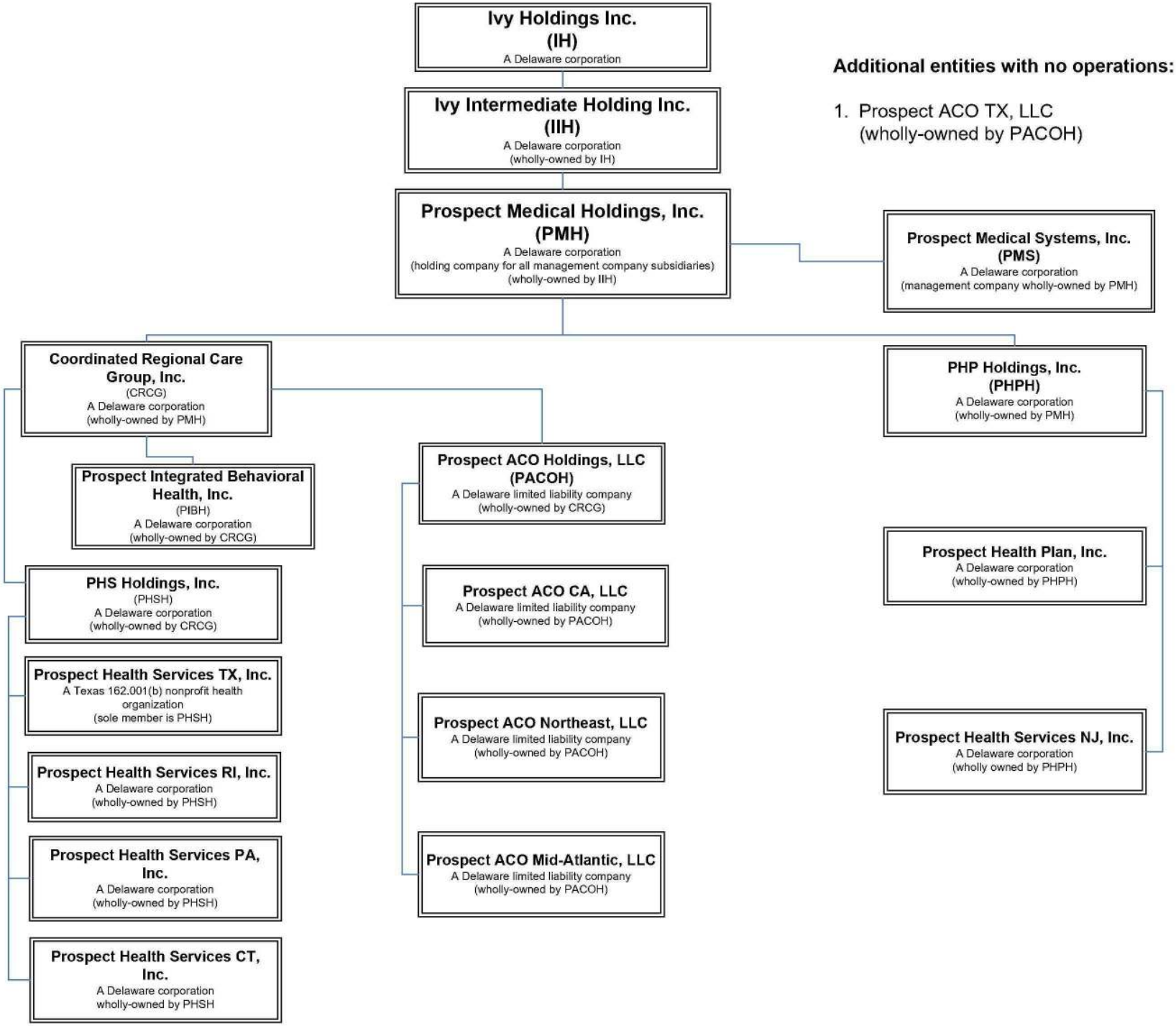

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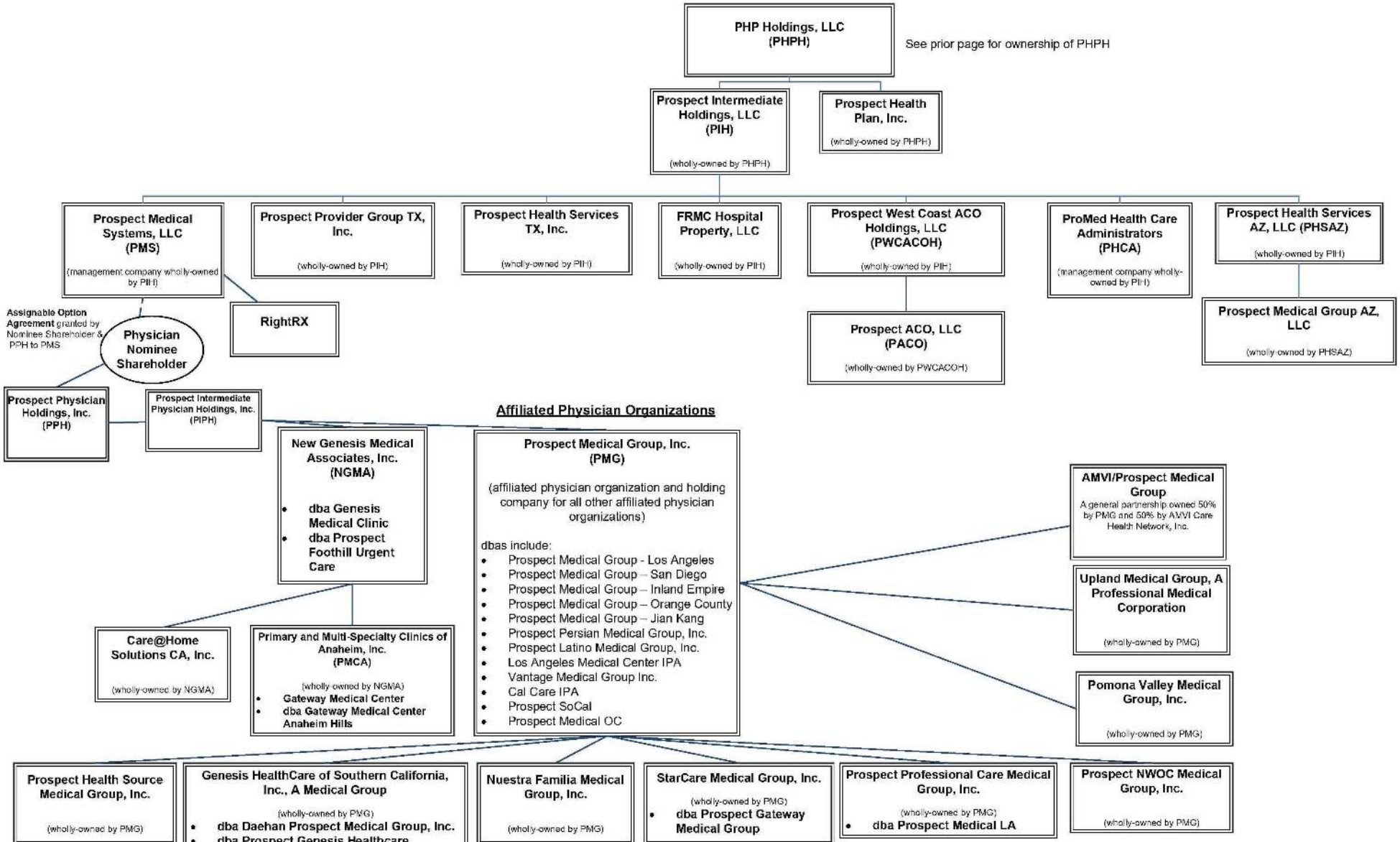

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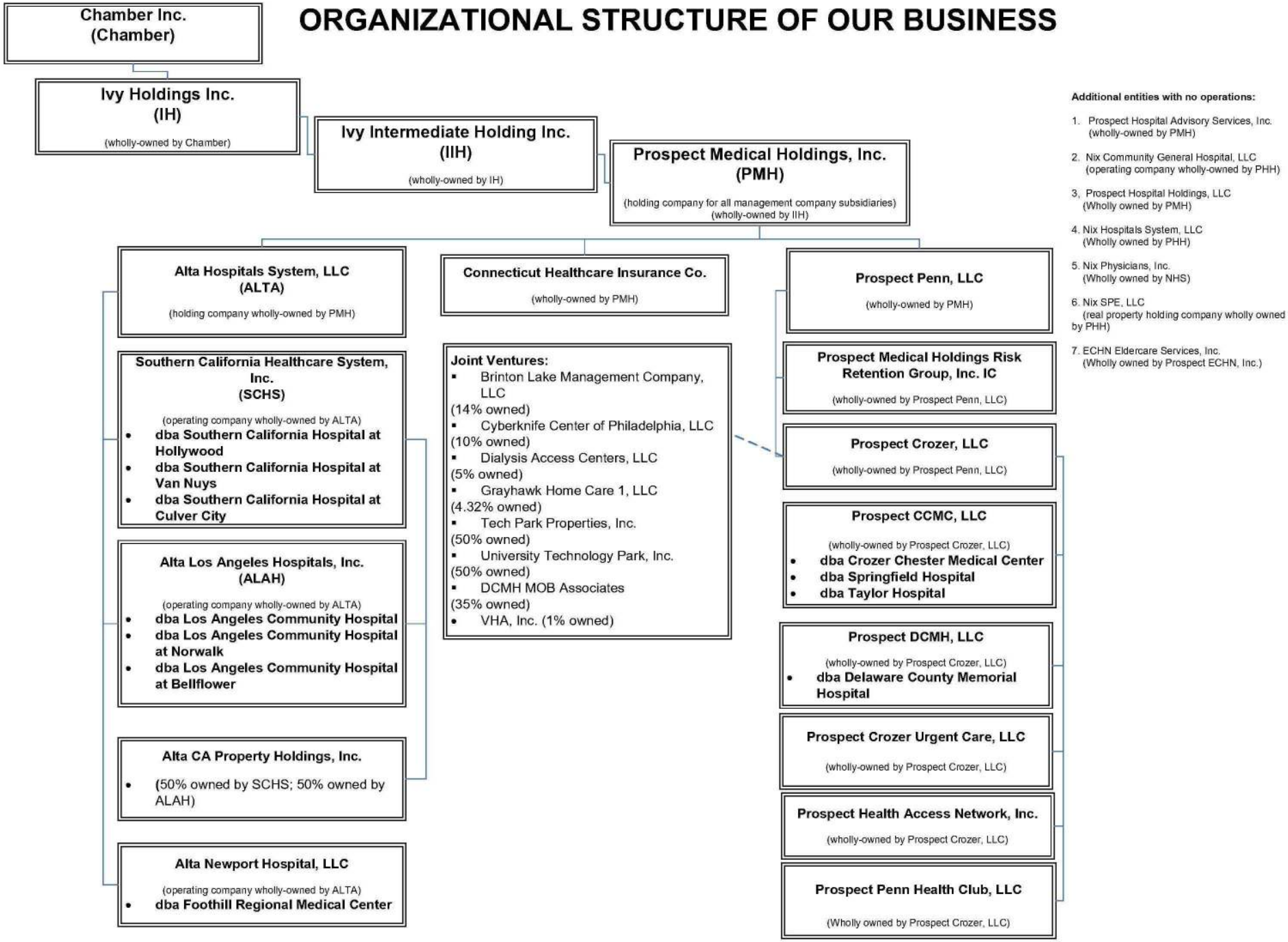
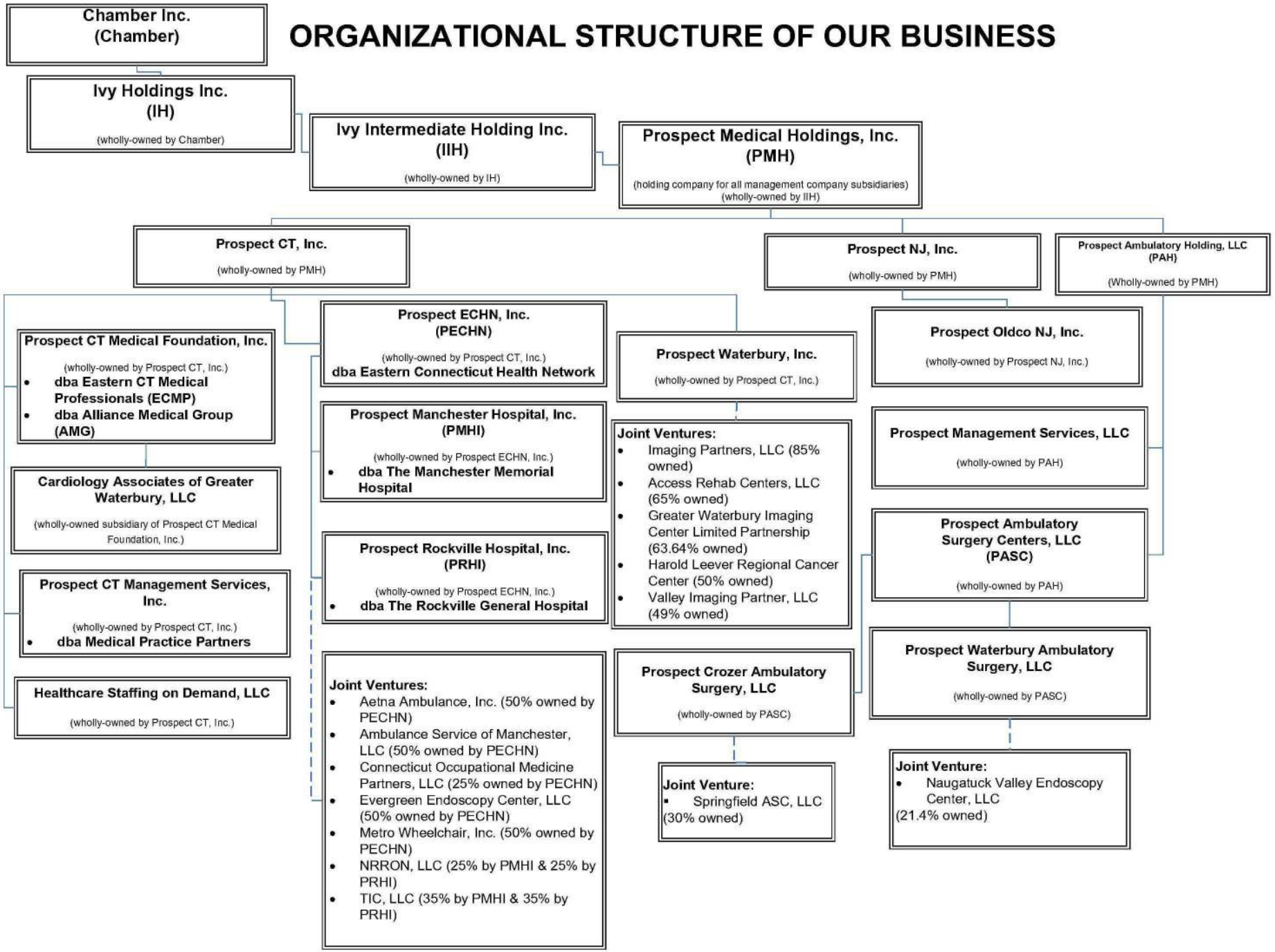


Additional entities with no operations:

1. Prospect Hospital Advisory Services, Inc. (wholly-owned by PMH)
2. Nix Community General Hospital, LLC (operating company wholly-owned by PHH)
3. Prospect Hospital Holdings, LLC (Wholly owned by PMH)
4. Nix Hospitals System, LLC (Wholly owned by PHH)
5. Nix Physicians, Inc. (Wholly owned by NHS)
6. Nix SPE, LLC (real property holding company wholly owned by PHH)
7. ECHN Eldercare Services, Inc. (Wholly owned by Prospect ECHN, Inc.)

ORGANIZATIONAL STRUCTURE OF OUR BUSINESS



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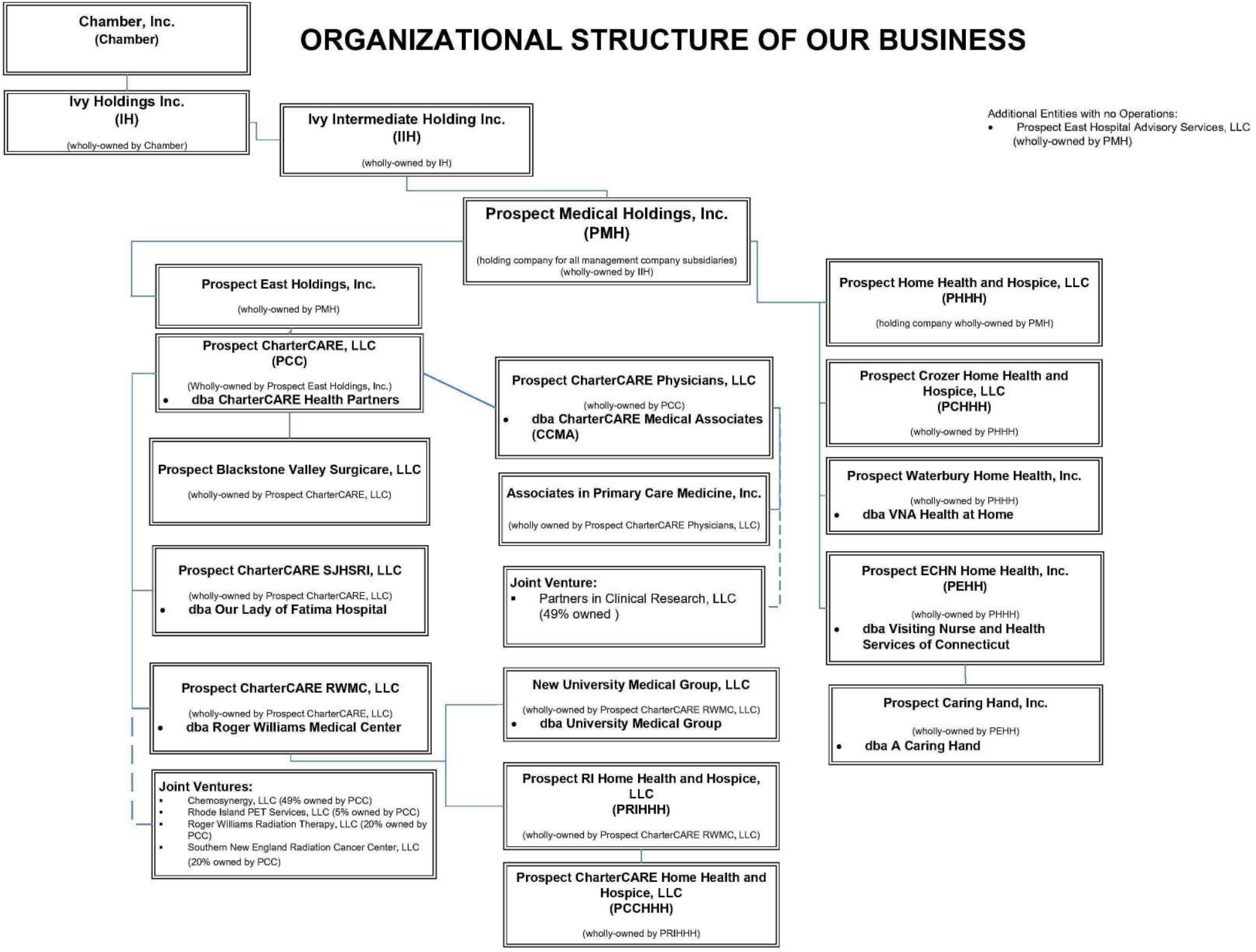

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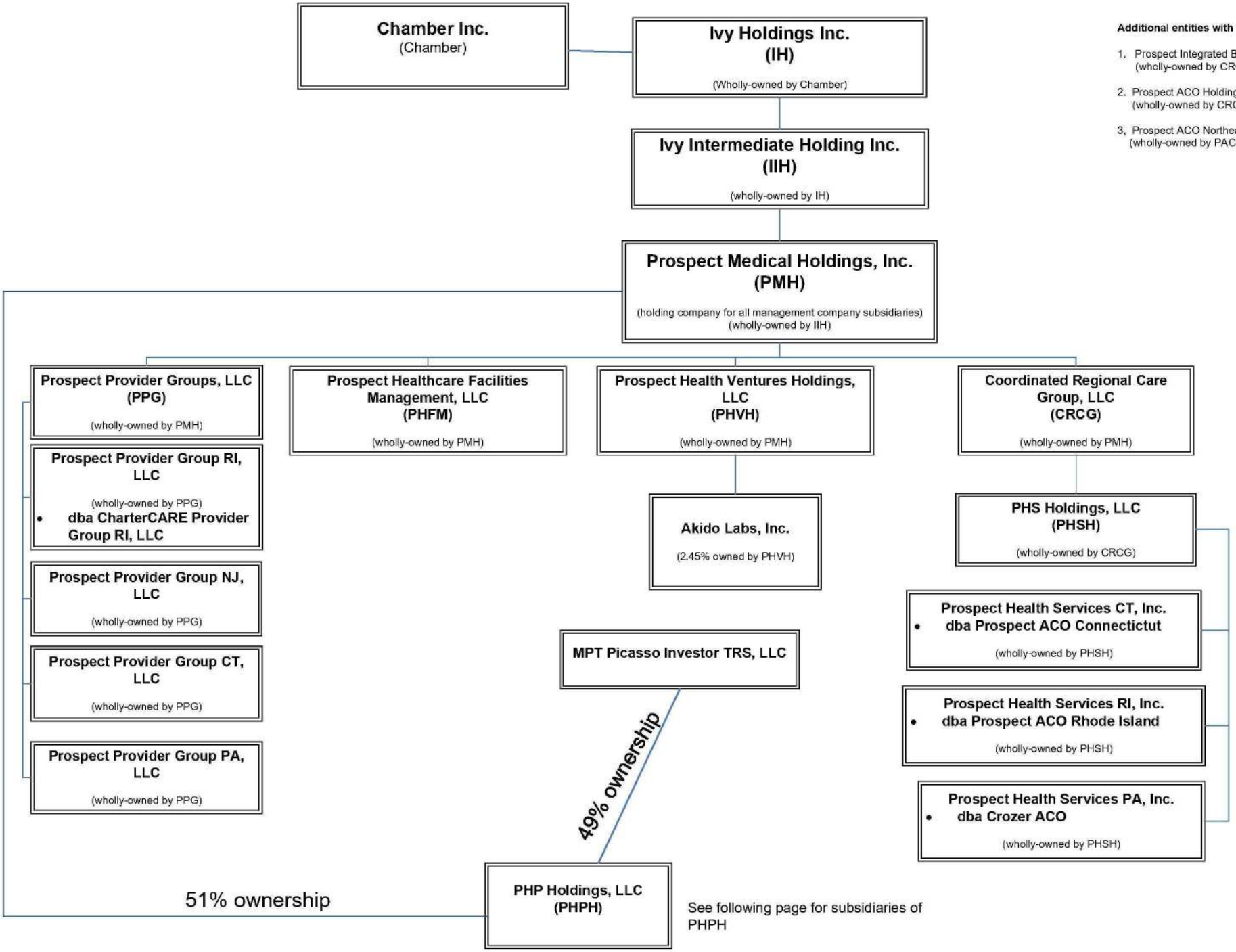

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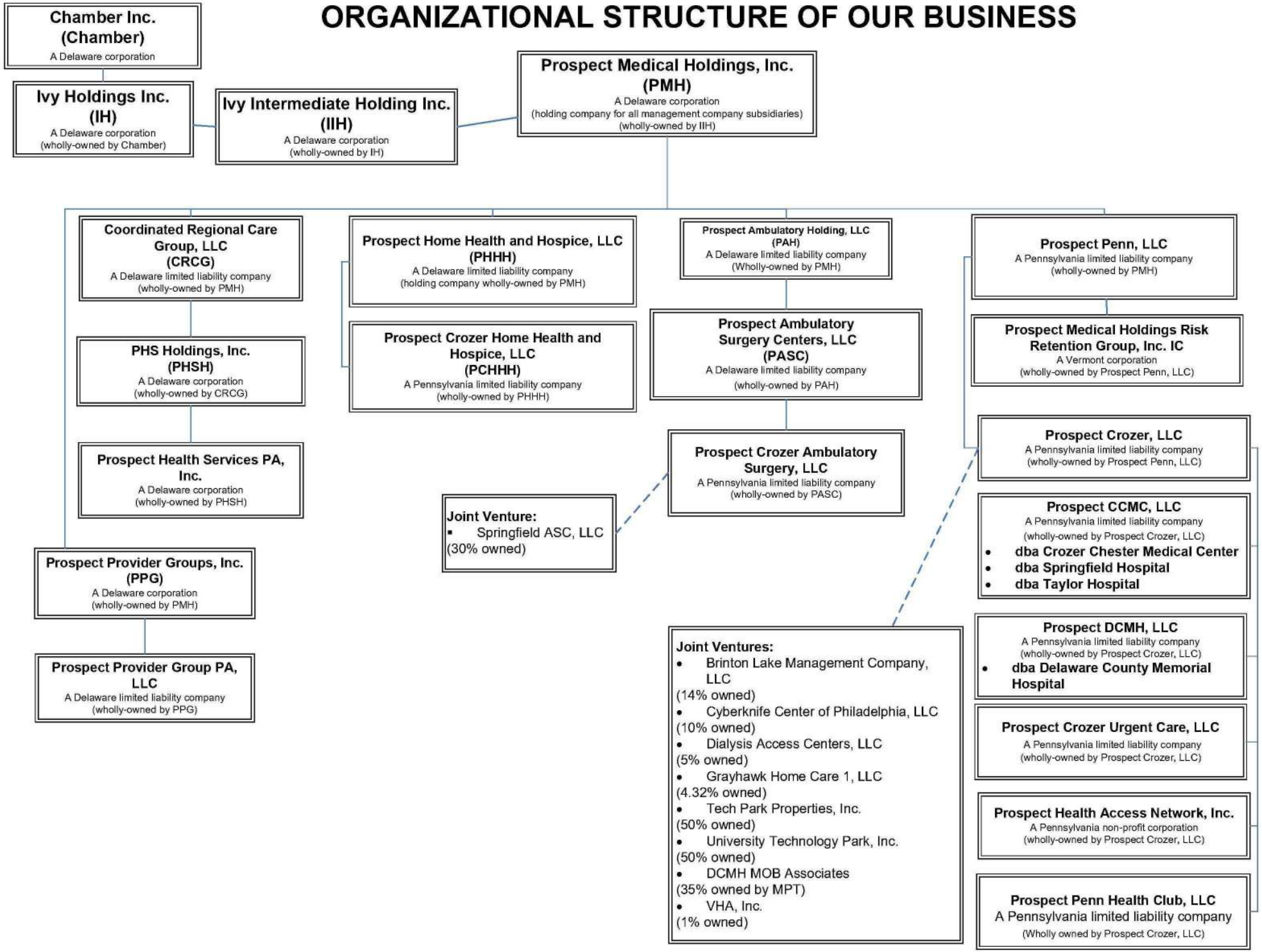

PROSPECT MEDICAL HOLDINGS, INC.

Prospect Medical Holdings, Inc.
Management Audit Committee Meeting Minutes
October 2, 2019 at 3:00 pm

Committee Members Attending:
(*in person*) George Pillari (Chairperson), Ellen Shin, Esq., [Redacted]
(by telephone) [Redacted]

Non-Committee Member Attendees: [Redacted]

Committee members Absent: [Redacted]

Agenda	Discussion	Action Points
1.0 Call to Order and Review of Meeting Agenda	Mr. Pillari, SVP, Chief Performance Improvement Officer, called the meeting to order at 3:04 pm, determined that there was a quorum, and the agenda was reviewed.	
2.0 Approval of Minutes	The August 15, 2019 minutes were reviewed. [Redacted] commented that he did not participate in the August 15 meeting and requested that his name be removed from the list of non-committee members in attendance. With that change and upon a motion made and seconded, the minutes of the August 15, 2019 MAC meeting were approved.	Remove draft stamp and file
3.0 MAC Report 3.1 MAC Work Plan Status	[Redacted] and [Redacted] reported that remaining corrective action items on the MAC Work Plan that require verification of remediation will be addressed by the end of the fiscal year and through	

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	implementation of Rubixis and Oracle. The first wave of finance and accounting policies are expected to be drafted by the end of December 2019. [redacted] commented that he provided a copy of the MAC Work Plan to BDO and the auditors understood that the outstanding items for remediation were contingent on the year-end close and implementation of new IT systems.	
3.2 Restricted Account Review: PHP Account	A briefing on the review of the PHP Account will be deferred until next meeting when [redacted] available.	Deferred until next meeting.
3.3 FY2019 BDO Engagement	[redacted] eported on the status of the BDO engagement. She stated that the estimated cost for the FY 19 engagement is $2.57 million compared to $2. 7 million for FY18. The FY19 financial statement spend figure also included several additions, including Cassatt Risk Retention, "What Could Go Wrong" Analysis, CT additional hours, DelCo additional hours and a 3% base inflation amount. [redacted] pointed out that last year's audit incurred higher than usual expenses due in part to the company's financial issues in the prior year. As a result, the total FY18 financial statement spend was $4.79 million, which in addition to the services of BDO also include the services of several third parties. She also described additional changes from last year, including that BDO would assume the RRG review from [redacted] [redacted] asked how that decision to transfer the audit had been made. [redacted]	

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PROSPECT MEDICAL HOLDINGS, INC.

	and Mr. Crockett stated that it was a committee decision and Mr. Crockett and [redacted] participated in that decision. [redacted] and [redacted] reported that additional audit hours were necessary for work needed at the Connecticut facilities and to complete the "What Could Go Wrong" ("WCGW") analysis. Mr. [redacted] said that they will ask for a reduction in fees because the WCGW analysis was completed late. [redacted] escribed the WCGW analysis and reported that BDO did not find any additional material weaknesses or significant deficiencies. Mr. Pillari asked about the status of the Crozer reconciliations. [redacted] eported that the staff was working on July reconciliations. [redacted] stated that significant improvements had been made since last year. [redacted] explained that she still had certain concerns about timely completion of the reconciliations in part because the temporary staff hired to assist Crozer finance staff were being redeployed by hospital leadership to fill other positions against her direction. Mr. Crockett and Mr. Pillari expressed concern that failure to complete the Crozer reconciliations in a timely manner had been a significant deficiency in the BDO audits for the past two fiscal years. Discussion ensued about the status of the Crozer reconciliations and plans to complete the reconciliations as soon as possible. [redacted] and Mr. Pillari agreed that in the future, the BDO audit engagement letter, including statement of work and proposed costs, would be brought to the MAC prior to signature.	

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PROSPECT MEDICAL HOLDINGS, INC.

	Mr. Pillari reminded the MAC Committee members about the oversight role of the MAC and importance of raising issues involving the financial statements, financial reporting process and internal controls to the Committee.	
3.4 FY2019 BDO Audit Timeline	Redacted ated that the audit report is expected to be completed by December 20. BDO will provide an audit calendar shortly. The MAC members agreed to meet the last week of October and every two weeks thereafter prior to the December 20 date to complete the report.	
3.5 School of Nursing Closing Audit	[redacted] The MAC members discussed the agenda for the Audit and Compliance Committee, which includes the BDO presentation on the FY19 audit and a compliance program briefing. The MAC members provided comments to the BDO presentation.	

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PROSPECT MEDICAL HOLDINGS, INC.

4.0 Audit and Compliance Committee meeting: October 7, 2019 5.0 Internal Audit Draft FY20 Work Plan Discussion Adjournment	Redacted discussed the draft FY20 internal audit work plan and solicited comments from the members. He stated that he is scheduling interviews with certain MAC members to obtain feedback regarding the work plan to present at the next meeting. The meeting adjourned at approximately 3:50 pm	

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MINUTES OF THE
AUDIT & COMPLIANCE COMMITTEE
OF
PROSPECT MEDICAL HOLDINGS, INC.
a Delaware corporation

A telephonic meeting of the Audit & Compliance Committee ("Committee") of Prospect Medical Holdings, Inc., a Delaware corporation (the "Company"), was held on October 7, 2019 at 1:30 p.m. Committee members Alyse Wagner (Chairperson) and Michael Solomon were present. Company participants were [redacted], Chief Financial Officer; [redacted] Chief Accounting Officer; George Pillari, Chief Performance Improvement Officer; Eric Samuels, VP, Finance & Treasury; Ellen Shin, General Counsel; Von Crockett, SVP, Corporate Development; and [redacted] Chief Compliance & Privacy Officer. Participants from BDO USA, LLP ("BDO") were [redacted] and [redacted]

Call to Order

Ms. Wagner called the meeting to order.

Approval of Prior Audit & Compliance Committee minutes

Ms. Shin asked the Committee to review the August 16, 2019 Audit & Compliance Committee minutes. Upon motion duly made, and seconded, the Committee unanimously approved those minutes. The motion passed.

Management Audit Committee Report

Mr. Pillari provided an update to the Committee from the last meeting.

BDO Audit Planning Presentation

Mr. Pillari then turned the meeting over to [redacted] who walked the Committee through BDO's Audit & Planning Presentation for fiscal year 2019. Specifically, [redacted] discussed the members of the client service team, management's responsibilities, the engagement objectives (which are BDO's responsibilities), the overall audit strategy and planned scope, primary areas of focus and audit strategy, overall audit timeline, and the What Could Go Wrong ("WCGW") analysis. Ms. Wagner asked a question about consolidated reporting. [redacted] responded to that question.

With respect to BDO's primary areas of focus and audit strategy, [redacted] explained some of the high risk considerations, and BDO's planned approach to handling those areas. [redacted] noted that for the period significant matters included the sale / leaseback transaction with Medical Properties Trust ("Transaction"), the costs associated with the Transaction, payoff of the Term Loan, and the pending Nix and EOGH transactions.

[redacted] asked the Committee if there were any questions, and if the Committee, the Management Audit Committee ("MAC"), and management were aware of any fraud considerations in the Company's financials. Everyone answered in the negative.

CONFIDENTIAL BUSINESS INFORMATION

A discussion ensued amongst the Committee and [redacted] regarding purchase accounting.

[redacted] stated that based on the current audit timeline, it was expected that the Company could issue the FY2019 audited financial statements before Christmas. BDO and management are proactively working together to achieve that target deadline.

[redacted] then summarized the preliminary results of the WCGW analysis, which was requested by the MAC. In particular, [redacted] noted that there had been significant improvements in critical areas, including internal controls, management override, tone at the top, and the consolidation, financial reporting and close process. He did state that his only area of concern is at the Crozer Keystone Health System. Specifically, he stated that his concern relates to a delay in completion of deliverables due to staff turnover. [redacted] then asked if there were any comments. Ms. Wagner asked for more specifics about Crozer. [redacted] explained that there were balance account reconciliations that needed to be completed, and that the team is on track for completion by October 28, 2019. Mr. Pillari stated that a great deal of collective work had been put in by the MAC and BDO, and that everyone was working together.

Compliance Program

[redacted]

Executive Session

The Committee did not have an executive session.

Adjournment

There being no further business to discuss, the meeting was adjourned at 2:37 p.m.

Ellen Shin
Secretary

CONFIDENTIAL BUSINESS INFORMATION

MINUTES OF THE
AUDIT & COMPLIANCE COMMITTEE
OF
PROSPECT MEDICAL HOLDINGS, INC.
a Delaware corporation

A telephonic meeting of the Audit & Compliance Committee ("Committee") of Prospect Medical Holdings, Inc., a Delaware corporation (the "Company"), was held on November 7, 2019 at 10:30 a.m. Committee members Alyse Wagner (Chairperson), John Baumer, and Michael Solomon were present. Company participants were [redacted] Chief Financial Officer; [redacted] Chief Accounting Officer; George Pillari, Chief Performance Improvement Officer; [redacted] VP, Finance & Treasury; Ellen Shin, General Counsel; Von Crockett, SVP, Corporate Development; and [redacted] Chief Compliance & Privacy Officer.

Call to Order

[redacted] called the meeting to order.

Acceptance of Management Audit Committee minutes

The minutes of the August 15 and October 2, 2019 Management Audit Committee were reviewed and accepted with no comments.

Approval of Prior Audit & Compliance Committee minutes

Ms. Shin asked the Committee to review the October 7, 2019 Audit & Compliance Committee minutes. [redacted] and [redacted] requested that in the second paragraph on page 2, "bank account reconciliations" be changed to "balance sheet reconciliations". Upon motion duly made, and seconded, the Committee approved the minutes with that change.

Management Audit Committee Report

Mr. Pillari provided an update to the Committee from the last meeting. Mr. Pillari stated that the BDO company-wide audit was fully underway as of October 28 when Prospect delivered all of the facility reconciliations, including Crozer's. Mr. Pillari noted the comparison from last year and recognized the efforts of the finance team and particularly [redacted] and [redacted] Mr. Pillari reported on other items that will be reviewed in connection with the audit, including the Ivy Holdings transaction, tax considerations regarding the MPT transaction and the accounting for "discontinued operations". Mr. Pillari and Mr. Crockett also provided a brief update on the status of Nix and East Orange General Hospital.

FY2019 Audit Update

[redacted] reported that the facility trial balances were delivered by the October 28 target date. She stated that the corporate finance team holds weekly updates with each of the facility finance teams and daily updates with the Crozer finance team to ensure that the audit stays on schedule. She reported that no material issues had been identified to date. Mr. Pillari and [redacted] stated that the target is to complete the BDO audit by December 20, 2019. With that date in

mind, the next Audit and Compliance Committee will be scheduled for the week of December 16 to review the BDO audit reports and financial statements.

Adjournment

There being no further business to discuss, the meeting was adjourned at approximately 10:45 am.

Redacted

Secretary

CONFIDENTIAL BUSINESS INFORMATION

PROSPECT MEDICAL HOLDINGS, INC.

Prospect Medical Holdings, Inc.
Management Audit Committee Meeting Minutes
December 16, 2019 at 12:00 pm

Committee Members Attending:
(*in person*) George Pillari (Chairperson), Redacted
(*by telephone*) Redacted

Non-Committee Member Attendees: Redacted
Redacted

Committee members Absent: Ellen Shin, Von Crockett

Agenda	Discussion	Action Points
1.0 Call to Order and Review of Meeting Agenda	Mr. Pillari, SVP, Chief Performance Improvement Officer, called the meeting to order and determined that there was a quorum.	
2.0 Approval of Minutes	The December 4, 2019 minutes were reviewed. Upon a motion made and seconded, the minutes of the December 4, 2019 MAC meeting were approved.	Remove draft stamp and file
3.0 BDO FY19 Audit Report Presentation	Redacted presented BDO's FY19 audit wrap-up report to the MAC. Redacted stated that BDO expects to issue an unqualified opinion. There was discussion between Redacted and the MAC regarding presentation of the supplemental schedules.	

CONFIDENTIAL BUSINESS INFORMATION

PROSPECT MEDICAL HOLDINGS, INC.

	[redacted] provided the estimated timeline for completion of the standalone financial statements as set forth on pp. 3-4 of the audit wrap-up report. M[redacted] reported on the status of the audit, significant accounting practices and policies and unusual transactions (specifically EOGH and NIX discontinued operations and the MPT transaction). M[redacted] stated that there were no uncorrected/corrected misstatements and acknowledged the efforts of M[redacted] and M[redacted] in this regard. (pp 5-7 of the report). With respect to internal controls, [redacted] stated that there were no significant deficiencies or material weaknesses noted in the FY19 audit wrap-up report. [redacted] also reported that Prospect implemented compensating controls to substantially improve on the deficiencies identified in the FY18 audit. (See page 9 of the report). [redacted] provided BDO's other required communications. He stated that BDO was not aware of fraud or any violations of law or regulations and asked the same of the MAC members. Mr. Pillari responded on behalf of the MAC that the committee members were not aware of fraud or violations of law. BDO and the MAC members discussed preparations for next fiscal year, including continued communications throughout the year and how to revise the What Could Go Wrong Analysis in the future.	

PROSPECT MEDICAL HOLDINGS, INC.

4.0 FY19 Consolidated Financial Statements and Q4 Lender Deliverables	Redacted reported that the lender deliverables would be completed by December 18. Upon motion made and seconded, the MAC members agreed to approve the release of the financial statements with the caveat that if a MAC member subsequently identifies an issue or has a question about the financial statements prior to issuance, the member(s) should advise Mr. Pillari so that a MAC meeting could be convened as soon as possible to discuss.	
5.0 Discussion of Level of Review of Standalone Financial Statements	Redacted asked the level of detail that the MAC members wanted to receive regarding the standalone financial statements. After discussion, the MAC members requested that Redacted and Redacted provide a summary of the standalone financial statements and status of completion but to advise the MAC of any specific issues that arise that are material to the company.	
6.0 Old Business	Redacted reported that he provided Redacted with the PHP account allocation methodology for Internal Audit to validate. Redacted will review and report back to Redacted with any questions or comments.	
6.1 PHP Account	Redacted stated that all but $3,000 had been reimbursed by Redacted Bank. There is an ongoing investigation by the bank and LAPD.	Redacted will continue to keep the MAC apprised of the status of the investigation.
6.2 EOGH Matter		

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	[redacted] presented his FY20 audit plan for approval by the MAC. After discussion, and upon a motion made and seconded, the members of the MAC approved the FY20 internal audit plan	[redacted] will provide a final version of the audit plan to MAC members.
7.0 Internal Audit FY20 Work Plan Review and Approval	This matter was deferred until next meeting. Members were asked to review the charter and come prepared to discuss at the next meeting.	Review of the MAC Charter deferred until next meeting.
8.0 Review of MAC Charter	The meeting adjourned at approximately 1:20 pm.	
Adjournment		

CONFIDENTIAL BUSINESS INFORMATION

MINUTES OF THE
AUDIT & COMPLIANCE COMMITTEE
OF
PROSPECT MEDICAL HOLDINGS, INC.
a Delaware corporation

A meeting of the Audit & Compliance Committee of Prospect Medical Holdings, Inc., a Delaware corporation (the "Company"), was held on January 22, 2019 at 4:00 p.m.. at LPG's Corporate Office located at [redacted], Los Angeles, CA 90025. Committee members John Baumer, Alyse Wagner, and Michael Solomon were present. Company personnel were present and included George Pillari, Chief Performance Improvement Officer; Ellen Shin, General Counsel; Von Crockett, SVP, Corporate Development; [redacted], Compliance Counsel; and Samuel Lee, Chief Executive Officer (telephonically). Presentors included [redacted] Esq.; Ernst & Young: [redacted] BDO: [redacted] (telephonically) and [redacted] (telephonically). Ellen J. Shin acted as Secretary of the meeting.

1.0 Call to Order
Mr. Pillari called the meeting to order.

2.1 Acceptance of Prior Management Audit Committee minutes
Ms. Shin asked the Committee to review the January 4, 2019 minutes. The Committee accepted those minutes.

2.2 Approval of Prior Audit & Compliance Committee minutes
Ms. Shin asked the Committee to review the January 7, 2019 minutes. Upon motion duly made, and seconded, the Committee unanimously approved those minutes.

[redacted]



(Steve Aleman, Steven Collins and BDO's Redacted *entered the room)*

3.2 and 3.3 Status of Fiscal Year 2018 Audit and BDO Presentation

Redacted Chief Accounting Officer and Mr. Steve Aleman, Chief Financial Officer, Redacted and Mr. Aleman turned the meeting over to Redacted of BDO to provide a FY2018 Audit Wrap Up Presentation.

Redacted distributed to all persons in the room, a copy of the BDO presentation to the Audit Committee entitled "Audit Wrap Up" dated September 30, 2018.

Redacted provided an extensive report on the FY2018 year end audit and emphasized that the audit was conducted pursuant to GAAP. Redacted went over the current status of the audit, results of the audit, internal control over financial reporting, other requirement communications and independence communication. Redacted noted that all information was provided to the auditors by the Company and that the Company's management and employees were available and cooperative with the auditors.

One correction to the BDO audit report was noted by Redacted Specifically, Redacted stated that the income tax provision, which is noted as a debit of $7.8M was incorrect. Redacted agreed with Redacted statement and stated that it would be properly reflected in the audited financial statements. Redacted and other members of BDO took turns going through the rest of the audit report to the Committee, and asked if there were any questions or comments. Mr.

Baumer thanked BDO for their diligence and work, and stated that as an Audit Committee member and controlling shareholder of the Company, the Company is committed to improvement

Ms. Wagner asked if the current audit impacts the subsequent Company related stand alone audits. There were 25 subsequent audits noted by BDO. Redacted stated that these are on track.

Redacted then stated there were few minor open items, including the management representation letters. He also inquired about the status of the capital infusion into the Company following completion of the audit. Mr. Baumer responded to that inquiry.

4.0 Executive Session (BDO and Committee)

The Committee asked for an Executive session between the BDO Audit Team and the Committee.

(Prospect management was excused from the meeting. Minutes were not taken. Following Executive Session, management returned to the meeting).

5.0 Lenders

Mr. Pillari provided an update on the status of the waiver. The Committee asked for a report on the numbers for the first quarter of fiscal year 2019 and Mr. Pillari responded that the Company has been so focused on the audit that management has not had an opportunity to "stress test" the information, and that Crozer needs more work.

Discussion ensued regarding the current cash position of the Company.

Mr. Aleman then reviewed with the Board a financial snapshot of FY2018. A discussion ensued amongst the Board and Mr. Aleman. Mr. Aleman then reported that the earnings release and the remaining lender deliverables, including the audited financials and other certificates will be sent to the full board for review and approval. Ms. Shin clarified that as part of the new process, the outstanding lender deliverables would be sent to the Management Audit Committee for review and recommendation to the Audit & Compliance Committee, who would also review and make a recommendation to the full Board for approval. The Board would then approve the entire set of Lender Deliverables by formal resolution prior to submission to the Lenders. Mr. Baumer emphasized that point.

7.0 Adjourned

There being no further business to discuss, the meeting was adjourned at 6:30 p.m.

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Ellen Shin
Secretary

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PROSPECT MEDICAL HOLDINGS, INC.

Prospect Medical Holdings, Inc.
Management Audit Committee Meeting Minutes
January 22, 2019; 2:00 – 3:00 p.m. (PT)

DRAFT

Committee Members Attending: George Pillari (Chairperson), Ellen Shin, Esq., [redacted] Esq., [redacted] and [redacted]

Non-Committee Attendees: [redacted]; Ernst & Young: [redacted]; [redacted]
Company: Steve Aleman

Agenda	Discussion	Action Points
1.0 Call to Order	Chairperson, George Pillari, SVP, Chief Performance Improvement Officer, called the meeting to order.	N/A
2.0 Minutes	One change was recommended to the January 17, 2019 minutes and the minutes will be reviewed and approved at the next MAC meeting.	Review and approve the January 17, 2019 minutes at next MAC meeting
[redacted]		

[redacted]		
3.2 Fiscal Year 2018 Audit	Steve Aleman and Redacted reported that:1) representation letter will be completed and signed today; 2)waiver will be signed tomorrow in order to complete the audit; 3) need to pay BDO; and 4) release of the audit by tomorrow night.	MAC to develop and implement a remedial action plan based upon recommendations in BDO audit presentation.
4.0 Lenders	Chairman Pillari stated that the Company appeared to be on track for receipt of an executed waiver with the Lenders by tomorrow.	N/A

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5.0 Round Table Discussion	Chairman Pillari stated that as to the restricted accounts, anything with a deficit will be restored once a reconciliation is performed by obtaining the source documents and tracing from the inception to date. This reconciliation will be conducted under the direction of counsel.	Reconciliation of restricted accounts to commence under direction of counsel.
6.0 Meeting Adjourned		N/A

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PROSPECT MEDICAL HOLDINGS, INC.

Prospect Medical Holdings, Inc.
Management Audit Committee Meeting Minutes
December 4, 2019 at 2:30 pm

Committee Members Attending:
(*in person*) George Pillari (Chairperson), [redacted] Von Crockett, [redacted]
(*by telephone*) [redacted]

Non-Committee Member Attendees: [redacted] (by telephone), [redacted]

Committee members Absent: Ellen Shin

Agenda	Discussion	Action Points
1.0 Call to Order and Review of Meeting Agenda	Mr. Pillari, SVP, Chief Performance Improvement Officer, called the meeting to order and determined that there was a quorum, and the agenda was reviewed.	
2.0 Approval of Minutes	The October 28, 2019 minutes were reviewed. Upon a motion made and seconded, the minutes of the October 28, 2019 MAC meeting were approved.	Remove draft stamp and file
3.0 BDO FY19 Audit Status	[redacted] reported that the BDO company-wide fiscal year-end audit is on track to be completed by December 20, 2019. [redacted] stated that a significant portion of the fieldwork had been completed and to date there were no material weaknesses or significant deficiencies reported. [redacted] recognized [redacted] for his efforts in the audit results and coordinating with the BDO team.	

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3.1 MAC Work Plan Status	[redacted] reported that the Work Plan had been updated and distributed to the MAC members as of November 20. [redacted] responses were provided after the November 20 distribution and will be incorporated in the next iteration. [redacted] stated that most of the open items have ongoing or long-term timelines, such as the Rubixis implementation and issuance of new and updated finance and accounting policies. [redacted] said that he has been providing the Work Plan to the BDO auditors and they appear satisfied with the progress and the remediation efforts to date.	
[redacted]	[redacted]	
3.3. Management representation letter	[redacted] reported that he was reviewing a draft of the representation letter associated with the BDO company-wide fiscal year end audit and would circulate it for comment to the applicable parties.	
	The Committee discussed the MAC calendar that had been distributed as well as the agenda and schedule for the proposed December 16 MAC meeting and December 18 Audit and Compliance Committee meeting.	[redacted] will update the MAC calendar to incorporate comments

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3.4. MAC Calendar Review		from the MAC members.
4.0 PHP Account	[redacted] described the process that had been established to ensure that the funds flow from the PHP Account can be tracked and accounted for. Specifically, Treasury estimates allocations between the hospitals and applicable subaccounts based on the prior year's methodology. At the end of the fiscal year, Finance reviews the allocations based on actual volume and other factors and makes the appropriate adjustments between accounts to reflect the correct allocations based on the year's data. Those allocations and the methodology are reviewed in conjunction with BDO's standalone fiscal year end audit of PHP. [redacted] will distribute a copy of the documented methodology to the MAC for review. In addition, [redacted] has placed restrictions on access to the PHP account.	[redacted] will distribute a copy of the documented methodology to allocate funds from the PHP account for further discussion at the next meeting.
5.0 Proposed Factoring Arrangement	[redacted] provided a summary of the proposed factoring arrangement with Prospect Medical Group to address the recent correspondence from the Department of Managed Health Care. The MAC discussed various aspects of the proposed arrangement and next steps. Mr. Pillari requested that [redacted] provide a written summary of the arrangement in the event that it proceeds.	[redacted] to work with Finance to provide a summary of the proposed factoring arrangement if it proceeds.
	[redacted] stated that the CharterCARE finance team determined the total funding needed to meet current and future estimated expenses on the active privately funded clinical research trials, and Treasury has funded that amount. [redacted] documented the reconciliation and resolution of this matter with the CharterCARE finance representatives	[redacted] will provide a copy of the documentation on this matter to the MAC for review.

	and will provide a copy of that documentation to the MAC for review.	
6.0 CharterCARE Research Account	[Redacted] summarized a recent issue involving unauthorized ACH activity on an EOGH payroll account. He reported that [Bank] has taken responsibility for an internal controls failure in detecting the fraudulent activity and has reimbursed Prospect substantially all of the funds that appear to have been taken. Law enforcement is still investigating to determine the perpetrators(s). Appropriate employment action has been taken as well. Mr. Crockett requested an update regarding the law enforcement investigation, particularly to determine whether an EOGH employee or contractor is involved.	[Redacted] will update the MAC when he has additional information regarding the law enforcement investigation.
7.0 EOGH Matter	[Redacted] distributed a revised copy of the draft FY20 internal audit plan, incorporating comments received from MAC members. Mr. Pillari asked that the MAC members review the plan for approval at the next meeting.	
	Mr. Pillari asked the MAC members to review the Charter for discussion at the next meeting.	
8.0 Internal Audit Draft FY20 Work Plan Discussion	The meeting adjourned at approximately 3:40 pm.	
9.0 Review of MAC Charter		

Adjournment		

CONFIDENTIAL BUSINESS INFORMATION

PROSPECT MEDICAL HOLDINGS, INC.

Prospect Medical Holdings, Inc.
Management Audit Committee Meeting Minutes
January 30, 2019; 3:30 – 4:30 p.m. (PT)

DRAFT

Committee Members Attending:
(*in person*) George Pillari (Chairperson), [redacted], Esq., [redacted], Esq., Von Crockett and [redacted]
(*via telephone*) [redacted] and [redacted]

Non-Committee Attendees: [redacted]

Agenda	Discussion	Action Points
Call to Order and Review of Meeting Agenda	Chairperson, George Pillari, SVP, Chief Performance Improvement Officer, called the meeting to order. Chairman Pillari informed the committee that there will likely be a call this week - on Friday - to review and submit the FY2018 audit and related items. He stated that the other two main purposes of this MAC meeting today is 1) to review and confirm if appropriate whether or not an overpayment is warranted under the Medicare "60 day rule;"; and 2) discuss in advance the MAC's participation in tomorrow's Prospect Medical Holdings Board meeting. Ms. Ellen Shin added that the agenda for today's MAC meeting contains a few items from the last MAC meeting.	N/A N/A

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PROSPECT MEDICAL HOLDINGS, INC.



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PROSPECT MEDICAL HOLDINGS, INC.

	[redacted]	
Role and Responsibilities of the MAC	The Committee discussed the role and responsibilities of the MAC and Ms. Shin reminded the members of the board meeting tomorrow at the corporate office from 2-5 pm. At 4 pm, the Board will meet with the MAC members. OC members will dial in. Discussion ensued regarding preparation for meeting. Chairman Pillari reported that Prospect received a clean audit. He also emphasized that MAC members should always feel free to speak up at anytime and Prospect will "do what is right." No one should feel pushed around or encumbered. [redacted]	
Lender Deliverables	Discussion ensued regarding the role of the MAC as an ongoing check and balance in its oversight of the financials and financial reporting process. MAC should monitor standing items, from an oversight perspective. Redacted and others from the finance department will verify the accuracy of the information. [redacted] The Audit & Compliance Committee, which is comprised of non-members of management, expects that level of monitoring. [redacted]	

	[redacted] [redacted] Chairman Pillari reported that Prospect now has an approved waiver that allows for some near term flexibility. He stated that the waiver cleans up the past issues and gives us additional leeway for 60-90 days. Consent fees are due and additional deliverables are required. Debt covenant compliance will be monitored by [redacted]	
Restricted Accounts	Chairman Pillari reported on the process for accessing restricted accounts and stated that all restricted accounts will be blocked and appropriate permission will be needed to access the accounts. This requires appropriate paperwork and identification of the accounts. [redacted]	

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	[redacted]	
Remedial Action Plan	[redacted]	MAC to review remedial action plan and provide comments to [redacted] [redacted] .
Minutes	Upon motions duly made, and seconded the January 17 and 22, 2019 MAC minutes were approved.	Draft stamp to be removed from minutes and minutes are approved.
Round Table Discussion	N/A	N/A

Meeting Adjourned	Motion was made and the meeting was adjourned.	N/A

CONFIDENTIAL BUSINESS INFORMATION

MINUTES OF

THE MEETING OF THE
BOARD OF DIRECTORS
OF
PROSPECT MEDICAL HOLDINGS, INC.
a Delaware corporation

A meeting of the Board of Directors of Prospect Medical Holdings, Inc., a Delaware corporation ("PMH" or "Company"), was held on January 31, 2019 at 2:00 p.m. pursuant to notice duly given by Ellen Shin, Secretary of the Company for the purpose of updating members of the Board on recent developments and activities within the Company.

Members of the Board of Directors who were present were John Baumer, Michael Solomon, Alyse Wagner, Dr. Jeereddi Prasad, and Samuel Lee (the "Board"). Also present for the meeting were George Pillari, Chief Integration and Performance Improvement Officer; and Ellen J. Shin, General Counsel. Members of Leonard Green & Partners ("LGP") were also present for the meeting: Redacted. Mr. Lee acted as Chairperson of the meeting and Ms. Shin acted as Secretary of the meeting. The Chairman called the meeting to order, announced that a quorum of the Board was present and that the Board would proceed with the meeting.

Call to Order
Mr. Lee called the meeting to order.

Acceptance of Prior Management Audit Committee Minutes
Ms. Shin asked the Board to review the November 21, 2018, December 18, 21, 2018, and January 4, 2019 Management Audit Committee minutes. The Board accepted those minutes.

Acceptance of Prior Audit & Compliance Committee Minutes
Ms. Shin asked the Board to review the December 19 and 24, 2018, and January 17, 2019 minutes. The Board accepted those minutes.

Approval of Prior PMH Board Minutes
Ms. Shin asked the Board to review the November 14, 2018 and January 25, 2019 set of minutes. Upon motion duly made, and seconded, the Board unanimously approved those minutes.

Members of the law firm of Latham & Watkins LLP joined the meeting telephonically: Redacted Redacted Esq. and Redacted Esq..

Corporate Governance; Presentation by Latham & Watkins (Attorney-Client Privileged and Confidential)
Ms. Shin introduced Mr. Redacted and Mr. Redacted, partners at Latham & Watkins LLP ("Latham") to the Board. Mr. Redacted thanked Ms. Shin for the introduction and explained that the purpose of Latham's presentation is to provide an educational overview and legal advice and to provide a reminder of the Board's fiduciary duties and responsibilities to the corporation and its shareholders. Mr. Redacted provided content given the current state of affairs at the Company, including the issuance of the Company's fiscal year 2018 audited financial statements and other

required deliverables to the lenders, a cash infusion in the form of a loan / equity contribution by LGP and the Company's founders, Mr. Lee and Mr. David Topper. Redacted then turned over the meeting to Redacted at Latham. Redacted provided an executive summary to the Board. Specifically, Mr. Redacted stated that under Delaware law, directors and officers of a corporation owe fiduciary duties of care and loyalty to the corporation and its shareholders. With respect to the duties of care and loyalty, he explained the requirement for directors and officers, actions in accordance with the duties, whether or not the potential breach of duties are indemnifiable, and the standard of review that a court would apply. He noted the differences in fiduciary duties owed to shareholders, corporation, and creditors depending on the organization's solvency status. When a corporation is insolvent, both creditors (derivatively through the corporation) and shareholders may have standing to sue for breach of fiduciary duties. He then went over the types of insolvency under the balance sheet and/or cash flow tests. To fulfill their duties, directors and officers of a corporation should act in the interest of maximizing the overall corporate value of the enterprise. Finally, given the current situation, Redacted provided some practical guidance and concluding remarks to the Board. Ms. Shin also reminded the Board that there is also a heightened level of governance given that the Company is a healthcare organization that provides day-to-day patient care and receives government program monies. Ms. Shin stated that to the extent material decisions are made, the treatment of patients should always be at the forefront of the Company's decision making process. Mr. Baumer stated that he agreed. Other members of the Board also echoed the same sentiment. The Board thanked Redacted and Redacted Redacted for their presentation.

Redacted and Redacted left the call.

Mr. David Topper entered the room.

Company Update/Reports

General Update

Mr. Lee stated the Company had successfully completed its fiscal year 2018 audit on January 25, 2019. He gave an overview of the Company's current cash situation. Mr. Baumer asked a question about the amounts available to cover accounts payable. Mr. Lee answered that question. Mr. Lee gave some additional context, and then stated that the 13 week cash flow schedule was intact, and that collections were currently stable. He also stated that six additional personnel, internal and external, had been added to oversee cash / treasury management, and financial reporting to the lenders. He stated that the Company is currently working to finalize the fiscal year 2018 deliverables to the lenders, and concurrently working on the first quarter of fiscal year 2018 deliverables as well. He noted some favorable operational metrics to the Board. Mr. Baumer asked a question about the month end and quarter end close process. Mr. Pillari responded to that question.

As a follow up to the last Board meeting, Mr. Lee went over completed and pending personnel reductions throughout the Company, and the actual and expected cash savings as a result. Mr. Baumer asked if clinical and quality matters were taken into consideration. Mr. Lee answered in the affirmative. Mr. Baumer then asked a question about whether this information had been

incorporated into the most recent 13 week cash flow schedule. Mr. Pillari answered that question. Mr. Lee provided some additional context about the Company's capital expenditures from the past year. A discussion ensued amongst Mr. Pillari and the Board. Mr. Solomon stated that the amount appeared to be different than what had been shared a few days ago. Mr. Pillari responded to that question.

Internal Investigation (Attorney-Client Privileged and Confidential)
Ms. Shin then gave an overview of the Internal Investigation that has been conducted under the direction of outside counsel. She stated that three complaints were made by employees of the Company in March 2018, July 2018 and October 2018 concerning certain accounting practices, primarily centered at Crozer Keystone Health System. Each time a complaint was made, the General Counsel of the Company immediately commenced an internal investigation into each of those complaints. The internal investigation was completed following a presentation by outside counsel Redacted and Ernst & Young, to the Audit & Compliance Committee on January 22, 2019.

The Internal Investigation was shared with certain members of the Management Audit Committee and BDO's audit and forensic team on December 21, 2018. Additional presentations were also given to the entire Management Audit Committee ("MAC") on January 4, 2019 and the Audit & Compliance Committee on January 7 and 22, 2019. The principal findings were shared in those meetings and in follow up meetings with BDO's audit and forensic team. In an audit wrap up presentation to the Board, with respect to the Internal Investigation, BDO stated they were satisfied with the information that was shared with the BDO shadow investigative team, and had concluded their shadow review.

Ultimately, there was no finding of fraud or illegal acts by management with an intent to deceive. However, a number of issues were identified as a result of the Internal Investigation. Certain remedial actions were also recommended.

Remedial Action Plan
Ms. Shin then stated that the issues that were identified as a result of the Internal Investigation and in BDO's audit wrap up presentation are and will be addressed as part of an overall Remedial Action Plan ("Plan"). The MAC has been tasked with drafting the Remedial Action Plan, and is currently working on it. The Remedial Action Plan's areas of focus are to:

I. Improve governance and processes regarding management accountability
II. Implement improvements to internal controls – Finance and Treasury
III. Address material weakness and significant deficiencies identified by BDO in their FY2018 audit wrap up presentation
IV. Address additional specific recommendations by Bird Marella/Ernst & Young

The Plan specifically identifies the responsible party, a proposed due date, and the identified source of the issue. The MAC hopes to share it with the Audit & Compliance Committee at the next meeting, which could be as early as tomorrow. The Remedial Action Plan will then be shared with the Board. The MAC and the Company's Internal Audit Department will be tasked with monitoring the implementation of the Plan .

Redacted entered the room.

Cash Discussion and Management

Mr. Solomon asked for suggestions to create additional liquidity for the Company. Mr. Lee responded to that inquiry. Mr. Baumer asked who was in charge of equipment financing in the Company. Mr. Lee identified two internal executives. Mr. Solomon asked whether there were any issues under the credit agreement. A discussion ensued amongst the Board and management. Redacted went over a proposed amendment of the Company's current credit agreement, which should offer some additional benefit and relief to the Company.

Mr. Lee discussed the possibility of a REIT transaction. Mr. Baumer questioned whether that is a good use of time given the Company's current situation. Redacted echoed the sentiment and asked for an updated cash flow schedule, and the Company's first quarter of fiscal year 2019 financials prior to any additional interest. A discussion ensued amongst the Board and management. Redacted added that letters of credit were replaced with surety bonds, which also resulted in an added benefit to the Company.

Mr. Lee introduced Redacted to the Board. Redacted is a Managing Director with Alvarez & Marsal's Healthcare Industry Group. He and others from Alvarez & Marsal were brought in to assist the Company in certain areas, including cash management. Redacted Mr. Solomon and Mr. Baumer asked questions regarding the cash management practices at the Company. Redacted responded to those questions. Mr. Pillari added that collections were steady, and that revenue cycle management is in good shape and an area of strength.

Mr. Baumer asked about the current management and leadership of the Finance department. Mr. Lee answered that question. Redacted gave an update on the ongoing deliverables to the Lenders.

Redacted asked whether any outstanding amounts to Restricted Accounts had been returned. Mr. Pillari stated that a complete reconciliation is currently underway and more information would be provided in a couple of weeks. A discussion ensued amongst the Board and management.

Reporting

Mr. Pillari asked the Board to take a look at the December 2018 monthly package of materials. Redacted asked if the reports are prepared in the ordinary course of the Company's business. Mr. Pillari provided further context. Mr. Baumer asked who is controlling capital expenditures. Redacted answered that question. Mr. Topper stated that a communication had been sent out to all the CEOs to further tighten their belts. Mr. Baumer reminded management that it is important to scale back as much as the Company responsibly can given the current constrained cash situation. Redacted asked for the current cash balance. Redacted answered that question.

Lenders Update

Mr. Lee provided an update to the Board regarding the Company's deliverables and communications with the Lenders. Specifically, he stated that the waiver with the Lenders had been completed, and that the Company is in process of submitting its FY2018 deliverables, and then scheduling its Earnings Call. Mr. Lee also confirmed with the Board that the Company is currently in compliance with its debt agreements.

Mr. Solomon, Redacted and Mr. Pillari left the room.

Redacted entered the room. Redacted joined the meeting telephonically.

Discussions with the MAC

Ms. Shin members of the MAC that had not previously met the Board to introduce themselves. Redacted gave an overview of her 25+ background in finance in healthcare, and specifically at Tenet Health System ("Tenet").

Redacted entered the room.

Ms. Shin asked Redacted to introduce herself. Redacted stated that she had recently served as Interim-Chief Compliance & Privacy Officer, and had also worked at Tenet. Ms. Shin shared with the Board that Redacted had previously served as the Chief Compliance & Privacy Officer at Tenet for 15+ years during its crisis period, and was also a former partner at Foley & Lardner LLP. Mr. Baumer and Ms. Wagner asked the MAC a series of questions related to their role and duties. A discussion ensued amongst Mr. Baumer and Ms. Wagner and the MAC.

Mr. Baumer then turned to Mr. Topper and asked him some questions related to the status of operations at the hospitals. Mr. Topper answered those questions.

[redacted]

Executive Session

The Board met with management in executive session.

Adjournment

There being no further business to come before the meeting, the Chairperson declared the meeting adjourned at 4:52 p.m.

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Ellen J. Shin, Secretary

CONFIDENTIAL BUSINESS INFORMATION PMH00040147

PROSPECT MEDICAL HOLDINGS, INC.

Prospect Medical Holdings, Inc.
Management Audit Committee Meeting Minutes
May 16, 2019 4:00 pm
May 17, 2019 9:00 am

Committee Members Attending:
(*in person*) George Pillari (Chairperson), Ellen Shin, [redacted] Von Crockett
(by telephone) [redacted]

Non-Committee Attendees: [redacted] (by telephone)

Agenda	Discussion	Action Points
Call to Order and Review of Meeting Agenda	Mr. Pillari, SVP, Chief Performance Improvement Officer, called the meeting to order at approximately 4:05 pm and the agenda was reviewed.	
Approval of May 9, 2019 Minutes	Upon motion made and seconded, the minutes of the May 9, 2019 MAC meeting were approved.	Remove draft stamp and file
Q2 FY2019 Financial Statements	[redacted]	

CONFIDENTIAL BUSINESS INFORMATION

PROSPECT MEDICAL HOLDINGS, INC.

[redacted]

There was a discussion regarding the capital expenditures, the timing of the earnings release and the status of the Compliance Certificates. [redacted], reported that the Nix Health and East Orange General Hospital results had been classified as discontinued operations and assets classified as held for sale were not included in the second quarter results [redacted] also stated that [redacted] and [redacted] team reviewed and approved the financial statements on behalf of PMS. [redacted] also stated that [redacted] had reviewed the earnings release from a finance context, and that members of the internal Legal Department [redacted] In addition, [redacted] described that in order for her to sign off on the Compliance Certificates as the Interim CFO, a new process to obtain sub-certificates from other members of the finance and treasury departments to confirm the financial calculations for the ABL and TL was now required.

There also was a discussion regarding the reconciliation of a discrepancy in the line of credit between the general ledger and the bank statements. Mr. Crockett asked for clarification regarding the methodology. [redacted] answered that question. The MAC members agreed to adjourn the meeting until Friday morning, May 17 in order for

	[redacted] to reconcile the discrepancy. The MAC members also agreed that the lender deliverables could be sent to the Audit & Compliance Committee with an explanation of the outstanding items. The meeting was adjourned at approximately 4:45 pm.	The meeting was adjourned until Friday, May 17 at 9:00 am.
Call to Order	The committee was reconvened on Friday, May 17, 2019. Mr. Pillari called the meeting to order at 9:00 am to continue the MAC review of the lender deliverables.	
Review and approval of Q2 2019 Lender Deliverables	[redacted] eported that he was able to reconcile the discrepancy in the line of credit. The following motion for a recommendation to the Audit & Compliance Committee was made: WHEREAS, the Committee has been provided with and has reviewed (i) the Company's financial statements for the fiscal quarter ended March 31, 2019 (the "Q2 FY2019 Financial Statements"), (ii) a draft of the Company's management discussion and analysis with respect to the Q2 FY2019 Financial Statements, (iii) a draft of the Company's compliance certificates (including all exhibits and attachments thereto) relating to the Q2 FY2019 Financial Statements, (iv) calculations of the Company's EBITDA, fixed charge coverage ratio and total leverage ratio as required under the Company's ABL credit agreement and term loan credit agreement for the period ended March 31, 2019 and (v) a draft summary of revenues, EBITDA, indebtedness and assets for each of the	

	Company's Unrestricted Subsidiaries (as such term is defined in the Company's ABL credit agreement and term loan credit agreement) (the documents listed in the foregoing clauses (i) through (v), collectively, the "Lender Deliverables"); WHEREAS, the MAC has consulted with appropriate officers of the Company charged with the preparation and review of the Lender Deliverables, and are satisfied with their review, which includes review by outside advisors of the Company, including members of Leonard Green & Partners; NOW, THEREFORE, BE IT RESOLVED, that the MAC recommends to the Audit & Compliance Committee that the Lender Deliverables be approved, authorized and adopted in all respects and be submitted by the Company pursuant to its ABL credit agreement and term loan credit agreement. After further discussion and upon a motion made and seconded, the Q2 2019 Lender Deliverables were approved.	
Adjournment	The meeting was adjourned at approximately 9:10 a.m.	

CONFIDENTIAL BUSINESS INFORMATION


PROSPECT MEDICAL
HOLDINGS, INC.

MINUTES OF THE
BOARD OF DIRECTORS OF
PROSPECT MEDICAL HOLDINGS, INC.
A Delaware corporation

A meeting of the Board of Directors of Prospect Medical Holdings, Inc., a Delaware corporation, a Delaware corporation (collectively the "Company"), was held on August 29, 2019 at 10:00 a.m. pursuant to notice given by Samuel S. Lee, Chairman of the Board and Chief Executive Officer of the Company, and was held at the offices of the Company located at [redacted] Los Angeles, California.

Members of the Board of Directors who were present were Mr. Lee, John Baumer, Alyse Wagner, Dr. Prasad, and Michael Solomon (the "Board"). Also present for the meeting were Redacted, Interim-Chief Financial Officer; Ellen J. Shin, General Counsel and Corporate Secretary; George Pillari, Chief Performance Improvement Officer; and Redacted, VP, Finance & Treasury. Mr. Lee acted as Chairman and Ms. Shin acted as Secretary of the meeting. The Chairman called the meeting to order at 10:35 a.m., announced that a quorum of the Board was present and that the Board would proceed with the transaction of business properly brought before it.

Von Crockett, SVP, Corporate Development, and Redacted, President, entered the room.

Acceptance of Prior Management Audit Committee Minutes
Ms. Shin asked the Board to review the prior Management Audit Committee minutes from May 16, 17, 31, June 10, and August 1, 2019. The Board accepted those minutes.

Acceptance of Prior Audit & Compliance Committee Minutes
Ms. Shin asked the Board to review the prior Audit & Compliance Committee minutes from May 17, 2019. The Board accepted those minutes.

Approval of Prior Board Minutes
Ms. Shin asked the Board to review the May 23, 2019 and June 28, 2019 Board minutes. Upon motion duly made, and seconded, the Board approved those minutes. The motion passed.

Finance Matters
Redacted reviewed with the Board the highlights for the third quarter ending June 30, 2019. She noted that it was a good quarter despite some volume challenges. Mr. Baumer asked how the financial performance compared to the same period last year. Redacted answered that it was the same. Redacted specifically went over some items on the balance sheet as compared with the second quarter period, and provided some forward looking guidance for the months of July and August 2019.

Redacted then informed the Board that she had put into place some additional controls. Specifically, she had included a requirement for the subsidiary CEOs and CFOs to provide quarterly certifications, and a budget process throughout all of the business units. She also informed the Board that the audit planning process was underway and that she did not anticipate

any adjustments. Mr. Baumer stated that he had spoken to Redacted at BDO USA, LLP ("BDO"), who had indicated that the Finance team is doing well, and way ahead of prior years. Redacted asked if there were any further questions. There were none.

Dr. Prasad entered the room.

Treasury Update

Pension Update:

Redacted gave a pension update to the Board. Specifically, he went through the current pension underfunded status, and the change from Q2 to Q3. The plans he reviewed were at Crozer Keystone Health System ("Crozer"), Eastern Connecticut Health Network ("ECHN"), and Waterbury Hospital ("Waterbury").

Medical Properties Trust ("MPT") Transaction:

Redacted provided a summary of the MPT Transaction, which closed on August 23, 2019. He noted that proceeds from the MPT Transaction were utilized to pay the TLB, FILO, transfer and title fees, outstanding mortgage at one hospital, ABL repayment, pension paydown, and payment of prior year ERISA obligations related to 401k matching obligations.

He also went over the annual rent payments (which includes 2% escalators), and the two required financial covenants that must be followed.

Debt Summary

Redacted reviewed the list of debt outstanding as of June 30, 2019, and as of August 28, 2019. Mr. Pillari stated that the Company would lose some additional availability on the line of credit following the sales and/or closures of the Nix Health System, and East Orange General Hospital ("EOGH"). A discussion ensued amongst the Board and management.

Operations Review

Hospital Segment:

Mr. Crockett, Senior Vice President, Corporate Development, then reviewed with the Board the performance of Waterbury for the third quarter of fiscal 2019. He stated that the third quarter was strong, the CMS Medicare issue had been resolved, and that the facility is on track to surpass last year's performance.

Mr. Baumer asked for an update on the electronic medical records ("EMR") system implementation. Mr. Crockett responded to that question for both Waterbury and EOGH. Mr. Baumer then asked when Crozer would start with its EMR system implementation. Redacted stated that the implementation had already started.

Mr. Crockett then went over the performance of Eastern Connecticut Health Network for the third quarter of fiscal 2019. Mr. Crockett stated the current CEO would be retiring on October 1, 2019, and that the facility had hired a new CEO – Redacted who is familiar with the New England area. Mr. Baumer asked about the expected performance by the fiscal year end. Redacted answered that question.

Mr. Crockett then went over the performance of CharterCARE Health Partners for the third quarter of fiscal year 2019. He also informed the Board that the facility had closed its nursing school and outpatient center. Mr. Crockett then gave an update on the status of the licensing survey issue before CMS. Mr. Baumer asked for an update on the rate increases from the State. Mr. Crockett stated that they would receive an incremental increase for 2020. Redacted stated that discussions were still ongoing.

Mr. Crockett then provided a summary of the performance at Crozer for the third quarter of fiscal year 2019. Mr. Crockett shared with the Board that one of Crozer's competitors, Hahnemann had closed, and that as a result, certain physicians were shifting their practice over to Crozer. A discussion ensued amongst Mr. Baumer and management.

Mr. Crockett then reviewed with the Board a summary of the performance at Los Angeles Community Hospital, Los Angeles Community Hospital at Norwalk ("Norwalk"), Southern California Hospital at Hollywood ("Hollywood"), and Southern California Hospital at Van Nuys ("Van Nuys") for the third quarter of fiscal year 2019. Specifically, he went over their respective financial performance, what worked for the quarter, what underperformed for the quarter, measures taken to address underperformance, trends that may impact performance through year end, and what we have done to address those trends. Mr. Crockett explained that some supplemental monies are expected for the fourth quarter of fiscal year 2019. Mr. Baumer asked a question about whether fiscal year 2018 had an out of period payment under California's Quality Assurance Fee ("QAF") program. Mr. Crockett responded to that question.

Mr. Crockett next discussed the performance of Southern California Hospital at Culver City ("Culver City") for the third quarter of fiscal year 2019. He also discussed the current status of the licensing survey issue with CMS, and the hospital's current plan of correction. He noted that the current affiliation with UCLA is working well, as reflected in the additional volume and financial performance of the hospital.

Mr. Crockett then provided a performance update of Foothill Regional Medical Center ("Foothill) for the third quarter of fiscal year 2019. He stated that the hospital had a good quarter in terms of volume. Mr. Crockett then informed the Board that there will be an adjustment in the fourth quarter due to a misunderstanding how to record the capitated pool between Prospect Medical Group and the hospital.

Mr. Crockett then went over the financial performance of Los Angeles Community Hospital at Bellflower ("Bellflower") for the third quarter of fiscal year 2019. He stated that the overall performance for the quarter was steady.

Medical Group segment:

Redacted provided a summary to the Board of the performance of the Medical Groups segment through the third quarter of fiscal year 2019. He also compared the current performance with the performance from the same prior year period. He also went over what worked, what underperformed, what we have done to address underperformance, what trends that will impact performance through year-end, and what we have done to address those trends. Redacted then provide an estimate for the fiscal year end, and noted that it would likely be a flat year.

Coordinated-Regional-Care

Redacted then provided a Coordinated-Regional-Care ("CRC") update for the third quarter of fiscal year 2019. He went over certain matters that had exceeded and not exceeded expectations this quarter. He noted that there is room for improvement next year, especially in the area of quality. Redacted asked the Board if there were any questions. There were none.

Corporate Development

Mr. Crockett then gave an update on the sale of EOGH. Mr. Baumer asked a question about the identity of the buyer. Mr. Crockett answered that question. Ms. Wagner then asked a question about the timing of closing the transaction. Mr. Crockett stated that he was unsure given the state's certificate of need process, but estimated anywhere from four to six months. A discussion ensued amongst the Board and Mr. Pillari and Mr. Crockett regarding the approval process in New Jersey. Mr. Baumer asked for an update on how much of a cash drain EOGH is at this point. Redacted responded to that question. Mr. Crockett also stated that the Company is working on a conversion from for profit to not for profit for EOGH.

Mr. Crockett then gave an update on the sale of the Nix Health System. He stated that an announcement had been made that the Company is closing down the acute care side of the business, which is a 30 day process. He then stated that he anticipated an agreement with a buyer for the downtown building within the next seven days, and that the transaction should close before the end of the year. Mr. Baumer asked for the identity of the buyer. Mr. Lee responded to that question. With respect to the behavioral side of the business, Mr. Crockett stated that the Company is three to five days away from signing a deal with a potential buyer. He also went over the terms of the deal. Mr. Baumer asked about the status of diligence. Mr. Crockett responded to that question.

Mr. Baumer asked for an update on the Home Health business. Mr. Crockett stated that any potential transactions are on hold. Mr. Lee provided further context.

Adjournment

Mr. Lee then asked if there were any further questions. There being no further business to come before the meeting, the Chairman declared the meeting adjourned at 11:09 a.m.

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Ellen Shin, Secretary

CONFIDENTIAL BUSINESS INFORMATION

Prospect Medical Holdings, Inc.
Management Audit Committee Meeting Minutes
February 12, 2020
1:00 pm

Committee Members Attending:
(*in person*) George Pillari (Chairperson), Redacted Von Crockett, Redacted
(by telephone Redacted

Non-Committee Member Attendees: Redacted

Committee members Absent: Ellen Shin

Agenda	Discussion	Action Points
1.0 Call to Order and Review of Meeting Agenda	Mr. Pillari called the meeting to order and determined that there was a quorum.	
2.0 Approval of Minutes	Upon a motion made and seconded, the minutes of the January 27, 2020 MAC meeting were approved.	Remove draft stamp and file
3.0 Q1 2020 Lender Deliverables	Redacted and Redacted presented the Q1 2020 Lender Deliverables. The committee discussed the statements, compliance certifications and upcoming deadlines for presentation to the Audit and Compliance Committee and issuance. After further discussion, a motion was made and seconded to recommend to the Audit & Compliance Committee that the Q1 2020	

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	Lender Deliverables be approved.	
4.0 401(k) audit	[redacted] briefed the MAC members on the Retirement Committee's efforts to identify a new firm to audit the company's employee benefit plans. [redacted] stated that an RFP is underway. He will present the Retirement Committee's recommendations at a future MAC meeting.	[redacted] will present the Retirement Committee's recommendations at an upcoming MAC meeting.
5.0 2019 Audit Findings Update	[redacted] gave an update on the status of the 2019 BDO audit findings. He reported that of the 23 findings in the audit and What Could Go Wrong Analysis, BDO agreed with management that 14 of the observations could be removed or had been addressed. [redacted] stated that he is working with IT Security to address BDO's security-related observations. The MAC Committee agreed to invite a representative from IT Security to a future MAC meeting to present on the status of their corrective action plan.	A representative from IT Security will be invited to a future MAC meeting to present on the status of the IT Security corrective action plan.
	Mr. Pillari asked any MAC member who has not yet done so, to provide comments to the MAC Charter to [redacted]. Mr. Pillari asked all MAC members to provide a response.	
6.0 Review of MAC Charter	[redacted] reported that Internal Audit is reconciling the remaining accounts that have been designated as "restricted" and also confirming the methodology used to determine how accounts are designated as "restricted." The only other remaining items on the 2018 Action Plan are ongoing initiatives, including items that are dependent on system implementations, such as Oracle and Rubixis. The Internal Audit team	
7.0 Old Business		

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7.1 2018 Action Plan: Closeout	will continue to track these items and will advise the MAC if there are any issues or unforeseen delays.	
7.2 PHP Account	[redacted] reported on the status of the PHP account. He explained that the PHP account is reconciled monthly and balanced at the end of each fiscal year in coordination with the PMS finance team. [redacted] [redacted] had shared a draft procedure on the reconciliation and account allocation process with Internal Audit. Internal Audit also reviewed and validated the account allocation methodology. After further discussion, the MAC Committee closed this matter.	
[redacted]		
7.4 DMHC matter	The meeting adjourned at approximately 1:35 pm	

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Adjournment		

CONFIDENTIAL BUSINESS INFORMATION

MINUTES OF A TELEPHONIC MEETING OF THE BOARD OF DIRECTORS OF PROSPECT MEDICAL HOLDINGS, INC. IVY INTERMEDIATE HOLDING INC. IVY HOLDINGS INC.

February 22, 2018

The Board of Directors (the "Board") of Prospect Medical Holdings, Inc., a Delaware corporation ("Prospect Medical"), Ivy Intermediate Holding Inc., a Delaware corporation and Ivy Holdings Inc., a Delaware corporation ("Ivy Holdings" and collectively, "Prospect"), held a telephonic meeting of the Board on February 22, 2018.

The following members of the Board, comprising four of five (4/5) members of the Board were in attendance by telephonic conference, comprising a quorum:

Alyse M. Wagner	Michael Solomon
Samuel S. Lee	Dr. Jeereddi Prasad

The following persons were also present by invitation of the Board:

Valuation Research Corporation ("VRC")

Redacted
Redacted

Latham & Watkins LLP ("Latham")

Redacted
Redacted

Also present for all of the meeting, by invitation of the Board, were the following officers and employees:

Steve Aleman, Chief Financial Officer
Ellen J. Shin, General Counsel and Secretary

Ellen J. Shin called the meeting to order at 7:30 am PST and kept the minutes.

Refinancing of the Existing Credit Facilities; Dividend Recapitalization; Treatment of Ivy Holdings Optionholders

[redacted]



Having reviewed and discussed the information available and reports provided, the members of the Board, upon motions duly made and seconded, acting in their capacity as constituting a majority of the members of the Board, unanimously approved the resolutions attached hereto as Exhibit A.

There being no further business to come before the Board, the meeting was adjourned at approximately 8:10 am.

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Ellen J. Shin
General Counsel and Secretary

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EXHIBIT A

RESOLUTIONS OF THE BOARD OF DIRECTORS OF
PROSPECT MEDICAL HOLDINGS, INC.
IVY INTERMEDIATE HOLDING INC.
IVY HOLDINGS INC.

(See attached)

CONFIDENTIAL BUSINESS INFORMATION

Prospect Medical Holdings, Inc. ("PMH")
Board Meeting
Location: Dial in Number: [redacted], Passcode [redacted]

Agenda
March 11, 2020

10:00 am — Chairman's Remarks (PMH Chairman: Sam Lee)

Approval of Prior PMH Board minutes ([redacted])

10:05 am — Merger Transaction (George Pillari, [redacted])

10:20 am — Business Units Operations Review

- Hospitals (Von Crockett)
  - QAF discussion
  - Regulatory Update
  - Union Activity Update
  - Corporate Development (EOGH & Nix)
- Medical Groups ([redacted])

10:45 am — Finance ([redacted], George Pillari)

- FY2020-Q1
- Pension
- Cash Flow, Historical/Projected

11:00 am — Adjournment

MINUTES OF THE
BOARD OF DIRECTORS OF
PROSPECT MEDICAL HOLDINGS, INC.
A Delaware corporation

A meeting of the Board of Directors of Prospect Medical Holdings, Inc., a Delaware corporation, a Delaware corporation (collectively the "Company"), was held on November 14, 2019 at 10:00 a.m. pursuant to notice given by Samuel S. Lee, Chairman of the Board and Chief Executive Officer of the Company, and was held at the offices located at [redacted] Los Angeles, California.

Members of the Board of Directors who were present were Mr. Lee, John Baumer, Alyse Wagner and Michael Solomon (the "Board"). Also present for the meeting were Redacted Redacted Interim-Chief Financial Officer; Redacted Associate General Counsel and Acting Corporate Secretary; and George Pillari, Chief Performance Improvement Officer. Mr. Lee acted as Chairman and Redacted acted as Secretary of the meeting. The Chairman called the meeting to order at 10:00 a.m., announced that a quorum of the Board was present and that the Board would proceed with the transaction of business properly brought before it.

Von Crockett, SVP, Corporate Development, and Redacted President, entered the room.

Acceptance of Prior Management Audit Committee Minutes

Redacted asked the Board to review the prior Management Audit Committee minutes from August 15 and October 2, 2019. The Board accepted those minutes.

Acceptance of Prior Audit & Compliance Committee Minutes

Redacted asked the Board to review the prior Audit & Compliance Committee minutes from August 16 and October 7, 2019. The Board accepted those minutes.

Approval of Prior Board Minutes

Redacted asked the Board to review the August 29, 2019 and September 24, 2019 Board minutes. Upon motion duly made, and seconded, the Board approved those minutes. The motion passed.

Management Discussion

Mr. Pillari provided an update to the Board on the status of shareholder consents that had been collected so far. He reported to the Board that the Company had received requests for appraisal from shareholders and the response to those shareholders was provided by Ropes and Gray. Mr. Pillari reported on the status of the regulatory filings in various states for approval of the merger transaction. Mr. Pillari then gave a pension update to the Board on upcoming payments in 2020.

Operations Review

Regulatory/Accreditation Update

Mr. Crockett, Senior Vice President, Corporate Development, gave an update to the Board about the three previous hospitals who had received termination notices from CMS. He explained that one hospital: Rockville General Hospital in Connecticut have been resolved and Southern California Hospital at Culver City is still on the termination track due to issues in the pharmacy

going back to 2015. He said there was no harm to patients due to the issues that were identified. He explained that we expect the termination to extend to February and could take 6-9 months to resolve and could include a substantial fine. We expect a survey at Our Lady of Fatima in the next several months.

Hospital Segment:
Mr. Crockett, then reviewed with the Board the performance of Waterbury for the fourth quarter of fiscal 2019. He stated that the fourth quarter was strong, discussed the provider tax legislation, and that the facility is on track to meet its performance goals.

Mr. Crockett then went over the performance of Eastern Connecticut Health Network for the fourth quarter of fiscal 2019 and stated that volume as down slightly. Mr. Crockett stated the new CEO started on October 1, 2019– Redacted, who is familiar with the New England area. He discussed that we filed an application for a cath lab and got an unusual ruling from the DOH and are appealing it.

Mr. Crockett then went over the performance of CharterCARE Health Partners for the fourth quarter of fiscal 2019. He informed the Board that they opened a new emergency department for Roger William Medical Center and are seeing increased traffic. He discussed that Our Lady of Fatima is slightly down for the quarter. Mr. Crockett stated that they would receive some rate relief associated with behavioral health.

Mr. Crockett then provided a summary of the performance at Crozer for the fourth quarter of fiscal 2019. Mr. Crockett explained that they received a supplemental payment from the State during this quarter. He informed the Board that the system is outsourcing both the ED and hospitalist service lines because of the lack of management and oversight. He said that Crozer opened a neurology emergency department because of an increase in trauma needs and that the ICU beds are fully utilized and they are looking for a solution. He stated that there should be large increases in EBDITA from managed care negotiations and dish money. Corporate has redirected resources to support local management in dealing with legacy issues such as the replacement of 45 year old software with the new Cerner implementation scheduled for June 2020 and Oracle going live January 2020.

Mr. Crockett then reviewed with the Board a summary of the performance at Los Angeles Community Hospital, Los Angeles Community Hospital at Norwalk ("Norwalk"), Southern California Hospital at Hollywood ("Hollywood"), Southern California Hospital at Van Nuys ("Van Nuys"), Southern California Hospital at Culver City ("Culver City") and Foothill Regional Medical Center ("Foothill) for the fourth quarter of fiscal year 2019. Specifically, he went over their respective financial performance, what worked for the quarter, what underperformed for the quarter, measures taken to address underperformance, trends that may impact performance through year end, and what we have done to address those trends. Mr. Crockett explained that payments under California's Quality Assurance Fee ("QAF") program has ended and any revenue that might come in representing this fiscal quarter would not be booked until realized. He explained that the new QAF rates would not be announced until March 2020 and payments received 3-4 months following. Mr. Baumer asked questions about dollars received historically under QAF and whether we had any understanding of what the next QAF

revenue would be and Mr. Crockett responded to that question. Mr. Crockett also discussed the current status of the licensing survey issue with CMS, and the Culver City's current plan of correction. Mr. Crockett also informed the Board that there was an adjustment in the fourth quarter due to a capitated pool correction between Prospect Medical Group and the hospital.

Medical Group segment:

Redacted provided a summary to the Board of the performance of the Medical Groups segment and the Coordinated-Regional-Care ("CRC") through the fourth quarter of fiscal 2019. He went over what worked, what underperformed, what we have done to address underperformance, what trends that will impact performance through year-end, and what we have done to address those trends. Redacted then noted that it would likely be a down year but we are pursuing growth in certain areas that would improve financial performance. Redacted asked the Board if there were any questions. There were none.

Finance Matters

Redacted reviewed with the Board the highlights for the fourth quarter of fiscal 2019. She noted that it was a good quarter despite some volume challenges. Redacted reported that revenue increased over 3% from prior year same quarter and cash collections improved from focus on revenue cycle and implementation of software that helps realize revenue. Redacted specifically went over some expense management initiatives that decreased expenses 3% and medical group operating expenses decreased while revenue increased. Redacted then informed the Board about cash, restricted cash and the availability of the revolver. She reported on payments to 401(k) plans, cash from the sale of a building in the Nix winddown. Redacted discussed the implementation of a standardized budgeting process across the organization and was asked by Mr. Baumer if the budget is achievable and she answered yes. She then reported on the 2019 audit status and informed the Board that it is on track to be complete by December 20. Mr. Pillari reported that he received a call from BDO who reported the audit was going well. Redacted asked if there were any further questions. There were none.

Corporate Development

Mr. Crockett then gave an update on the sale of EOGH with the currently identified buyer. Mr. Crockett then discussed the timing and reported that the buyer had retained Deloitte to advise them on the transaction and discussed the state's certificate of need process estimating closing to be anywhere from four to six months. Mr. Crockett also stated that the Company has back up buyers if this one falls through and that the Company is still moving toward a conversion to a non-profit for this asset.

Mr. Crockett then gave an update on the sale of the Nix Health System. He stated that the Company is closing down the behavioral care side of the business on November 15, 2019 because the potential buyers for that line of business backed out. He discussed potential buyers of the owned buildings and reported that the agreement with a buyer for the downtown building was scheduled to close on December 12, 2019 and the buyer for the Vance Jackson building should be within ninety days. Mr. Crockett reported that the Company is negotiating with landlords of leased buildings to either try to get out of the existing leases or help find a new

tenant. There was some discussion about the behavioral health sale. Mr. Crockett asked if there were any further questions. There were none.

Adjournment

Mr. Lee then asked if there were any further questions. There being no further business to come before the meeting, the Chairman declared the meeting adjourned at 11:48 a.m.

Redacted, Secretary

CONFIDENTIAL BUSINESS INFORMATION

MINUTES OF THE JOINT MEETING
OF
THE BOARDS OF DIRECTORS
OF
PROSPECT MEDICAL HOLDINGS, INC.
&
IVY HOLDINGS INC.

A special telephonic meeting of the Boards of Directors (the "Boards") of Prospect Medical Holdings, Inc., a Delaware corporation ("PMH") and Ivy Holdings Inc. ("Ivy" and together with PMH, the "Companies"), was held on November 22, 2019 at 2:30 p.m. pursuant to notice given by Samuel Lee, Chief Executive Officer of the Companies and the Chairman of the Boards. All Directors on the Boards signed and delivered a waiver of notice of the meeting in compliance with the notice requirements of the Companies' Bylaws.

The following Directors, who constitute all members of the Boards, attended the meeting:

- Samuel S. Lee (Chairman)
- John Baumer
- Michael S. Solomon
- Alyse Wagner
- Jeereddi A. Prasad, M.D.

Also present for the meeting were:

- George Pillari, Chief Integration and Performance Improvement Officer
- Redacted Treasurer
- Redacted ssistant General Counsel & Assistant Secretary
- Redacted with Ropes & Gray LLP
- Redacted with Latham & Watkins LLP

Mr. Lee acted as Chairperson of the meeting and Redacted acted as Secretary of the meeting.

Call to Order

Mr. Lee called the meeting to order at 2:32 pm PST, announced that a quorum of the Boards was present and that the Boards would proceed with the meeting.

Confirmation of Receipt of Meeting Materials

Upon the inquiry of Redacted all Directors confirmed that, prior to this meeting, they have received and reviewed (1) the Offer to Purchase Ivy Holdings, Inc. (Prospect Medical Holdings, Inc.), dated November 19, 2019 (the "Offer Letter"), and received from McDermott Will & Emery LLP on behalf of its client, Prime Healthcare Companies ("Prime") and (2) the proposed draft response letter (the "Response Letter").

Review of the Offer Letter

Mr. Lee asked the other Directors whether they have any questions or comments regarding the Offer Letter.

[redacted]

Status of Shareholder Consent to Merger

Ms. Wagner inquired about the status of receipt of shareholder consents to the transactions contemplated in the Agreement and Plan of Merger, dated September 25, 2019, among the Companies, Chamber Merger Sub Inc., and solely for purposes of Section 6.03(b) thereto, Green Equity Investors V, L.P. and Green Equity Investors Side V, L.P. (the "Merger Agreement").

Mr. Lee confirmed that, as of the date of this meeting, signed consents have been received from shareholders representing ownership of 97.4% of the outstanding stock of Ivy.

Advice of Counsel Regarding Director Obligations

Redacted summarized existing obligations of the Companies under the Merger Agreement. He noted that contractual conditions have been satisfied and the Companies are now contractually bound to proceed to its transaction closing. Redacted further stated that the Companies have no contractual flexibility regarding such obligations. He further noted that the Directors are under no legal obligation to consider, or take any action related to, the Offer Letter and the matters set forth therein.

Review of the Response Letter

Mr. Lee asked the other Directors whether they have any questions or comments regarding the Response Letter. After a short discussion, with no objections or proposed changes, the Directors unanimously approved the Response Letter and its delivery to Prime and its counsel promptly following the meeting.

Other Matters

Upon Mr. Lee's inquiry, the other Directors confirmed that they have no other questions, concerns or other matters that they would like to discuss regarding the subject matter of this meeting.

Adjournment

There being no further business to come before the meeting, Mr. Lee declared the meeting adjourned at 2:52 p.m.

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Redacted, Assistant Secretary

MINUTES OF THE
BOARD OF DIRECTORS
OF
PROSPECT MEDICAL HOLDINGS, INC.
a Delaware corporation

A meeting of the Board of Directors of Prospect Medical Holdings, Inc., a Delaware corporation (the "Company"), was held on May 23, 2018 at 10:07 a.m. pursuant to notice given by Samuel S. Lee, Chairman of the Board and Chief Executive Officer of the Company, and was held at [redacted] Los Angeles, California.

Members of the Board of Directors who were present were Mr. Lee, John Baumer, Alyse Wagner, and Michael Solomon. Also present for the meeting were Redacted of Leonard Green & Partners; Steve Aleman, Chief Financial Officer; and Ellen Shin, General Counsel. Mr. Lee acted as Chairman and Ms. Shin acted as Secretary of the meeting. The Chairman called the meeting to order at 10:00 a.m., announced that a quorum of the Board was present and that the Board would proceed with the transaction of business properly brought before it.

Chairman's Remarks

The Chairman opened the meeting with general remarks.

Approval of Prior Board Minutes

Ms. Shin then asked the Board to review the May 23, 2018 Board minutes. Upon motion duly made, and seconded, the motion passed and the Board unanimously approved those minutes.

George Pillari entered the room.

Finance Matters

Mr. Aleman gave an overview of the financial performance of the Company, which included a 12 month and quarter by quarter review. Mr. Aleman noted that the figures were in line with the Company's projections. Mr. Aleman then went over an analysis of certain EBITDA adjustments with the Board. Mr. Baumer asked a question about financing costs in February 2018. Mr. Aleman answered that question.

Mr. Pillari noted that the Company was undergoing a new electronic health records implementation. A discussion ensued amongst the Board and members of management regarding the impact of the implementation, and other development costs.

Redacted entered the room.

Mr. Aleman then went over the GAAP to Adjusted EBITDA Bridge for the quarter ending March 31, 2018, which included certain pro forma adjustments. Mr. Aleman also provided a comparative analysis on cash collections from fiscal year 2017 to fiscal year 2018. Mr. Baumer asked about the status of cash collections specifically at Crozer Keystone Health System ("Crozer"). Mr. Lee responded to that question.

Mr. Aleman then provided a cash projection for the remainder of the calendar year.

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Von Crockett entered the room.

Operations Review

Hospital Segment:

Redacted, Chief Executive Officer at Crozer, appeared by video conference. Redacted reviewed with the Board Crozer's second quarter of fiscal year 2018 financial performance, fiscal year to date financial performance and trailing twelve months performance. In particular, he went over admissions and expense control metrics from the prior fiscal year quarter. He also noted certain areas of underperformance and performance trends, and steps the management team has taken to address both items. Mr. Crockett also gave some perspective on some legislation that was currently being considered to address staffing ratios in Pennsylvania. There being no further discussion items, the Board members thanked Redacted for his participation.

Redacted exited the meeting.

Mr. Crockett, Senior Vice President, Corporate Development, reviewed with the Board the operational performance of the four legacy Alta hospitals for the second quarter of fiscal year 2018. Specifically, he went over challenges, successes, underperformance, trends, and steps taken to address any areas of underperformance and trends. Mr. Baumer asked for the financial performance of hospitals from the last year, and specifically for future presentations. Mr. Aleman stated that information would be provided going forward.

Mr. Crockett then reviewed with the Board the operational performance of Southern California Hospital at Culver City ("Culver City") for the second quarter of fiscal year 2018. Mr. Crockett went over certain performance and underperformance highlights, and the steps taken to address the underperformance areas. For instance, Mr. Crockett pointed out that registry costs had come down significantly during April 2018. Mr. Aleman went through the timing and impact of the Quality Assurance Fee ("QAF") monies. A discussion ensued regarding the breakdown and timing of QAF.

Mr. Baumer left the room.

Mr. Crockett then went over the operational performance of Foothill Regional Medical Center ("Foothill) for the second quarter of fiscal year 2018. Mr. Crockett highlighted for the Board that overall volume at Foothill had increased and the benefit of a significant payor agreement. He did state, however, that certain initiatives had fallen below expectations of management.

Mr. Crockett then reviewed with the Board the operational performance of Los Angeles Community Hospital at Bellflower ("Bellflower) for the second quarter of fiscal year 2018. Mr. Crockett stated that volume at Bellflower had remained relatively flat for the quarter, and that outreach efforts had expanded into Orange County. A discussion ensued amongst the Board and management regarding those updates.

Mr. Baumer returned to the room.
Sam Lee left the room.

Redacted left the room.

Mr. Crockett then reviewed with the Board the operational performance of Nix Healthcare in San Antonio, Texas for the second quarter of fiscal year 2018. He noted that volume metrics and operating revenues were mixed compared to the prior quarter, and that there were some additional opportunities for improvements. A discussion ensued amongst the Board and management about the continued challenges and efforts by the management team to address them.

Sam Lee returned to the room.
George Pillari left the room.

Mr. Crockett then reviewed with the Board the operational performance of CharterCARE Health Partners ("CCHP") in Rhode Island for the second quarter of fiscal year 2018. Specifically, he went over CCHP's volume trends, focused improvements on employed physician practices, and further expense reductions. Mr. Baumer asked for a status update about the pension litigation at CCHP. Ms. Shin responded to Mr. Baumer's inquiry.

Redacted returned to the room.

Mr. Crockett then reviewed with the Board the operational performance of East Orange General Hospital ("EOGH") in New Jersey for the second quarter of fiscal year 2018. Mr. Baumer asked a question about efforts by the hospital to address the loss of charity care reimbursement. Mr. Crockett responded to that question. Mr. Crockett also went over some improvement initiatives in revenue cycle. A further discussion ensued amongst the Board and management.

Mr. Baumer left the room.

Mr. Crockett then reviewed the financial performance for the second quarter of fiscal year 2018 at Eastern Connecticut Health Network ("ECHN") in Connecticut. Mr. Crockett gave an update on new programs, and how the hospital had benefited from improved state rates.

Mr. Baumer returned to the room.

Mr. Crockett reviewed the financial performance for the second quarter of fiscal year 2018 at Waterbury Health. Mr. Crockett went over some challenges, successes, and trends. Mr. Baumer asked a question about competition from other area hospitals. Mr. Crockett responded to that question. Mr. Lee gave some further context.

The meeting participants then discussed the Connecticut marketplace.

Redacted entered the room.

<u>Medical Group Segment:</u>

Redacted President of the Company, provided an executive summary regarding the operational performance of the second quarter of fiscal year 2018 at the Medical Group segment. He noted that core operations continue to be strong, and that operational improvements were able to offset

a decline in commercial membership performance. Redacted also went over certain initiatives to address underperformance.

Redacted entered the room.

Coordinated-Regional-Care ("CRC") Segment:

Redacted then provided an update to the Board about the Company's performance in the segment. Specifically, he went over total CRC membership, CRC financials highlight, and CRC opportunities and risks.

Redacted Mr. Crockett and Redacted then left the room.

Corporate Development

Mr. Aleman then provided an update regarding the Company's current corporate development pipeline. Mr. Aleman A discussion ensued amongst the Board and management related to the timing of those activities.

Adjournment

There being no further business to come before the meeting, the Chairman declared the meeting adjourned at 1:14 p.m.

_____

Sam Lee, Chairman

_____

Ellen Shin, Secretary

MINUTES OF THE
BOARD OF DIRECTORS OF
PROSPECT MEDICAL HOLDINGS, INC.
A Delaware corporation

A meeting of the Board of Directors of Prospect Medical Holdings, Inc., a Delaware corporation, a Delaware corporation (collectively the "Company"), was held on August 25, 2020 at 9:00 a.m. pursuant to notice given by Samuel S. Lee, Chairman of the Board and Chief Executive Officer of the Company, and was held by remote audio and at the offices of the Company located at [redacted] Los Angeles, California.

Members of the Board of Directors who were present were Mr. Lee, John Baumer, Alyse Wagner, Dr. Jeereddi Prasad, and Michael Solomon (the "Board"). Also present for the meeting were [redacted] of Leonard Green & Partners, L.P. and from the Company: Mark Johnson, Chief Financial Officer; [redacted] General Counsel and Corporate Secretary; George Pillari, Chief Performance Improvement Officer; Von Crockett, SVP, Corporate Development; [redacted], President; [redacted], VP, Finance & Treasury; and [redacted], Chief Compliance Officer of Prospect Medical Systems, Inc. Mr. Lee acted as Chairman and [redacted] acted as Secretary of the meeting. The Chairman called the meeting to order at 9:03 a.m., announced that a quorum of the Board was present and that the Board would proceed with the transaction of business properly brought before it.

Approval of Prior Board Minutes

[redacted] asked the Board to review minutes of meetings of the Management Audit Committee held on April 23, 2020, May 12, 2020, June 12, 2020 and June 25, 2020. [redacted] also requested the Board's review of minutes of the May 13, 2020 meeting of the Audit & Compliance Committee. After a discussion, and upon motion duly made, and seconded, the Board approved those minutes.

[redacted] asked the Board to review the March 11, 2020 Board minutes. Upon motion duly made, and seconded, the Board approved those minutes.

Approval of CFO and General Counsel Appointments

Mr. Lee next noted to the Board Members the recent appointments of Mark Johnson as the Company's CFO and of [redacted] at the Company's General Counsel. After a brief discussion, the Board Members unanimously approved the appointments of Mr. Johnson and [redacted].

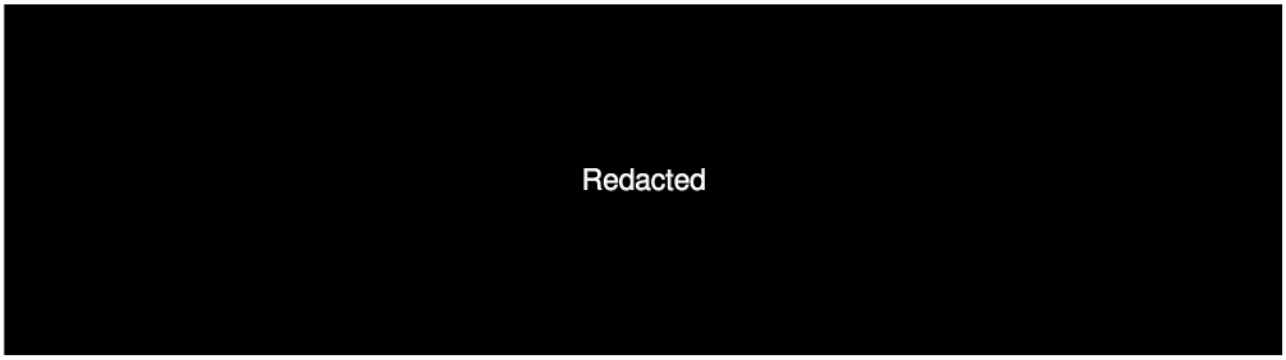
Merger Transaction

As the next agenda item, Mr. Pillari reviewed the status of the various state regulatory approvals needed as a closing condition to the Chamber merger agreement. He noted that Rhode Island is the only state with work remaining to obtain approval. The DMHC in California is awaiting resolution in Rhode Island before providing final California approval.

Mr. Pillari noted that the Company is continuing to provide responses to the Affiliated Monitors group engaged by the Rhode Island Attorney General. He noted that the key item outstanding is evidence of our satisfaction of the $100 million capital expense commitment required.

Another meeting with Affiliated Monitors is scheduled for the day after this meeting. Mr. Pillari noted that interviews have been scheduled with certain senior officers of the Company and additional interviews are possible for Leonard Green & Partners, L.P.

Mr. Pillari noted an early October target approval from Rhode Island.



Mr. Lee noted that Rhode Island was a very difficult market to enter because of its awkward and difficult regulatory requirements and that Rhode Island has had difficulties with its response to COVID. He also noted that during the ongoing political campaign season, there has been negativity regarding private equity investors and for profit companies.

Mr. Lee noted the ongoing correspondence with a reporter from ProPublica. He noted that the questions have not raised new information that hasn't already been in prior media stories.

Business Units Operations Review

Hospital Segment:

Mr. Crockett, Senior Vice President, Corporate Development, then reviewed with the Board the performance of the Company's Hospital business segment. He noted that all markets other than ECHN have recovered from COVID to be within single digit percentages of their activity last year. The activity level for ECHN is being reviewed.

Mr. Crockett noted that all markets are in good shape with supplies. He noted a focus on staffing in preparation for the beginning of flu season.

The meeting participants next reviewed the status of discussions with the PASNAP nurses' union at Crozer. Mr. Crockett noted that we are turning the corner on the relationship and we expect a path to a successful resolution in the Fall 2020 which would bring us back into contracted status.

Mr. Crockett noted that the Crozer Taylor Hospital campus has had its impatient admissions consolidated with other Crozer campuses. He also noted a possible joint venture arrangement for the facility with an orthopedic group.

An update was also provided regarding the possible neuroscience facility joint venture with GNI.

Mr. Baumer asked about the status of the new EMR implementation at Crozer and Mr. Crockett noted that it is moving forward with a target completion in May 2021.

Prompted by Mr. Baumer, a discussion ensued regarding the performance of the management team at Crozer. Mr. Crockett noted that the Delaware County Memorial Hospital campus has a

new administrator and that the Crozer CFO is being supervised and her performance is being monitored.

The meeting participants discussed a possible joint venture ambulatory surgery center (ASC) for Waterbury Hospital.

Mr. Crockett noted that Waterbury Hospital is subject to an 18 month independent monitor period for quality performance. We are currently around the 7th or 8th month and there have been no issues.

Mr. Crockett noted that ECHN is the hospital system that has rebounded the least in patient volumes. The reasons are currently under review. ECHN's Rockville campus' surgery operations have been consolidated with the Manchester campus and we have asked the state to permit it as a permanent change. The plan would be to convert the Rockville campus into a specialty behavioral health facility.

The meeting participants next discussed updates regarding CharterCARE and the ongoing "change of effective control" (CEC) process with the Rhode Island Attorney General and the ongoing pension litigation.

A discussion ensued regarding the possible business combination for CNE and Lifespan and the possible monopoly problems created.

For California, patient volumes remain good. Discussions are ongoing with the state regarding the California Hospital Quality Assurance Fee (HQAF) Program 6. We believe that a calculation modification is merited. With the change, we would expect an additional roughly $38 million over 18 months. We are exploring possible litigation.

We have a scheduled hearing with the California Board of Pharmacy scheduled for October. We are proposing a settlement fine.

Mr. Crockett provided an update on the ongoing Bellflower conditional of use permit (CUP) relicensing. The facility's acute license is in suspense and we want it relicensed as a behavioral health facility.

Mr. Baumer inquired about the profitability of the facilities. Mr. Crockett noted that the company has done some furloughing and some of the furloughed employees haven't been brought back. He also noted that we believe there is some pent up demand for elective procedures.

Medical Group segment:

As the next agenda item, Redacted provided an update regarding the performance of the Company's Medical Group business segment. He noted that the last quarter was very strong for the segment with a $19 million Adjusted EBITDA (with $12-$13 million typical). Patient volumes were down roughly 30% and the reduced utilization has created greater margins on capitated compensation arrangements. There has been some patient volume return and it is now down only roughly 20%.

Redacted also noted that the Company is reducing its total office leased space.

The meeting participants discussed the Company's recent acquisition of three independent practice associations (IPAs) from agilon. The addition includes roughly $100 million in additional revenue and roughly 120,000 members, with an expected net revenue increase of $2-$2.5 million annually. The acquisition solidifies the Company's IPA presence in Southern California and brings its membership total north of 300,000 members, with approximately 100,000 more managed.

Finance Matters

Mr. Johnson next reviewed the Company's 3rd Quarter financial performance. He noted the Adjusted EBITDA was consistent compared to 2019.

The Company has received roughly $179 million in COVID-related stimulus grant funding. We have tracked $177 million in lost revenue only through June, which amount can be matched against the received funds to merit retention of the funds. Back-up documentation is being retained.

Additionally, the Company has received roughly $242 million of Medicare advance payments. The funds have been set aside and will not be utilized until matching payment withholds have been made by CMS or conversion to grants (if that occurs through future Congressional action). CMS has not yet withheld any amounts. Congress is currently discussing it and the repayment/withhold commencement date will likely be pushed back.

Redacted next noted the status of Company cash and capital expenditures. He noted that the Company is expediting the centralization of processes and management expects to be in a good position in about one year.

Mr. Pillari noted that the next HQAF receipt is expected in roughly November 2021. He also noted that no more COVID-related grant funds are expected, but the Company will pursue any opportunities.

Settlements and Litigation

As the next agenda item, Redacted and Mr. Crockett noted the lists of material recent settlements and ongoing litigation that were provided to the meeting participants in the agenda for this meeting.

Redacted

Adjournment

Mr. Lee then asked if there were any further questions. There being no further business to come before the meeting, the Chairman declared the meeting adjourned at 10:08 a.m.

Redacted Secretary

Prospect Medical Holdings, Inc.

Consolidated Financial Statements and Supplemental Material

For the Years Ended September 30, 2011 and 2010

03 February 2012 17:03:30 PDT Alyse Wagner Leonard
Green & Partners

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee

Prospect Medical Holdings, Inc.

Consolidated Financial Statements and Supplemental Material

For the Years Ended September 30, 2011 and 2010

03 February 2012 17:03:30 PDT Alyse Wagner Leonard
Green & Partners

Prospect Medical Holdings, Inc.

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03 February 2012 17:03:30 PDT Alyse Wagner Leonard
Green & Partners

Tel: Redacted
Fax Redacted
www.bdo.com

Redacted

Independent Auditors' Report

To the Board of Directors and Shareholders of
Prospect Medical Holdings, Inc.
Los Angeles, California

We have audited the accompanying consolidated balance sheets of Prospect Medical Holdings, Inc. (the "Company") as of September 30, 2011 and 2010 and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Prospect Medical Holdings, Inc. at September 30, 2011 and 2010, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

BDO USA, LLP

December 19, 2011

03 February 2012 17:03:30 PDT Alyse Wagner Leonard
Green & Partners

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Prospect Medical Holdings, Inc.

Consolidated Balance Sheets
(in thousands except par value and share amounts)

September 30,	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 71,255	$ 50,729
Restricted cash	4,073	3,122
Investments, primarily restricted money market funds	538	634
Patient accounts receivable, net of allowance for doubtful accounts of $30,891 and $20,675 at September 30, 2011 and 2010, respectively	46,288	42,677
Due from government payors	4,076	4,318
Other receivables	2,448	2,148
Refundable income taxes, net	-	782
Deferred income taxes, net	9,094	7,671
Inventories	3,109	3,864
Prepaid hospital fee program provider tax	8,841	-
Prepaid expenses and other current assets	6,861	4,990
Total current assets	156,583	120,935
Property, improvements and equipment, net	68,836	63,104
Deferred financing costs, net	4,337	6,354
Goodwill	153,250	153,250
Intangible assets, net	38,291	42,159
Other assets	585	715
Total assets	$ 421,882	$ 386,517

See accompanying notes to the consolidated financial statements.

03 February 2012 17:03:30 PDT Alyse Wagner Leonard Green & Partners

Prospect Medical Holdings, Inc.

Consolidated Balance Sheets (Continued)
(in thousands except par value and share amounts)

September 30,	2011	2010
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accrued medical claims and other healthcare costs payable	$ 23,301	$ 17,859
Accounts payable and other accrued liabilities	38,065	33,206
Accrued salaries, wages and benefits	17,474	19,114
Hospital fee program liability and deferred revenue	19,590	-
Due to government payors	15,128	13,834
Income taxes payable, net	949	-
Current portion of capital leases	609	674
Current portion of long-term debt	29,206	170,900
Other current liabilities	1,276	1,121
Total current liabilities	145,598	256,708
Long-term debt, net of current maturities	144,611	7,750
Deferred income taxes, net	30,602	31,717
Malpractice reserves	699	1,579
Capital leases, net of current portion	1,195	544
Other long-term liabilities	1,209	149
Total liabilities	323,914	298,447
Commitments, Contingencies and Subsequent Events		
Shareholders' equity:		
Common stock, $0.01 par value; 100 shares authorized and 100 shares issued and outstanding at September 30, 2011; 40,000,000 shares authorized and 21,399,508 shares issued and outstanding at September	1	214
Additional paid-in capital	108,926	97,675
Accumulated deficit	(6,939)	(7,931)
Total Prospect Medical Holdings, Inc.'s shareholders' equity	101,988	89,958
Noncontrolling interest	(4,020)	(1,888)
Total shareholders' equity	97,968	88,070
Total liabilities and shareholders' equity	$ 421,882	$ 386,517

See accompanying notes to the consolidated financial statements.

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Green & Partners

Prospect Medical Holdings, Inc.

Consolidated Statements of Operations
(in thousands)

Years Ended September 30,	2011	2010
Revenues:		
Net Hospital Services revenues	$ 346,962	$ 279,079
Medical Group revenues	199,475	190,117
Total net revenues	546,437	469,196
Operating expenses:		
Hospital operating expenses	274,751	206,906
Medical Group cost of revenues	153,687	149,503
General and administrative	78,566	60,206
Depreciation and amortization	7,803	8,235
Total operating expenses	514,807	424,850
Operating income from unconsolidated joint venture	2,150	2,504
Operating income	33,780	46,850
Other expense:		
Interest expense and amortization of deferred financing costs, net	28,291	28,096
Total other expense, net	28,291	28,096
Income before income taxes	5,489	18,754
Income tax provision	8,156	10,338
Net (loss) income	(2,667)	8,416
Net loss attributable to noncontrolling interest	(3,659)	(1,956)
Net (loss) income attributable to Prospect Medical Holdings, Inc.	$ 992	$ 10,372

See accompanying notes to the consolidated financial statements.

03 February 2012 11:03:30 PDT Alyse Wagner Leonard
Green & Partners

Prospect Medical Holdings, Inc.

Consolidated Statements of Shareholders' Equity
(in thousands, except share amounts)

	Number of Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Prospect Medical Holdings, Inc. Shareholders' Equity	Non-controlling Interest	Total Shareholders' Equity
Balance at September 30, 2009	20,619,278	$ 206	$ 94,498	$ (18,303)	$ 76,401	$ 88	$ 76,489
Options exercised	341,775	4	548	—	552	—	552
Stock-based compensation	212,666	2	2,142	—	2,144	—	2,144
Excess tax benefits from options exercised	—	—	214	—	214	—	214
Warrants exercised	225,789	2	273	—	275	—	275
Change in investment in noncontrolling interest	—	—	—	—	—	(20)	(20)
Net income (loss)	—	—	—	10,372	10,372	(1,956)	8,416
Balance at September 30, 2010	21,399,508	214	97,675	(7,931)	89,958	(1,888)	88,070
Options exercised	383,284	4	1,010	—	1,014	—	1,014
Stock-based compensation	51,334	1	3,167	—	3,168	—	3,168
Excess tax benefits from options exercised	—	—	5,936	—	5,936	—	5,936
Warrants exercised	49,256	1	75	—	76	—	76
Change in investment in noncontrolling interest	—	—	—	—	—	1,527	1,527
Restructure due to merger with Ivy Holdings	(21,883,282)	(219)	1,063	—	844	—	844
Net income (loss)	—	—	—	992	992	(3,659)	(2,667)
Balance at September 30, 2011	100	$ 1	$ 108,926	$ (6,939)	$ 101,988	$ (4,020)	$ 97,968

See accompanying notes to the consolidated financial statements.

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Prospect Medical Holdings, Inc.

Consolidated Statements of Cash Flows
(in thousands)

Years Ended September 30,	2011	2010
Operating activities		
Net (loss) income	$ (2,667)	$ 8,416
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	7,803	8,235
Amortization of deferred financing costs, net	2,017	1,890
Amortization of original issue discount	2,691	1,945
Provision for doubtful debts	35,256	29,968
Deferred income taxes, net	3,398	716
Stock-based compensation	3,167	2,144
Excess tax benefits from stock-based compensation	(5,936)	(214)
Gain on disposal of assets	(1)	(7)
Patient accounts receivable and other receivables	(39,162)	(34,803)
Due from government payers	242	637
Prepaid expenses and other current assets	(1,872)	392
Prepaid hospital fee program provider tax	(8,841)	-
Inventories	754	274
Refundable income taxes, net	782	776
Hospital fee program liability and deferred revenue	19,590	-
Income taxes payable, net	949	-
Deposits and other assets	71	278
Accrued medical claims and other healthcare costs payable	5,442	1,035
Accounts payable and other accrued liabilities	4,848	(4,911)
Net cash provided by operating activities	28,531	16,771
Investing activities		
Purchases of property, improvements and equipment	(8,527)	(2,730)
Decrease in note receivable	57	55
Increase in restricted investments	95	31
Other investing activities	-	(20)
Net cash used in investing activities	(8,375)	(2,664)
Financing activities		
Borrowings on Brotman line of credit, net	1,676	1,392
Repayments of long-term debt	(8,200)	-
Repayments on Brotman Creditors Trust Note	(1,000)	(1,031)
Repayments of capital leases	(552)	(782)
Cash paid for deferred financing costs, net	-	(39)
Change in restricted cash	(951)	(1,727)
Proceeds from exercises of stock options and warrants	1,090	827
Excess tax benefits from stock-based compensation	5,936	214
Capital contribution	844	-
Brotman non-controlling shareholder cash contribution	1,527	-
Net cash provided by (used in) financing activities	370	(1,146)
Increase in cash and cash equivalents	20,526	12,961
Cash and cash equivalents at beginning of year	50,729	37,768
Cash and cash equivalents at end of year	$ 71,255	$ 50,729

See accompanying notes to the consolidated financial statements.

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Green & Partners

Prospect Medical Holdings, Inc.

Consolidated Statements of Cash Flows
(in thousands)

Years Ended September 30,	2011	2010
Supplemental disclosure of cash flow information		
Equipment acquired under capital leases	$ 549	$ 631
Interest paid	$ 23,560	$ 23,234
Income taxes paid, net	$ 3,027	$ 8,634

See accompanying notes to the consolidated financial statements.

03 February 2012 17:03:30 PDT Alyse Wagner Leonard
Green & Partners

1. Organization

Prospect Medical Holdings, Inc. ("Prospect," the "Company" or the "Parent Entity") is a Delaware corporation and a wholly owned subsidiary of Ivy Holdings, Inc. Prior to the August 8, 2007 acquisition of Alta Hospitals System, LLC ("Alta"), the Company was primarily engaged in providing management services to affiliated physician organizations that operate as independent physician associations ("Medical Groups") or medical clinics. Following the Alta acquisition and the Company's acquisition of a majority stake in Brotman Medical Center, Inc., a California corporation ("Brotman"), on April 14, 2009 (see Note 5), the Company owns and operates five community-based hospitals in Southern California, and its operations are organized into three primary reportable segments: Hospital Services, Medical Group and Corporate as discussed below.

Hospital Services Segment

Alta and Brotman (collectively, the "Hospital Services segment") own and operate five hospitals in Los Angeles County, with a total of 759 licensed beds served by 721 on-staff physicians as of September 30, 2011. All of the Company's hospitals are accredited by Det Norske Veritas Healthcare, Inc. ("DNV"). Alta owns (i) Alta Hollywood Hospitals, Inc., a California corporation, dba Hollywood Community Hospital and Van Nuys Community Hospital; and (ii) Alta Los Angeles Hospitals, Inc., a California corporation, dba Los Angeles Community Hospital and Norwalk Community Hospital. As of September 30, 2011, the Company owns 78% of Brotman, which in turn owns and operates Brotman Medical Center, located in Culver City, California.

The Company's three community hospitals in Hollywood, Los Angeles and Norwalk offer a comprehensive range of medical and surgical services, including general acute care hospital services, pediatrics, obstetrics and gynecology, pediatric sub-acute care, general surgery, medical-surgical services, orthopedic surgery, and diagnostic, outpatient, skilled nursing and urgent care services. The Company's psychiatric hospital in Van Nuys provides acute inpatient and outpatient psychiatric services on a voluntary basis. Brotman offers a comprehensive range of inpatient and outpatient services, including general surgery, orthopedic, spine and neurosurgery, cardiology, diagnostic outpatient, rehabilitation, psychiatric and detox services. In addition, Brotman has an active emergency room that plays an integral part in providing emergency services to the West Los Angeles area.

Admitting physicians are primarily practitioners in the local area. The Hospitals have payment arrangements with Medicare, Medi-Cal and other third party payers, including some commercial insurance carriers, health maintenance organizations ("HMOs") and preferred provider organizations ("PPOs").

Medical Group Segment

The Medical Group segment is a healthcare management services organization that provides management services to affiliated physician organizations that operate as independent physician associations ("Medical Groups"). The affiliated physician organizations enter into agreements with HMOs to provide HMO enrollees with a full range of medical services in exchange for fixed, prepaid monthly fees known as "capitation" payments. The Medical Groups contract with physicians (primary care and specialist) and other healthcare providers to provide enrollees with all medical services. Prospect currently manages the provision of prepaid healthcare services for its affiliated

03 February 2012 17:03:30 PDT Alyse Wagner Leonard
Green & Partners

physician organizations in Southern California. The network consists of the following physician organizations as of September 30, 2011 (stand alone or individually referred to as, an "Affiliate"):

Prospect Medical Group, Inc. ("PMG")
Prospect Health Source Medical Group, Inc. ("PHS")
Prospect Professional Care Medical Group, Inc. ("PPCM")
APAC Medical Group, Inc. ("APA") (Inactive)
Genesis HealthCare of Southern California, Inc. ("Genesis")
Prospect NWOC Medical Group, Inc. ("PNW")
StarCare Medical Group, Inc. ("PSC")
Santa Ana/Tustin Physicians Group, Inc. ("SATPG") (Inactive)
AMVI/Prospect Medical Group ("AMVI/Prospect")
Nuestra Familia Medical Group, Inc. ("Nuestra")
Upland Medical Group, a Professional Medical Group ("UMG")*
Pomona Valley Medical Group, Inc. ("PVMG")*

* PVMG and UMG are collectively referred to as the "ProMed Entities."

These Affiliates are managed by the following two medical management company subsidiaries that are wholly-owned by Prospect:

Prospect Medical Systems, Inc. ("PMS")
ProMed Healthcare Administrators ("PHCA")

All of the Affiliates are wholly-owned by PMG, with the exception of Nuestra, which is 62% owned by a nominee physician shareholder pursuant to an assignable option agreement described below, and AMVI/Prospect which is a 50/50 Joint Venture between AMVI Care Health Network, Inc. ("AMVI") and SATPG. PMG is owned by the same nominee physician shareholder pursuant to a separate assignable option agreement. The operations of all of these entities, with the exception of AMVI/Prospect, are consolidated in the accompanying consolidated financial statements.

The AMVI Joint Venture was formed for the sole purpose of combining enrollment in order to meet minimum enrollment levels required for participation in the CalOptima Medicaid (Medi-Cal in California) program in Orange County, California. The joint venture ownership is set at 50/50 to prevent either party from exerting control over the other; however, AMVI and SATPG's businesses are operated autonomously, and enrollees, financial results and cash flows are each separately tracked and recorded. In accordance with the joint venture partnership agreement, profits and losses are not split in accordance with the partnership ownership interest, but rather, are directly tied to the results generated by each separate portion of the business. Separate from any earnings the Company generates from SATPG's portion of business within the joint venture, the Company also earns fees for management services PMS provides to SATPG's partner in the joint venture. The Company accounts for SATPG's interest in the joint venture partnership using the equity method of accounting. The Company includes in the consolidated financial statements only the net results attributable to those enrollees specifically identified as assigned to the Company, together with the management fee that PMS charges for managing those enrollees specifically assigned to the other joint venture partner.

PMS has entered into an assignable option agreement with PMG and the nominee physician shareholder of PMG. Under the assignable option agreement, Prospect has an assignable option,

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obtained for a nominal amount from PMG and the nominee shareholder to designate the purchaser (successor physician) for all or part of PMG's issued and outstanding stock held by the nominee physician shareholder (the "Stock Option") in its sole discretion. The Company may also assign the assignable option agreement to any person. The assignable option agreement has an initial term of 30 years and is automatically extended for additional terms of 10 years each, as long as the term of the related management services agreement described below (the "Management Agreement") is automatically extended. Upon termination of the Management Agreement with PMG, the related Stock Option would be automatically and immediately exercised. The Stock Option may be exercised for a purchase price of $1,000. Under these nominee shareholder agreements, Prospect has the unilateral right to establish or effect a change of the nominee, at will, and without the consent of the nominee, on an unlimited basis and at nominal cost throughout the term of the Management Agreement. In addition to the Management Agreement with PMG, Prospect, through one of its management company subsidiaries, has a management agreement with each Affiliate. The term of the Management Agreements is generally 30 years. PMG is the sole shareholder of SATPG, PHS, PPCM, PNW, PSC, APA, Genesis, PVMG, and UMG. Dr. Lipper is the nominee shareholder as to the 62% interest in Nuestra, pursuant to a separate assignable option agreement entered into with PMS, under which PMS has the same rights and powers as those described in this paragraph regarding the PMG agreement.

The Company's Affiliates have each entered into a Management Agreement and each Affiliate has agreed to pay a management fee to PMS or PHCA, as applicable (each of which is a wholly-owned subsidiary of Prospect). The fee is based in part on the costs to the management company and on a percentage of revenues the Affiliate receives (i) for the performance of medical services by the Affiliate's employees and independent contractor physicians and physician extenders, (ii) for all other services performed by the Affiliates, and (iii) as proceeds from the sale of assets or the merger or other business combination of the Affiliates. The management fee also includes a fixed percentage fee for marketing and public relations services. The revenue from which this fee is determined includes medical capitation, all sums earned from participation in any risk pools and all fee-for-service revenue earned. Except in the case of Nuestra and AMVI/Prospect, the Management Agreements have initial terms of 30 years, renewable for successive 10-year periods thereafter, unless terminated by either party for cause. In the case of Nuestra, its Management Agreement has an initial 10 year term renewable for successive one year terms. In the case of AMVI/Prospect, the Management Agreement has a one year term with successive one year renewal terms. In return for payment of the management fee, Prospect (through PMS and PHCA) has agreed to provide financial management, information systems, marketing, advertising, public relations, risk management, and administrative support, including for utilization review and quality of care. At its cost, Prospect has assumed the obligations for all facilities, medical and non-medical supplies, and employment of non-physician personnel of its affiliated medical clinics.

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The management fee earned by Prospect fluctuates based on the profitability of each wholly-owned Affiliate. Prospect is allocated a 50% residual interest in all profits after the first 8% of the profits or a 50% residual interest in the losses of the Affiliate, after deduction for costs to the management company and physician compensation. The remaining balance is retained by the Affiliates. Supplemental management fees are periodically negotiated where significant incremental efforts and expense have been incurred by Prospect on behalf of the Affiliates.

The Management Agreements are not terminable by the Affiliates except in the case of gross negligence, fraud or other illegal acts of Prospect, or bankruptcy of the Company.

Further, Prospect's rights under the Management Agreements are unilaterally salable or transferable. Based on the provisions of the Management Agreements and the assignable option agreements with PMG and Nuestra, Prospect has determined that it has a controlling financial interest in the Affiliates, with the exception of AMVI/Prospect. Consequently, under applicable accounting principles, Prospect consolidates the revenues and expenses of all the Affiliates except AMVI/Prospect from the respective dates of execution of the Management Agreements. All significant inter-entity balances have been eliminated in consolidation. In the case of AMVI/Prospect, only that portion of the results which are contractually identified as Prospect's are recognized in the consolidated financial statements, together with the management fee that the Company charges AMVI for managing AMVI's share of the joint venture operations.

Prospect has also entered into management agreements with unaffiliated third parties to manage services to their HMO enrollees. These management agreements do not have characteristics that give rise to the consolidation of the entities under current accounting literature.

The affiliated physician organizations provided medical services to a combined total of approximately 179,900 and 177,500 HMO enrollees as of September 30, 2011 and 2010, respectively. The enrollees include approximately 21,500 and 20,400 enrollees that the Company manages for the economic benefit of four independent third parties, and for which the Company earns management fee income as of September 30, 2011 and 2010, respectively. The total paid member months, for the fiscal years ended September 30, 2011 and 2010 was 2,044,000 and 2,077,000, respectively.

Corporate Segment

The Corporate segment reflects certain expenses incurred at the Parent Entity not specifically allocable to the Hospital Services or Medical Group segments. These include and are not limited to salaries, benefits and other compensation for corporate employees, financing, insurance, rent, operating supplies, legal, accounting, and SEC and Sarbanes-Oxley compliance (through July 2011). The Company does not allocate interest expense or income taxes to the other reporting segments.

2. Significant Accounting Policies

Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and include the accounts of all controlled subsidiaries, which control is effectuated through ownership of voting common stock or by other means. The Medical Group entities (subsidiaries) have been determined to be variable interest entities due to the existence of a call option under which the Company has the ability to require the holders of all of the voting common stock of the underlying subsidiaries to sell their shares at a fixed nominal price ($1,000) to another designated physician chosen by the Company. This call option agreement represents rights provided through a variable interest other than the equity interest itself that caps the returns that could be earned by the equity holders. In addition, the Company has a management agreement with the subsidiaries and the holders of the voting common stock of the subsidiaries which allows the Company to direct all of the activities of the subsidiaries, retain all of the economic benefits and assume all of the risks associated with ownership of the subsidiaries. In this manner, the Company has all of the economic benefits and

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risks associated with the subsidiaries but has disproportionately few voting rights (based on the terms of the equity). As the Company retains all of the economic benefits and assumes all of the risks associated with ownership of the subsidiaries, the Company is considered to be the primary beneficiary of the activities of the subsidiaries and therefore must consolidate the underlying subsidiaries. All significant intercompany transactions have been eliminated in consolidation.

Revenues

Revenues by reportable segment are comprised of the following amounts (in thousands):

Years Ended September 30,	2011	2011
Net Hospital Services		
Inpatient	**$299,659**	$235,911
Outpatient	**23,929**	31,050
Capitation	**22,769**	9,336
Other	**605**	2,782
Total net Hospital Services revenues	**$346,962**	$279,079
Medical Group		
Capitation	**$194,928**	$187,718
Management fees	**1,627**	1,153
Other	**2,920**	1,246
Total Medical Group revenues	**$199,475**	$190,117
Total revenues	**$546,437**	$469,196

Hospital Services Segment

Net Patient Service Revenues

Operating revenue of the Hospital Services segment consists primarily of net patient service revenue. The Company reports net patient service revenue at the estimated net realizable amounts from patients and third-party payers and others in the period in which services are rendered. The Company has agreements with third-party payers, including Medicare, Medi-Cal, managed care and other insurance programs that are paid at negotiated rates. These payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments, as further described below. Estimates of contractual allowances are based upon the payment terms specified in the related contractual agreements. The Company accrues for amounts that it believes may ultimately be due to or from the third-party payers. Normal estimation differences between final settlements and amounts accrued in previous years are reported as changes in estimates in the current year. Outstanding receivables, net of allowances for contractual discounts and bad debts, are included in patient accounts receivable in the accompanying consolidated balance sheets.

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A summary of the payment arrangements with major third-party payers follows:

Medicare: Inpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge, according to a patient classification system based on clinical, diagnostic, and other factors. Outpatient services are paid based on a blend of prospectively determined rates and cost-reimbursed methodologies. The Company is also reimbursed for various disproportionate share and Medicare bad debt components at tentative rates, with final settlement determined after submission of annual Medicare cost reports and audits thereof by the Medicare fiscal intermediary. Normal estimation differences between filed settlements and amounts accrued are reflected in net patient service revenue. There were no final settlements for open cost report years during the year ended September 30, 2011.

As of September 30, 2011 and 2010, Medicare cost report settlements, which are recorded as net due from government payers in the accompanying consolidated balance sheets, totaled approximately $440,000 and $103,000, respectively.

Medi-Cal: Inpatient services rendered to Medi-Cal program beneficiaries are paid at contracted per diem rates. The per diem rates are not subject to retrospective adjustment. Outpatient services are paid based on prospectively determined rates per procedure provided. The Alta hospitals are eligible to participate in the State of California Medi-Cal Disproportionate Share ("DSH") programs, under which medical facilities that serve a disproportionate number of low-income patients receive additional reimbursements. Eligibility is determined annually based on prescribed guidelines. The Company accrues a receivable each month based on the expected total annual DSH payments. Differences between the estimated and the actual award (which have not been significant) are recorded in the period they become known. The Medi-Cal DSH receivable as of September 30, 2011 and 2010 totaled approximately $3,636,000 and $4,215,000, respectively, and were included in government program receivables in the accompanying consolidated balance sheets. For fiscal years ended September 30, 2011 and 2010, total Medi-Cal DSH payments received by Alta hospitals were approximately $10,487,000 and $15,558,000, respectively, and total Medi-Cal DSH revenues recorded were approximately $9,908,000 and $14,758,000, respectively. Additionally, pursuant to an audit of Medi-Cal cost reports and notification sent to the Company during the year, the Company accrued a cost report liability payable to Medi-Cal of $1,294,000 for the calendar year 2010 and nine months ended September 30, 2011. This was based on determination by the State that ancillary services of administrative days were paid at a higher percent of charges than is allowable.

During the fourth quarter of fiscal 2011, the Company's Alta Hospitals received notification that the DSH received related to the State fiscal year 2009-2010 was being re-opened and that the DSH amounts to be received for State fiscal years 2010-2011 and 2011-2012 would be significantly reduced. Such notification came about as a result of the legislation which extended payments under Senate Bill 90 ("SB 90"). For amounts received related to 2009-2010, no adjustment was made as it was not possible to estimate the effect of the State re-opening the 09-10 year. For estimated amounts to be received for the 2010-2011 and 2011-2012 years, management estimated a reduction of DSH accruals of approximately $5,800,000, which was recorded in the fourth quarter of fiscal 2011. The receivable above at September 30, 2011 include the impact of these revised estimates. The Company has

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not, however, recognized as income the net receipts under SB90 of approximately $6,500,000, pending final approvals of this program by all regulatory bodies.

Managed Care: The Company has also entered into payment agreements with certain commercial insurance carriers, HMOs, and PPOs. The basis for payment under these agreements includes prospectively determined rates per discharge, per diems and discounts from established charges. Certain agreements also include stop-loss provisions where the Company receives additional reimbursement when charges incurred exceed a predetermined amount. Where the Company provides medical care on a non-contracted basis, it receives standard billed charges or rates negotiated on a case by case basis.

See "Concentrations of Credit Risks" below for discussion of revenues received from the Medicare and Medi-Cal programs.

Outlier Liability

Following the acquisition of a majority in Brotman, effective April 14, 2009, the Company consolidated Brotman's estimated liability to the Centers for Medicare and Medicaid Services ("CMS") arising out of outlier payments received for services provided by Brotman to Medicare eligible inpatients, primarily for the last four months of calendar year 2005 and all of calendar year 2006.

While Brotman reports financial statements on a fiscal year ending September 30, Medicare cost reports are filed on a calendar year basis. Acute care hospitals receive Medicare reimbursement payments pursuant to a prospective payment methodology primarily based on the diagnosis of the patient, but are entitled to receive additional payments, referred to as "outliers" for patients whose treatment is very costly. When Brotman acquired the hospital in 2005, CMS provided a ratio of cost to charges (the "RCC") based on the statewide average. Payments on this basis were an interim estimate, subject to final determination upon auditing of the Hospital's cost reports. The Hospital filed its Medicare cost reports, but determined that its outlier reimbursement for services provided in fiscal years 2005, 2006 and part of 2007 might be subject to adjustment based on certain outlier reconciliation rules. During 2011 CMS formally notified the Hospital of a pending reconciliation to be conducted regarding their cost reports; however, the full extent and the potential repayment of the liability have not been determined. As of September 30, 2011 and 2010, an estimated liability of $13,834,000 was included in each of the accompanying consolidated balance sheets related to this matter. The Company properly provided notice to CMS of the Chapter 11 bankruptcy case and of the bar date. In addition to asserting a claim, CMS could assert a right of offset in the future.

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Supplemental payments

Brotman has previously received supplemental DSH payments from the California Medical Assistance Commission ("CMAC"). Brotman received $2,000,000 from CMAC during the year ended September 30, 2010, all of which was recognized as revenue during that year, and none for the year ended September 30, 2011.

The following is a summary of due from and due to governmental payers at September 30 (in thousands):

Years Ended September 30,	**2011**	2010
Due from government payers:		
Medi-Cal Disproportionate Share	**$ 3,636**	4,215
Medicare cost report settlements, net	**440**	103
	4,076	4,318
Due to government payers:		
Outlier liability	**$13,834**	$13,834
Medi-Cal cost report settlements, net	**1,294**	-
	15,128	$13,834

Charity Care

The Company provides charity care to patients whose income level is below 300% of the Federal Poverty Level. Patients with income levels between 300% and 350% of the Federal Poverty Level qualify to pay a discounted rate under AB774 based on various government program reimbursement levels. Patients without insurance are offered assistance in applying for Medicaid and other programs they may be eligible for, such as state disability. Patient advocates from the Company's Medical Eligibility Program ("MEP") screen patients in the Hospital and determine potential linkage to financial assistance programs. They also expedite the process of applying for these government programs. Based on the Company's gross charge rates, revenues foregone under the charity policy, including indigent care accounts, were approximately $3,450,000 and $2,977,000 for the years ended September 30, 2011 and 2010, respectively.

The Company is not aware of any material claims, disputes, or unsettled matters with any payers that would affect revenues that have not been adequately provided for and disclosed in the accompanying consolidated financial statements.

Provisions for Contractual Allowances and Doubtful Accounts

Collection of receivables from third-party payers and patients is the Company's primary source of cash and is critical to its operating performance. The Company closely monitors its historical collection rates, as well as changes in applicable laws, rules and regulations and contract terms, to assure that provisions for contractual allowances are made using the most accurate information available. However, due to the complexities involved in these estimations, actual payments from payers may be materially different from the amounts management estimates and records. The Company's primary collection risks relate to uninsured patients and the portion of the bill which is the patient's responsibility, primarily co-payments and deductibles. Payments for services may also be denied due to issues over patient eligibility for medical coverage, the Company's ability to demonstrate medical necessity for services rendered and payer authorization of hospitalization. The Company estimates the provisions for doubtful accounts based on general factors such as payer mix, the age of the receivables and historical collection experience. Management routinely reviews accounts receivable balances in conjunction with these factors and other economic conditions

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which might ultimately affect the collectability of the patient accounts, and makes adjustments to the Company's allowances as warranted.

All of the Company's facilities are subject to the Emergency Medical Treatment and Active Labor Act ("EMTALA"). This federal law requires any hospital that participates in the Medicare program to conduct an appropriate medical screening examination of every person who presents to the hospital's emergency department for treatment and, if the patient is suffering from an emergency medical condition, to either stabilize that condition or make an appropriate transfer of the patient to a facility that can handle the condition. The obligation to screen and stabilize emergency medical conditions exists regardless of a patient's ability to pay for treatment. There are severe penalties under EMTALA if a hospital fails to screen or appropriately stabilize or transfer a patient or if the hospital delays appropriate treatment in order to first inquire about the patient's ability to pay. Penalties for violations of EMTALA include civil monetary penalties and exclusion from participation in the Medicare program. In addition, an injured patient, the patient's family or a medical facility that suffers a financial loss as a direct result of another hospital's violation of the law can bring a civil suit against that other hospital. The Company believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that would have a material effect on the Company's financial statements.

The provision for bad debts for the years ended September 30, 2011 and 2010 totaled $35,256,000 and $29,968,000, respectively.

Medical Group Segment

Medical Group Revenues

Operating revenue of the Medical Group segment consists primarily of payments for medical services provided by the Affiliates under capitated contracts with various managed care providers including HMOs. Capitation revenue under HMO contracts is prepaid monthly to the Affiliates based on the number of enrollees electing any one of the Affiliates as their health care provider. See "Concentrations of Credit Risks" below for revenues received from the five largest contracted HMOs.

Capitation revenue (net of capitation withheld to fund risk share deficits discussed below) is recognized in the month in which the Affiliates are obligated to provide services. Minor ongoing adjustments to prior months' capitation, primarily arising from contracted HMOs' finalizing of monthly patient eligibility data for additions or subtractions of enrollees, are recognized in the month they are communicated to the Company. Additionally, Medicare pays capitation using a "Risk Adjustment model," which compensates managed care organizations and providers based on the health status (acuity) of each individual enrollee. Health plans and providers with higher acuity enrollees will receive more and those with healthier enrollees will receive less. Under Risk Adjustment, capitation is determined based on health severity, measured using patient encounter data. Capitation is paid on an interim basis based on data submitted for the enrollee for the preceding year and is adjusted in subsequent periods (generally in the Company's fourth quarter) after the final data is compiled. Positive or negative capitation adjustments are made for Medicare enrollees with conditions requiring more or less healthcare services than assumed in the interim payments. Since the Company cannot reliably predict these adjustments, periodic changes in capitation amounts earned as a result of Risk Adjustment are recognized in the year to which they relate, generally in the fourth quarter, when those changes are communicated by the health plans

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to the Company. The Company received and recorded as additional revenue, approximately $3,700,000 and $4,000,000, respectively, in positive capitation risk adjustments in the years ended September 30, 2011 and 2010, respectively.

HMO contracts also include provisions to share in the risk for hospitalization, whereby the Affiliate can earn additional incentive revenue or incur penalties based upon the utilization of hospital services. Typically, any shared risk deficits are not payable until and unless the Company generates future risk sharing surpluses, or if the HMO withholds a portion of the capitation revenue to fund any risk share deficits. At the termination of the HMO contract, any accumulated risk share deficit is typically extinguished. Due to the lack of access to information necessary to estimate the related costs, shared-risk amounts receivable from the HMOs are only recorded when such amounts are known. Risk pools for the prior contract years are generally final settled in the third or fourth quarter of the following fiscal year. In the years ended September 30, 2011 and 2010, Medical Group revenues included approximately $2,471,000 and $2,224,000, respectively, of additional revenues due to favorable settlements on prior year risk-sharing arrangements. At September 30, 2011 and 2010, contingent liabilities for carry-forward risk-pool deficits expected to be forgiven, or offset against future surpluses were approximately $7,000,000 and $4,800,000, respectively, based on the available information from the health plans.

In addition to risk-sharing revenues, the Company also receives incentives under "pay-for-performance" programs for quality medical care based on various criteria. These incentives, which are included in other revenues, are generally recorded in the third and fourth quarters of the fiscal year and are recorded when such amounts are known.

Management fee revenue is earned in the month the services are rendered. Management fee arrangements provide for compensation ranging from 6% to 15% of revenues. The Company provides management services to affiliated providers whose results are consolidated in the Company's financial statements under management fee arrangements, which are generally based on a percentage of revenues and a percentage of net income or loss. Revenues and expenses relating to these inter-entity agreements have been eliminated in consolidation.

In connection with providing services to HMO enrollees, the Affiliates are responsible for the medical services their affiliated physicians provide to assigned HMO enrollees.

Medical Group Cost of Revenues

The cost of health care services consists primarily of capitation and claims payments, pharmacy costs and incentive payments to contracted providers. These costs are recognized in the period incurred, or when the services are provided. Claims costs also include an estimate of the cost of services which have been incurred but not yet reported to the Company. The estimate for accrued medical costs is based on projections of costs using historical studies of claims paid and adjusted for seasonality, utilization and cost trends. These estimates are subject to trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management records its best estimate of the amount of medical claims incurred at each reporting period. Estimates are continually monitored and reviewed and, as settlements are made or estimates adjusted, differences are reflected in current operations. See Note 13 for changes in claims estimates during the years ended September 30, 2011 and 2010.

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In addition to contractual reimbursements to providers, the Company also makes discretionary incentive payments to physicians, which are in large part based on the pay-for-performance and shared risk revenues and favorable senior capitation risk adjustment payments received by the Company. Since the Company records these revenues generally in the third or fourth quarter of each fiscal year when the incentives and capitation adjustments due from the health plans are known, the Company also finalizes the discretionary physician bonuses in the same period. In the years ended September 30, 2011 and 2010, the Company recorded discretionary physician incentives expense totaling approximately $3,600,000 and $2,899,000, respectively. As of September 30, 2011 and 2010, bonus accruals of approximately $2,208,000 and $1,700,000, respectively, were included in accounts payable and accrued liabilities.

The Company also periodically evaluates the need to establish premium deficiency reserves for the probability that anticipated future health care costs could exceed future capitation payments from HMOs under capitated contracts and, where appropriate, records a premium deficiency reserve. The Company, for certain matters, maintains stop loss coverage for health care costs that are in excess of set thresholds. The Company is currently in dispute with its previous stop loss carrier relating to 2007 and 2008 policies. The extent of this contingency cannot be determined with any certainty. Accordingly, no liability has been recorded relative to this uncertainty.

Property, Improvements and Equipment

Property, improvements and equipment are stated on the basis of cost or, in the case of acquisitions, at their acquisition date fair values. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, and amortization of leasehold improvements is provided using the straight-line basis over the shorter of the remaining lease period or the estimated useful lives of the leasehold improvements. Leasehold improvements are generally depreciated over five to ten years, buildings are depreciated over 20 to 28 years, equipment is depreciated over two to five years and furniture and fixtures are depreciated over two to seven years. Equipment capitalized under capital lease obligations are amortized over the life of the lease. At September 30, 2011 and 2010, the Company had assets under capitalized leases of approximately $4,422,000 and $4,626,000, respectively, and related accumulated depreciation of $1,897,000 and $2,880,000, respectively.

Depreciation expense was approximately $3,935,000 and $3,969,000 for the fiscal years ended September 30, 2011 and 2010, respectively.

As more fully described in Note 11, the Company is required to comply with certain seismic standards as required by the state of California by January 1, 2020. The useful life of buildings subject to seismic retrofit requirements may be limited if the Company does not make the necessary upgrades by the required compliance date.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets totaled approximately $191,541,000 and $195,409,000 net of accumulated amortization at September 30, 2011 and 2010, respectively, and arose as a result of the ProMed, Alta and Brotman business acquisitions. Other intangible assets include customer relationships, covenants not-to-compete, trade names and provider networks. Goodwill represents the excess of the consideration paid and liabilities assumed over the fair value of the assets acquired, including identifiable intangible assets.

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Goodwill and other intangible assets with indefinite useful lives are not amortized; rather they are reviewed annually for impairment for each reporting unit, or more frequently if impairment indicators arise. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. A two-step impairment test is used to identify potential goodwill impairment and to measure the amount of goodwill impairment loss to be recognized, if any. The Company has four operating units, consisting of Alta, Brotman, ProMed and Prospect (which includes all other affiliated physician organizations).

The Company tests for goodwill impairment as of September 30 each year. In evaluating whether indicators of impairment exist, the Company considers adverse changes in market value, laws and regulations, profitability, cash flows, ability to maintain enrollment and renew payer contracts at favorable terms, among other factors. The goodwill impairment test is a two-step process. The first step consists of estimating the fair value of the reporting unit based on a weighted combination of (i) the guideline company method that utilizes revenue or earnings multiples for comparable publicly-traded companies, and (ii) a discounted cash flow model that utilizes expected future cash flows, the timing of those cash flows, and a discount rate (or weighted average cost of capital, which considers the cost of equity and cost of debt financing expected by a typical market participant) representing the time value of money and the inherent risk and uncertainty of the future cash flows. If the estimated fair value of the reporting unit is less than its carrying value, a second step is performed to compute the amount of the impairment by determining the "implied fair value" of the goodwill, which is compared to its corresponding carrying value. The Company's impairment test related to ProMed and Alta goodwill at September 30, 2011 resulted in no impairment charge. The Company did not perform an impairment test related to Brotman goodwill at September 30, 2011, as this was not required under current accounting literature due to the negative carrying value of Brotman's net assets. However, accounting literature expected to be adopted by the Company effective October 1, 2011 is expected to require an impairment of Brotman goodwill and the amount of such expected impairment could be significant to the consolidated financial statements.

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Long-Lived Assets and Amortizable Intangibles

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The Company considers assets to be impaired and writes them down to fair value if estimated undiscounted cash flows associated with those assets are less than their carrying amounts. Fair value is based upon the present value of the associated cash flows. Changes in circumstances (for example, changes in laws or regulations, technological advances or changes in strategies) may also reduce the useful lives from initial estimates. Changes in planned use of intangibles may result from changes in customer base, contractual agreements, or regulatory requirements. In such circumstances, management will revise the useful life of the long-lived asset and amortize the remaining net book value over the adjusted remaining useful life. No such impairments were recorded at September 30, 2011 and 2010, respectively.

Medical Malpractice Liability Insurance

The individual physicians who contract with the Affiliates carry their own medical malpractice insurance. In the Hospital Services segment, Alta and Brotman purchase professional and general liability insurance to cover medical malpractice claims under claims-made policies. Under the policies, insurance premiums cover only those claims actually reported during the policy term.

Should the claims-made policy not be renewed or replaced with equivalent insurance, claims related to occurrences during the policy term but reported subsequent to the policy's termination may be uninsured. During the year ended September 30, 2011 Brotman purchased a $0 deductible policy, which effectively insures against such claims effective August 2011.

Accounting principles generally accepted in the United States of America require that a health care organization record and disclose the estimated costs of medical malpractice claims in the period of the incident of malpractice, if it is reasonably possible that liabilities may be incurred and losses can be reasonably estimated. The Company has recognized an estimated liability for incurred but not reported claims and the self-insured risks (including deductibles and potential claims in excess of policy limits) based upon an actuarial valuation of the Company's historical claims experience of Alta and Brotman. At September 30, 2011 and 2010, the claims liability of approximately $699,000 and $1,598,000, respectively was estimated using a discount factor of 4% and 4%, respectively.

The claim reserve is based on the best data available to the Company; however, the estimate is subject to a significant degree of inherent variability. The estimate is continually monitored and reviewed, and as the reserve is adjusted, the difference is reflected in current operations. While the ultimate amount of medical malpractice liability is dependent on future developments, management is of the opinion that the associated liabilities recognized in the accompanying consolidated financial statements are adequate to cover such claims. Management is not aware of any potential medical malpractice claims whose settlement, if any, would have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Workers' Compensation Insurance

The workers' compensation coverage provides the statutory benefits required by law and that the employer's liability limits are $1,000,000. The Company's (excluding Brotman) workers' compensation coverage for October 1, 2010 through September 30, 2011 did not have an aggregate loss limitation. Losses within the deductible are funded via a cash loss fund and reconciled annually. At September 30, 2011 and 2010, included in accrued salaries, wages and benefits are accruals relating to Alta and Brotman for uninsured claims and claims incurred but not reported of approximately $2,784,000 and $2,769,000, respectively. The amounts are estimated based upon an actuarial valuation of their claims experience, using a discount factor of 4% and 4%, respectively. On September 25, 2008, Brotman purchased first dollar guaranteed cost insurance and retains no liability under this policy from that point onward.

The claim reserve is based on the best data available to the Company; however, the estimate is subject to a significant degree of inherent variability. The estimate is monitored and reviewed, and as the reserve is adjusted, the difference is reflected in current operations. While the ultimate amount of the claims liability is dependent on future developments, management is of the opinion that the associated liabilities recognized in the accompanying consolidated financial statements are adequate to cover such claims. Management is not aware of any potential claims whose settlement, if any, would have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

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Stock Options

Prior to the completion of the merger discussed in Note 4, the Company had stock option and restricted stock agreements with certain directors, officers and employees issued under the Company's 1998 and 2008 equity incentive plans. These equity awards vested based on continuous service and did not include performance or market vesting conditions. Share-based awards have generally been issued at or above the market price of the underlying stock. There are no liability awards that may be settled for cash.

Compensation costs for option awards are measured and recognized in the financial statements based on their grant date fair value, net of estimated forfeitures over the awards' service period. The fair value of restricted stock grants are determined on the date of grant, based on the number of shares granted and the quoted price or estimated fair market value of the Company's common stock. The Company uses the Black-Scholes option pricing model and a single option award approach to estimate the fair value of stock options granted. Equity-based compensation is classified within the same line items as cash compensation paid to employees. Cash retained as a result of excess tax benefits relating to share-based payments is presented in the statement of cash flows as a financing cash inflow.

On December 15, 2010, the Board of Directors (the "Ivy Board") of Ivy Holdings Inc. adopted the 2010 Stock Option Plan of Ivy Holdings Inc. (the "Ivy Plan") and, on December 16, 2010, the stockholders of Ivy Holdings Inc. adopted the Ivy Plan. The Ivy Plan provides that it shall be administered by the Compensation Committee of the Ivy Board. The Ivy Plan includes an Incentive Stock Option Agreement and a Non-Qualified Stock Option Agreement to be used in connection with the grant of options under the Ivy Plan. During fiscal year 2011, Ivy Holdings granted 127,439 options to 65 members of the Company's management. These options are exercisable into Ivy Holdings stock and vested based on a number of criteria, including time, performance and discretion. Related compensation cost has been recorded in the Company's consolidated financial statements.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments with initial maturities of three months or less to be cash equivalents. Cash and cash equivalents primarily comprise deposits with banks. The Company maintains its cash at banks with high credit-quality ratings.

Restricted Cash

At September 30, 2011 and 2010, restricted cash primarily represents amounts set aside pursuant to the Los Angeles Jewish Home for the Aging ("JHA") loan agreements at Brotman (see Note 9), totaling $3,840,000 and $2,889,000, respectively, held in escrow for property taxes, maintenance and emergency room construction. Additionally, $233,000 at September 30, 2011 and 2010 was held in a restricted account in connection with workers compensation arrangements, respectively. As discussed in Note 9, at September 30, 2011, Brotman was not in compliance with the covenant related to JHA loans and required monthly transfers of cash to the restricted cash accounts.

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Restricted Investments

The Company is required to keep restricted deposits by certain HMOs for the payment of claims. Such restricted deposits are classified as a current asset in the accompanying consolidated balance sheet, as they are restricted for payment of current liabilities. Investments also include certificates of deposit with maturity dates of more than three months when purchased.

Inventories

Inventories of supplies are valued at the lower of amounts that approximates the weighted average cost or market. Inventories consist primarily of medical and surgical supplies and pharmaceuticals.

Deferred Financing Costs

Deferred financing costs are amortized over the period in which the related debt is outstanding using the effective interest method. Deferred financing costs at September 30, 2011 and 2010 are as follows (in thousands):

September 30,	2011			2010		
	Gross book value	**Accumulated amortization**	**Net book value**	Gross book value	Accumulated amortization	Net book value
Deferred financing costs	**$8,508**	**$4,171**	**$4,337**	$8,771	$2,417	$6,354

Income Taxes

Deferred income tax assets and liabilities are recognized for differences between financial and income tax reporting bases of assets and liabilities based on enacted tax rates and laws. To the extent a deferred tax asset cannot be recognized under the preceding criteria, allowances must be established. The impact on deferred taxes of changes in tax rates and laws, if any, are applied to the years during which temporary differences are expected to be settled and reflected in the financial statements in the period of enactment. The Company recognizes interest and penalties associated with unrecognized tax benefits in the income tax expense line item of the statements of operations.

An entity is required to evaluate its tax positions using a two-step process. First, the entity should evaluate the position for recognition. An entity should recognize the financial statement benefit of a tax position if it determines that it is more likely than not that the position will be sustained on examination. Next, the entity should measure the amount of benefit that should be recognized for those tax positions that meet the more-likely-than-not test. The Company adopted the provisions of ASC 740-10 related to uncertain tax positions on October 1, 2009. The adoption did not result in a material adjustment in the liability for unrecognized income tax benefits.

The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax. For the years ended September 30, 2011 and 2010, no interest and/or penalties related to incomes taxes were accrued and/or expensed.

Consolidated and separate income tax returns are filed with the U.S. Federal jurisdiction and in the State of California. The Company's filed tax returns are subject to examination by the IRS for tax

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year 2010, 2009, 2008 and 2007 and the State of California for fiscal years 2010, 2009, 2008, 2007 and 2006. Net operating losses that were incurred in prior years may still be adjusted by taxing authorities.

The net deferred tax liabilities are primarily comprised of temporary differences between book and tax bases for intangible and capital assets acquired and loss carryforwards.

Fair Value of Financial Instruments

Financial instruments consist primarily of cash and cash equivalents, restricted cash investments, patient and other accounts receivables, accrued salaries and benefits, accounts payable and accrued expenses, medical claims and related liabilities, amounts due to government agencies, notes receivable and payable, capital lease obligations, debt, and other liabilities. The carrying amounts of current assets and liabilities approximate their fair value due to the relatively short period of time between the origination of the instruments and their expected realization. (See Note 16 for further details).

Concentrations of Credit Risk

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. The Company has not experienced any losses to date related to these balances. All of the Company's non-interest bearing cash balances were fully insured at September 30, 2011 due to a temporary federal program in effect from December 31, 2010 through December 31, 2012. Under the program, there is no limit to the amount of insurance for eligible accounts. Beginning in 2013, insurance coverage will revert to $250,000 per depositor at each financial institution, and the Company's non-interest bearing cash balances may again exceed federally insured limits.

Financial instruments that potentially subject the Company to concentrations of credit risk consist of receivables due from Medicare, Medi-Cal, patients, health plans and under shared-risk arrangements, and notes receivable.

The Company invests excess cash in liquid securities at institutions with strong credit ratings, following established guidelines relative to diversification and maturities to maintain safety and liquidity. These guidelines are periodically reviewed and modified to take into consideration trends in yields and interest rates and principal risk. Management attempts to schedule the maturities of the Company's investments to coincide with the Company's expected cash requirements. Credit risk with respect to receivables is limited since amounts are generally due from large HMOs within the Medical Group Management segment and from the Medicare and Medi-Cal programs within the Hospital Services segment. Notes receivable are fully secured by collateral of equal or greater value. Management reviews the financial condition of these institutions on a periodic basis and does not believe the concentration of cash or receivables results in a high level of risk.

The Company was subject to interest rate fluctuation under its floating rate revolving credit facilities.

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For the years ended September 30, 2011 and 2010, the Hospital Services segment received a total of 85% and 79%, respectively, of its net patient revenues from Medicare and Medi-Cal programs and its largest HMO, and the Medical Group segment received a total of 76% and 77% of their capitation revenues from its five largest HMOs, as follows (in thousands):

	Revenue Year Ended September 30, 2011	% of Total Revenue	Revenue Year Ended September 30, 2010	% of Total Revenue
Hospital Services:				
Government Payors:				
Medicare	$153,648	44%	$149,289	53%
Medi-Cal	66,618	19%	68,935	25%
Commercial:				
HMO A	6,550	2%	2,651	1%
Total	$226,816	65%	$220,875	79%
Medical Group:				
HMO A	$ 32,795	17%	$ 31,233	17%
HMO B	27,262	14%	27,425	15%
HMO C	25,441	13%	26,558	14%
HMO D	26,069	14%	25,042	13%
HMO E	35,139	18%	33,646	18%
Totals	$146,706	76%	$143,904	77%

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Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities at the dates, and for the periods, that the consolidated financial statements are prepared. Actual results could materially differ from those estimates. Principal areas requiring the use of estimates include third party settlements, settlements under risk sharing programs, allowances for contractual discounts and doubtful accounts, accruals for medical claims, impairment of goodwill, long-lived assets and intangible assets, share-based payments, professional and general liability claims and workers' compensation claims, reserves for outcome of legislation and valuation allowances against deferred tax assets.

Recent Accounting Pronouncements

In August 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Updates ("ASU") 2010-24, "Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries," which clarifies that a health care entity should not net insurance recoveries against a related claim liability. The guidance provided in this ASU is effective for the fiscal years, and interim periods within those years, beginning after December 15, 2010. The Company will adopt the modified accounting standards on October 1, 2011 and is currently

assessing the potential impact that the adoption will have on its consolidated results of operations and consolidated financial position.

In August 2010, the FASB issued ASU 2010-23, "Health Care Entities (Topic 954): Measuring Charity Care for Disclosure," which prescribes a specific measurement basis of charity care for disclosure. The guidance provided in this ASU is effective for fiscal years beginning after December 15, 2010. The Company will adopt the modified accounting standards on October 1, 2011 and is currently assessing the potential impact that the adoption will have on its consolidated results of operations and consolidation financial position.

In December 2010, the FASB issued an update (ASU 2010-28) to the existing goodwill impairment accounting standards which modify the goodwill impairment test for reporting units with zero or negative carrying amounts of which Brotman has a negative carrying value at quarter ending September 30, 2011. The amendments in ASU 2010-28 modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. Upon adoption of the amendments, an entity with reporting units that have carrying amounts that are zero or negative is required to assess whether it is more likely than not that the reporting units' goodwill is impaired. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. If the entity determines that it is more likely than not that the goodwill of one or more of its reporting units with zero or negative carrying amounts is impaired, the entity should perform Step 2 of the goodwill impairment test for those reporting unit(s). Any resulting goodwill impairment should be recorded as a cumulative-effect adjustment to beginning retained earnings in the period of adoption. Any goodwill impairment loss occurring after the initial adoption of the amendments should be recognized in earnings as required by ASC Section 350-20-35. See Note 6 for further discussion regarding Brotman's impairment evaluation. The adoption of this accounting guidance could have a material impact on the Company's financial position.

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In June 2011, the FASB issued ASU 2011-06, "Other Expenses (Topic 720): Fees Paid to the Federal Government by Health Insurers (a consensus of the FASB Emerging Issues Task Force ("ASU 2011-06"))." The guidance specifies that the liability for the annual fee imposed on certain health insurers under the recently enacted Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act, should be estimated and recorded in full once the entity provides qualifying health insurance in the applicable calendar year in which the fee is payable with a corresponding deferred cost that is amortized to expense using a straight-line method of allocation unless another method better allocates the fee over the calendar year that it is payable. ASU 2011-06 is effective for calendar years beginning after December 31, 2013, when the fee initially becomes effective.

In July 2011, the FASB issued ASU 2011-07, "Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities" ("ASU 2011-07"). In accordance with ASU 2011-07, an entity will be required to present its provision for doubtful accounts related to patient service revenue as a deduction from revenue, similar to contractual discounts. Accordingly, an entity's revenues will be required to be reported net of both contractual discounts as well as its provision for doubtful accounts related to patient service revenues. Additionally, ASU 2011-07 will require an entity to make certain additional disclosures designed to help users understand how contractual discounts and bad debts affect recorded revenue in both interim and annual financial statements.

ASU 2011-07 will be effective for public entities for fiscal years beginning after December 15, 2011, and interim periods within those fiscal years. For nonpublic entities, ASU 2011-07 will be effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. Early adoption is permitted. Entities must apply the presentation requirements retrospectively; however, the qualitative and quantitative disclosures are only required to be provided prospectively. The Company is considering the early adoption of the provisions of ASU 2011-07. The adoption of ASU 2011-07 is not expected to impact the Company's financial position, results of operations or cash flows, however, it will change the presentation of the Company's revenues on its consolidated statements of operations as well as requiring additional disclosures.

In September 2011, the FASB issued ASU 2011-08, "Intangibles — Goodwill and Other (Topic 350)" ("ASU 2011-08"). Previously, entities were required to test goodwill for impairment, on at least an annual basis, by first comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the resulting fair value of a reporting unit was less than its carrying amount, then the second step of the test would be performed to measure the amount of the impairment loss, if any. ASU 2011-08 permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step goodwill impairment test is unnecessary. In accordance with ASU 2011-08, an entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. Additionally, ASU 2011-08 permits an entity to resume performing the qualitative assessment in any subsequent period. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance. The Company will adopt the authoritative guidance in the first quarter of fiscal 2012 and is currently assessing the potential impact that the adoption will have on its consolidated financial statements.

Subsequent Events

The Company has evaluated subsequent events through December 19, 2011, the date of issuance of the Company's consolidated financial statements (see Note 17).

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation with no impact on the prior year consolidated net income.

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3. Property, Improvements and Equipment

Property, improvements and equipment as of September 30, 2011 and 2010, consisted of the following (in thousands):

September 30,	**2011**	2010
Property, improvements and equipment:		
Land and land improvements	**$31,028**	$31,028
Buildings and improvements	**24,209**	24,302
Leasehold improvements	**4,203**	2,666
Equipment	**29,910**	22,121
Furniture and fixtures	**877**	892
	90,227	81,009
Less accumulated depreciation	**(21,392)**	(17,905)
Property, improvements and equipment, net	**$68,835**	$63,104

4. Agreement and Plan of Merger

On August 16, 2010, the Company entered into an Agreement and Plan of Merger (the "Ivy Merger Agreement") with Ivy Holdings Inc. ("Ivy Holdings") and Ivy Merger Sub Corp. ("Merger Sub"), an indirect, wholly owned subsidiary of Ivy Holdings. On December 15, 2010 (the "Merger Effective Date"), at a special meeting of the Company's stockholders, the adoption of the Ivy Merger Agreement was approved by the affirmative vote of a majority of the common stock outstanding as of the record date for the special meeting. In accordance with the Ivy Merger Agreement and the Delaware General Corporation Law on the Merger Effective Date, Merger Sub merged with and into the Company, and the Company became an indirect, wholly-owned subsidiary of Ivy Holdings (the "Ivy Merger"). Following the consummation of the merger, the Company's common stock ceased trading on the NASDAQ Global Market and was delisted.

Pursuant to the Ivy Merger Agreement, at the Merger Effective Date:

All outstanding options to purchase shares of the Company's common stock were canceled and the holder of each such option received a cash payment equal to the excess of the $8.50 per share cash merger consideration over the exercise price of such option, multiplied by the number of shares subject to the option that were vested immediately prior to the Merger Effective Date, less any applicable withholding taxes and after giving effect to the determination of the Company's compensation committee to accelerate the vesting of certain unvested options in connection with the Ivy Merger (see Note 10).

Each outstanding warrant to purchase shares of common stock was canceled and converted into the right to receive a cash payment equal to the excess of the $8.50 per share cash merger consideration over the exercise price of the warrant, multiplied by the number of shares subject to the warrant.

Restrictions on each share of restricted stock issued under any of the Company's equity incentive plans lapsed and each such share of restricted stock was converted into the

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right to receive the $8.50 per share merger consideration, less any applicable withholding taxes.

The Compensation Committee of the Board of Directors approved a contingent bonus in the amount of $1,235,000 paid to the Company's Chief Executive Officer ("CEO") and Chairman of its Board of Directors, upon successfully completing the merger transaction. Certain of the Company's senior management stockholders (the "Rollover Investors"), which were comprised of the CEO, the Company's Chief Financial Officer, the President of the Alta Hospitals System, LLC subsidiary and one of the Company's directors and the President of ProMed Health Services Company, executed a voting agreement pursuant to which they agreed, subject to the terms thereof, to vote their shares of the Company's common stock in favor of the approval and adoption of the Ivy Merger Agreement. The voting agreement provided the requisite stockholder approval for the merger.

Pursuant to a contribution and subscription agreement, immediately prior to the completion of the merger, the Rollover Investors contributed a total of 6,227,824 shares of the Company common stock (the "Rollover Shares") in exchange for shares of Ivy Holdings common stock. Following the completion of the Ivy Merger, the Rollover Investors beneficially own approximately 20.2%, 14.9%, 1.6% and 1.2%, respectively, of the outstanding common stock of Ivy Holdings (excluding any stock options that have been granted, or may in the future be granted, to the Rollover Investors pursuant to a management equity incentive plan that Ivy Holdings adopted in December 2010, as further discussed in Note 10).

The terms of the contribution and subscription agreement entitled the CEO and President of Alta, in their discretion, to offer other employees of the Company the ability to acquire shares of Ivy Holdings common stock on the same terms and conditions as the Rollover Investors. Immediately prior to the completion of the merger, a group of 11 employees of the Company (the "Additional Employee Investors") contributed to Ivy Holdings approximately 136,765 shares of the Company's common stock in exchange for shares of Ivy Holdings' common stock. Following the completion of the merger, the Additional Employee Investors beneficially own a total of approximately 0.8% of the outstanding common stock of Ivy Holdings (excluding any stock options that have been granted, or may in the future be granted, to the Additional Employee Investors pursuant to a management equity incentive plan that Ivy Holdings adopted in December 2010, as further discussed in Note 10).

The LGP Funds, affiliated investment funds of Leonard Green Partners, L.P., own the remainder of the common stock of Ivy Holdings not owned by the Rollover Investors and the Additional Employee Investors. As a result, at the Merger Effective Date, the Company, which became a wholly-owned subsidiary of Ivy Holdings, is approximately 62% indirectly owned by the LGP Funds and 38% indirectly owned by the Rollover and Additional Employee Investors. As the change in control is less than 80%, no push down accounting is applicable. In connection with the Ivy Merger, the Company also recorded a capital contribution of approximately $844,000 from the LGP Funds.

Following the Ivy Merger, each holder of the Company's senior secured notes described in Note 9 below was entitled under the notes' indenture to require the Company to repurchase all or a portion of the holder's senior secured notes at a cash purchase price equal to 101% of the principal amount of the senior secured notes plus accrued and unpaid interest. Accordingly, following the Merger Effective Date, notice was provided to each holder of such notes advising the holder that it was entitled under the indenture, prior to January 14, 2011, to require the Company to purchase the senior secured notes held by the holder at a purchase price equal to 101% of the principal amount of the senior secured notes, plus accrued and unpaid interest to the date of purchase. In

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December 2010 and January 2011, a total of approximately $8,200,000 of the senior secured notes was tendered by note holders and was purchased by the Company in January 2011.

Following the announcement of the merger, two lawsuits were filed against the Company and certain members of its Board of Directors - Bruce Lessey, et al. ("Lessey") v. Prospect Medical Holdings, Inc., et al. and Terrier Partners, L.P., et al. ("Terrier Partners") v. Prospect Medical Holdings, Inc., et al. Lessey is a putative class action lawsuit filed in August 2010, and Terrier is a non-class action lawsuit brought on behalf of several former investors in the Company. Both allege breach of fiduciary duty claims against the members of the Company's Board of Directors at the time, and aiding and abetting breach of fiduciary duty claims against the Company and others. Both cases allege that the members of the Company's Board failed to obtain the best price available as part of the going-private negotiations, and seek damages as a result.

In September 2011, the plaintiffs in Lessey filed a motion for class certification, and the defendants filed their opposition in November 2011. The plaintiffs have yet to file any reply and there has been no ruling on the motion as of yet. Because the resolution of certain issues in the class certification motion has the potential to vitiate the Terrier Partners lawsuit by forcing the plaintiffs in that case into the class covered by Lessey, the Terrier Partners case has been effectively stayed pending resolution of the class certification motion. No trial date has been set in either case, and the Company intends to vigorously defend both cases.

In connection with the merger, the Company has incurred a total of approximately $13,331,000 of merger-related expenses, which amount was expensed during the year ended September 30, 2011.

5. Brotman Acquisition and Investments

On April 14, 2009 (the "Effective Date"), the U.S. Bankruptcy Court confirmed and declared effective the final Chapter 11 Plan of Reorganization (the "Plan") of Brotman whereby, among other things, all of Brotman's outstanding securities were canceled and, in exchange for their pro rata share of the New Value Contribution (as defined in the Plan) totaling $3,500,000, holders of Brotman's securities would receive New Common Stock in Brotman in the same percentage as their pro rata share of the New Value Contribution. Pursuant to the terms of the Plan, the Company made a $1,814,000 investment in Brotman on January 13, 2009 and $705,000 on December 31, 2009, totaling $2,519,000 (net of $37,000 of acquisition costs) while other shareholders made a total cash investment of $981,000. Based on such contributions, Prospect acquired an additional 38.86% ownership interest in Brotman, effective April 14, 2009, which brought its total ownership interest to 71.96%. On November 15, 2010, Brotman completed a $3,750,000 rights offering, wherein the Company participated in the amount of approximately $3,065,000, increasing its ownership from 71.96% to 78.14%. Effective February 15, 2011, Brotman completed the first $1,060,000 tranche of a total $3,595,000 rights offering, wherein the Company participated in the amount of approximately $831,466, increasing its ownership to 78.2%. Effective May 12, 2011, the second tranche of the rights offering was completed, in the amount of 290,378 shares of Brotman stock at a price of $2.91 per share, for total proceeds of $850,000. Prospect Hospital Advisory Services ("PHAS"), a wholly owned subsidiary of the Company, participated in the amount of $663,000 which, after consideration of other Brotman shareholders' participation levels, resulted in PHAS' ownership in Brotman increasing to 78.22%. Additionally, following the consummation of a $2,000,000 rights offering, effective August 4, 2011, having participated in the amount of approximately $1,569,000, PHAS ownership in Brotman increased to 78.26%. As further discussed in

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Note 17, effective December 5, 2011, the third tranche of the February 2011 rights offering was completed. PHAS participated in the amount of approximately $663,000 which, after consideration of other Brotman shareholders' participation levels, increased PHAS's existing ownership stake in Brotman to approximately 78.28%. The pro rata share of net income (loss) of Brotman attributable to non-controlling interest is reported as a component of equity separate from the Company's equity in the consolidated balance sheet as net loss attributable to non-controlling interest in the statement of operations.

For financial reporting purposes, The Brotman Acquisition as of April 14, 2009 was treated as a Business Combination in accordance with GAAP and the excess consideration over the estimated fair value of assets acquired and liabilities assumed was allocated to goodwill (approximately $24,373,000) and identifiable intangible assets.

Since emergence from bankruptcy, Brotman has continued to incur losses and experience liquidity issues. Additionally, pursuant to an Extension Agreement entered into effective June 28, 2011, $16,000,000 of the indebtedness due to the Los Angeles Jewish Home for Aging matures on June 27, 2012. Management is currently attempting to implement operational improvements aimed at returning Brotman to profitability and is evaluating the refinancing or renegotiation and extension of this debt. Prospect has limited ability to fund Brotman's post acquisition operations due to its existing bond indenture agreements.

6. Goodwill and Intangible Assets

As of September 30, 2011 and 2010, all goodwill and intangible assets relate to the Alta, Brotman and ProMed Entities. The Company performed its annual goodwill impairment analysis for each reporting unit that constitutes a business for which 1) discrete financial information is produced and reviewed by management, and 2) services that are distinct from the other reporting units. No impairment assessment was performed for Brotman because of Brotman's negative carrying value.

For the Medical Group segment, the Company has determined that ProMed and other affiliated physician organizations as a group (collectively referred to as "Prospect") each constitutes a reporting unit.

For the Hospital Services segment, the reporting unit for the annual goodwill impairment analysis is determined to be at the individual entity level. An analysis was prepared for Alta but as noted above no assessment was prepared for Brotman.

The carrying value of goodwill for Brotman, Alta and ProMed at September 30, 2011 and 2010 was $24,373,000, $106,538,000 and $22,339,000, respectively. There were no changes to the carrying value for the years ended September 30, 2011 and 2010.

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Identifiable Intangibles at September 30, 2011 and 2010 are compromised of the following (in thousands):

	2011				2010				
	Alta	ProMed	Brotman	Total	Alta	ProMed	Brotman	Total	Amortization Period
HMO membership	$ -	$ 25,200	$ -	$ 25,200	$ -	$ 25,200	$ -	$ 25,200	14 years
Covenants not-to-compete	2,240	940	-	3,180	2,240	940	-	3,180	4 - 6 years
Trade names	14,140	9,450	3,000	26,590	14,140	9,450	3,000	26,590	15 - 20 years
Provider networks	-	1,200	-	1,200	-	1,200	-	1,200	3 years
Gross carrying value	16,380	36,790	3,000	56,170	16,380	36,790	3,000	56,170	
Accumulated amortization	(5,172)	(12,341)	(366)	(17,879)	(3,988)	(9,807)	(216)	(14,011)	
Identifiable intangibles, net	$ 11,208	$ 24,449	$ 2,634	$ 38,291	$ 12,392	$ 26,983	$ 2,784	$ 42,159	

Amortization is recognized on a straight-line basis (management's best estimate of the period of economic benefit) over the respective useful lives and expense for the years ended September 30, 2011 and 2010 was approximately $3,868,000 and $4,266,000, respectively.

Estimated amortization expense for each future fiscal year is as follows (in thousands):

2012	$3,297
2013	3,276
2014	3,235
2015	3,235
2016	3,235
2017 and thereafter	$22,013

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7. Related Party Transactions

The Company had an employment agreement with Dr. Jacob Terner that expired on August 1, 2008 and provided for base compensation (most recently $400,000 per year) and further provided that if the Company terminated Dr. Terner's employment without cause, the Company would pay him $12,500 for each month of past service as the Chief Executive Officer, commencing as of July 31, 1996, up to a maximum of $1,237,500. Dr. Terner resigned as the Chief Executive Officer of the Company effective March 19, 2008 and resigned as Chairman of the Board of Directors effective May 12, 2008. In consideration of Dr. Terner's resignation and other promises in his resignation agreement, the Company agreed to pay to his family trust the sum of $19,361.10 each month during the twelve-month period ending on April 30, 2009 and the sum of $42,694.45 each month during the twenty-four month period ending on April 30, 2011, for the total sum of $1,257,000, which amount was recorded as a general and administrative expense in the third quarter of fiscal 2008. In September 2009, the Company ceased making payments to Dr. Terner following its determination that Dr. Terner was not entitled to receive such payments. Subsequently, Dr. Terner filed a complaint against the Company seeking restoration of the payments. After trial, which concluded on June 4, 2011, the parties reached a settlement and related amounts paid, resulting in no remaining obligation at September 30, 2011.

On August 1, 2005 and subsequently amended on October 25, 2007, Prospect Medical Management, Inc. (now known as Prospect Hospital Advisory Services, Inc. ("PHAS")), a subsidiary of the Company, entered into a consulting services agreement, to provide administrative, financial and management consulting services to Brotman for a monthly fee of $100,000 plus expenses. The agreement had an initial term of one year and automatically renewed for additional one-year terms unless terminated by either party with 90 days written notice. Effective December 15, 2009, the Board of Directors of Brotman authorized certain designated officers to enter into an amendment to the consulting services agreement between Brotman and PHAS ("Amended and Restated Consulting Services Agreement"). The Amended and Restated Consulting Services Agreement, which was executed on February 1, 2010, states *inter alia*, that effective April 14, 2009, PHAS shall be entitled to receive a monthly fee of 4.5% of Brotman's net operating revenue and that, to the extent Brotman does not have sufficient cash to make such cash payment, or is otherwise restricted in its ability to pay all amounts due by agreements applicable to Brotman or PHAS, then PHAS shall be entitled to receive shares of common stock of Brotman. As of September 30, 2011, total amounts accrued under the agreement totaled approximately $12,600,000, all of which are eliminated in consolidation. Of these amounts, $600,000 has been paid.

On December 15, 2009, Brotman initiated a rights offering ("Notes Offering"), whereby each of Brotman's shareholders could subscribe to purchase up to $5,500,000 principal amount of Brotman's convertible subordinated promissory notes (the "Brotman Notes"). The Notes are due three years from the date of issuance, bear interest at 15% per annum, and are convertible at the option of the holder into shares of Brotman's common stock at $3.34 per share. The Company, through PHAS, exercised its right to purchase a portion of its pro rata (approximately 72%) share of the Brotman Notes and, effective January 7, 2010, purchased $3,500,000 of such Notes. Proceeds of the Notes Offering were used to pay certain Brotman's liabilities related to its 401(k) plan contributions and related expenses. Additionally, the Company planned on exercising its rights to purchase any Notes offered that were not purchased by the other Brotman shareholders.

As of September 30, 2011, the outstanding balance under the Brotman Notes, including accrued interest, totaling approximately $4,529,000, has been eliminated in consolidation. No interest payments have been made under the Notes through September 30, 2011.

On November 4, 2010, Brotman commenced another rights offering pursuant to which it offered all shareholders of record as of the close of business on the record date of October 31, 2010 the right to subscribe and purchase all or any portion of their proportionate share of the total 1,288,659 shares of its common stock offered at a price of $2.91 per share. The offering provided for an oversubscription period during which eligible record shareholders who fully subscribed during the initial offering period were entitled to purchase the remaining unsubscribed shares at the same price of $2.91 per share. The oversubscription period began with a mailing to qualified rights holders on November 4, 2010 and terminated on November 15, 2010. Following the consummation of this rights offering, PHAS, having participated in the amount of $3,065,000, increased its existing ownership stake in Brotman from approximately 71.96% to approximately 78.14%.

On February 7, 2011, Brotman commenced a further series of rights offerings pursuant to which it offered all shareholders of record as of the close of business on the record date of January 31, 2011 the right to subscribe and purchase all or any portion of their proportionate share of the total 1,235,396 shares of its common stock offered at a price of $2.91 per share in up to four separate tranches. The initial tranche offered 364,262 shares and each other tranche will offer 290,378 shares. Each tranche offering includes an oversubscription period during which eligible record

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shareholders who fully subscribe during the initial offering period are entitled to purchase the remaining unsubscribed shares at the same price of $2.91 per share. The oversubscription period for the first completed tranche offering began with a mailing to qualified rights holders on February 7, 2011 and terminated on February 15, 2011. Following the consummation of the first tranche offering, PHAS, having participated in the amount of $831,466, increased its existing ownership stake in Brotman from approximately 78.14% to approximately 78.20%, with full participation in the offering by Brotman's second largest shareholder, Culver and the non-participation of certain other shareholders. Effective May 12, 2011, the second tranche of the rights offering was completed, in the amount of 290,378 shares of Brotman stock at a price of $2.91 per share, for total proceeds of $850,000. PHAS participated in the amount of $663,000 which, after consideration of other Brotman shareholders' participation levels, resulted in PHAS' ownership in Brotman increasing to 78.22%.

Additionally, on July 26, 2011, Brotman commenced another rights offering pursuant to which it offered all shareholders of record as of the close of business on the record date of June 30, 2011 the right to subscribe and purchase all or any portion of their proportionate share of the total 687,285 shares of its common stock offered at a price of $2.91 per share. The offering provided for an oversubscription period during which eligible record shareholders who fully subscribed during the initial offering period were entitled to purchase the remaining unsubscribed shares at the same price of $2.91 per share. The oversubscription period began with a mailing to qualified rights holders on July 26, 2011 and terminated on August 4, 2011. Following the consummation of this rights offering, PHAS, having participated in the amount of $1,569,000, increased its existing ownership stake in Brotman to approximately 78.26%.

As further discussed in Note 17, effective December 5, 2011, the third tranche of the February 7, 2011 rights offering was completed, in the amount of 290,378 shares of Brotman stock at a price of $2.91 per share, for total proceeds of $850,000. Following the consummation of the third tranche offering, PHAS, having participated in the amount of approximately $663,000, increased its existing ownership stake in Brotman from approximately 78.26% to approximately 78.28%, with full participation in the offering by Brotman's second largest shareholder, Culver and the non-participation of certain other shareholders.

PMG, an affiliated physician organization of the Company, entered into a risk pool sharing agreement, dated May 1, 2005, with Brotman. Under the agreement, PMG and Brotman agreed to establish a Hospital Control Program (as defined) to serve HMO enrollees and earn incentive revenue or incur penalties by sharing in the risk for hospitalization based on inpatient services utilized. Risk pools are generally settled in the following year. All amounts earned under the agreement are eliminated in consolidation.

In connection with the above-described risk-sharing agreement, Prospect Medical Systems, Inc. ("PMS") and Brotman entered into an Administrative Services Agreement, dated October 1, 2005, as amended on October 1, 2009, that provides for the administration by PMS of the payment of claims under such risk-sharing arrangement, with all administrative fees being eliminated in consolidation.

On August 31, 2005, PMG, entered into a joint marketing agreement with Brotman. The agreement is for an initial term of 20 years, renewable for successive five-year terms unless terminated by either party with 180 days written notice. During the term of this agreement, Brotman will contract exclusively with PMG with regard to full risk contracting with HMOs for all lines of

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business, including Medicare, Medi-Cal and commercial enrollees. Brotman will not merge into, consolidate with, or sell substantially all of its assets (unless the purchaser or surviving entity expressly assumes these managed care exclusivity arrangements), it will not alter such agreements without the consent of PMG, and it agrees to be bound by the exclusivity provision.

On March 1, 2010, Alta entered into an agreement with an HMO, pursuant to which, Alta would provide hospital, medical, and other healthcare services to approximately 2,000 senior HMO enrollees under a fixed capitation arrangement (the "Capitation Arrangement"). Concurrently, on March 1, 2010, Alta entered into a risk pool sharing agreement with PMG and Prospect Health Source Medical Group ("PHS") and a management services agreement with PMS. Under the risk pool sharing agreement, Alta, PMG and PHS agreed to establish a Hospital Control Program (as defined) to serve the HMO enrollees, pursuant to which, PMG is allocated a 90% residual interest in the profit or loss, after deductions for costs to Alta hospitals. Under the management services agreement, PMS provides non-hospital and non-physician support activities that are required under the agreement with the HMO, in return for a monthly management fee of 10% of earned revenue (as defined). All amounts earned under the risk pool sharing and management services agreements are eliminated in consolidation.

On March 1, 2011 and September 1, 2011, Alta entered into similar Capitation Arrangements with two other HMOs whereby Alta agreed to provide the same services as described in the preceding paragraph to an additional 2,900 senior members; and entered into agreements with PMG and PHS to perform services under similar terms to those described in the preceding paragraph.

An officer of the ProMed Entities has an ownership interest in a physician medical group that provides medical services to ProMed members. For the years ended September 30, 2011 and 2010, the ProMed Entities paid that group approximately $12,830,000 and $12,260,000, respectively.

In connection with the Ivy Merger described in Note 4 above, on December 10, 2010, Prospect Green Management, LLC ("PGM") was formed as a wholly owned subsidiary of the Company. PGM exists solely to enter into, and perform under, the Management Services Agreement, dated December 15, 2010 (the "LGP Management Agreement"), between PGM and Leonard Green & Partners, L.P. ("LGP"). Pursuant to the terms of the LGP Management Agreement, LGP provides to PGM and other subsidiaries of Ivy Holdings, (a) certain investment banking services, (b) management, consulting and financial planning services and (c) financial advisory and investment banking services in connection with major financial transactions from time to time. In consideration for the services provided by LGP under the LGP Management Agreement, PGM pays LGP an annual fee of $1,000,000, payable in monthly installments, and reimburses LGP for its related expenses up to $50,000 annually. If approved by the unanimous consent of the Board of Directors of PGM (which is comprised of the same members as the Boards of Directors of Ivy Holdings and the Company), additional customary fees may be due to LGP pursuant to the terms of the LGP Management Agreement for services rendered in connection with major transactions from time to time. For services rendered by LGP in connection with the consummation of the Ivy Merger, a one-time structuring fee of $4,000,000 was paid by PGM to LGP. This amount was expensed during the year ended September 30, 2011.

Concurrent with the closing of the Ivy Merger on December 15, 2010, Ivy Holdings, Ivy Intermediate Holding Inc. ("Ivy Intermediate") and the Company entered into a Tax Sharing Agreement. Following the consummation of the Ivy Merger, the Company, which merged with Ivy Intermediate, became a wholly-owned subsidiary of Ivy Holdings. Therefore, Ivy Holdings is now the parent of an

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affiliated group of corporations within the meaning of Section 1504(a) of the Internal Revenue Code of 1986. The Tax Sharing Agreement allows the Company to make payments to Ivy Holdings as necessary to fund their payment of any required taxes incurred due to such parent status.

8. Income Taxes

The components of the income tax (benefit) provision for the years ended September 30, 2011 and 2010 are as follows (in thousands):

	2011	2010
Current:		
Federal	$15,032	$7,531
State	1,605	2,168
	16,637	9,699
Deferred:		
Federal	(7,311)	1,070
State	(1,170)	(431)
	(8,481)	639
Total:		
Federal	7,721	8,601
State	435	1,737
	$8,156	$10,338

Temporary differences and carry forward items that result in deferred income tax balances as of September 30 are as follows (in thousands):

	September 30,	
	2011	2010
Deferred tax assets:		
State tax benefit	$ 1,384	$ 2,300
Allowances for bad debts	13,388	8,926
Vacation accrual and other	3,103	3,129
Workers Compensation	1,193	1,186
Accrued physician bonuses	3,555	2,403
Malpractice reserve	281	659
Deferred rent	105	105
Other	314	227
Net operating loss	17,210	12,369
Capital loss carryforward	2,255	2,255
Deferred income tax assets	42,788	33,559
Valuation allowance	(27,548)	(20,783)
Net deferred income tax assets	15,240	12,776
Deferred tax liabilities:		
Intangible assets	(8,818)	(11,290)
Fixed assets	(25,354)	(22,884)
Non-shareholder capital contribution	(2,142)	(2,142)
Prepaid expenses	(434)	(506)
Deferred income tax liabilities	(36,748)	(36,822)
Net deferred income tax liability	$ (21,508)	$ (24,046)

As a result of the ProMed, Alta and Brotman acquisitions, the Company recorded approximately $36,200,000 in deferred tax liabilities, principally related to differences in the tax and book basis for intangibles such as customer relationships, trade names, non-compete agreements, provider

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networks and for property, improvements and equipment, for which deductions are limited to their carryover basis. These deferred tax liabilities were recorded as an increase to goodwill on the respective acquisition dates.

Other deferred income tax assets and liabilities reflect the effect of temporary differences between the assets and liabilities recognized for financial reporting purposes and the amounts recognized for income tax purposes.

Given uncertainty regarding the likelihood of the Company generating sufficient future capital gains to utilize the unrealized capital loss associated with the sale of Sierra Medical Management, Inc., Sierra Primary Care Medical Group, Antelope Valley Medical Associates, Inc. and Pegasus Medical Group, Inc., (the "AV Entities"), the related deferred tax asset was fully reserved. In 2008 carryover losses related to the sale of the AV entities resulted in an increase in the deferred tax asset of approximately $1,373,000 with a commensurate increase in the valuation allowance.

The Company's deferred tax assets for net operating loss ("NOL") carryforwards are mainly attributable to Brotman. Brotman is not included in the Company's consolidated Federal income tax return, and accordingly files a separate Federal income tax return. As a consequence, Brotman's ability to use its NOL carryforwards for Federal income tax purposes is dependent upon its separate taxable income only. Due to the lack of positive evidence currently available to support the Company's ability to realize these deferred tax assets, the Company maintains a valuation allowance on these assets.

At September 30, 2011, the Company had federal and state net operating loss carryovers of approximately $39,199,000 and $47,416,000 which, if not utilized, will expire beginning 2031 and 2021, respectively. A substantial portion of these net operating loss carryforwards are subject to limitations under Internal Revenue Code Section 382, and their use may be severely limited in the future.

Brotman's Federal tax returns for years 2008 through 2010 are undergoing IRS examination. No federal tax liability has been asserted to date.

As further discussed in Note 10, in connection with the Ivy Merger that resulted in acceleration of certain unvested stock options, the Company recorded a credit to additional paid-in capital, which represents the tax benefit of the excess of the deductible amount over the total recognized compensation cost related to the merger transaction. As of September 30, 2011, excess tax benefits realized related to such transaction was approximately $5,900,000. Such amount was reported as both cash inflow from financing activities and a cash outflow from operating activities in the accompanying consolidated statement of cash flows.

At September 30, 2011, the Company has approximately $970,000 of unrealized excess tax benefits related to employee stock options. This amount is not included in the table of deferred tax assets above and the benefit will be recorded as an increase to additional paid in capital if and when realized.

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The differences between the income tax (benefit) provision at the federal statutory rate of 34% and that reflected in the accompanying consolidated statements of operations are summarized as follows for the years ended September 30:

	2011	2010
Tax provision at statutory rate	35%	34%
State taxes, net of federal benefit	(2)%	6%
Permanent and other items	16%	2%
Change in valuation allowances	99%	13%
	148%	55%

Taxes paid, net of refunds received, totaled approximately $3,027,000 and $8,634,000 for the years ended September 30, 2011 and 2010, respectively.

9. Long-Term Debt

Long-term debt consists of the following at September 30 (in thousands):

	September 30,	
	2011	2010
Prospect's debt:		
Senior secured notes	$151,800	$ 160,000
Less: original issue discount	(7,689)	(10,198)
	144,111	149,802
Brotman's debt:		
Senior secured revolving credit facility	5,956	4,280
Secured credit facility term loan: A (net of discount)	16,000	15,818
Secured credit facility term loan: B	6,250	6,250
Subordinated promissory Note	1,500	2,500
	29,706	28,848
Less: current maturities	(29,206)	(170,900)
Long-term debt, net of current maturities	$144,611	$ 7,750

Prospect's Debt:

Senior Secured Notes

On July 29, 2009, the Company closed the offering of $160 million in 12.75% senior secured notes due 2014 (the "Notes") at an issue price of 92.335%. The sale was executed in accordance with Rule 144A under the Securities Act of 1933 and Regulation S under the Securities Act of 1933. Concurrent with the issuance of the Notes, the Company entered into a three year $15 million revolving credit facility which was undrawn at closing and is still undrawn, with any future borrowings bearing interest at London Interbank Offered Rate ("LIBOR") plus 7.00%, with a LIBOR floor of 2.00%. Capitalized deferred financing costs and original issue discount related to the Notes is being amortized over the term of the related debt using the effective interest method.

The Notes and the revolving senior secured credit facility are jointly and severally guaranteed on a senior secured basis by all of the Company's restricted subsidiaries (as such term is defined in the Indenture) other than Brotman, Nuestra and certain immaterial subsidiaries. The Notes are secured

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pari passu with the revolving credit facility on a first priority basis by liens on substantially all of the Company's assets and the assets of the subsidiary guarantors (other than accounts receivable) including all the mortgages on the Company and its subsidiary guarantors' hospital properties (but excluding a pledge of, or mortgage on, the stock, properties or other assets of Brotman, AMVI/Prospect Medical Group and certain immaterial subsidiaries). The lenders under the revolving credit facility have a first priority lien on certain of the accounts receivable of the Company and the subsidiary guarantors while the holders of the Notes have a second priority lien on such collateral.

The terms of the Notes are governed by an indenture among the Company, certain of its subsidiaries and affiliates (as guarantors), and U.S. Bank National Association (as trustee) (the "Indenture"). Interest is payable semi-annually in arrears on January 15 and July 15. The terms of the revolving senior secured credit facility are governed by the Credit Agreement, dated as of July 29, 2009, among the Company, Royal Bank of Canada (as administrative agent), Jefferies Finance LLC (as co-syndication agent) and the lenders party thereto (the "Credit Agreement").

The Indenture requires the Company to offer to repurchase the Notes at 101% of their principal amount in the event of a change of control of the Company and at 100% of the principal amount with certain proceeds of sales of assets. The Indenture also contains certain covenants that, among other things, limit the Company's ability, and the ability of its restricted subsidiaries to: pay dividends or distributions on capital stock or equity interests, prepay subordinated indebtedness or make other restricted payments; incur additional debt; make investments; create liens on assets; enter into transactions with affiliates; engage in other businesses; sell or issue capital stock of restricted subsidiaries; merge or consolidate with another company; transfer and sell assets; create dividend and other payment restrictions affecting subsidiaries; and designate restricted and unrestricted subsidiaries. The Credit Agreement contains a number of customary covenants as well as covenants requiring the Company to maintain a maximum consolidated leverage ratio, minimum fixed charge coverage ratio and a maximum consolidated total leverage ratio. As of September 30, 2011, the Company was in compliance with the financial covenants of the Indenture and Credit Agreement.

Pursuant to its definitive Prospectus filed with the SEC via Form S-4 on October 26, 2009, the Company offered to exchange (the "Exchange Offer") up to $160 million of its 12.75% Senior Secured Notes, Series B, due 2014 (the "Exchange Notes" and together with the Original Notes, the "Notes") for an equal amount of the Notes issued on July 29, 2009 (the "Original Notes"). The Exchange Notes are substantially identical to the Original Notes, except that the offer and sale of the Exchange Notes were registered under the Securities Act of 1933, as amended, and the Exchange Notes do not bear any legend restricting their transfer. The Exchange Offer was finalized on December 3, 2009, at which time $159 million of the $160 million aggregate principal amount of private notes had been tendered and accepted for exchange. Pursuant to a post-effective amendment to the Form S-4 filed with the SEC on December 3, 2010, the Company removed from registration the Exchange Notes that were not issued because the corresponding Original Notes were not tendered for exchange.

Following the Ivy Merger, each holder of the Company's senior secured notes was entitled under the notes' indenture to require the Company to repurchase all or a portion of the holder's senior secured notes at a cash purchase price equal to 101% of the principal amount plus accrued and unpaid interest. Accordingly, following the effective time of the merger, notice was provided to each holder of such notes advising the holder that it was entitled under the indenture, prior to

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January 14, 2011, to require the Company to purchase the senior secured notes held by the holder at a purchase price equal to 101% of the principal amount of the senior secured notes, plus accrued and unpaid interest to the date of purchase. Senior secured notes with an aggregate principal amount of $8,200,000 were tendered, and Prospect repurchased such notes effective January 19, 2011.

On December 15, 2010, the effective time of the merger, the Company and U.S. Bank National Association, a national banking association (the "Trustee"), entered into a First Supplemental Indenture (the "First Supplemental Indenture") in connection with the merger, pursuant to which the Company is permitted under Section 3.3 of the Indenture to make certain "Restricted Payments" immediately following consummation of the merger. In addition to the First Supplemental Indenture executed on December 15, 2010, on that date the Company and Royal Bank of Canada entered into a Consent and Agreement that provided for certain consents in connection with the Ivy Merger and certain amendments of covenants and conditions contained in the Credit Agreement.

As of July 26, 2011, in response to the Company's solicitation and receipt of tenders and consents from holders of $137,637,000 in aggregate principal amount of the Notes (representing approximately 90.6% of the outstanding Notes) consenting to the amendment of the Company's reporting obligations under the Indenture, whereby the Company discontinued filing with the SEC. To effectuate such amendment, the Company, its subsidiary guarantors and U.S. Bank National Association (as trustee) executed a Second Supplemental Indenture (the "Second Supplemental Indenture") and the Company filed a Form 15 with the SEC that terminated its reporting obligations for the Exchange Notes under the Securities Exchange Act of 1934. Following the execution of the Second Supplemental Indenture and the filing of the Form 15, the Company no longer files periodic reports with the SEC and instead provides quarterly and annual financial statements and earnings releases to U.S. Bank National Association (as trustee) and the holders of the Notes. Pursuant to this amendment, the Company incurred a fee totaling approximately $690,000, which was fully expensed in 2011.

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The Notes will mature on July 15, 2014. Prior to July 15, 2012, the Company may redeem up to 35% of the original principal amount of the Notes at a redemption price equal to 112.75% of the principal amount of the Notes redeemed, plus any accrued and unpaid interest, with the proceeds of certain equity offerings. From July 15, 2012 until July 15, 2013, the Company may redeem all, or any portion, of the Notes at a redemption price equal to 106.375% of the principal amount of the Notes redeemed, plus any accrued and unpaid interest. After July 15, 2013, but before the maturity date of July 15, 2014, the Company may redeem all, or any portion, of the Notes at a redemption price equal to 100% of the principal amount of the Notes redeemed, plus any accrued and unpaid interest.

Brotman's Debt:

Brotman has debt under a Senior Secured Revolving Credit Facility, Secured Term Loans and an Unsecured Promissory Note entered into in conjunction with affecting its Plan of Reorganization. The Company has not guaranteed any portion of Brotman's debt or other obligations. The Company has no obligation to fund Brotman's operations. Under the Company's notes indenture and its amended senior secured revolving credit agreement, the Company is permitted to make additional equity and/or debt investments in Brotman (a) to the extent that space is still available under certain applicable investment baskets, including a $15,000,000 aggregate loan basket applicable

solely to Brotman, or (b) if such investments are funded solely with the proceeds from the sale of Equity Interests of the Company (as defined).

Senior Secured Revolving Credit Facility

On April 14, 2009, the Effective Date of the Plan of Reorganization, Brotman obtained a commitment from Gemino Healthcare Finance, LLC ("Gemino") for a three year, $6.0 million (subsequently increased to $7.0 million pursuant to an amendment described below), senior credit facility secured by Brotman's accounts receivable. The facility expires on the earlier of April 14, 2012 and the Los Angeles Jewish Home for Aging ("JHA") loan (see below) maturity date and bears interest at LIBOR plus 7% per annum (11% as of September 30, 2011), given a LIBOR floor of 4%). Interest is incurred based on the greater of $2 million or the actual outstanding principal balance. The agreement also includes an unused line fee of 0.5% per annum and a collateral line fee, based on the average outstanding principal balance, of 0.5% per annum. Loan fees associated with the Gemino loan totaling approximately $120,000, were capitalized and have been included as deferred financing costs in the accompanying consolidated balance sheets as of September 30, 2011 and 2010, with the amount being amortized over the term of the related debt using the effective interest method. The senior credit facility agreement contains customary covenants for facilities of this type, including restrictions on the payment of dividends, change in ownership and management, asset sales, incurrence of additional indebtedness, sale-leaseback transactions, and related party transactions. Brotman must also comply with certain financial covenants. Prior to the amendments discussed below, Brotman was required to comply with a fixed charge coverage ratio of not less than (i) 1.10:1.00 for the fiscal quarter ended December 31, 2009, (ii) 1.15:1.00 originally for the fiscal quarter ended September 30, 2009; and (iii) 1.20:1.00 for each fiscal quarter ending thereafter.

Pursuant to an amendment entered into effective December 11, 2009, the Gemino credit agreement was amended to provide, among other things, a waiver of the specified events of default and the amendment to the definition of fixed charge coverage ratio. Pursuant to an amendment entered into effective February 17, 2010, the Gemino credit agreement and promissory note were amended to increase the loan commitment by $1.0 million, to a total commitment of $7.0 million. Effective April 29, 2011, Brotman and Gemino entered into an amendment and waiver of noncompliance pursuant to which, among other things, the required fixed charge coverage ratio was further amended. Brotman was not in compliance with the fixed charge coverage ratio at September 30, 2011, and no waiver has been obtained.

The average outstanding balance and average interest rate on the senior secured revolving credit facility for the fiscal year ended September 30, 2011 approximated $6,408,000 and 11%.

Secured Credit Facilities Term Loans: A and B

On April 14, 2009, the effective date of the Plan of Reorganization, JHA agreed to provide Brotman with up to $22.25 million in financing, consisting of two term loans: (i) a Term A Loan of $16 million (the "Term A Loan") with a 24-month term and (ii) a Term B Loan of up to $6.25 million, with a term of 36 months (the "Term B Loan"). Subject to the notification requirements set forth in the loan agreements, the term of the Term A Loan can be extended up to 36 months. Interest on the Term A Loan is payable at 10% per annum for the first year of the loan, and 7.5% thereafter. Interest on the Term B Loan is payable at 10% per annum for the term of the loan. The Term A Loan and Term B Loan are secured by certain of Brotman's personal property,

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and a mortgage on certain of Brotman's real property. Loan fees associated with the JHA loans totaling approximately $1,549,000, were capitalized and have been included as deferred financing costs in the accompanying consolidated balance sheets as of September 30, 2011 and 2010, with that amount being amortized over the term of the related debt using the effective interest method.

With respect to the Term A Loan, JHA was granted the right ("Put Right") to declare the unpaid loan amount, including remaining interest and any other amounts due and payable under the loan agreements, immediately due and payable at any time after April 14, 2010 and prior to the date which is twenty-four months after the Closing Date, subject to JHA providing written notification to Brotman of its exercise of the Put Right at least 180 days in advance. Effective February 10, 2010, JHA and Brotman entered into an amendment to the Term A Loan, whereby the earliest date on which JHA could provide notice of its exercise of the Put Right was extended from April 14, 2010 to October 14, 2010, effectively extending the earliest maturity date for the Term A Loan to April 14, 2011. On April 12, 2011, Brotman and JHA entered into an Extension Agreement that extended the maturity date of the Term A Loan 75 days until June 28, 2011 and on June 28, 2011, Brotman and JHA entered into an Extension and Modification Agreement that further extended the maturity date of the Term A Loan to June 27, 2012.

As part of the JHA financing, Brotman granted JHA an option to purchase certain Brotman-owned property, where JHA plans to construct a senior living facility, for a purchase price equal to the outstanding principal balance of the Term A Loan plus any prepaid amounts. In connection with JHA's option right, Brotman is required to deposit $130,000 monthly into a reserve account (up to a maximum of $3,120,000), with such funds specifically earmarked for the construction of a new Brotman emergency room. Additionally, Brotman is required to deposit $10,000 monthly into a reserve account for capital improvements and a Tax and Insurance Deposit Account. As of September 30, 2011, Brotman is not in compliance with these required deposits, and no such transfers have been made since March 2011. Brotman has not received a waiver for such non-compliance.

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The Term A Loan, which contains a real estate purchase option, is recorded at its present value, with any excess of the proceeds over that amount recorded as an option deposit liability account. The present value of the loan was estimated using discounted cash flow analyses based on market rates obtained from independent third parties for similar type debt. Based on an estimated market interest rate of 10.0%, the present value of the loan was estimated to be approximately $15,655,000 at inception. The difference of $345,000 between the recorded present value and the face value of the loan has been recorded as a discount against the loan and is being amortized to interest expense, using the effective interest rate method, over the term of the loan. For the years ended September 30, 2011 and 2010, amortization expense in the amount of $182,000 and $162,000, respectively was recorded in the accompanying consolidated financial statements.

Promissory Note

On April 14, 2009, the Effective Date of the Plan of Reorganization, Brotman executed a $4,000,000 unsecured Class 4 Note, to be held by the Creditor Trust for the benefit of holders of allowed Class 4 claims (as defined in the Plan of Reorganization) and paid pro rata to holders of allowed Class 4 claims. The Note bears interest at 7.50% per annum and is payable in sixteen equal quarterly installments of principal, plus accrued interest through February 15, 2013. The Note contains a covenant which, so long as amounts remain outstanding under the Note, restricts

Brotman from paying PHAS a consulting fee of more than $100,000 per month, as specified in the Amended and Restated Consulting Services Agreement (see Note 7). As such, although the amount of the consulting fee was increased to 4.5% of Brotman's net operating revenue effective April 14, 2009, the amount of such consulting fee actually paid in cash will not exceed $100,000 per month until such time as permitted by applicable agreement, or the Creditor Trust Note has been amended or repaid. Brotman has not made any payments under the consulting services agreement since September 2009.

Scheduled payments under current and long-term debt as of September 30, 2011 are as follows (in thousands):

2012	$ 29,206
2013	500
2014	151,800
Total minimum payments	181,506
Less debt discounts	(7,689)
Total, net of discounts	$ 173,817

10. Equity-Based Compensation Plans

On August 13, 2008, the Company adopted the 2008 Omnibus Equity Incentive Plan ("2008 Plan") to provide flexibility in implementing equity awards, including incentive stock options ("ISO"), non-qualified stock options ("NQSO"), restricted stock grants, stock appreciation rights ("SAR") and performance based awards to employees, directors and outside consultants, as determined by the Compensation Committee of the Board of Directors. In conjunction with the adoption of the 2008 Plan, effective August 13, 2008, additional equity awards under the Company's 1998 Stock Option Plan ("1998 Plan") were discontinued and new equity awards made prior the completion of the Ivy Merger were granted under the 2008 Plan. Remaining authorized shares under the 1998 Plan which were not subject to outstanding awards as of August 13, 2008, were canceled on August 13, 2008. The 1998 Plan remained in effect as to outstanding equity awards granted under the 1998 Plan prior to August 13, 2008. At the inception of the 2008 Plan, 4,000,000 shares were reserved for issuance under the 2008 Plan.

As a result of the Ivy Merger, both the 1998 Plan and the 2008 Plan (collectively the "Prospect Medical Holdings Plan") were terminated and any unexercised options outstanding under the plans, the individual option agreements and any stock options issued outside of a plan were cancelled. Any offerings of common stock upon exercise of any such options pursuant to their registration statements were terminated.

Effective December 15, 2010, the Board of Directors of Ivy Holdings adopted the Ivy Plan that authorizes the issuance of options exercisable for up to 155,110 shares of the common stock of Ivy Holdings to employees, certain consultants and independent members of the boards of directors, of Ivy Holdings and its subsidiaries (including the Company and its subsidiaries). During the year ended September 30, 2011, Ivy Holdings granted 127,349 options to 65 members of the Company's management. These options are exercisable into Ivy Holdings stock and vest based on a number of criteria, including time, Company and Business Unit performance and CEO and Compensation Committee discretion. Since the Ivy Holdings stock options were granted to Company employees for

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their services related to the Company, the related compensation cost has been recorded in the Company's consolidated financial statements.

Under the terms of the Ivy Plan, the exercise price of an ISO may not be less than 100% of the fair market value of the Company's common stock on the date of grant and, if granted to a shareholder owning more than 10% of the Company's common stock, then not less than 110%. Stock options granted under the Ivy Plan have a maximum term of 10 years from the grant date, and are exercisable at such time and upon such terms and conditions as determined by the Compensation Committee. Stock options granted to employees generally vest over four years subject to continued service and performance criteria. In the case of an ISO, the amount of the aggregate fair market value of common stock with respect to which ISO are exercisable for the first time by an employee during any calendar year may not exceed $100,000.

Stock Options Activity

The following table summarizes information about the Company's stock options outstanding as of September 30, 2011 and 2010 and activity during the years then ended:

	Shares Subject to Options	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term (Months)
Prospect Medical Holdings, Inc. Stock Options:				
Outstanding as of September 30, 2009	4,333,335	$ 3.00	$ 6,235,000	45.0
Granted	430,000	4.46		
Exercised	(455,939)	3.32		
Forfeited	(20,000)	4.49		
Expired	(59,446)	6.42		
Outstanding as of September 30, 2010	4,227,950	$ 3.06	$ 23,014,000	37.9
Granted	—			
Exercised	(4,069,617)	3.01	(22,326,835)	
Forfeited	—	—		
Expired	—	—		
Canceled in Ivy Merger	(158,333)	4.15	(687,165)	
Outstanding as of September 30, 2011	—	$ —	$ —	
Ivy Holdings, Inc. Stock Options:				
Outstanding as of September 30, 2010	—	$ —	$ —	
Granted	127,349	100.00	—	
Exercised	—	—		
Forfeited	(5,255)	100.00		
Expired	—	—		
Outstanding as of September 30, 2011	122,094	$ 100.00	$ —	112.8

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of The Company's common stock for those awards that have an exercise price currently below the quoted market price.

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A summary of the Company's non-vested options and the changes during the fiscal years ended September 30, 2011 and 2010 is presented as follows (in thousands, except weighted average grant date fair value):

	Shares	Weighted Average Grant Date Fair Value
Prospect Medical Holdings, Inc. Stock Options:		
Nonvested at September 30, 2009	1,447	$ 0.86
Granted	430	1.70
Vested	(1,445)	0.95
Forfeited	(20)	1.72
Nonvested at September 30, 2010	412	$ 1.37
Granted	—	
Vested	(254)	1.23
Forfeited	—	
Canceled in Ivy Merger	(158)	1.60
Nonvested at September 30, 2011	—	$ —
Ivy Holdings, Inc. Stock Options:		
Granted	127,349	$ 50.73
Vested	(27,917)	50.73
Forfeited	(5,255)	50.73
Nonvested at September 30, 2011	94,177	$ 50.73

As discussed in Note 4, in connection with the Ivy Merger, the vesting of certain unvested stock options was accelerated. The cancellation of an award accompanied by the concurrent grant of a replacement award or other consideration should be accounted for as a modification of the stock option terms. Thus incremental compensation cost, measured as the excess of the replacement award's fair value over the fair value of the cancelled award (at the cancellation date), totaling approximately $1,400,000 was recorded on the date of the Ivy Merger.

Unvested stock options that were not modified were cancelled, thus requiring the acceleration of the remaining unamortized stock based compensation totaling approximately $252,000, which was expensed on the date of the Ivy Merger.

Stock-Based Compensation Expense

Stock-based compensation expense for all share-based payments in exchange for employee services (including stock options and restricted stock) is measured at fair value on the date of grant, estimated using an option pricing model and is recognized in the financial statements, net of estimated forfeitures over the awards requisite service period.

Compensation expenses for stock-based awards are measured and recognized in the financial statements, net of estimated forfeitures over the awards requisite service period. The Company uses the Black-Scholes option pricing model and a single option award approach to estimate the fair value of options granted. Estimated forfeitures will be revised in future periods if actual

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forfeitures differ from the estimates and will impact compensation cost in the period in which the change in estimate occurs. The determination of fair value using the Black-Scholes option-pricing model is affected by the Company's stock price as well as assumptions regarding a number of complex and subjective variables, including expected stock price volatility, risk-free interest rate, expected dividends and projected employee stock option exercise behaviors.

Fair value for options granted during the year ended September 30, 2011 and 2010 was estimated with the following weighted average assumptions:

	2011	2010
Prospect Medical Holdings, Inc. Stock Options:		
Weighted average fair value of option grants	—	$1.70
Weighted average market price of the Company's common stock on the date of grant	—	$4.46
Weighted average expected life of the options	—	3.16 years
Risk-free interest rate	—	1.39%
Weighted average expected volatility	—	54.51%
Dividend yield	—	0.00%
Ivy Holdings, Inc. Stock Options:		
Weighted average fair value of option grants	**$50.73**	—
Estimated fair market value of the Company's common stock on the date of grant	**$100.00**	—
Weighted average expected life of the options	**7.5-8.0 years**	—
Risk-free interest rate	**1.43%-2.85%**	—
Weighted average expected volatility	**41.49%-43.03%**	—
Dividend yield	**0.00%**	—

Expected Term—The expected term of options granted represents the period of time that they are estimated to be outstanding.

Risk-Free Interest Rate—The Company bases the risk-free interest rate on the implied yield in effect at the time of option grant on U.S. Treasury zero-coupon issues with equivalent remaining terms.

Expected Volatility—The Company estimates the volatility of the common stock at the date of grant based on the average of the historical volatilities of a group of peer companies. The Company has identified a group of comparable companies to calculate historical volatility from publicly available data for sequential periods approximately equal to the expected terms of the option grants. In selecting comparable companies, Management considered several factors including industry, stage of development, size and market capitalization.

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Forfeitures—Share-based compensation is recognized only for those awards that are ultimately expected to vest. Compensation expense is recorded net of estimated forfeitures. Those estimates are revised in subsequent periods if actual forfeitures differ from those estimates. The Company used data since May 2005 to estimate pre-vesting option forfeitures.

During the year ended September 30, 2011, an aggregate of 127,349 options were issued under the Ivy Plan, of which 23,267 were granted to the CEO in connection in connection with his employment as the Chief Executive Officer of the Company and 6,204 were granted to the CFO in connection with his employment as Chief Financial Officer of the Company. As of September 30, 2011, approximately 5,816 of the options granted to the Chief Executive Officer had vested and approximately 1,550 of the options granted to the Chief Financial Officer had vested.

Stock-based compensation expense for the Ivy Holdings, Inc. stock options recognized during the year ended September 30, 2011 was approximately $1,388,000. At September 30, 2011, there were 94,177 unvested options which could potentially vest over the next three fiscal years, subject to meeting various vesting requirements which include time, discretion, and various performance targets as defined. The remaining maximum estimated stock compensation expense to be amortized to expense in future periods is approximately $4,778,000. The stock-based compensation expense and vesting provisions used to calculate the fiscal 2011 expense are based on a number of criteria, including time, achievement of Company and Business Unit EBITDA target and CEO and Compensation Committee discretion. Options which are expected to vest based on CEO and Compensation Committee discretion, are treated as variable stock options and are subject to revaluation at each reporting period. During the year the EBITDA targets were amended and, in accordance with GAAP, such change was accounted for as plan modifications, the impact of which was included in stock compensation expense in the year.

During the year ended September 30, 2010, Prospect Medical Holdings options were exercised for cash proceeds of approximately $1,513,000. The aggregate intrinsic value of the gross Prospect Medical Holdings option shares exercised in fiscal 2010 was approximately $2,053,000. Income tax benefits recorded for Prospect Medical Holdings options exercised were approximately $416,000 for the year ended September 30, 2010.

See above regarding the treatment of the cancellation of the Company's stock option plans and the acceleration of the vesting of certain stock options in conjunction with the Ivy Merger.

Restricted Stock Award Activities

On August 15, 2008, the Company granted 200,000 shares of restricted stock to its Chief Financial Officer with a grant date fair value of $2.40 per share. On December 18, 2009, the Company granted an aggregate of 210,000 shares of restricted stock to its Chief Executive Officer and Chief Financial Officer.

Compensation expense relating to these restricted shares recorded in the year ended September 30, 2010 was approximately $826,000.

As discussed in Note 4, at the Merger Effective Date, the vesting of 33,334 restricted shares was accelerated. The modification of the terms required the revaluation at the date of modification

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and this resulted in approximately $209,000 of stock based compensation expense being recorded on the date of the Ivy Merger.

On November 12, 2009, the Company granted an aggregate of 36,000 shares of fully-vested restricted stock to outside members of the Board of Directors. Approximately $144,000 of expense relating to these shares was included in general and administrative expense in the accompanying consolidated financial statements during the fiscal year ended September 30, 2010.

On November 10, 2010, the Company granted an aggregate of 18,000 shares of fully-vested restricted stock to outside members of the Board of Directors. Approximately $152,000 of expense relating to these shares was included in general and administrative expense in the accompanying consolidated financial statements during the fiscal year ended September 30, 2011.

11. Commitments and Contingencies

Leases

The Company leases various office facilities and equipment from third parties under non-cancelable operating and capital lease arrangements expiring at various dates through 2016. Certain operating leases contain rent escalation clauses and renewal options, which have been factored into determining rent expense on a straight-line basis over the lease terms. Capital leases bear interest at rates ranging from 3% to 11% per annum.

The future minimum annual lease payments (net of anticipated sublease income) required under leases in effect at September 30, 2011, are as follows (in thousands):

Years ending September 30,	Capital Leases	Operating Leases
2012	$ 791	$ 2,102
2013	495	1,976
2014	452	1,228
2015	265	1,031
2016 and thereafter	146	925
Total minimum lease payments	2,149	$ 7,262
Less amounts representing interest	(345)	
	1,804	
Less current portion	(609)	
	$ 1,195	

Consolidated rent expense for the years ended September 30, 2011 and 2010 was approximately $4,757,000 and $4,320,000, respectively. Sublease rental income of approximately $43,000 and $11,000, for the years ended September 30, 2011 and 2010, respectively, was recorded as a reduction to rental expense.

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Litigation

The Company is subject to a variety of claims and suits that arise from time to time in the ordinary course of its business, acquisitions, or other transactions. While the Company's management currently believes that resolving all of these matters, individually or in the aggregate, will not have a material adverse impact on the Company's consolidated financial position or results of operations, the litigation and other claims that the Company faces are subject to inherent uncertainties and management's view of these matters may change in the future. Should an unfavorable final outcome occur, there exists the possibility of a material adverse impact on the Company's consolidated financial position, results of operations and cash flows for the period in which the effect becomes probable and reasonably estimable.

As discussed at Note 7, on December 15, 2009, Brotman initiated the Notes Offering. During the Notes Offering, Culver, a minority shareholder of Brotman, filed a shareholder complaint against Prospect, PHAS, Brotman, and each member of the Brotman Board of Directors alleging breach of fiduciary duty, conspiracy, oppression of minority shareholder, unjust enrichment, injunctive relief and involuntary dissolution of Brotman. Culver alleges that the defendants conspired to dilute Culver's ownership interest through the offering of the Brotman Notes, two rights offerings, and assorted contracts between Prospect and Brotman. The trial court enjoined a portion of the offering of the Brotman Notes on June 25, 2010. However, on October 24, 2011, the Court of Appeal reversed the June 25, 2010 preliminary injunction order. In particular, the Court of Appeal ruled that Culver lacks standing to bring its direct claims for breach of fiduciary duty, conspiracy, oppression of minority shareholder, and unjust enrichment. Culver filed a petition for review with the California Supreme Court. Trial on those claims is currently scheduled for March 5, 2012, but Prospect intends to file a motion to dispense with these direct claims in light of the Court of Appeal's ruling. Additionally, with respect to the involuntary dissolution claim, Prospect exercised its statutory right to purchase Culver's shares in Brotman. That initiated an appraisal process, which is ongoing.

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As discussed at Note 4, following the announcement of the Ivy Merger, the Lessey and Terrier Partners lawsuits were filed against the Company and certain members of its Board of Directors. Both lawsuits allege breach of fiduciary duty claims against the members of the Company's Board of Directors at the time, and aiding and abetting breach of fiduciary duty claims. Both cases allege that the members of the Company's Board failed to obtain the best price available as part of the going-private negotiations, and seek damages as a result. In September 2011, the plaintiffs in Lessey filed a motion for class certification, and the defendants filed their opposition in November 2011. The plaintiffs have yet to file any reply and there has been no ruling on the motion as of yet. Because the resolution of certain issues in the class certification motion has the potential to vitiate the Terrier Partners lawsuit by forcing the plaintiffs in that case into the class covered by Lessey, the Terrier Partners case has been effectively stayed pending resolution of the class certification motion. No trial date has been set in either case, and the Company intends to vigorously defend both cases.

Many of the Company's payer and provider contracts are complex in nature and may be subject to differing interpretations regarding amounts due for the provision of medical services. Such differing interpretations may not come to light until a substantial period of time has passed following contract implementation. Liabilities for claims disputes are recorded when the loss is probable and can be estimated. Any adjustments to reserves are reflected in current operations.

Legal Matters

The Company is subject to legal actions arising from the normal conduct of business. After taking into consideration legal counsel's evaluation of such actions, the Company is of the opinion that the outcome of such matters will not have a materially adverse effect on the Company's consolidated financial position, results of operations, and cash flows.

Seismic Standards

Alta and Brotman are required to comply with the Hospital Seismic Safety Act ("SB 1953"), which regulates the seismic performance of all aspects of hospital facilities in California. SB 1953 imposes near-term and long-term compliance deadlines for seismic safety assessment, submission of corrective plans, and the retrofitting or replacement of medical facilities to comply with current seismic standards. In addition to SB 1953, California's Alfred E. Alquist Hospital Facilities Seismic Safety Act (the "Alquist Act") requires that the California Building Standards Commission adopt earthquake performance categories, seismic evaluation procedures, standards and timeframes for upgrading certain facilities, and seismic retrofit building standards. These regulations require hospitals to meet seismic performance standards to ensure that they are capable of providing medical services to the public after an earthquake or other disaster. The Building Standards Commission completed its adoption of evaluation criteria and retrofit standards in 1998.

The Alquist Act requires that within three years after the Building Standards Commission had adopted evaluation criteria and retrofit standards:

- Hospitals in California must conduct seismic evaluation and submit these evaluations to the Office of Statewide Health Planning and Development ("OSHPD"), Facilities Development Division for its review and approval;

- Hospitals in California must identify the most critical nonstructural systems that represent the greatest risk of failure during an earthquake and submit timetables for upgrading these systems to the OSHPD, Facilities Development Division for its review and approval; and

- Hospitals in California must prepare a plan and compliance schedule for each regulated building demonstrating the steps a hospital will take to bring the hospital buildings into substantial compliance with the regulations and standards.

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The Company was required to conduct engineering studies at its hospital to determine whether and to what extent modifications to the hospital facilities will be required. Management believes that Brotman meets all current requirements; however, it may be required to make significant capital expenditures in the future to comply with the seismic standards, which could impact its earnings. The cost at September 30, 2011 is unknown at this time but could be material. In addition, such modifications to the hospital facilities could potentially result in environmental remediation liabilities which may be material to the Company.

The OSHPD is currently implementing a new voluntary program to re-evaluate the seismic risk of hospital buildings classified as Structural Performance Category (SPC-1). These buildings are considered hazardous and at risk of collapse in the event of an earthquake and must be retrofitted, replaced or removed from providing acute care services by 2013. OSHPD is using HAZARDS U.S. (HAZUS), a state-of-the-art methodology, to reassess the seismic risk of SPC-1 buildings and those

that are determined to pose a low seismic risk may be reclassified to SPC-2. The SPC-2 buildings would have until 2030 to comply with the structural seismic safety standards. Participation in the HAZUS program is optional for hospital owners wishing to have their SPC-1 building(s) re-evaluated. Brotman has received SB 306 approval that extends to 2020 the seismic replacement or retro fit of its buildings. This approval subordinates to HAZUS which, if received would give the Company an extension to 2030.

These requirements can result in significant operational changes and capital outlays. Management is continuing to assess its options and the methods of financing the required retrofits. Based on management's evaluation, the renovation needs to comply with the California seismic safety standards for its acute-care facilities, including asbestos abatement, are not estimable at this time.

Legislation and HIPAA

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

The Company believes that it is in compliance with fraud and abuse regulations as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

The Health Insurance Portability and Accountability Act ("HIPAA") was enacted on August 21, 1996, to assure health insurance portability, reduce healthcare fraud and abuse, guarantee security and privacy of health information, and enforce standards for health information. Organizations are required to be in compliance with HIPAA provisions by April 2005. Effective August 2009, the Health Information Technology for Economic and Clinical Health Act ("HITECH Act") was introduced imposing notification requirements of certain security breaches relating to protected health information. The Company may be subject to significant fines and penalties if found not to be compliant with the provisions outlined in the regulations.

California Hospital Fee Program – Assembly Bill 1383

The State of California has enacted Assembly Bill 1383 ("AB 1383") effective January 1, 2010, as amended by Assembly Bill 1653 (collectively the "Program"), to provide one-time supplemental payments to certain medical facilities such as the hospitals owned and operated by the Company's subsidiaries that serve a disproportionate share of indigent and low-income patients. The Program requires participating hospitals to pay fee assessments into a pool of funds to which the federal government contributes matching funds. These funds, including the federal matching funds, are then distributed to qualifying hospitals based on a prescribed formula.

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Through September 30, 2011, the Company's Alta hospitals received invoices for total fee assessments under AB 1653 of approximately $26,200,000 due in four equal installments between October 8, 2010 and September 30, 2011. The Company paid these fee assessments as they became due. Through September 30, 2011, supplemental payments to Alta received under the Program totaled approximately $44,600,000. Accordingly, the "net" pre-tax benefit received by the Alta hospitals under this program was approximately $18,400,000. Per the California Department of Health Care Services ("DHCS"), all amounts received were reflected in net patient revenue, and all amounts paid were reflected in general and administrative expenses during the fiscal year ended September 30, 2011.

In October 2010, Brotman received invoices for fee assessments under the Program of approximately $19,000,000, also due in four equal installments between October 8, 2010 and December 13, 2010, following payment of which, Brotman was scheduled to receive approximately $15,000,000. Brotman does not have the financial resources to pay the assessed fees. Management of Brotman estimates that Brotman would be a "net" payer under AB 1653, since the fee assessments on Brotman could exceed by approximately $4,000,000 the supplemental payments that Brotman would expect to receive as part of the program. Accordingly, on October 6, 2010, the Company notified the DHCS that Brotman was opting out of the program. As a result, Brotman may not be entitled to receive any supplemental payments under the Program and will be ineligible to participate in certain California-funded health care programs, other than Medi-Cal. Through September 30, 2011, implied supplemental payments to Brotman under the Program were approximately $15,000,000. Accordingly, the "net" pre-tax loss incurred by Brotman under this program was approximately $4,000,000.

The Company believes that Brotman is entitled to opt out of the Program and thereby avoid liability for payment of the program fees recently assessed on Brotman, as well as any interest or penalties that would otherwise apply to the unpaid fees. Management also believes that Brotman's election to opt out of the Program will not impair its eligibility for continued participation in California's Medi-Cal program. DHCS' opinion is that Brotman's participation is mandatory. The difference in opinion has not been resolved.

Brotman contested any liability under AB 1653. Beginning February 14, 2011, the California Department of Health Care Services ("DHCS") began withholding against amounts otherwise due Brotman, in the amount of $65,000 per week, indicating that withholdings would continue for 108 weeks and total approximately $7,000,000. Through September 30, 2011, a total of approximately $1,772,000 had been withheld against Brotman's Medi-Cal payments. Pending resolution of this disputed obligation, Brotman has recorded a liability of approximately $4,800,000, representing the accrued loss above, as well as deferred recognition of payments received from managed care plans. The difference between the amount recorded and the estimated maximum withholdings represents interest and penalties (currently contested) of approximately $1,100,000 owed under the AB 1653 program and a further expected amount of approximately $1,074,000 that Brotman would be obligated for under the SB 90 program. As discussed below, SB 90 is still pending final approvals from the Centers for Medicare and Medicaid Services ("CMS"). Once SB 90 is approved, this amount will be accrued.

In addition, on April 13, 2011 California Governor, Jerry Brown signed SB 90 which provided for a six-month extension of the Hospital Fee Program from January 1, 2011 through June 30, 2011. While the Company's Alta hospitals are net gainers under SB 90, Brotman is expected to be a "net payer" in the amount of approximately $1,074,000. SB 90 is conditioned on approval by CMS. As

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such, Alta has approximately $8,841,000 of payments reflected in "prepaid hospital program provider tax" and approximately $15,332,000 of receipts reflected in "hospital fee program liability and deferred revenue" on the accompanying consolidated balance sheets. Brotman does not have sufficient funds to pay the fee payments due under SB 90 and does not intend to pay them. The Company currently believes that the net amount due by Brotman under SB 90 is included in the weekly Medi-Cal withholding of approximately $65,000 per week and that the State will not materially change the amount of the weekly withholding as a result of SB 90.

Brotman management is contesting these AB 1653 and SB 90 obligations and withholds. Failure by management to successfully contest such obligations withholds, however, could have a significant adverse impact on Brotman, including being a triggering event requiring a specific impairment evaluation and write down of Brotman's goodwill and other intangibles. The Company did not conduct an impairment analysis as of September 30, 2011, as this was not required under current accounting literature due to the negative carrying value of Brotman's net assets. However, accounting literature expected to be adopted by the Company effective October 1, 2011 is expected to require an impairment of goodwill and the amount of such impairment could be material to the consolidated financial statements.

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Collective Bargaining Agreements

The collective bargaining agreement entered into between Hollywood Community Hospital, which is one of the hospitals under the consolidated group of Alta Hospitals System, LLC, and Service Employees International Union, United Healthcare Workers-West ("SEIU"), covers a small group of Hollywood Community Hospital's employees and expired on May 9, 2011. The parties are currently in good faith negotiations. In addition, approximately 77% of the employees of Brotman are part of a collective bargaining agreement with the SEIU or the California Nurses Association ("CNA"). Brotman's current agreements with SEIU and CNA expire on September 30, 2013, and October 31, 2012, respectively.

Tangible Net Equity ("TNE") requirement

The Company's affiliated physician organizations must comply with a minimum working capital requirement, Tangible Net Equity ("TNE") requirement, cash-to-claims ratio and claims payment requirements prescribed by the California Department of Managed Health Care. TNE is defined as net assets, less intangibles and amounts due from affiliates, plus subordinated obligations. At September 30, 2011, the Company and the affiliated physician organizations were in compliance with these regulatory requirements.

Employee Health Plans

Brotman offers self-insured HMO and PPO plans to employees. Employee health benefits are administered by a local claims processor, based on plan coverage and eligibility guidelines determined by Brotman, as well as Brotman's collective bargaining agreements. A commercial insurance policy covers losses in excess of $200,000 per occurrence. An actuarially estimated liability of approximately $595,000 and $448,000 for incurred but not reported claims has been included in accrued salaries and benefits as of September 30, 2011 and September 30, 2010, respectively.

Provider Contract

Many of the Company's payer and provider contracts are complex in nature and may be subject to differing interpretations regarding amounts due for the provision of medical services. Such differing interpretations may not come to light until a substantial period of time has passed following contract implementation. Liabilities for claims disputes are recorded when the loss is probable and can be estimated. Any adjustments to reserves are reflected in current operations.

Long-term Liability

During the year, the Company implemented a new hospital information system at Brotman. As of September 30, 2011, a liability totaling approximately $4,200,000 was recorded on the Company's consolidated balance sheet, of which $3,100,000 was recorded as accounts payable and other accrued liabilities, and $1,100,000 was classified as other long-term liabilities based on a deferred payment agreement entered into between the Company and the vendor.

12. Defined Contribution Plan

Each of the Company's reporting units —Alta, Brotman, Prospect and ProMed—sponsor a defined contribution plan covering substantially all employees who meet certain eligibility requirements. Under these plans, employees can contribute up to 100% of their compensation up to the IRS deferred annual maximum. There is currently no company match under any of the plans. The Company is currently evaluating alternatives for combining one or more of these plans in fiscal 2012. Total expenses under the plans were approximately $301,000 and $120,000 during the years ended September 30, 2011 and 2010, respectively.

13. Accrued Medical Claims and Other Healthcare Costs Payable

The following table presents the roll-forward of incurred but not reported, or IBNR, claims reserves as of and for each of the fiscal years ended September 30, 2011 and 2010 (in thousands):

	September 30	
	2011	2010
IBNR as of beginning of year	**$17,859**	$16,824
Medical group claim expenses incurred during the year:		
Related to current year	**95,940**	80,945
Related to prior year	**(379)**	(2,667)
Total incurred	**95,563**	78,278
Medical group claims paid during the year:		
Related to current year	**(72,957)**	(63,373)
Related to prior year	**(17,164)**	(13,870)
Total paid	**(90,121)**	(77,243)
IBNR as of end of year	**$23,301**	$17,859

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Following is a reconciliation of medical group cost of revenues per the consolidated statements of operations to healthcare claims expense reflected in the preceding table (in thousands):

	Years Ended September 30	
	2011	2010
Capitation expense	**$ 73,939**	$ 74,005
Fee-for-service claims expense	**75,905**	72,239
Other physician compensation	**3,559**	2,876
Other cost of revenues	**284**	383
Total cost of revenues	**$153,687**	$149,503

14. Joint Venture

The Company (through Santa Ana/Tustin Physicians Group, Inc.) and an unrelated third party, AMVI Care Health Network, Inc. ("AMVI") formed a joint venture to initially service Medi-Cal (Medi-Cal is the California Medicaid program) members under the CalOptima program in Orange County, California. Healthy Families and OneCare members were subsequently added to the joint venture arrangement. The Company does not consolidate the joint venture. The Company includes in its consolidated financial statements only the net results attributable to those enrollees specifically identified as assigned to it, together with the management fee that it charges the joint venture partner for managing those enrollees specifically assigned to AMVI. Costs incurred by the Company in managing the joint venture are included in general and administrative expenses in the accompanying consolidated financial statements. As of September 30, 2011 and 2010, the amounts due to joint venture of approximately $649,000 and $418,000, respectively, which represent advance capital distributions from the joint venture, were included in accounts payable and other accrued liabilities in the accompanying consolidated financial statements.

Summarized unaudited financial information for the unconsolidated joint venture as of and for each of the years ended September 30, 2011 and 2010 is as follows (in thousands):

	September 30,	
	2011	2010
Cash	**$887**	$1,539
Receivables	**1,508**	471
Total assets	**$2,395**	$2,010
Accrued medical claims	**$1,177**	$766
Other payables	**22**	7
Other partner's capital	**1,195**	1,236
Prospect's capital	**1**	1
Total liabilities and partners' capital	**$2,395**	$2,010
Revenues	**$11,785**	$10,169
Income before income taxes	**$1,581**	$2,043
Prospect's equity income	**$2,150**	$2,504
Management fees earned by Prospect	**$709**	$669

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15. Segment Information

The Company's operations are organized into three reporting segments: (i) Hospital Services—which is comprised of the Alta and Brotman reporting units, owns and operates five hospitals—Los Angeles Community Hospital, Hollywood Community Hospital, Norwalk Community Hospital, Van Nuys Community Hospital and Brotman Medical Center; (ii) Medical Group—which is comprised of the Prospect and ProMed reporting units, provides management services to affiliated physician organizations that operate as independent physician associations; and (iii) Corporate, which represents expenses incurred in Prospect Medical Holdings, Inc. (the "Parent Entity"), that were not allocated to the other reporting segments.

The accounting policies of the reporting segments are the same as those described in the summary of significant accounting policies (see Note 2). The Company evaluates financial performance and allocates resources primarily based on earnings from operations before interest expense, interest income, income taxes, depreciation and amortization, as well as income or loss from operations before income taxes, excluding infrequent or unusual items.

The reporting segments are strategic business units that offer different services within the healthcare industry. Business in each reporting segment is conducted by one or more direct or indirect wholly-owned subsidiaries of the Company and certain affiliated physician organizations controlled through assignable option agreements and management services agreements.

The Company voluntarily discloses the following table summarizes certain information for each of the reporting segments regularly provided to and reviewed by the chief operating decision maker (in thousands):

	As of and for the Year Ended September 30, 2011				
	Hospital Services	Medical Group	Corporate(1)	Intersegment Eliminations	Consolidated
Revenues from external customers	$ 346,962	$ 199,475	$ -	$ -	$ 546,437
Intersegment revenues	621	86	-	(707)	-
Total revenues	347,583	199,561	-	(707)	546,437
Depreciation and amortization	4,949	2,839	15		7,803
Operating income (loss)	44,117	17,931	(28,268)	-	33,780
Interest expense and amortization of deferred financing costs, net	5,270	(100)	23,121	-	28,291
Income (loss) before income taxes	38,847	18,031	(51,389)	-	5,489
Provision for income tax (benefit)	0	2,997	5,159		8,156
Net income (loss)	$ 38,847	$ 15,034	$ (56,548)	$ -	$ (2,667)
Identifiable segment assets	$ 284,493	$ 129,836	$ 7,553	$ -	$ 421,882
Segment capital expenditures, net of dispositions	$ 8,375	$ 121	$ 31	$ -	$ 8,527
Segment goodwill	$ 130,912	$ 22,338	$ -	$ -	$ 153,250

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	As of and for the Year Ended September 30, 2010				
	Hospital Services	Medical Group(2)	Corporate(1)	Intersegment Eliminations	Consolidated
Revenues from external customers	$279,079	$190,117	$–	$–	$469,196
Intersegment revenues	242	692	–	(934)	–
Total revenues	279,321	190,809	–	(934)	469,196
Depreciation and amortization	4,929	3,292	14		8,235
Operating income (loss)	46,540	13,931	(13,611)	(10)	46,850
Interest expense and amortization of deferred financing costs, net	4,897	475	22,724	–	28,096
Income (loss) before income taxes	41,633	13,456	(36,335)	–	18,754
Provision for income tax (benefit)	–	–	10,338		10,338
Net income (loss)	$41,633	$13,456	$(46,673)	$–	$8,416
Identifiable segment assets (liabilities)	$215,003	$111,938	$59,576	$–	$386,517
Segment capital expenditures, net of dispositions	$2,548	$169	$13	$–	$2,730
Segment goodwill	$130,912	$22,338	$–	$–	$153,250

(1) Prospect files consolidated tax returns and allocates costs for shared services and corporate overhead to each of the reporting segments. With the exception of the Brotman Acquisition, all acquisition-related debt, including debt related to the Medical Group and Hospital Services segment, is recorded at the Parent Entity level. As such, the Company does not allocate interest expense to the operating segments.

(2) Prospect Medical Group, Inc. (which serves as a holding company for the other affiliated physician organizations) files consolidated tax returns.

16. Fair Value of Financial Instruments

ASC 820, Fair Value Measurements and Disclosures, establishes a framework for measuring fair value and clarified that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

ASC 820 requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of inputs as follows: Level 1 quoted prices in active markets for identical assets or liabilities; Level 2 quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; or Level 3 unobservable inputs for the asset or liability, such as discounted cash flow models or valuations. The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The Company's Level 1 assets include cash and cash equivalents (money market mutual funds) and investments.

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Financial Items Measured at Fair Value on a Recurring Basis

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis and where they are classified within the hierarchy (in thousands):

	Total	Level 1	Level 2	Level 3
As of September 30, 2011				
Money market mutual funds and bonds	$538	$538	$–	$–
As of September 30, 2010				
Money market mutual funds	$766	$766	$–	$–

The Company's investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices.

Nonfinancial Items Measured at Fair Value on a Nonrecurring Basis

Nonfinancial assets such as goodwill and identifiable intangible assets are measured at fair value when there is an indicator of impairment and recorded at fair value only when impairment is recognized. The Company performs an annual impairment test on the goodwill and intangibles.

The fair values of the Company's current financial assets and liabilities approximate their reported carrying amounts. The carrying values and the fair values of non-current financial assets and liabilities that qualify as financial instruments under the guidance are as follows (in thousands).

	As of September 30, 2011		As of September 30, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Long-term notes receivable (included in other assets)	**$240**	**$208**	$300	$273
Liabilities:				
Long-term debt	**$144,611**	**$159,012**	$157,552	$183,003

Included in other assets were long-term notes receivable, which amount was received as part of the consideration for the sale of three medical clinics in April 2004, the fair value of such notes receivable was estimated based on expected future payments discounted at risk-adjusted rates. The fair value of the Company's long-term debt was determined based on quoted market prices with respect to Prospect's Notes and based on expected future payments discounted at risk-adjusted rates of 10% with respect to Brotman's debt.

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17. Subsequent Events

On October 17, 2011 Brotman issued a Demand Promissory Note, in the principal amount of $740,000 (the "Advance Note") and on November 4, 2011 Brotman further issued a Demand Promissory Note, in the principal amount of $3,825,000 (the "Working Capital Note") (collectively, the "Subordinated Notes") to PHAS. The Subordinated Notes, which is to fund Brotman's working capital, bear simple interest at the Bank of America, N.A. prime rate are fully and immediately payable on demand. As of December 19, 2011, a total of $740,000 of the Advance Note and a total of $1,165,000 of the Working Capital Note have been advanced to Brotman. In conjunction with the issuance of the Subordinated Notes, on November 4, 2011, in order to induce Gemino to permit Brotman to issue the Subordinated Notes and to extend the financial accommodations to Brotman pursuant to the Gemino Credit Agreement (see Note 9) PHAS and Gemino entered into Intercreditor and Subordination Agreement, pursuant to which PHAS agreed to subordinate and defer the payment of the Subordinated Notes to the prior payment in full of the Gemino debt.

Effective December 5, 2011, the third tranche of the February 7, 2011 rights offering was completed, in the amount of 290,378 shares of Brotman stock at a price of $2.91 per share, for total proceeds of $850,000. The oversubscription period for the third completed tranche offering began with a mailing to qualified rights holders on December 1, 2011 and terminated on December 5, 2011. Following the consummation of the third tranche offering, PHAS, having participated in the amount of approximately $663,000, increased its existing ownership stake in Brotman from approximately 78.26% to approximately 78.28%, with full participation in the offering by Brotman's second largest shareholder, Culver and the non-participation of certain other shareholders.

Effective November 15, 2011, the Board of Directors and shareholders of Ivy Holdings further granted 9,694 options under the Ivy Plan to seven members of the Company's management with a vesting commencement date of October 1, 2011. These options are exercisable into Ivy Holdings stock and vest based on a number of criteria, including time, Company and Business Unit performance and CEO discretion.

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Supplemental Material

Parent, Guarantor Subsidiaries and Non-Guarantor Subsidiaries

Consolidating Financial Statements

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Independent Auditors' Report on Supplemental Material

Board of Directors and Shareholders
Prospect Medical Holdings, Inc.
Los Angeles, California

Our audits of the basic consolidated financial statements included in the preceding section of this report were performed for the purpose of forming an opinion on those statements taken as a whole. The supplemental material presented in the following section of this report is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

BDO USA, LLP

December 19, 2011

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Prospect Medical Holdings, Inc.

Consolidating Balance Sheets
As of September 30, 2010
(in thousands)

	Parent Company	Combined Guarantor Subsidiaries	Combined Non-Subsidiaries	Elimination	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ (261)	$ 68,836	$ 2,680	$ -	$ 71,255
Restricted cash	-	-	4,073	-	4,073
Investments	-	538	-	-	538
Patient accounts receivable, net	-	21,491	24,797	-	46,288
Due from government payors	-	3,433	643	-	4,076
Risk pool receivables	-	-	-	-	-
Other receivables	(3)	2,450	-	-	2,448
Third-party settlements	-	-	-	-	-
Notes receivable, current portion	-	-	-	-	-
Refundable income taxes, net	-	-	-	-	-
Deferred income taxes, net	6,729	2,365	-	-	9,094
Inventories	-	1,164	1,945	-	3,109
Prepaid hospital fee program provider tax	-	8,841	-	-	8,841
Prepaid expenses and other current assets	630	3,181	3,050	-	6,861
Intercompany accounts	(4,495)	20,400	(15,905)	-	-
Total current assets	2,600	132,699	21,283	-	156,583
Property, improvements and equipment:					
Property, improvements and equipment, net	35	54,072	14,729	-	68,836
Deferred financing costs, net	4,237	-	100	-	4,337
Goodwill	-	153,250	-	-	153,250
Intangible assets, net	-	38,291	-	-	38,291
Other assets	5	5,109	-	(4,528)	585
Investment in subsidiary	8,301	-	-	(8,301)	-
Total assets	$ 15,178	$ 383,421	$ 36,112	$ (12,829)	$ 421,882
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Accrued medical claims and other healthcare costs pay	$ -	$ 22,293	$ 1,008	$ -	$ 23,301
Accounts payable and other accrued liabilities	5,667	10,780	21,618	-	38,065
Accrued salaries, wages and benefits	3,732	8,044	5,698	-	17,474
Deferred revenue - hospital quality assurance fees	-	15,331	4,259	-	19,590
Due to government payers	-	1,152	13,976	-	15,128
Income taxes payable, net	509	497	(57)	-	949
Current portion of capital leases	-	207	402	-	609
Current portion of long-term debt	-	-	29,206	-	29,206
Other current liabilities	39	1,237	-	-	1,276
Total current liabilities	9,947	59,541	76,110	-	145,598
Long-term debt, net of current maturities	144,111	-	5,029	(4,529)	144,611
Deferred income taxes, net	4,020	26,582	-	-	30,602
Malpractice reserves	-	578	121	-	699
Capital leases, net of current portion	-	438	757	-	1,195
Other long-term liabilities	-	107	1,103	-	1,209
Total liabilities	158,078	87,246	83,120	(4,529)	323,914
Shareholders' equity (deficit):					
Common stock	-	(80)	(106)	187	1
Additional paid-in capital	108,670	(9,369)	19,453	(9,828)	108,926
Accumulated deficit	(251,570)	305,623	(66,355)	5,363	(6,939)
Total shareholder's equity (deficit)	(142,900)	296,174	(47,008)	(4,278)	101,988
Noncontrolling interest	-	2	-	(4,022)	(4,020)
Total Prospect Medical Holdings, Inc.'s shareholders' equity (deficit)	(142,900)	296,176	(47,008)	(8,300)	97,968
Total liabilities and shareholders' equity	$ 15,178	$ 383,421	$ 36,112	$ (12,829)	$ 421,882

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Prospect Medical Holdings, Inc.

Consolidating Balance Sheets

As of September 30, 2010

(in thousands)

	Parent Company	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Elimination	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$(575)	$50,805	$499	$–	$50,729
Restricted cash	–	–	3,122	–	3,122
Investments, primarily restricted certificates of deposit	–	634	–	–	634
Patient accounts receivable, net of allowance for doubtful accounts	–	21,229	21,448	–	42,677
Due from government payors	–	3,740	578	–	4,318
Other receivables	(4)	2,152	–	–	2,148
Refundable income taxes, net	427	355	–	–	782
Deferred income taxes, net	5,325	2,346	–	–	7,671
Inventories	–	1,565	2,299	–	3,864
Prepaid expenses and other current assets	123	2,443	2,423	–	4,990
Intercompany accounts	48,751	(36,195)	(12,542)	(14)	–
Total current assets	5,047	49,074	17,827	(14)	120,935
Property, improvements and equipment, net	19	54,823	8,264	–	63,104
Deferred financing costs, net	5,769	–	585	–	6,354
Goodwill	–	153,250	–	–	153,250
Intangible assets, net	–	42,159	–	–	42,159
Other assets	6	4,612	–	(3,902)	715
Total assets	$59,841	$303,918	$26,676	$(3,916)	$386,517
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Accrued medical claims and other healthcare costs payable	$–	$17,516	$343	$–	$17,859
Accounts payable and other accrued liabilities	7,597	9,998	15,610	–	33,206
Accrued salaries, wages and benefits	4,025	9,254	5,836	–	19,114
Due to government payers	–	–	13,834	–	13,834
Income taxes payable, net	(1,680)	1,737	(57)	–	–
Current portion of capital leases	–	253	421	–	674
Current portion of long-term debt	149,802	–	21,098	–	170,900
Other current liabilities	24	1,097	–	–	1,121
Total current liabilities	159,768	39,855	57,085	–	256,708
Long-term debt, net of current maturities	–	–	11,652	(3,902)	7,750
Deferred income taxes, net	4,963	26,754	–	–	31,717
Malpractice reserves	–	611	968	–	1,579
Capital leases, net of current portion	–	528	16	–	544
Other long-term liabilities	37	112	–	–	149
Total liabilities	164,770	67,860	69,721	(3,902)	298,447
Commitments, contingencies and Subsequent Events					
Shareholders' equity (deficit):					
Common stock	214	(73)	(114)	187	214
Additional paid-in capital	97,419	256	–	–	97,675
Accumulated deficit	(202,562)	235,875	(42,932)	1,688	(7,931)
Total shareholders' equity (deficit)	(104,929)	236,058	(43,046)	1,875	89,958
Noncontrolling interest	–	–	–	(1,888)	(1,888)
Total Prospect Medical Holdings, Inc.'s shareholders' equity (deficit)	(104,929)	236,058	(43,046)	82	88,070
Total liabilities and shareholders' equity	$59,841	$303,918	$26,676	$(3,916)	$386,517

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Prospect Medical Holdings, Inc.

Consolidating Statements of Operations
For the Fiscal Year Ended September 30, 2011
(in thousands)

	Parent Company	Combined Guarantor Subsidiaries	Combined Non-Subsidiaries	Elimination	Consolidated
Revenues:					
Net Hospital Services revenues	$ -	$ 216,157	$ 136,750	$ (5,945)	$ 346,962
Medical Group revenues	-	196,699	3,612	(836)	199,475
Total revenues	-	412,856	140,362	(6,781)	546,437
Operating expenses:					
Hospital operating expenses	-	142,923	132,535	(707)	274,751
Medical Group cost of revenues	-	151,616	2,071	-	153,687
General and administrative	20,709	41,663	22,268	(6,074)	78,566
Depreciation and amortization	14	6,735	1,054	-	7,803
Total operating expenses	20,723	342,937	157,928	(6,781)	514,807
Operating income from unconsolidated joint venture	-	2,150	-	-	2,150
Operating (loss) income	(20,723)	72,069	(17,566)	-	33,780
Other (income) expense:					
Interest expense and amortization of deferred financing cost, net	23,123	(689)	5,857	-	28,291
Total other expense, net	23,123	(689)	5,857	-	28,291
Income (loss) before income taxes	(43,846)	72,758	(23,423)	-	5,489
Provision for income taxes	5,159	2,997	-	-	8,156
Net income (loss)	(49,007)	69,763	(23,423)	-	(2,667)
Loss attributable to noncontrolling interest	-	16	-	(3,675)	(3,659)
Net income (loss) attributable to Prospect Medical Holdings, Inc.	$ (49,007)	$ 69,747	$ (23,423)	$ 3,675	$ 992

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Prospect Medical Holdings, Inc.

Consolidating Statements of Operations
For the Fiscal Year Ended September 30, 2010
(in thousands)

	Parent Company	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Elimination	Consolidated
Revenues:					
Net Hospital Services revenues	$—	$163,185	$122,937	$(7,043)	$279,079
Medical Group revenues	—	187,832	2,977	(691)	190,117
Total revenues	—	351,017	125,914	(7,734)	469,196
Operating expenses:					
Hospital operating expenses	—	98,726	109,114	(933)	206,906
Medical Group cost of revenues	—	147,372	2,131	—	149,503
General and administrative	13,597	37,943	15,466	(6,801)	60,206
Depreciation and amortization	14	7,264	957	—	8,235
Total operating expenses	13,611	291,305	127,668	(7,734)	424,850
Operating income from unconsolidated joint venture	—	2,504	—	—	2,504
Operating (loss) income	(13,611)	62,216	(1,754)	—	46,850
Other (income) expense:					
Interest expense and amortization of deferred financing cost, net	22,724	110	5,261	—	28,096
Total other expense, net	22,724	110	5,261	—	28,096
Income (loss) before income taxes	(36,335)	62,106	(7,015)	—	18,754
Income taxes provision (benefit)	7,323	3,015	—	—	10,338
Net income (loss)	(43,658)	59,091	(7,015)	—	8,416
Loss attributable to noncontrolling interest	—	—	—	(1,957)	(1,956)
Net income (loss) attributable to Prospect Medical Holdings, Inc.	$(43,658)	$59,091	$(7,015)	$1,957	$10,372

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Prospect Medical Holdings, Inc.

Consolidating Statements of Cash Flows
For the Fiscal Year Ended September 30, 2011
(in thousands)

	Parent Company	Combined Guarantor Subsidiaries	Combined Non-Subsidiaries	Elimination	Consolidated
Operating activities					
Net income (loss)	$ (49,007)	$ 69,763	$ (23,423)	$ -	$ (2,667)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	14	6,735	1,054	-	7,803
Amortization of deferred financing costs, net	1,532	-	485	-	2,017
Amortization of original issue discount	2,509	-	182	-	2,691
Provision for bad debts	-	8,856	26,400	-	35,256
Deferred income taxes, net	3,589	(191)	-	-	3,398
Stock-based compensation	3,167	-	-	-	3,167
Excess tax benefits from stock-based compensation	(5,936)	-	-	-	(5,936)
Gain on sale of assets	(1)	-	-	-	(1)
Intercompany accounts	53,242	(60,185)	6,863	80	-
Change in assets and liabilities:					-
Risk pool receivables	-	-	-	-	-
Patient, other receivables	-	(9,992)	(29,170)	-	(39,162)
Due from government payers	-	885	(643)	-	242
Prepaid expenses and other	(507)	(738)	(627)	-	(1,872)
Prepaid hospital fee program provider tax	-	(8,841)	-	-	(8,841)
Inventories	-	400	354	-	754
Refundable income taxes, net	427	355	-	-	782
Hospital fee program liability and deferred revenue	-	15,331	4,259	-	19,590
Income taxes payable, net	2,189	(1,240)	-	-	949
Deposits and other assets	-	71	-	-	71
Accrued medical claims and other healthcare costs pa	-	4,777	665	-	5,442
Accounts payable and other accrued liabilities	(2,244)	905	6,267	(80)	4,848
Net cash provided by (used in) operating activities	8,974	26,891	(7,334)	-	28,531
Investing activities					
Purchases of property, improvements and equipment	(31)	(1,988)	(6,508)	-	(8,527)
Collections on notes receivable	-	57	-	-	57
Increase in restricted certificates of deposit	-	95	-	-	95
Other investing activities	(8,301)	-	8,301	-	-
Net cash used in investing activities	(8,332)	(1,836)	1,793	-	(8,375)
Financing activities					
Borrowings on Brotman line of credit, net	-	-	1,676	-	1,676
Borrowings on Brotman Note	-	(627)	627	-	-
Repayments on Brotman Creditors Trust Note	-	-	(1,000)	-	(1,000)
Repayments of term loan	(8,200)	-	-	-	(8,200)
Repayments on capital leases	-	(263)	(289)	-	(552)
Change in restricted cash	-	-	(951)	-	(951)
Proceeds from exercises of stock options and warrants	1,090	-	-	-	1,090
Excess tax benefits from stock-based compensation	5,936	-	-	-	5,936
Capital contribution and stock restructuring	844	(6,133)	6,133	-	844
Minority shareholder cash contribution	-	-	1,527	-	1,527
Subscription receivable	-	-	-	-	-
Net cash (used in) provided by financing activities	(330)	(7,023)	7,723	-	370
Increase (decrease) in cash and cash equivalents	312	18,032	2,182	-	20,526
Cash and cash equivalents at beginning of period	(573)	50,805	497	-	50,729
Cash and cash equivalents at end of period	$ (261)	$ 68,836	$ 2,679	$ -	$ 71,255

03 February 2012 17:03:30 PDT Alyse Wagner Leonard Green & Partners

Prospect Medical Holdings, Inc.

Consolidating Statements of Cash Flows
For the Fiscal Year Ended September 30, 2010
(in thousands)

	Parent Company	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Elimination	Consolidated
Operating activities					
Net income (loss)	$(43,658)	$59,091	$(7,015)	$—	$8,416
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	14	7,264	957	—	8,235
Amortization of deferred financing costs, net	1,148	—	742	—	1,890
Amortization of original issue discount	1,783	—	162	—	1,945
Provision for bad debts	—	9,753	20,215	—	29,968
Deferred income taxes, net	(4,950)	5,666	—	—	716
Stock-based compensation	2,144	—	—	—	2,144
Excess tax benefits from options exercised	(214)	—	—	—	(214)
Gain on sale of assets	—	(7)	—	—	(7)
Intercompany accounts	41,705	(49,631)	7,927	—	—
Change in assets and liabilities:					
Patient, other receivables	11	(10,620)	(24,194)	—	(34,803)
Due from government payors	—	637	—	—	637
Prepaid expenses and other	(51)	48	395	—	392
Inventories	—	(88)	362	—	274
Refundable income taxes, net	1,118	(342)	—	—	776
Income taxes payable, net	(651)	651	—	—	—
Deposits and other assets	—	(52)	330	—	278
Accrued medical claims and other healthcare costs payable	—	902	133	—	1,035
Accounts payable and other accrued liabilities	550	(2,637)	(2,827)	—	(4,911)
Net cash provided by (used in) operating activities	(1,051)	20,635	(2,813)	—	16,771
Investing activities					
Purchases of property, improvements and equipment	(13)	(2,519)	(198)	—	(2,730)
Collections on notes receivable	—	(3,847)	—	3,902	55
Increase in restricted certificates of deposit	—	31	—	—	31
Other investing activities	—	(20)	—	—	(20)
Net cash used in investing activities	(13)	(6,355)	(198)	3,902	(2,664)
Financing activities					
Borrowings on Brotman line of credit	—	—	1,392	—	1,392
Repayments on Brotman line of credit	—	—	3,902	(3,902)	—
Repayments on Brotman Creditors Trust Note	—	—	(1,031)	—	(1,031)
Repayments on capital leases	—	(470)	(312)	—	(782)
Change in restricted cash	—	—	(1,727)	—	(1,727)
Proceeds from exercises of stock options and warrants	827	—	—	—	827
Excess tax benefits from stock-based compensation	214	—	—	—	214
Cash paid for deferred financing costs, net	(39)	—	—	—	(39)
Net cash (used in) provided by financing activities	1,002	(470)	2,224	(3,902)	(1,146)
Increase (decrease) in cash and cash equivalents	(62)	13,811	(788)	—	12,961
Cash and cash equivalents at beginning of period	(513)	36,995	1,287	—	37,768
Cash and cash equivalents at end of period	$(575)	$50,805	$499	$—	$50,729

03 February 2012 17:03:30 PDT Alyse Wagner Leonard
Green & Partners

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December 4, 2024

VIA ELECTRONIC MAIL

The Honorable Sheldon Whitehouse, Chairman
The Honorable Charles Grassley, Ranking Member
U.S. Senate Committee on the Budget
624 Dirksen Senate Office Building
Washington, DC 20510

Re: Seventeenth Response to December 6, 2023 Letter and November 25, 2024 Clarifying Questions to Leonard Green & Partners, L.P.

Dear Chairman Whitehouse and Ranking Member Grassley:

We represent Leonard Green & Partners, L.P. ("LGP" or the "Firm") and are writing in response to your letter dated December 6, 2023 (the "Letter") requesting the production of certain documents and information in connection with the United States Senate Committee on the Budget's (the "Committee's") inquiry into private equity and health care, and Clarifying Questions posed by your staff on November 25, 2024 (the "Clarifying Question(s)").

We are pleased to provide you with this seventeenth response to your Letter and Clarifying Questions. We hope that the Committee finds this response helpful to its review.

* * *

This response contains some of the Firm's confidential, trade secret, and/or proprietary information. We have marked this response "Confidential" and request that it not be disclosed beyond the Committee or made public. We ask that you treat this response and the accompanying document as confidential Committee records in accordance with Standing Rule of the Senate XXIX, clause 5, afford them the maximum protection available to the Committee, and that you inform us of any proposed use by the Committee of the information contained herein or the accompanying documents and provide LGP with an opportunity to be heard prior to any such proposed use.

The information contained in this response is based on the Firm's best efforts undertaken within the timeframe provided and based on its understanding of the terms of the Letter. The representations made in this response are based on information reasonably available to the Firm and may not reflect all existing relevant information. LGP reserves the opportunity to supplement information in this response. In providing information responsive

to the Letter, LGP does not waive any rights or legal options relating to the Committee's inquiry.

LGP does not intend to, and does not, waive any applicable privilege, protection or other legal basis under which information may not be subject to production. If it were found that the information or documents provided constitute disclosure of privileged material, such disclosure would be inadvertent. By the provision of such information, LGP does not waive and has not waived the attorney-client privilege or any other protections.

LGP requests that the Committee share with LGP in advance of publication a draft of any report that it intends to publish concerning this inquiry so that LGP can flag any factual errors or issues for the Committee's awareness and potential correction.

For your convenience, we have reproduced below the requests to which we are responding in this, the Firm's seventeenth response.

* * *

November 25, 2024 Clarifying Question 1:

Please provide a date for the execution of the attached document. Please also confirm the dates of formation of the Audit and Compliance Committee, the Management Audit Committee, and the Executive Compliance Committee. If said committees existed before LGP owned a majority stake in Prospect, list the date of the first meeting of each committee that took place after LGP acquired a majority stake in Prospect.

Response:

The document found at Bates Numbers LGP-SBC-000002876 to LGP-SBC-000002882 was approved by the Board of Directors on November 14, 2018. The resolutions approved on that date authorized the formation of the Audit and Compliance Committee, the Management Audit Committee, and the Executive Compliance Committee. LGP is aware that similar committees were active throughout the time that LGP held an investment in PMH. For instance, previously-produced board meeting minutes dated February 25, 2011 reference an audit committee. *See* Bates Numbers LGP-SBC-000003127 to LGP-SBC-000003130; *see also* LGP-SBC-00003055 to LGP-SBC-000003056. LGP is unable to speak to the existence of similar committees prior to its investment in PMH.

November 25, 2024 Clarifying Question 2:

In order for the Budget Committee to correctly understand the purpose, responsibilities, and authority of Prospect's Compensation Committee—on which LGP Directors served—please provide the charter of said committee, and any amended versions thereof, that were in effect from August 16, 2010, through the date of LGP's divestment.

Response:

Please see Bates Number LGP-SBC-000003249 for a board resolution responsive to this Request, which shows that the Board of Directors established the Compensation Committee by resolution on February 22, 2011.

November 25, 2024 Clarifying Question 3:

Based on our review of financial documents provided to us, it appears that Ellen Shin received a $10,000 settlement payment related to her departure from Prospect. Please confirm the circumstances surrounding Ms. Shin's departure and whether Ms. Shin and Steve Aleman were terminated "for cause." If so, explain the nature of that "cause."

Response:

As stated in its First Response, LGP largely deferred to PMH on personnel decisions. LGP's only involvement was through its role on the Board of Directors, as LGP Directors would approve the appointment of executive officers of PMH as recommended by PMH management.

* * *

Please feel free to have your staff contact me with any questions concerning this response.

Sincerely,

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May 20, 2024

VIA ELECTRONIC MAIL

The Honorable Sheldon Whitehouse, Chairman
The Honorable Charles Grassley, Ranking Member
U.S. Senate Committee on the Budget
624 Dirksen Senate Office Building
Washington, DC 20510

Re: Eighth Response to December 6, 2023 Letter to Leonard Green & Partners, L.P.

Dear Chairman Whitehouse and Ranking Member Grassley:

We represent Leonard Green & Partners, L.P. ("LGP" or the "Firm") and are writing in response to the December 6, 2023 letter (the "Letter") from the United States Senate Committee on the Budget (the "Committee") regarding private equity and health care.

We are pleased to provide you with this eighth response to your Letter. We hope that the Committee finds this response helpful to its review.

* * *

This response contains some of the Firm's confidential, trade secret, and/or proprietary information. We have marked this letter "Confidential" and request that it not be disclosed beyond the Committee or made public. We ask that you treat this letter as a confidential Committee record in accordance with Standing Rule of the Senate XXIX, clause 5, afford it the maximum protection available to the Committee, and that you inform us of any proposed use by the Committee of the information contained herein and provide LGP with an opportunity to be heard prior to any such proposed use.

The information contained in this response is based on the Firm's best efforts undertaken within the timeframe provided and based on its understanding of the terms of the Letter. The representations made in this response are based on information reasonably available to the Firm and may not reflect all existing relevant information. LGP reserves the opportunity to supplement information in this response. In providing information responsive to the Letter, LGP does not waive any rights or legal options relating to the Committee's inquiry.

LGP does not intend to, and does not, waive any applicable privilege, protection or other legal basis under which information may not be subject to production. If it were found

that the information or documents provided constitute disclosure of privileged material, such disclosure would be inadvertent. By the provision of such information, LGP does not waive and has not waived the attorney-client privilege or any other protections.

For your convenience, we have reproduced below the requests to which we are responding in this, the Firm's eighth response.

* * *

Request 18:

Provide, broken down by fiscal year, the exact dollar amount of profits that Leonard Green collected as a result of its ownership stake in PMH, from the time Leonard Green first acquired its interest in PMH to the time of its divestment.

Response:

Please find a summary of the cumulative cash flows between Green Equity Investors V, L.P., Green Equity Investors Side V, L.P. and IVY LGP Coinvest LLC (the "Funds") and PMH from 2010 through 2021 in the chart below.

Year	Investments by the Funds into Ivy Holdings	Distributions from Ivy Holdings to the Funds	Cumulative Cash Flows	Notes
2010	($154,680,000)	$0	($154,680,000)	The Funds' Investment in Common & Preferred Stock
2011	$0	$0	($154,680,000)	
2012	$0	$88,127,574	($66,552,426)	Redemption of the Funds' Preferred Stock
		$61,209,483	($5,342,943)	Dividend
2013	$0	$0	($5,342,943)	
2014	$0	$0	($5,342,943)	
2015	$0	$0	($5,342,943)	
2016	$0	$0	($5,342,943)	
2017	$0	$0	($5,342,943)	
2018	$0	$274,982,083	$269,639,140	Dividend
2019	($24,000,000)		$245,639,140	Shareholder Loan from the Funds

		$25,972,910	$271,612,050	Repayment of Shareholder Loan
2020	$0	$0	$271,612,050	
2021		$10,000,000	$281,612,050	Sale proceeds
	($34,800,000)		$246,812,050	Escrow funding
		$4,800,000	$251,612,050	Escrow release

Request 19:

Provide, broken down by fiscal year, the exact dollar amount of any annual dividends that Leonard Green paid out to shareholders or investors as a result of its ownership stake in PMH, from the time Leonard Green acquired its interest in PMH to the time of its divestment.

Response:

Please find the amount of gross proceeds received by the Funds as a result of dividends PMH paid out to shareholders from 2011 through 2019 in the table below. Please note that the Funds did not distribute the entire amount of the dividends to its investors, as a portion was withheld from each distribution to cover expenses.

Year	Dividends Paid Out to the Funds
2011	$0
2012	$61,209,483.38
2013	$0
2014	$0
2015	$0
2016	$0
2017	$0
2018	$274,982,083.00
2019	$0

* * *

Please feel free to have your staff contact me with any questions concerning this response.

Sincerely,

Redacted

Redacted

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September 13, 2024

VIA ELECTRONIC MAIL

The Honorable Sheldon Whitehouse, Chairman
The Honorable Charles Grassley, Ranking Member
U.S. Senate Committee on the Budget
624 Dirksen Senate Office Building
Washington, DC 20510

Re: Fourteenth Response to December 6, 2023 Letter to Leonard Green & Partners, L.P.

Dear Chairman Whitehouse and Ranking Member Grassley:

We represent Leonard Green & Partners, L.P. ("LGP" or the "Firm") and are writing in response to your letter dated December 6, 2023 (the "Letter") requesting the production of certain documents and information in connection with the United States Senate Committee on the Budget's (the "Committee's") inquiry into private equity and health care, and follow-up requests posed by your staff by e-mail.

We are pleased to provide you with this fourteenth response to your Letter. We hope that the Committee finds this response helpful to its review.

* * *

This letter contains some of the Firm's confidential, trade secret, and/or proprietary information. We have marked this letter "Confidential" and request that it not be disclosed beyond the Committee or made public. We ask that you treat this letter and the accompanying documents as confidential Committee records in accordance with Standing Rule of the Senate XXIX, clause 5, afford them the maximum protection available to the Committee, and that you inform us of any proposed use by the Committee of the information contained herein or the accompanying documents and provide LGP with an opportunity to be heard prior to any such proposed use.

The information contained in this response is based on the Firm's best efforts undertaken within the timeframe provided and based on its understanding of the terms of the Letter. The representations made in this response are based on information reasonably available to the Firm and may not reflect all existing relevant information. LGP reserves the opportunity to supplement information in this response. In providing information responsive to the Letter, LGP does not waive any rights or legal options relating to the Committee's inquiry.

LGP does not intend to, and does not, waive any applicable privilege, protection or other legal basis under which information may not be subject to production. If it were found that the information or documents provided constitute disclosure of privileged material, such disclosure would be inadvertent. By the provision of such information, LGP does not waive and has not waived the attorney-client privilege or any other protections.

For your convenience, we have reproduced below the requests to which we are responding in this, the Firm's fourteenth response.

* * *

December 6, 2023 Letter Request 15:

Produce all documents between and among PMH and Leonard Green regarding the 2019 sale-leaseback transaction.

Response:

Please find at Bates Numbers LGP-SBC-000003169 - LGP-SBC-000003242 documents responsive to this request.

December 6, 2023 Letter Request 20:

Produce all documents between and among MPT and Leonard Green regarding the 2019 sale-leaseback transaction.

Response:

Please find at Bates Numbers LGP-SBC-000003131 - LGP-SBC-000003168 documents responsive to this request.

May 17, 2024 Email Request 7:

Provide a list and brief subject matter description of any federal or state government investigations to which PMH, its subsidiaries, or affiliates have been subject from 2010 through the date of LGP's divestment. In addition, provide a list and brief subject matter description of any federal or state government investigations to which LGP has been

subject related to its relationship with PMH, its subsidiaries, or affiliates from 2010 through the date of LGP's divestment.

Response:

LGP is not aware of any federal or state government investigations to which the Firm has been subject related to its relationship with PMH, its subsidiaries, or affiliates during the time period referenced above.

May 17, 2024 Email Request 8:

In 2019, funds of LGP, along with members of management of PMH, provided a cash infusion of $41 million to Ivy Holdings, Inc. Why was this cash infusion necessary? How were these funds spent? When and how was the cash infusion paid back? Provide documents sufficient to support this information.

Response:

In January 2019 and February 2019, LGP and other shareholders provided a loan to Ivy Holdings of $41 million, which Ivy Holdings contributed to Ivy Intermediate Holdings as equity, which was then contributed as equity to PMH. The loan was made to provide additional liquidity to PMH. *See* LGP-SBC-00000001 to LGP-SBC-00000031. PMH used the proceeds of the loan for general corporate purposes. In September 2019, PMH contributed $44.4 million of cash to Ivy Intermediate, which was then contributed to Ivy Holdings and used by Ivy Holding to repay the loan in full. *See also* LGP-SBC-000000743 at LGP-SBC-000000780, LGP-SBC-000000787 – 791.

* * *

Please feel free to have your staff contact me with any questions concerning this response.

Sincerely,

Redacted

Redacted

THE BOOK

PROSPECT

PROJECT PROSPECT

LOS ANGELES – LOS ANGELES, CA; NORWALK – NORWALK, CA; BELLFLOWER – BELLFLOWER, CA; CULVER CITY – CULVER CITY, CA; HOLLYWOOD – LOS ANGELES, CA; VAN NUYS – VAN NUYS, CA; FOOTHILL – TUSTIN, CA; CROZER CHESTER – UPLAND, PA; TAYLOR – RIDLEY PARK, PA; SPRINGFIELD – SPRINGFIELD, PA; DELAWARE COUNTY – DREXEL HILL, PA; WATERBURY – WATERBURY, CT; ROCKVILLE – VERNON, CT; MANCHESTER – MANCHESTER, CT; OUR LADY OF FATIMA – NORTH PROVIDENCE, RI; ROGER WILLIAMS – PROVIDENCE, RI

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Medical Properties Trust

Due Diligence Checklist

Project Name: Prospect Medical Holdings
Location(s): CA, RI, CT, & PA
Date: 1/24/2020

			Status	Sign Off	Additional Notes
A. Project Overview					
A1	Project Summary	Confidential Information Memorandum (CIM), Offering Memorandum, or some other form of project overview.	Approved	[redacted] 5/17/2019 9:15:56 AM	
A2	Market Information	Market Study including description of the area in which the project resides and details on competition for the project.	Approved	[redacted] 6/12/2019 8:58:17 AM	
A3	Organizational Chart	Organizational Chart of Lessee(s), Parent Company, & any Affiliates (including Guarantors), dated within the last 6 months.	Approved	[redacted]	
A4	List of Entities	Schedule of entities included in Organizational Chart, including a detailed description of each entity, its members and its purpose.	Approved	[redacted]	
A5	Sources & Uses	A pro forma of the sources and uses of net transaction proceeds, including all debt that will be paid off as part of the transaction. Additionally, please provide a schedule of all debt instruments that will survive the transaction.	Approved	[redacted] 7/9/2019 2:27:23 PM	
A6	Bios	Bios on the Lessee(s) Management Team and Parent Company Management Team.	Approved	[redacted] 6/20/2019 5:22:01 PM	
B. Financial Information					
B1	Historical Financials	One year of audited financial statements on the Lessee(s), the parent company, and all entities that consolidate into Prospect (including Guarantors), including audit reports and monthly financials for the prior year and current year-to-date.	Approved	[redacted] 6/3/2019 1:57:37 PM	
B2	Statistical Information	Monthly utilization statistics for the prior year for each facility and all entities that consolidate into Prospect including but not limited to Office Visits, Admissions, Discharges, Patient Days, Surgical Volumes, ER Visits, ER Admissions, Adjusted Admissions, Adjusted Discharges, Adjusted Patient Days, Average Length of Stay and Case Mix Index.	Approved	[redacted] 5/29/2019 9:56:53 AM	
B3	Pro Forma	A detailed three year operating pro forma (IS, BS, CF) and free cash flow analysis for the project, including all volume, operational, and financial assumptions used in making pro forma. In addition, please provide all qualitative strategic initiatives.	Approved	[redacted] 7/9/2019 2:29:03 PM	
B4	Historical Cash Collections	Comparison of monthly Historical Cash Collection to Net Revenue for all business segments for the last year.	Approved	[redacted] 6/28/2019 4:26:04 PM	
B5	Guarantor Debt (Pro Forma Post Transaction)	Schedule of all Guarantor debt (including any debt guaranteed by the Parent Company).	Approved	[redacted] 6/24/2019 11:51:57 AM	
B6	Debt Agreements for Post Transaction Debt	Copies of agreements for any debt instruments of the Lessee(s), Parent Company, and any Affiliates (including Guarantors) that would survive transaction.	Approved	[redacted] 6/24/2019 11:51:59 AM	
B7	Material Defaults	Schedule of any material defaults by Lessee(s) and/or its affiliates (including Guarantors) to any leases or debt instruments.	Approved	[redacted] 6/28/2019 8:24:27 AM	
B8	Net Revenue by Payer	Net Revenue by Payor and by operating segment and region for current year	Approved	[redacted] 6/28/2019 12:55:27 PM	
B9	Aging Net A/R	Aging Net Accounts Receivable balances by payer for current year by operating segment and region.	Approved	[redacted] 7/9/2019 2:29:59 PM	
B10	Aging AP	Aging Accounts Payable balances by vendor for current year.	Approved	[redacted] 7/9/2019 2:29:57 PM	
B11	Cost Reports	Schedule of all open cost report years, including outstanding amounts and current status. In addition, NPR's for any settled cost reports for the last five years. MPT may request copies of Cost Reports.	Approved	[redacted] 5/30/2019 10:28:13 AM	
B12	Cash Flow Forecasts	Any management dashboards or reports used for tracking weekly or monthly cash flow projections.	Approved	[redacted] 6/12/2019 10:08:07 AM	
C. Real Estate					
C1	List of Real Estate	Schedule of all owned and leased real estate by Parcel ID, including Address, Parcel/Tax ID, Lot Size, and Description of Real Estate (Exhibit A).	Approved	[redacted] 6/4/2019 8:48:09 PM	
C2	Property Taxes	Current property tax statements.	Approved	[redacted] 6/26/2019 10:30:44 AM	
C3	Capital Expenditures	Detailed schedule of next three years of budgeted capital expenditures by operating segment and region.	Approved	[redacted] 7/9/2019 2:49:26 PM	
C4	Environmental Reports	Copies of any existing Phase I Reports, inclusive of wetlands report and permit (if applicable), pest report, and any Phase II Reports.	Approved	[redacted] 6/5/2019 8:38:05 AM	
C5	Property Condition Reports	Copies of any existing Property Condition Reports, inclusive of ADA compliance review.	Approved	[redacted] 6/25/2019 10:14:23 AM	
C6	Maps	Hospital campus maps including legend with building names and whether owned or leased.	Post Closing	[redacted] 1/24/2020 10:12:45 AM	

C7	Pictures	If available, high resolution images of facilities used for marketing purposes. If these photos include any patients, please ensure MPT has coverage under all patient releases.	Post Closing	[redacted] 1/24/2020 10:12:44 AM	
C8	Plans & Specs	As-built building plans and specifications. If unavailable, please provide floor plans that include gross square footage. Electronic documents preferred.	Post Closing	[redacted] 1/24/2020 10:12:42 AM	
C9	Warranties	Any building related warranties still in effect.	Approved	[redacted] 1/24/2020 10:12:47 AM	
D. Contracts & Agreements					
D1	Physician Contracts & Medical Directorship Agreements	Schedule of all physician contracts and medical directorship agreements including Physician or Group Name, Specialty, Compensation, Start Date, and End Date (Exhibit B). In addition, MPT may request copies of physician contracts and medical directorship agreements.	Approved	[redacted] 6/26/2019 9:33:18 AM	
D2	Payor Agreements	Schedule of all payor agreements including Payor Name, Start Date, End Date, and Termination Clauses (Exhibit C). In addition, MPT may request copies of payor agreements.	Approved	[redacted] 7/9/2019 2:43:14 PM	
D3	Union Contracts	Schedule of all union contracts including Union Name, Major Terms, Expiration Date, and Termination Clauses (Exhibit D). In addition, MPT may request copies of union contracts.	Approved	[redacted] 7/9/2019 2:44:23 PM	
D4	Lease Agreements as Lessee	Schedule of all leases in which the seller is a lessee including Lessor, Address, Parcel ID, Rental Rate, and Facility Use (Exhibit E). In addition, MPT may request copies of subleases.	Approved	[redacted] 7/9/2019 2:44:21 PM	
D5	Lease Agreements as Lessor	Schedule of all leases in which the seller is a lessor including Lessee, Address, Parcel ID, Rental Rate, and Facility Use (Exhibit F). In addition, MPT may request copies of sublessor agreements.	Approved	[redacted] 6/4/2019 5:08:37 PM	
D6	Joint Venture Agreements	Schedule of all joint venture agreements including Joint Venture Party, Ownership Percentages, and Description of the Agreement (Exhibit G). In addition, MPT may request copies of joint venture agreements.	Approved	[redacted] 5/29/2019 7:09:26 PM	
D7	Hospital Management Agreement	If applicable, copy of hospital management agreement(s).	Approved	[redacted]	
D8	Management Agreements	Schedule of all management agreements held by the Parent Company including Managed Facility, Compensation, Start Date, and End Date (Exhibit H).	Approved	[redacted] 7/9/2019 2:33:36 PM	
D9	Other Material Contracts	Schedule of all other material contracts of Lessee, including maintenance contracts, service contracts, equipment leases, IT agreements, and any other material contracts. Schedule should include Name of Contracted Party, Description of Agreement, Compensation, Start Date, and End Date (Exhibit I). In addition, MPT may request copies of material contracts.	Approved	[redacted] 6/28/2019 10:02:34 AM	
E. Operational Items					
E1	Accreditations	Certificates from any hospital accreditation bodies including TJC, DNV, HFAP, and any others.	Approved	[redacted] 6/6/2019 8:56:52 AM	
E2	Compliance Plans	Copies of all regulatory compliance plans in accordance with applicable accreditation and licensing requirements.	Approved	[redacted] 5/30/2019 4:19:10 PM	
E3	Billing & Reimbursement	Overview of revenue cycle including all billing and reimbursement practices.	Approved	[redacted] 5/30/2019 4:19:49 PM	
E4	Medical Staff Peer Reviews	Summary of pending peer review or utilization review committee actions or investigations involving active members of the medical staff.	Approved	[redacted] 5/30/2019 4:19:58 PM	
E5	Employee Handbook	Copy of currently effective employee handbook/guidelines.	Approved	[redacted] 5/24/2019 10:07:13 AM	
F. Regulatory					
F1	Licenses	Schedule of all licenses and governmental authorizations required in connection with the operation of each property. Please provide a copy of the most recent state Hospital License and include Statements of Deficiencies and Plans of Corrections, if applicable.	Approved	[redacted] 6/6/2019 8:57:10 AM	
F2	CON	If applicable, Certificate of Need application and approval.	Not Applicable	[redacted] 7/9/2019 2:32:36 PM	
F3	Material Litigation	Description of any material Lessee and/or Guarantor litigation or other legal or regulatory proceedings.	Approved	[redacted] 7/9/2019 2:33:18 PM	See Schedule 2.8(a) of Disclosure Schedules for final list of Material Litigation
F4	Government Approvals	Any approvals or documentation, which were sent to or received from any governmental agencies, as required in connection with the operation of the hospital.	Approved	[redacted] 7/9/2019 2:46:38 PM	This item is addressed in Final Disclosure Schedules.
F5	Government Correspondence	Any correspondence including letters, subpoenas, notices or any other form of communication including conversations, from or with any government agency including the Center for Medicare and Medicaid Services, the U.S. Attorney's Office, the Department of Justice, federal, state, intermediary or carrier fraud units, the Office of Inspector General, peer review organizations and/or state licensure and certification agencies.	Approved	[redacted] 7/9/2019 2:30:52 PM	
G. Insurance					
G1	Schedule of Insurance	Current schedule of insurance coverages in place.	Approved	[redacted] 5/24/2019 10:19:45 AM	
G2	SOV	Current Statement of Values (insured property values).	Approved	[redacted] 5/24/2019 10:19:56 AM	

G3	Insurance Policies	Copies of current insurance policies.	Approved	[redacted] 5/31/2019 4:53:12 PM	
G4	Claims/Loss History	Loss runs for insurance policies.	Approved	[redacted] 5/24/2019 2:09:38 PM	
H. Legal Documentation					
H1	Title Insurance	Existing Title insurance along with copies of any prior policies.	Approved	[redacted] 7/9/2019 2:36:48 PM	BD given access to dataroom files available.
H2	ALTA Survey	Copies of any prior ALTA Surveys, which should include flood zone certification.	Approved	[redacted] 7/9/2019 2:36:49 PM	BD given access to dataroom files available.
H3	If Lessee (or any affiliate) and Parent are a Corporation:		Approved	[redacted] 7/9/2019 2:37:13 PM	BD given access to dataroom files available.
	Charter	Certified copy of the Charter and all amendments.	Approved	[redacted] 7/9/2019 2:37:14 PM	BD given access to dataroom files available.
	Bylaws	Certified copy of the Bylaws.	Approved	[redacted] 7/9/2019 2:37:15 PM	BD given access to dataroom files available.
	Certificate of Good Standing	Certificate of existence/good standing.	Approved	[redacted] 7/9/2019 2:37:18 PM	BD given access to dataroom files available.
H4	If Lessee (or any affiliate) and Parent are a Partnership or LLC:		Approved	[redacted] 7/9/2019 2:37:16 PM	BD given access to dataroom files available.
	LLC Agreement	Certified copy of Partnership/LLC Agreement and all amendments.	Approved	[redacted] 7/9/2019 2:37:18 PM	BD given access to dataroom files available.
	Schedule of Partners	Certified list of all partners with ownership percentages.	Approved	[redacted] 7/9/2019 2:37:19 PM	BD given access to dataroom files available.
	Certificate of Good Standing	Certificate of existence/good standing.	Approved	[redacted] 7/9/2019 2:37:20 PM	BD given access to dataroom files available.
	LLC Authorizations	Copies of all Partnership/LLC authorizations.	Approved	[redacted] 7/9/2019 2:37:21 PM	BD given access to dataroom files available.

Medical Properties Trust

March 21, 2019

Mr. Steve Aleman
Chief Financial Officer
Prospect Medical Holdings, Inc.
[redacted]
Los Angeles, CA 90034

Via email: Redacted

Dear Mr. Aleman:

MPT is pleased to submit this non-binding proposal and indicative term sheet outlining the general terms of a possible transaction between affiliates of MPT Operating Partnership, L.P. ("MPT") and affiliates of Prospect Medical Holdings, Inc. ("Prospect") with regard to the acquisition and leaseback of the 20 Prospect hospitals listed in Exhibit I to this letter (the "Hospitals").

Subject to our discretionary diligence, MPT Board approval, and completion of definitive legal documentation, MPT expects to acquire from and lease back to Prospect all of the real estate interests (including land and all improvements located thereon, collectively, the "Real Estate") in the Hospitals on terms described in Exhibit II to this letter. Our proposal reflects the following assumptions:

- Initial valuation (funded at closing) of $1.6 billion; conditional valuation (based on Year 2 EBITDAR of $350,000,000) of $1.8 billion
- Consolidated Pro Forma Adjusted EBITDAR of approximately $300,000,000 in the first 12 months subsequent to closing and $350,000,000 in the following 12 months
- Initial annual rent of $120,000,000
- Minimum 15-year initial lease term with three, five-year renewal options
- Annual rent escalations based on CPI with a floor of 2.0% and a ceiling of 5.0%

As noted above and based on your 2019 Pro Forma EBITDAR projection of approximately $300 million, we would expect to fund a purchase price of $1.6 billion at closing. Furthermore, based on achievement of sustained annual EBITDAR of up to $350 million during a to-be-defined period after closing, we would fund an additional purchase consideration of up to $200 million. We have also discussed with you means to mitigate or defer capital gains taxes that would otherwise be paid. These may include limited use of mortgage financing and other investment by MPT in certain Prospect capital investments.

If the provisions described in this letter are satisfactory to you, we would begin our diligence procedures immediately, along with simultaneously drafting definitive agreements. MPT has more than $1.0 billion of cash on hand in addition to $1.3 billion of immediately available cash under our revolving credit facility. We are not dependent on any type of capital raise to fund this transaction.

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Although this non-binding proposal sets forth some of the principal terms of our proposal for Prospect, it does not include all of the representations, warranties, defaults, definitions, covenants (affirmative and negative) and other terms which will be contained in the definitive documents for the transaction. Moreover, this non-binding proposal creates no obligation or right of any party with respect to any other party.

Please do not hesitate to contact me with any questions.

Regards,

R. Steven Hamner
Executive Vice President & CFO

CC: Edward K. Aldag, Jr.
Samuel S. Lee

Medical Properties Trust, Inc.
[redacted] Birmingham, Alabama 35242
Redacted, Fax Redacted, www.medicalpropertiestrust.com

Exhibit I
Schedule of Projects

#	Property	City	State	Hospital Type
1	Southern California Hospital at Van Nuys	Van Nuys	California	Behavioral
2	Southern California Hospital at Hollywood	Los Angeles	California	General Acute
3	Los Angeles Community Hospital	Los Angeles	California	General Acute
4	Southern California Hospital at Culver City	Culver City	California	General Acute
5	Los Angeles Community Hospital at Bellflower	Bellflower	California	Behavioral
6	Los Angeles Community Hospital at Norwalk	Norwalk	California	General Acute
7	Foothill Regional Medical Center	Tustin	California	General Acute
8	Waterbury Hospital	Waterbury	Connecticut	General Acute
9	Rockville General Hospital	Vernon	Connecticut	General Acute
10	Manchester Memorial Hospital	Manchester	Connecticut	General Acute
11	Nix Behavioral Health Center	San Antonio	Texas	Behavioral
12	Nix Medical Center	San Antonio	Texas	General Acute
13	Nix Specialty Health Center	San Antonio	Texas	Behavioral
14	Springfield Hospital	Springfield	Pennsylvania	General Acute
15	Crozer-Chester Medical Center	Chester	Pennsylvania	General Acute
16	Taylor Hospital	Ridley Park	Pennsylvania	General Acute
17	Delaware County Memorial Hospital	Drexel Hill	Pennsylvania	General Acute
18	East Orange General Hospital	East Orange	New Jersey	General Acute
19	Our Lady of Fatima Hospital	North Providence	Rhode Island	General Acute
20	Roger Williams Medical Center	Providence	Rhode Island	General Acute

Medical Properties Trust, Inc.
[redacted] Birmingham, Alabama 35242
[redacted], Fax [redacted], www.medicalpropertiestrust.com

Exhibit II
Schedule of Certain Terms for
Proposed Transaction with Prospect Medical Holdings, Inc.
March 20, 2019

This is a draft of certain terms of a proposed agreement only and should not be construed as an offer to enter into any transaction. This draft document shall not create any legal obligation of any party to any other party. None of the parties shall have any rights or obligations with respect to any possible transaction unless and until definitive agreements are entered into, and then only to the extent specifically stated in those agreements; and no party shall have any liability to any other party for failure to enter into such definitive agreements for any reason, or for no reason, including, without limitation, failure of any party to enter into any such agreement as a result of the exercise of such party's sole and absolute discretion.

Transaction	• Acquisition from and master lease to Prospect of the properties described in Exhibit I to this letter
Properties	• Hospitals described in Exhibit I to this letter
Purchase Price	• Initial Purchase Price of $1,600,000,000 on a debt-free, cash-free basis, and conditional valuation of $1,800,000,000 (based on Year 2 EBITDAR of $350,000,000)
Lessee	• Affiliates of Prospect Medical Holdings, Inc.
Guarantor	• Full performance and payment guaranty of Lease provided by Prospect, or another entity acceptable to MPT
Lease Structure	• Absolute net master lease with Lessee responsible for all costs of ownership, including capital expenditures, structural, HVAC, foundation and other costs
Initial Lease Rate	• 7.50% of Purchase Price; cadence of payments to be agreed between MPT and Prospect
Annual Escalator	• Annual escalators of CPI with an annual floor of 2.0% and a ceiling of 5.0%
Lease Term	• Minimum 15 years, with three, five-year renewals (MPT receptive to longer initial term)
Purchase Option	• At expiration of the Lease Term, Lessee will have the right to purchase the Hospitals at the greater of fair market value or MPT's total capital invested to date
Expansions	• The Master Lease will contain a mechanism whereby either MPT or Prospect can fund expansions, at Prospect's option. Any expansion funded by MPT will be added to the lease base associated with the hospital benefiting from the investment
Additional Capital Commitment	• Subject to diligence, MPT is eager to provide a committed capital line to fund the development or acquisition of additional hospitals • Terms substantially similar to those of the Hospitals. All facilities leased to Prospect by MPT to be joined to the Master Lease
Credit Enhancement & Other	• Any deposit or letter of credit provision to be determined subject to diligence and agreement • Financial covenants: to be agreed between MPT and Prospect, but limited to (i) EBITDAR to lease payment coverage at the facility level and (ii) fixed charge coverage at the Guarantor level • No Lessor restriction on periodic alteration of bed layout; changes to services

Medical Properties Trust, Inc.
[redacted] Birmingham, Alabama 35242
Redacted Fax Redacted www.medicalpropertiestrust.com

provided, repositioning certain services and programs, etc., all in Lessee's discretion subject to maintaining primary purposes

- Subject to completion of diligence, MPT Board approval, and definitive documentation

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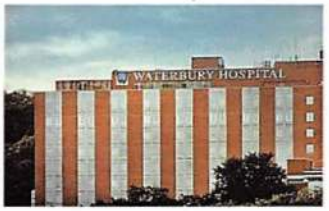

PROSPECT MEDICAL HOLDINGS

Underwriting Report 8/23/2019

Crozer-Chester Medical Center
Delaware County Memorial Hospital
Foothill Regional Medical Center
LA Community Hospital
LA Community Hospital at Bellflower
LA Community Hospital at Norwalk
Manchester Memorial Hospital
Our Lady of Fatima Hospital
Roger Williams Medical Center
Rockville General Hospital
Southern California Hospital at Culver City
Southern California Hospital at Hollywood
Southern California Hospital at Van Nuys
Springfield Hospital
Taylor Hospital
Waterbury Hospital

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References are made throughout this summary to Exhibits, which are available upon request.

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EXECUTIVE SUMMARY

Landmark Acquisition of Greater than $1.55B in RE Assets

Acquisition of 16 Hospitals in Four States

Prospect Medical Holdings (PMH or Prospect), currently operates 20 hospitals in six states. Three hospitals in TX and one in NJ are actively being marketed for sale and are excluded from the transaction. Of the 16 hospitals MPT is acquiring, two are behavioral health hospitals located in CA and the remaining 14 are general acute hospitals in four states: CA (5), PA (4), CT (3), and RI (2). The two RI facilities will be subject to delayed closing. The purchase price allocated to these hospitals will be funded at closing under a Taxable REIT Subsidiary (TRS) Loan, which MPT will have the option to convert to a purchase of the hospitals and their inclusion in Master Lease II within three years subject to the resolution of certain RI pension litigation satisfactory to MPT and the receipt of all regulatory approvals for the transaction from the state of RI.

Proven Operator of Community-Based Hospitals in Urban Markets

- Expecting a first year rent coverage of over 2.46x.
- Numerous improvement initiatives underway to lift EBITDA $80M over the next 18 months.
- Well positioned for the industry's shift towards value-based purchasing.
  - Network of 11,000 primary care physicians and specialists across markets.
  - Over 160 access points for consumers through physician group practices, urgent care centers, diagnostic centers and other ambulatory settings.
- Dedicated to maintaining facilities spending $60M to $80M for capital improvements annually.

Total MPT Real Estate Investment[1]	$1.55B
Master Lease I & II	$1.39B
TRS Loan	$112.9M
Mortgage	$51.3M
Initial Cap Rate	7.5%
Term[2]	15 years (expires August 2034) with two 5-year renewals, and one 4 year, 9 month renewal
Annual Escalator[3]	Rate increases to CPI with a floor of 2% and a ceiling of 4%
Guaranty	Prospect Medical Holdings, Inc. and all Lessee/Borrower Entities
Capital Reserve Requirement[4]	$1,000 per staffed bed
Licensed Beds	2,915
Square Feet	4.2M

Prospect Actual and Projected Performance [5][6][7][8]



Notes:

(1) *Additional Earn Out opportunities after Prospect hits annualized adjusted EBITDAR of $281M, with additional benchmarks and payouts as scheduled in the lease.*
(2) *The TRS Loan has a three year maturity after which a balloon payment of the principal is due unless the special condition properties are closed upon. After close, the two special condition properties will be joined to Master Lease II and the remaining principal will be added to the lease base.*
(3) *Escalator begins January 1, 2021.*
(4) *Capital Reserve Requirement is increased by the October CPI (with a floor of 2% and a ceiling of 4%) commencing January 1st, 2021. To the extent that this allocated amount is not spent in funding of Major Repairs, Prospect will be required to pay the difference between the allocation and the actual amount spent.*
(5) *Financials are presented on a discrete quarter basis.*
(6) *Financials throughout this report include actual results through 6/30/2019. Financials for Prospect Medical Holdings are reported on a 9/30 fiscal year end.*
(7) *Source: Prospect Medical Holdings.*
(8) *Coverage assumes Earnout threshold is met in Q4 2020 & $50M is funded in Q1 2021. Additionally, coverage assumes a 2% rent escalator in Q1 2021.*
(9) *Q4 2019 EBITDAR estimated based on the result of annualizing Q3 2019 YTD figures.*

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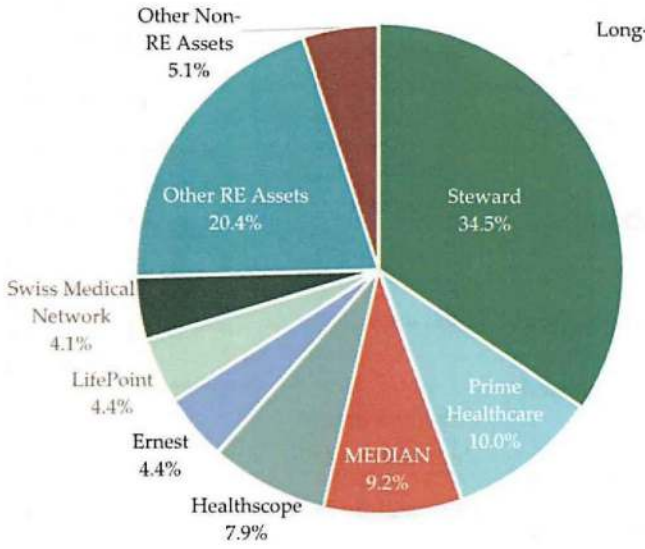
EXECUTIVE SUMMARY

MPT Pro Forma Portfolio

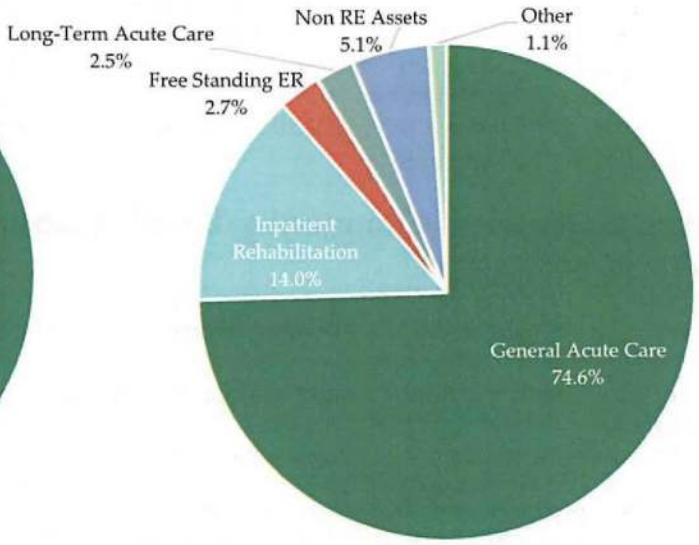
New Investment in Profitable Operator with over $3B in Annual Revenues and over 160 Patient Access Points

MPT's $1.6B investment in Prospect will help continue the dilution of Steward's concentration in the Baseline portfolio. Steward's concentration will drop below 30% with the new acquisition, from 34.5% to 27.2%, furthering MPT's diversification strategy in additional operators. General Acute Care concentration remains relatively unchanged from 74.6% to 77.4% and maintains MPT's focus on General Acute Care hospitals.

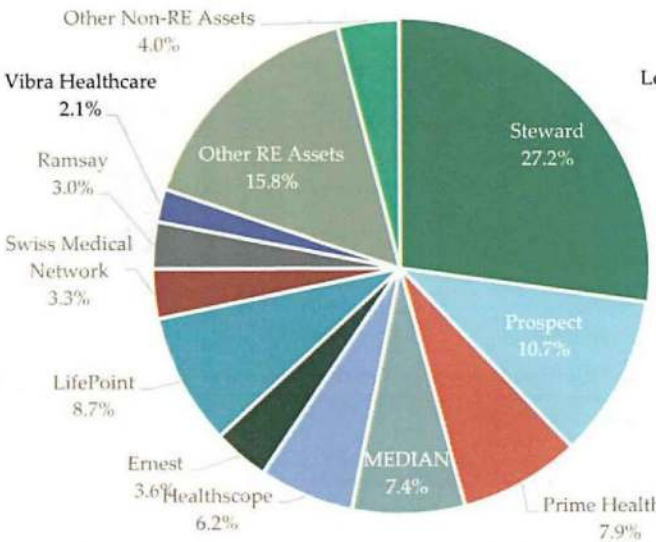
By Operator - Baseline



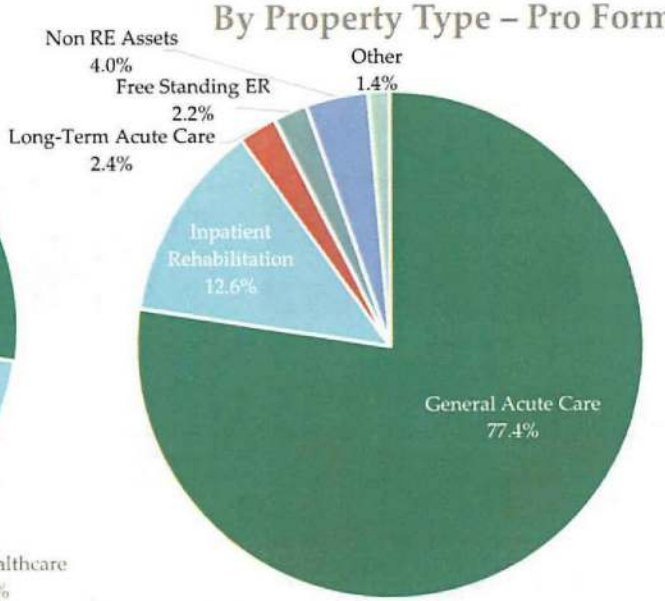
By Property Type - Baseline



By Operator – Pro Forma



By Property Type – Pro Forma



**Baseline figures are as of 6.30.2019 and include Ramsay ($440.6M) and St. Luke's Health System ($145.5M). Pro Forma figures are as of 6/30/2019 and include Prospect ($1.6B), Quorum Health Care ($750.0M) and various other deals totaling to $453.8M.*

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FACILITY OVERVIEW



Note: MPT is not acquiring any of the Outpatient Facilities & Clinics mentioned above.

				Annualized FY2019[1][2]		
Facility	Location	Beds	Square Footage[3]	Revenue ($M)	EBITDAR* ($M)	Margin
Los Angeles Community Hospital	Los Angeles, CA	129	72,727	$146.4	$47.8	32.3%
Los Angeles Community Hospital at Norwalk	Norwalk, CA	50	25,981	39.0	6.6	16.6%
Los Angeles Community Hospital at Bellflower	Bellflower, CA	144	47,858	30.0	6.8	22.3%
Southern CA Hospital at Culver City	Culver City, CA	420	273,944	235.5	24.4	10.2%
Southern CA Hospital at Hollywood	Los Angeles, CA	57	48,710	107.0	31.9	29.5%
Southern CA Hospital at Van Nuys	Van Nuys, CA	100	35,850	21.4	3.9	17.8%
Foothill Regional Medical Center	Tustin, CA	177	104,000	162.9	14.3	8.7%
Crozer-Chester Medical Center	Upland, PA	300	1,427,207	788.9	4.7	0.6%
Taylor Hospital	Ridley Park, PA	105	282,681			
Springfield Hospital	Springfield, PA	25	91,800			
Delaware County Memorial Hospital	Drexel Hill, PA	168	337,393			
Waterbury Hospital	Waterbury, CT	357	574,395	302.9	19.4	6.4%
Rockville General Hospital	Vernon, CT	102	188,645	311.4	16.2	5.2%
Manchester Memorial Hospital	Manchester, CT	249	413,320			
Our Lady of Fatima Hospital	North Providence, RI	312	413,700	361.0	6.6	1.8%
Charter Care Health Partners at Roger Williams	Providence, RI	220	399,186			
Portfolio Total		**2,915**	**4,737,397**	**$2,506.4**	**$182.6**	**7.2%**
Other Prospect Facilities	NJ & TX	448		$203.2	$(28.0)	-13.8%
Prospect Hospital Segment Total		**3,363**		**$2,709.6**	**$154.6**	**5.6%**

(1) *Figures include Hospital Segment only.*
(2) *Based on annualized Q3 2019 fiscal year to date.*
(3) *Based on Property Statement of values for hospitals only.*

**Adjusted EBITDAR using Prospect detailed historical financials and ER schedules.*

Investment per Licensed Bed



(1) *Fact Card as of 6/30/2019.*
(2) *Possible max Earnout of $250M based on Adjusted EBITDAR targets set forth in the APA.*

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FACILITY OVERVIEW

Purchase Price Allocation Detail

	Hospital	Lease/Loan Base	Annual Base Rent/ Interest 2019[1] 7.50%	2020 7.50%	2021 7.65%	2022 7.80%	2023 7.96%
Leases	Manchester	$161,238,739	$4,030,968	$12,092,905	$12,334,764	$12,581,459	$12,833,088
	Rockville	66,049,603	1,651,240	4,953,720	5,052,795	5,153,851	5,256,928
	Springfield	18,524,838	463,121	1,389,363	1,417,150	1,445,493	1,474,403
	Taylor	77,804,323	1,945,108	5,835,324	5,952,031	6,071,071	6,192,493
	Delaware County	124,486,917	3,112,173	9,336,519	9,523,249	9,713,714	9,907,988
	Total Master Lease I	*$448,104,420*	*$11,202,611*	*$33,607,832*	*$34,279,988*	*$34,965,588*	*$35,664,900*
	Hollywood	133,387,264	3,334,682	10,004,045	10,204,126	10,408,208	10,616,372
	Van Nuys	12,071,671	301,792	905,375	923,483	941,952	960,792
	Culver City	109,782,612	2,744,565	8,233,696	8,398,370	8,566,337	8,737,664
	LACH	194,436,142	4,860,904	14,582,711	14,874,365	15,171,852	15,475,289
	Norwalk	27,429,625	685,741	2,057,222	2,098,366	2,140,334	2,183,140
	Bellflower	29,955,483	748,887	2,246,661	2,291,594	2,337,426	2,384,175
	Crozer Chester	199,974,222	4,499,356	14,998,067	15,298,028	15,603,989	15,916,068
	Waterbury	230,654,656	5,766,366	17,299,099	17,645,081	17,997,983	18,357,942
	Total Master Lease II	*$937,691,675*	*$23,442,292*	*$70,326,876*	*$71,733,413*	*$73,168,081*	*$74,631,443*
Loans	Foothill	51,266,700	1,281,668	3,845,003	3,921,903	4,000,341	4,080,347
	Total Mortgage	*$51,266,700*	*$1,281,668*	*$3,845,003*	*$3,921,903*	*$4,000,341*	*$4,080,347*
TRS Note	Our Lady of Fatima	66,233,849	1,655,846	4,967,539	5,066,889	5,168,227	5,271,592
	Roger Williams	46,703,965	1,167,584	3,502,752	3,572,807	3,644,263	3,717,148
	Total TRS Note	*$112,937,204*	*$2,823,430*	*$8,470,290*	*$8,639,696*	*$8,812,490*	*$8,988,740*
	Total	**$1,549,999,999**	**$38,750,000**	**$116,250,000**	**$118,575,00**	**$120,946,500**	**$123,365,430**

(1) Includes four months of Rent/Interest

The above allocation is based on the allocation assigned in the APA and assumes an annual rent escalator of 2%.

- The two RI facilities with the TRS note will join Master Lease II once the special conditions noted in the Executive Summary are met.

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SOURCES & USES

Prospect Medical Holdings

The charts shown below represent the sources and uses of Prospect's SLB transaction to MPT regarding Prospect's existing real estate portfolio.

$ in Millions

Sources		
Transaction Consideration	$ 1,550.0	100%
Total Sources	**$ 1,550.0**	**100%**

Uses		
Repay Term Loan B (TLB)	$ 1,108.8	72%
Working Capital/ABL Repayment[1]	130.9	8%
Taxes[2]	125.0	8%
Pension Contribution[3]	70.0	4%
Equity Repayment (PIK)/Div Recap Obligation[4]	50.3	3%
Repay FILO[5]	40.0	3%
Transaction Fees and Deposit[6]	25.0	2%
Total Uses	**$ 1,550.0**	**100%**

(1) Assumes $194M ABL balance.
(2) Assumes ~$125M NOL and DMHC TNE.
(3) Per APA, funds will be placed in Escrow to be paid no later than January 15th, 2020.
(4) Assumes $41M PIK with 6 months interest and $6.7mm option bonus per 2018 dividend recap
(5) Assumes $40M FILO balance.
(6) Assumes $10M transaction fees, $15M deposit for the MPT Letter of Credit.

Source: Prospect S&U 6.27.2019 JPM – provided by Prospect

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CORPORATE SWOT

Strengths	Weaknesses
1. Cost-efficient provider of local market healthcare services 2. Strong competitive position in its markets 3. Physician alignment and use of medical group enrollment to drive business to its hospitals 4. Portfolio wide volume growth 5. Visionary and energized leadership team	1. Prospect portfolio is heavily concentrated in two markets-Los Angeles and Philadelphia 2. Heavily reliant on Medicaid supplemental payments (HQAF, DSH, UPL) 3. Erratic timing of QAF payments negatively impacts cash flow 4. Facilities are utilizing different enterprise systems for reporting
Opportunities	**Threats**
1. Deployment of Coordinated Regional Care and risk-based contracting approach 2. Favorable demographics – facilities located in large densely populated areas 3. Expansion of risk-based contracting to Northeastern markets	1. Changing regulatory and reimbursement environment 2. Certain markets could be at risk of increased competition such as Los Angeles and Philadelphia 3. Competitors moving to closed medical staff models causing pressure on IPAs

SWOT Mitigants

Mitigants to the weaknesses identified during the SWOT analysis are:

1. Prospect's growth strategy is to acquire underperforming non-profit community hospitals and implement a low-cost Coordinated Regional Care system; Facilities recently acquired in Rhode Island and Connecticut.
2. California QAF payments were made permanent via ballot initiative and would require constitutional amendment to reverse, but similar programs in other states have potential to be replaced as part of health care system restructuring.
3. QAF payments for current program were significantly delayed statewide due to significant change in calculation methodology. These changes are complete, and payments for the next program are expected to be more timely.
4. Prospect has begun migration of all facilities to use of a common enterprise system to report operational metrics and financial data.

Mitigants to the threats identified during the SWOT analysis are:

1. Prospect and its competitors are subject to the same regulatory and reimbursement processes. Prospect is increasing utilization of risk-based contracting.
2. Prospect currently has a niche in each of its major markets, which should continue to be a competitive advantage moving forward.
3. Prospect can mitigate the loss of affiliated physicians by continuing to expand its network of IPAs, and by increasing admissions from other avenues such as the ER.

MPT CONFIDENTIAL MPT_PROSPECT_00000025

FINANCIAL ANALYSIS

Prospect Medical Holdings Historical Income Statement

In 000's	9/30/2016 Actual	9/30/2017 Actual	9/30/2018 Actual	FY 2019 Q3 YTD Annualized (1)
Net Hospital Services Revenues	$1,231,611	$2,447,492	$2,647,515	$2,448,428
Medical Group Revenues	369,730	391,120	334,408	362,468
Net Global Risk Management Revenues	19,635	20,752	33,863	50,605
Other Revenues	9,582	55,133	53,848	48,817
Total Net Revenues	**$1,630,558**	**$2,914,497**	**$3,069,634**	**$2,910,318**
Hospital Operating Expenses	$990,385	$2,003,706	$2,203,277	$1,990,927
Medical Group Cost of Revenues	248,063	274,639	267,376	262,924
Global Risk Management Cost of Revenues	17,661	10,396	20,430	31,981
General and Administrative	270,988	454,576	529,194	490,144
Depreciation and Amortization	47,106	104,348	97,814	98,192
Total Operating Expenses	**$1,574,203**	**$2,847,665**	**$3,118,091**	**$2,874,168**
Operating Income from Unconsolidated Joint Ventures	$(931)	$5,388	$2,599	$7,920
Operating (loss) income	**$55,424**	**$72,220**	**$(45,858)**	**$44,070**
EBITDAR	**$102,530**	**$176,568**	**$51,956**	**$142,262**
Less Nix / EOGH EBITDAR	$0.0	$(2,612)	$(49,914)	$0.0
EBITDAR (excluding Discontinued Ops)	**$102,530**	**$179,180**	**$101,870**	**$142,262**

(1) Losses from Discontinued Ops at Nix and EOGH already excluded from fiscal year 2019 figures.

PMH Corporate Overhead

PMH operates with very limited corporate overhead. The lean corporate structure allows for efficiency and flexibility with estimated total corporate overhead costs of $72.4M, based on 2019 annualized year-to-date fiscal Q3 financials. This represents less than 3% of total revenue.

- Of total corporate overhead costs, salaries and benefits make up 66%, outside services make up 25%, and other operating expenses make up 9%.
- Within the next 12-18 months, additional business functions (revenue cycle) are expected to be centralized.

Revenues

Total Revenues grew 5.3% from FY2017 to FY2018 driven by an 8.2% increase of Hospital segment revenue, with a corresponding 9.4% increase in operating expense at the hospital segment. This was partially due to a change in AR valuation at Crozer, which increased both contractual allowances and bad debt reserve during the fourth quarter by $11.0M and $7.7M respectively. This change in methodology will more accurately reflect these two line items going forward.

Operating Expenses

Overall, the operating expenses as a percentage of revenue increased by approximately 4.4% (from 93.9% in 2017 to 98.3% in 2018), but has seen a decrease of 3.2% for annualized FYTD 2019. This decrease was driven by both a 7% decrease in SWB and a 30.1% decrease in Bad Debt within the hospital segment. The decline in bad debt expense is partially attributable to a large Q4 2018 AR adjustment and the consequential change in the reserve methodology.

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FINANCIAL ANALYSIS

As required by Lease Documents:
Rent Coverage: 1.5x
Fixed Charge Coverage: 1.2x

Consolidated Prospect Management Projected Income Statement

The table below depicts Prospect's financial projections through 2022. A summary of the initiatives driving improved performance, including a bridge to FY 2020 projections, are included on Page 12.

Assumptions used for Prospect and MPT Projections

- FY 2018 includes a combined EBITDAR loss of $49.9M for the Nix (TX) and East Orange (NJ) facilities which have been moved to Discontinued Operations and are not reported in the figures presented for 2019 and beyond. Nix and EOGH as discontinued operations are being treated retroactively for comparison purposes, with EBITDARM and Addbacks being adjusted for the 2018 fiscal year.
- Estimated Addbacks are based on Prospect Identified Addbacks. See table presented on Page 14.
- FY 2018 Prospect EBITDA excludes rent and is therefore considered EBITDAR for MPT UW purposes.
- FY 2018 rent shown on a pro forma basis for comparison purposes.
- Capital Lease amounts are projected amounts as presented in the 2018 Annual Audit.
- ABL Interest is calculated using the projected balance at each year end and assuming a steady LIBOR rate on a go forward basis as of 6/30/2019. 2018 interest is calculated using the actual LIBOR rate at 9/30/2018.
- Rent and Fixed Charge Coverage requirements, as stated in the lease, are calculated using the adjusted EBITDAR figure.

Prospect Projections
Summary of Historical and Projected Financials

Income Statement $ Millions	FY 2018 Actual	FY 2019 Projected	FY 2020 Projected	FY 2021 Projected	FY 2022 Projected
Total net revenues	$3,069.6	$2,853.0	$2,883.1	$2,952.6	$3,024.4
Total operating expenses	3,017.7	2,719.8	2,631.7	2,665.6	2,707.4
EBITDAR	**$51.9**	**$133.2**	**$251.4**	**$287.0**	**$317.0**
Corporate Overhead	$73.5	$53.8	$52.7	$53.7	$55.1
EBITDARM	**$125.4**	**$187.0**	**$304.1**	**$340.7**	**$372.1**
Estimated Addbacks	$130.7	$50.7	$35.0	$30.0	$27.0
Less : Discontinued Ops	(49.9)				
Adjusted EBITDAR	**$232.5**	**$183.9**	**$286.4**	**$317.0**	**$344.0**
Adjusted EBITDARM	**$306.0**	**$237.7**	**$339.1**	**$370.7**	**$399.1**
Rent (1) (2)	$116.3	$116.3	$116.3	$121.8	$135.7
Capital Leases	14.3	16.5	12.5	7.4	3.9
ABL Interest	8.9	6.6	5.6	5.6	5.6
Total Fixed Charges	**$139.5**	**$139.3**	**$134.4**	**$134.8**	**$145.2**
Adj. EBITDARM Lease Coverage	2.63x	2.05x	2.92x	3.04x	2.94x
Adj. EBITDAR Lease Coverage	2.00x	1.58x	2.46x	2.60x	2.54x
Fixed Charge Coverage	1.67x	1.32x	2.13x	2.35x	2.37x

(1) *Additional Earn Out opportunities included after Prospect hits annualized adjusted EBITDAR of $281M and $314M, with additional benchmarks and payouts as scheduled in the lease. Additional Earn Out amounts will be added to the Lease Base as earned.*
(2) *Additional EBITDAR Earn Out amounts expected to be achieved in FY 2020 and FY 2021. The EBITDAR was treated as being achieved at year end 2020 and 2021, and the Earn Out is treated as paid (and therefore included in rent base) on the first day of FY2021 and FY2022, respectively.*

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FINANCIAL ANALYSIS

As required by Lease Documents:
Rent Coverage: 1.5x
Fixed Charge Coverage: 1.2x

Consolidated Prospect MPT Projected Income Statement

The table below depicts MPT's adjusted financial projections through 2022. The same assumptions in the Prospect pro forma are used in MPT's adjusted pro forma. In addition, a summary of the initiatives driving improved performance, including a bridge to FY 2020 projections, are included on Page 12.

Overview

Overall, MPT felt comfortable with Prospect's anticipated Revenue and Expense growth for 2021 and 2022. Therefore, UW maintained the revenue growth rates and EBITDAR margins projected by Prospect and applied them to the MPT adjusted 2020 projections.

Prospect is currently on track to exceed their initial adjusted EBITDAR projections by 6.1% for FY 2019. In addition, based on these projections, Prospect is anticipated to be within compliance of the covenants required in the leases.

MPT Qualitative Projections
Summary of Historical and Projected Financials

Income Statement $ Millions	FY 2018 Actual	Q3 FY 2019 Annualized	FY 2020 MPT Projected	FY 2021 MPT Projected	FY 2022 MPT Projected
Total net revenues	$3,069.6	$2,910.3	$2,866.4	$2,935.5	$3,006.8
Total operating expenses	3,017.7	2,768.1	2,634.7	2,668.8	2,710.7
EBITDAR	**$51.9**	**$142.2**	**$231.7**	**$266.7**	**$296.1**
Corporate Overhead	$73.5	$72.4	$52.7	$53.7	$55.1
EBITDARM	**$125.4**	**$214.6**	**$284.4**	**$320.4**	**$351.2**
Estimated Addbacks	$130.7	$53.3	$35.0	$30.0	$27.0
Less: Discontinued Ops	(49.9)				
Adjusted EBITDAR	**$232.5**	**$195.5**	**$266.7**	**$296.7**	**$323.1**
Adjusted EBITDARM	**$306.0**	**$267.9**	**$319.4**	**$350.4**	**$378.2**
Rent (1) (2)	$116.3	$116.3	$116.3	$118.0	$128.0
Capital Leases	14.3	16.5	12.5	7.4	3.9
ABL Interest	8.9	6.6	5.6	5.6	5.6
Total Fixed Charges	**$139.5**	**$139.3**	**$134.4**	**$131.0**	**$137.5**
Adj. EBITDARM Coverage	2.63x	2.30x	2.75x	2.97x	2.96x
Adj. EBITDAR Coverage	2.00x	1.68x	2.29x	2.51x	2.52x
Fixed Charges Coverage	1.67x	1.40x	1.98x	2.27x	2.35x

(1) *Additional Earn Out opportunities included after Prospect hits annualized adjusted EBITDAR of $281M and $292M, with additional benchmarks and payouts as scheduled in the lease. Additional Earn Out amounts will be added to the Lease Base as earned.*
(2) *Additional EBITDAR Earn Out amounts expected to be achieved in FY 2020 and FY 2021. The EBITDAR was treated as being achieved at year end 2020 and 2021, and the Earn Out is treated as paid (and therefore included in rent base) on the first day of FY2021 and FY2022, respectively.*

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FINANCIAL ANALYSIS

Prospect Medical Holdings Strategic Initiatives

Annualized Run Rate with Initiatives				
Segment	Q2 FY2019 Monthly Adjusted EBITDA	Annualized	Total Initiatives	Total Annualized Run Rate
Hospitals	$17,689	$212,268	$74,527	$286,795
Medical Group / CRC	3,447	41,364	10,967	52,331
Holdings / Corporate	(4,391)	(52,692)	-	(52,692)
Total Prospect	**$16,745**	**$200,940**	**$85,494**	**$286,434**

Total Initiatives						
Segment	Revenue Cycle [1]	Expense Initiative SWB	Managed Care Contracts [2]	Business Dev.	Expense Initiative Other	Monthly Total
Hospitals	$7,698	$31,573	$28,991	$4,921	$1,344	$74,527
Medical Group / CRC		-	-	10,967	-	10,967
Holdings / Corporate		-	-	-	-	-
Total Prospect	**$7,698**	**$31,573**	**$28,991**	**$15,888**	**$1,344**	**$85,494**

(1) Represents increased percentage of collections by reduction of bad debts and denials.
(2) Pickup is driven by increased contract rates across all hospitals.

Expense Initiative – SWB: $31.6M

Rhode Island

- $2.4M from more effective seasonality staffing in the summer months.
- $0.8M from closure of an outpatient health center.

Pennsylvania

- $13.0M driven by RIF – 170 FTEs have been identified as necessary reductions – 105 of which had been terminated as of May 2019; 25 positions within the physician practice groups are also to be eliminated.
- $12.0M lift expected due to outsourcing of ED physicians and hospitalist services.

Connecticut

- $2.0M at ECHN and $1.5M at Waterbury driven by RIFs.

Business Development: $15.9M

Rhode Island

- $4.8M driven by volume increase from Certified Clinical Medical Assistant (CCMA) mitigation, growth of ED volume and inpatient conversions, growth of podiatry volume, and the closure of Roger William's outpatient alcohol addiction clinic.

Connecticut

- $0.1M driven by new growth related to chronic care outreach at Waterbury.

Medical Group/CRC

- $10.3M for implementation of claims scrubbing software, shift to capitation arrangements for specialists, and continued shift from FFS and/or partial risk contracts to full risk contracts with commercial payors.
- $0.6M from acquisition of an MSO and an IPA group.

Expense Initiative – Other: $1.3M

Connecticut

- $1.0M in ECHN due to growth driven by utilizing TeamHealth in orthopedic surgeries.

Rhode Island

- $0.3M driven by medical education cap increase.

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FINANCIAL ANALYSIS

Consolidated Prospect Medical Holdings Y1 Initiatives Scenario Analysis (in millions)

Prospect Initiatives

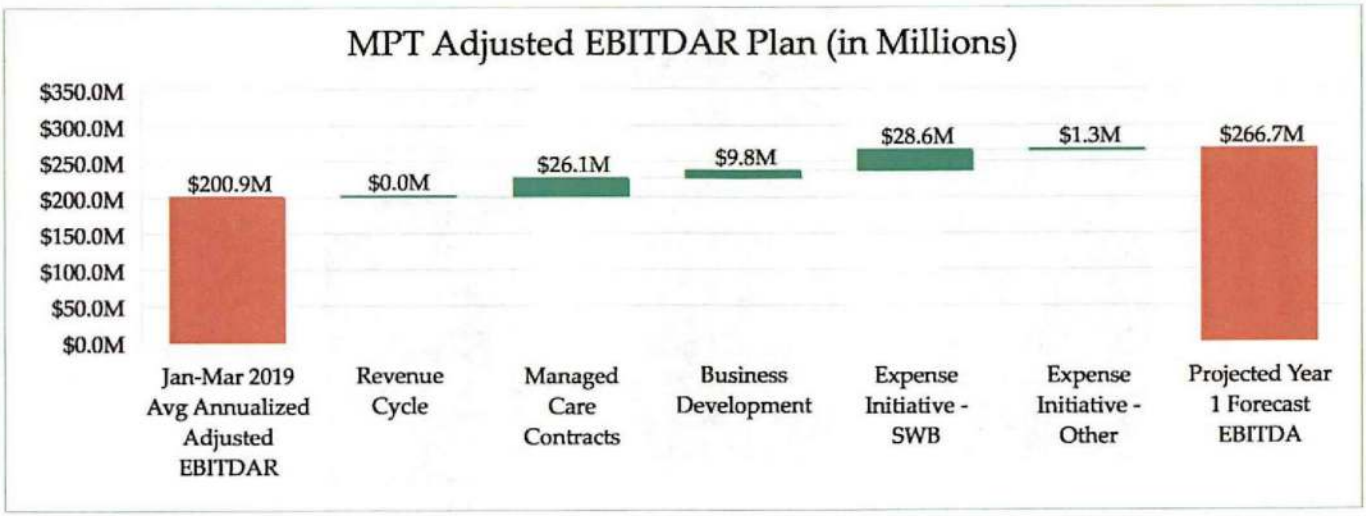
Below charts are a comparison of Prospect's projected initiatives versus MPT UW's projection.



MPT Adjusted Initiatives

MPT adjusted the Prospect annualized initiatives to more conservative estimates based on supporting data and company-wide YTD improvements. In particular, all revenue cycle initiatives (based upon an expected increase in percentage of collections through the reduction of bad debt and denials) were removed and all managed care contract improvements were limited to agreements that have been executed. In addition, the following cuts were made:

- RI Market – Volume growth expectations were reduced due to limited supporting information
- CT Market – Reduced for SWB initiatives not yet in place
- CRC / PMS Market – Adjusted to include only initiatives with supporting data



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FINANCIAL ANALYSIS

Adjustments to EBITDAR

Prospect Medical Holdings uses Adjusted EBITDAR in conjunction with EBITDAR to help reflect the operating position of the company as a whole. The adjustments are used to minimize or eliminate the impact of one-time activity or other items that are not indicative of the company's operational performance. In Q2 2019, Prospect reclassified Nix and EOGH as "Discontinued Operations." For that purpose, any adjustments that are specifically related to those facilities have been removed from the FY 2018 addback figures.

Prospect Identified Addbacks						
$ 000's	FY 2017 Actual	FY 2018 Actual (1)(2)	FY 2019 Annualized (3)	FY 2020 Projected (4)	FY2021 Projected (4)	FY 2022 Projected (4)
Transaction Costs related to financing and mergers/acquisitions	$25,800	$12,300	$19,067	$ –	$ –	$ –
Litigation expenses	100	9,100	2,933	–	–	–
Stock-based compensation	1,200	37,500	–		–	–
Sponsor structuring and management fees	900	900	800	–	–	–
Strategic business planning (5)	9,900	13,100	19,600	–	–	–
Non cash items (6)	–	57,800	8,000	–	–	–
Other items	–	–	2,933	35,000	30,000	27,000
Total	**$ 37,900**	**$130,700**	**$53,333**	**$35,000**	**$30,000**	**$27,000**

(1) FY 2019 Q3 MD&A lookback at Adjusted EBITDA by quarter includes retroactive adjustments to FY2018 for comparative purposes. These changes include the exclusion of Nix and EOGH due to their status as "Discontinued Operations" beginning in Q2 of FY 2019.

(2) FY 2018 includes combined adjustments of $26.1M for Nix (TX) and East Orange (NJ), which have been moved to Discontinued Operations and are not reports in the figures presented.

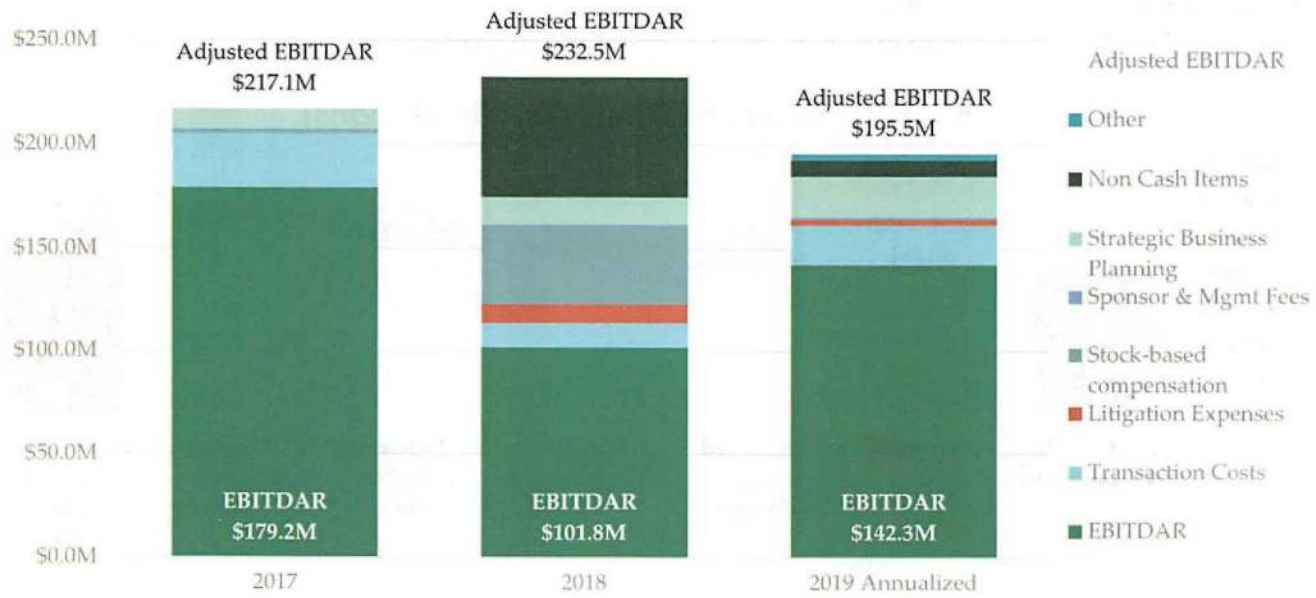
(3) Annualized addbacks from Q1-Q3 of FY 2019 are unaudited numbers as presented in the Q3 2019 MD&A.

(4) No color has been given regarding Projected Addbacks. Classification as "other" does not necessarily reflect the projected classification of the amounts.

(5) See Page 12 for additional notes regarding "Strategic Business Planning."

(6) FY 2018 includes mainly A/R Write Downs ($52M) $24M write down in PA; $15M write down in CA, CT, &RI; $7M reduction in DSH at CA hospitals; $6M write down of PA Physician Group; $5M Other.

Bridge of EBITDAR Adjustments (1)



(1) All numbers exclude Discontinued Operations.

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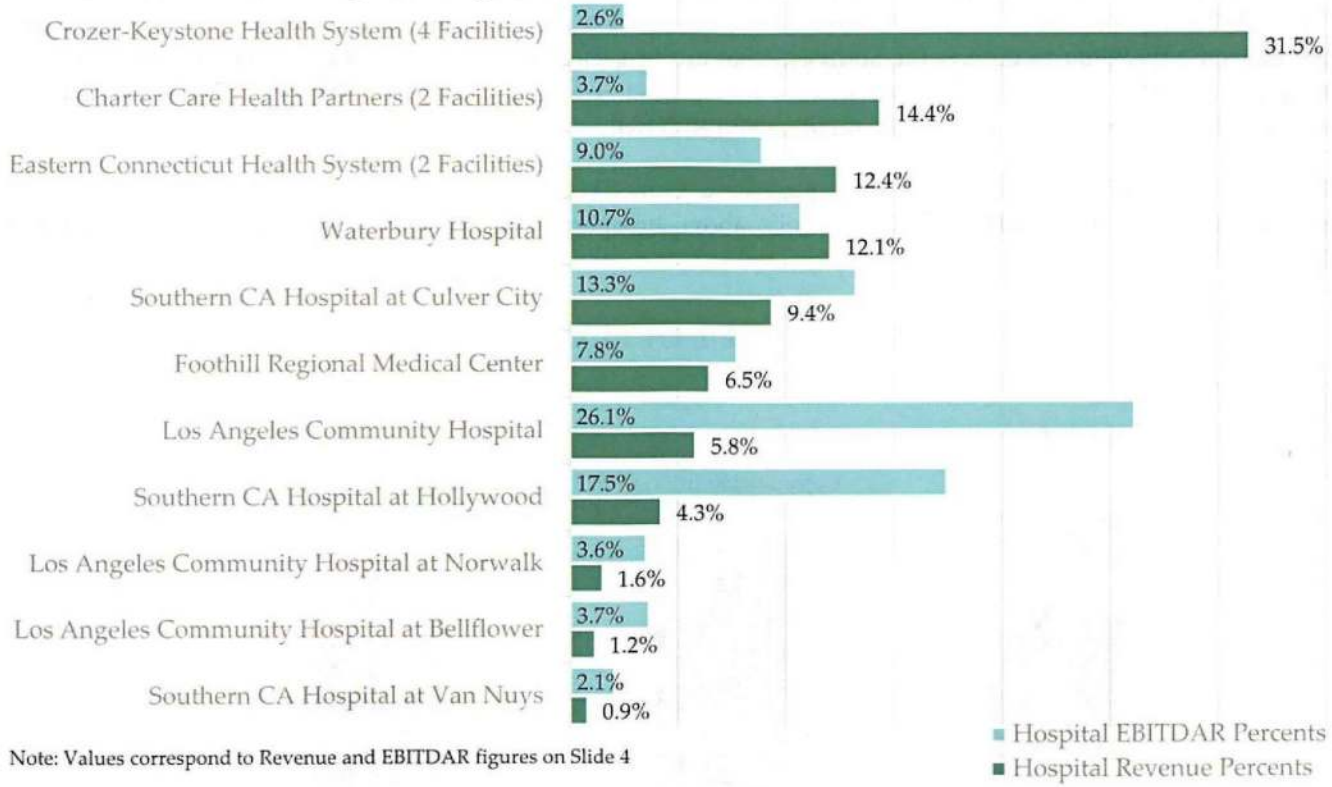
FINANCIAL ANALYSIS

Prospect Medical Holdings

Annualized 2019 Hospital Segment Revenue ($2,910.3M) & EBITDAR ($142.3M)

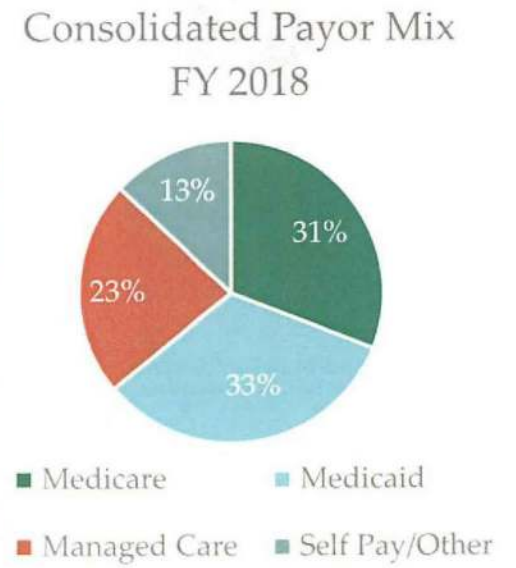


Note: Values correspond to Revenue and EBITDAR figures on Slide 4

Annualized 2019 vs 2018: EBITDAR with Discontinued Operations (Nix & EOGH) (1)

	Prospect Medical Holdings (1) *(in millions)*		
	FY 2019 Annualized	**FY 2018**	**Change**
EBITDAR	114.3	51.9	119.9%
Discontinued Ops.	(28.0)	(49.9)	(43.9%)
EBITDAR Less Disc. Ops.	142.3	101.8	39.3%
EBITDAR Margin (2)	**4.9%**	**3.5%**	

(1) All figures are unadjusted unless otherwise noted).
(2) EBITDAR Margin calculated using EBITDAR and Revenue numbers without Disc Ops figures.
Source: Prospect FY Q3 2019 Financials.



Note: Based on hospital services revenue before bad debt

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Prospect Medical Holdings: EBITDAR by Segment

The graph below depicts Prospect's historic unadjusted EBITDAR by segment, as well as the annualized Q3 2019 FYTD EBITDAR. In addition to the below, Prospect is on track to incur $53.3M of one time addbacks for annualized 2019. Slide 13 depicts the addbacks that are projected. In addition, various initiatives put into place beginning in Q4 of FY 2018 have contributed to an expected growth of unadjusted EBITDAR. Slide 11 details the segment level effect of initiatives on the unadjusted EBITDAR.

Prospect's total EBITDAR is on track to grow 39% from FY2018 to annualized FY2019 driven by a $31.6M increase in Global Risk EBITDAR. This is 6.5% above Prospect's initial projections of $133.2M in unadjusted EBITDAR.



(1) All numbers exclude Discontinued Operations.
(2) FY 2019 EBITDAR by segment presented here are annualized YTD Q3 FY 2019 numbers.

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FINANCIAL ANALYSIS

Prospect Consolidated: Pro Forma Balance Sheet (in millions)

In Millions	9/30/2017 Actual	9/30/2018 Actual	6/30/2019 Actual	9/30/2020 Projected	9/30/2021 Projected	9/30/2022 Projected
Cash and cash equivalents	$27.1	$7.7	$0.0	$71.7	$100.1	$151.9
Restricted cash	30.8	1.7	1.6	7.2	7.4	7.6
Investments	15.8	23.8	29.2	28.4	28.4	28.4
Net patient accounts receivable	358.9	350.8	338.1	339.7	339.8	343.9
Due from government payers	51.2	32.8	26.1	31.6	36.4	33.1
Other current assets	191.2	128.4	80.4	127.0	128.6	130.5
Net income taxes receivable, net	0.0	2.7	31.2	2.9	3.0	3.0
Hospital fee program receivable	59.2	211.5	184.4	226.3	224.4	223.8
Inventory	37.0	37.5	34.8	34.8	35.3	35.8
Current assets held for sale	0.0	0.0	68.5	0.0	0.0	0.0
Total Current Assets	**$771.1**	**$796.9**	**$794.3**	**$869.7**	**$903.3**	**$958.0**
PP&E	$576.9	$624.0	$533.1	$505.2	$482.3	$461.3
Deferred income taxes, net	104.3	2.0	1.2	0.0	0.0	0.0
Goodwill	310.7	305.1	302.3	302.1	302.1	302.1
Identifiable intangibles	40.8	33.6	26.8	28.5	28.5	28.5
Other assets	58.5	57.1	63.0	57.7	51.7	60.5
Long term assets held for sale	0.0	0.0	115.8	0.0	0.0	0.0
Total Assets	**$1,862.4**	**$1,818.6**	**$1,836.5**	**$1,763.1**	**$1,767.8**	**$1,810.3**
Accrued medical claims and other healthcare costs payable	$55.5	$62.9	$71.8	$72.4	$55.3	$56.1
Outstanding checks in excess of bank balance	0.0	0.0	2.8	0.0	0.0	0.0
Accounts payable and other accrued liabilities	320.2	328.4	311.7	355.5	347.8	348.0
Accrued salaries, wages and benefits	144.3	177.6	167.2	157.1	156.3	155.7
Hospital fee program liability	2.0	66.0	57.3	68.3	69.2	70.2
Due to government payers	23.8	30.6	45.7	31.6	32.4	33.1
Revolver line of credit	113.1	207.6	209.3	135.0	135.0	135.0
Current portion of capital leases	11.3	14.3	10.2	71.8	77.8	84.1
Current portion of long-term debt	12.5	18.4	20.7	0.0	0.0	0.0
Other current liabilities	60.6	27.8	11.4	27.3	27.7	28.1
Current liabilities held for sale	0.0	0.0	39.7	0.0	0.0	0.0
Total Current Liabilities	**$743.2**	**$933.8**	**$947.8**	**$919.0**	**$901.4**	**$910.4**
Long-term debt, net of current portion	$625.7	$1,099.4	$1,102.8	$0.0	$0.0	$0.0
Malpractice reserves	60.7	77.3	92.1	77.3	77.3	77.3
Capitalized leases - long-term portion	37.6	35.9	26.0	1,476.6	1,413.2	1,343.4
Asset retirement obligations	6.0	6.2	6.3	6.2	6.2	6.2
Other long-term liabilities	21.4	34.4	43.9	34.4	34.4	34.4
Pension obligation	300.4	254.1	258.9	185.5	142.7	106.1
Deferred income taxes	0.0	0.0	0.0	1.0	21.6	21.1
Long-term liabilities held for sale	0.0	0.0	12.0	0.0	0.0	0.0
Total Liabilities	**$1,795.0**	**$2,441.0**	**$2,489.9**	**$2,699.8**	**$2,596.7**	**$2,498.7**
Common stock	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Additional paid in capital	22.4	24.0	65.0	21.5	21.5	21.5
Accumulated other comprehensive income	8.1	21.3	22.4	21.8	21.8	21.8
(Accumulated deficit) retained earnings	24.3	(676.9)	(748.7)	(988.2)	(880.4)	(739.8)
Non-controlling interests	12.6	9.3	7.9	8.2	8.2	8.2
Total Liabilities and Equity	**$1,862.4**	**$1,818.6**	**$1,836.5**	**$1,763.1**	**$1,767.8**	**$1,810.3**

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FINANCIAL ANALYSIS

Prospect Post-Transaction Capital Structure & Debt Info

$000's	
Item	**9/30/2019**
Revolver	$160,000
MPT Leases/Mortgages	1,550,000
Other Capitalized Leases	38,495
Pension Obligation[1]	247,953
Other Liabilities	63,040
Total Debt	2,059,488
Equity	(744,363)
Total Capitalization	$1,315,125
Cash[2]	$225,762
Revolver Availability	125,000
Total Liquidity	$350,762
Net Debt[3]	$1,833,726
Year 1 Proj. Adj. EBITDAR[4]	286,434
Net Debt to Proj. Adj. EBITDAR	6.40x
Year 1 Rent	$116,250
Year 1 Coverage	2.46x

(1) *$70M pay down not expected until Jan 2020*
(2) *Cash is after transaction proceeds and LTD payoff*
(3) *Total Debt – Cash*
(4) *Projection provided by PMH*

LGP Exit Transaction

- If there is adequate surplus from MPT transaction, PMH will dividend funds up to Ivy Holdings.
- After Closing, LGP is expected to enter into an agreement to exit from ownership (via merger) in exchange for nominal amount.
- Due to approvals required, this is expected to take 6-12 months.
- Contemplated buyout of 6.8% Other Management so that Sam Lee & David Topper will be the only remaining owners.

ABL Agreement Facts:

- Only debt expected to survive transaction.
- ABL Terms:
  - Commitment: $285M
  - Maturity Date: 2/22/2023
  - Borrowing Base: 85% x Eligible Accounts
  - Rate (as of June 2019): 4.14025%
  - Fixed Charge Covenant: 1.0x

MPT CONFIDENTIAL

FINANCIAL ANALYSIS

Consolidated Prospect Pro Forma Balance Sheet

The information detailed below is derived from Prospect's historical and pro-forma balance sheet. The Pro Forma reflects organic growth and does not contemplate any additional acquisition activity. Fiscal Years 2017 and 2018 include both Nix and East Orange General Hospital's revenue and operation expenses in calculating AR and AP days. Beginning in Fiscal Year 2019, Nix and East Orange are categorized as discontinued operations and have been excluded from these calculations.

Current and Pro Forma Financial Ratios

	9/30/2017 Actual	9/30/2018 Actual	6/30/2019 (1)(2) Actual	9/30/2020 Projected	9/30/2021 Projected	9/30/2022 Projected
Days Cash on Hand (3)	3.6	0.9	-	9.9	13.7	20.5
AP Days	61.8	61.1	70.2	71.0	69.0	67.8
AR Days	58.8	70.8	68.8	75.7	74.2	72.5
Current Ratio	1.04x	0.85x	0.84x	0.95x	1.00x	1.05x
Debt to Capitalization (4)	92%	183%	215%	225%	204%	179%

1) *Balance Sheet as of 6/30/2019 represents the balance sheet prior to any transaction with MPT.*
2) *Revenues and OpEx have been annualized for AP and AR days calculations.*
3) *Increased cash on hand due to positive cash flow and repayment of revolving credit facility.*
4) *Increasing Debt to Capitalization is due to repayment of "Long Term Debt" and addition of MPT's transaction into "Long Term Capitalized Leases."*

Cash & Cash Equivalents

While Prospect's cash balance increases substantially throughout the forecasted period from $71.7M in 2020 to $151.9M by 2021, it is important to note that the model does not account for any distributions that could potentially be made. Excess cash as of 6/30/2019 was used to pay down the balance on the revolving credit facility. Once the revolver has been paid down to $135.0M post-transaction, Days Cash on Hand begins to rise and is forecasted to reach 20.5 by 2022.

Long Term Debt Loan

Prospect will use 72% of the $1.55B transaction price in order to pay off the Term Loan of $1.1B. This reduction of debt is required at or before the Closing Date per the Asset Purchase Agreement (APA) Section 4.2 ("Repayment of Indebtedness and Release of Encumbrances").

ABL Revolving Credit Facility

Prospect's ABL Revolving Credit Facility will survive the transaction. Prospect projects the June 30, 2019 outstanding balance of $209.3M to be reduced to $135.0M after completion of the transaction. The borrowing availability is expected to be reduced to approximately $255.0M after the dispositions of Nix and EOGH.

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FINANCIAL ANALYSIS

Payoff of Pension Liability Requirements

- Based on Section 5.8 of the Asset Purchase Agreement (APA), Prospect is required to make a minimum contribution of $70M to fund the Pension Plan under Crozer-Keystone Health.
- This contribution is to be deposited into escrow at or before Closing, and is required to be finalized no later than January 15, 2020.

ERISA Plans (in millions)		
Plan	**Amount Underfunded As of 9/30/2018**	**Plan Type**
CT Health Care Pension Fund	$13.5	Multiemployer
NE Care Pension Plan	80.6	Multiemployer
Total Multiemployer	$94.1	
Crozer-Keystone Retirement Plan	167.1	Single Employer
ECHN Pension Plan	77.2	Single Employer
Waterbury Hospital Retirement Plan	9.7	Single Employer
Total Single Employer	$254.0	

Multi-Employer Plans (Total Underfunded: $94.1M)

- Given Prospect is not the only employer in these plans, there is no way to determine Prospect's liability unless a withdrawal event occurs.
- PMH is making its minimum contributions (approximately $3M per year).
- Connecticut Health Care Associates Pension Fund currently certified to be in "critical status."
    - Because this is a multi-employer plan, there is no Prospect-specific plan to get out of critical status. They continue to make required contributions.

Single Employer Plans (Total Underfunded: $254.0M)

- All single employer plans are frozen with the exception of union employees under the Waterbury plan (~100 employees).
- PMH is making its minimum contributions (approximately $0.3M per year).
- Prospect has allocated $70M of the MPT transaction proceeds to pay down Pension Obligations.
- Crozer-Keystone Health System Employees' Retirement Plan:
    - Upon acquisition (07/2016) Prospect agreed to file termination of this plan and liquidate/fully fund within 5 years (07/2021), but it would likely take another 18 months (01/2023) to finalize.
    - Prospect has $70M of the MPT transaction proceeds allocated to Pension Obligations. According to Prospect, a majority of the $70M proceeds will be applied to the Crozer plan, putting them in a good position to fulfill their 5 year commitment.
    - Prospect also indicated they could roll this plan into one of their other single employer plans at a later date, allowing them additional time to fulfill the obligation.

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FINANCIAL ANALYSIS

Prospect Medical Holdings: Discontinued Operations

NIX and East Orange Healthcare "Discontinued" in Fiscal Year 2019

- Pro Forma Financials
  - Per Prospect's pro forma cash flow, the facilities are expected to be disposed of in FY 2020.
  - Facilities are considered "Discontinued Operations" and are therefore excluded facilities from the financial analysis of the Prospect portfolio.

Net Income (Loss)

	2017 Net Income (Loss)	2018 Net Income (Loss)	FY 2019 Annualized Net Income (Loss)
Nix (TX)	-	(39,453,176)	(19,466,733)
EOGH (NJ)	(7,983,287)	(29,424,985)	(21,854,016)
Total	**(7,983,287)**	**(68,878,161)**	**(41,320,748)**

EBITDA

	2017 EBITDA	2018 EBITDA	FY 2019 Annualized EBITDA
Nix (TX)	-	(31,009,357)	(11,341,454)
EOGH (NJ)	(2,612,294)	(18,904,349)	(16,652,076)
Total	**(2,612,294)**	**(49,913,706)**	**(27,993,530)**

Cash Burn

	06/2019 TTM Cash Burn	06/2019 YTD Cash Burn (9 months)
Nix (TX)	(48,618,033)	(17,737,981)
EOGH (NJ)	(41,229,535)	(16,534,552)
Total	**(89,847,568)**	**(34,272,533)**

Four Facilities with Divestiture Process Currently Underway

- Nix (three facilities in TX)
  - Narrowed down to 3 credible buyers.
  - One closing announced in August 2019 with other closings expected to be announced by end of 2019.
- East Orange (one facility in NJ)
  - Potentially viable disposal option includes donation to a Not-For-Profit upon a financial break even for the facility.
  - Two interested parties – one would provide slight financial gain to Prospect, the other would provide no gain to Prospect.
  - Challenging facility to exit with timing likely closer to Q4 2019 or Q1 2020.

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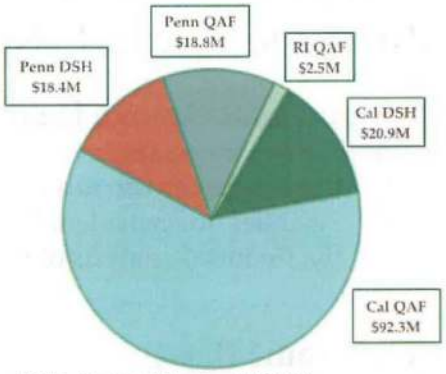
FINANCIAL ANALYSIS

Supplemental Funding Overview

Prospect receives supplemental payments from several federal and state funded programs. These payments are projected to approximate $130M - $140M annually for the next five years, representing a significant portion of EBITDA.

2019 Supplemental Funding Projections[1][2]



(1) Total Projected Funding: $152.9M
(2) Excludes $6.6M net payment for Connecticut.

State Tax Programs

California

- California's Hospital Quality Assurance Fee (QAF) Program is crucial to the preservation of California's safety-net hospital system as it provides funding to compensate hospitals for caring for California's Medi-Cal population.
- Hospitals must meet a number of different requirements to receive supplemental payments including: licensing, hospital type, and patients served criteria.
- Funding is determined via a hospital fee model. The hospital fee model calculates the fees and payments for each participating hospital utilizing current and historical data to determine the Medi-Cal utilization rate, federal upper payment limit, and various other data elements.
- For the current program, QAF 5, $4B in fees are assessed from the hospitals which draws down a $5B federal match for a total of $9B in funds. $1B in funds are kept by the State and the remaining $8B is redistributed to the hospitals over time, based on historic and current Medi-Cal utilization rates. Payments to the hospitals are made in two ways:
    - The State issues Medi-Cal fee-for-service supplemental payments to the hospitals (approximately $4B).
    - The State issues Medi-Cal managed care supplemental payments to the Health Plans. Health plans then issue supplemental payments to the hospitals via (1) pass-through based on historic utilization (approximately $2B) and (2) directed payments based on current utilization (approximately $2B).
- The current 30-month program, QAF 5 ended on June 30th, 2019 and will be replaced by QAF 6, which is expected to run through 2021. The QAF 6 model is not yet available, but based on current information, total net payments are expected to be materially consistent with the QAF 5 program. QAF 6 payments made by the Health Plans are expected to be heavier on directed payments as opposed to pass-through.
- Although the QAF program's payment and receipt amounts are generally predictable, the timing of such are often unpredictable and delayed.

Pennsylvania

- Pennsylvania's Quality Care Assessment (QCA) Program is similar to California's QAF Program as it is funded by a hospital tax assessment and federal matching funds, which are then redistributed.
    - Hospitals are taxed based on a percentage of net inpatient and outpatient revenue each quarter.
    - Funds are then redistributed to qualifying hospitals as supplemental fee-for-service and Managed Care payments on a quarterly basis. Hospitals that are exempt (not qualifying) include: state and private owned psychiatric hospitals, LTACHs, federal veteran's affairs hospitals, hospitals that do not charge for their services, critical access hospitals, and cancer hospitals.

Rhode Island and Connecticut

- Connecticut and Rhode Island tax programs are used as a way to reduce the state's share of Medicaid expenditures by federalizing the funds. The state returns a portion of the tax and retains the remainder to offset general fund expenditures. In Connecticut, most hospitals are taxed more than they receive which results in a net payment as is the case for Prospect facilities in the state.

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FINANCIAL ANALYSIS

Supplemental Funding

Disproportionate Share Hospital (DSH) Payments

- President Ronald Reagan and Congress created Medicaid DSH payments in 1985 to sustain safety-net hospitals that incur uncompensated costs and operate on narrow or negative margins.
- Federal law requires that state Medicaid programs make DSH payments to qualifying hospitals that serve a large number of Medicaid and uninsured individuals.
- The DSH payment is calculated as a percentage add-on to the basic DRG payment. The amount of DSH payment a hospital receives is determined using a formula combined with each hospital's DSH percentage.
    - Hospital DSH percentages are calculated using a combination of Medicare and Medicaid patient days.
- The Affordable Care Act aimed to reduce Medicaid DSH funding by approximately $17 billion. Since 2013 Congress has delayed cuts to the program four times, including through the Bipartisan Budget Act of 2018. Federal DSH cuts are scheduled to begin in FY2020, but may be delayed again. Forecasts herein assume cuts will be delayed again, as this seems likely, based on history.

California

- Hospitals with Medi-Cal revenue (including managed care and capitation) that is more than 25% of their total Net Patient Revenue (excluding HQAF) are eligible to participate in the program.
- The program pays a per diem amount per historic Medicaid or Managed Medicaid patient day and is adjusted by a percentage of funds available to the program, which has varied between 50-60% over the past three years.

Pennsylvania

- DSH funding comes from several different Pennsylvania state programs:
    - The Pennsylvania Community Access Fund reimburses hospitals that have a disproportionate share of Medicaid patients and is split into two parts: Uncompensated Care Support ($2.2M) and a Grant ($4.1M). Both parts of the Community Access Fund are federally matched and are paid out annually.
    - The Pennsylvania Legislative specifically supports Crozer Chester Medical Center due to their high Medicaid population. The current payment is $5M from the state of Pennsylvania, which qualifies for a drawdown of federal matching funds.

Prospect Net Annual DSH Funding Forecast by State

(In Millions)	2019	2020	2021	2022	2023
California	$20.9	$20.9	$20.9	$20.9	$20.9
Pennsylvania	18.4	18.4	18.4	18.4	18.4
Total	**$39.3**	**$39.3**	**$39.3**	**$39.3**	**$39.3**

Total Supplemental Funding Forecast by State

Prospect Net Supplemental Funding Forecast by State

(In Millions)	2019	2020	2021	2022	2023
California	$113.2	$102.7	$102.7	$102.7	$102.7
Pennsylvania	37.2	37.2	38.4	38.4	38.4
Rhode Island	2.5	2.5	2.5	2.5	2.5
Connecticut	(6.6)	(8.0)	(8.0)	(8.0)	(8.0)
Total	**$146.3**	**$134.4**	**$135.6**	**$135.6**	**$135.6**

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FINANCIAL ANALYSIS

Supplemental Funding

Financial Analysis – 2019 Actual vs. 2019 Forecast

This analysis compares the Net Supplemental Funding recorded by Prospect through Q2 2019 against the Net Supplemental Funding Forecast and documents any material differences as provided by management.

Prospect Net Supplemental Funding by State				
(In Millions)	Q2 2019 YTD Total	Q2 2019 YTD Projection	Surplus/ (Shortfall)	Management Explanation
CA DSH	$11.4	$10.4	$1.0	
CA QAF	46.2	46.2	0.0	
PA DSH	5.9	9.2	(3.3)	Temporary difference due to timing. An additional $5.0M is recognized in July similar to prior years.
PA QAF	8.9	9.4	(0.5)	
RI QAF	1.2	1.2	0.0	
CT QAF	(7.5)	(3.2)	(4.3)	Per discussion with Management, supplemental payments have decreased in FY2019. This has been partially mitigated by an increase in Medicaid payments. The expected shortfall exposure is $2M.
Total	**$66.1**	**$73.2**	**($7.1)**	

Cash Flow Forecast

Supplemental funding, and in particular, California QAF, is notoriously received in large sums and is extremely difficult to predict the exact timing. Additionally, most supplemental payments are recorded on an accrual rather than a cash basis. As such, the below cash flow statement does not tie to the Net Supplemental Funding by State, as previously presented, but has been provided by Prospect and is used for cash projection purposes.

Prospect Net Supplemental Payments Cash Flow Projections[1]														
	2019								2020					
in Millions	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Total
California QAF	$80.7	$0.0	$0.8	$0.0	$0.0	$0.0	$18.8	$0.0	$0.0	$0.0	$0.0	$0.0	18.8	**$119.2**
Other Net Supp.	(5.0)	4.8	(5.0)	11.4	9.7	(10.7)	2.2	1.5	1.6	15.3	8.0	6.2	14.8	**$54.7**
Total Supplemental	**$75.7**	**$4.8**	**($4.2)**	**$11.4**	**$9.7**	**($10.7)**	**$21.0**	**$1.5**	**$1.6**	**$15.3**	**$8.0**	**$6.2**	**$33.6**	**$173.9**

(1) Totals may not foot due to rounding.

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FINANCIAL ANALYSIS

Revenue Cycle Overview

Prospect revenue cycle management has significantly improved year over year and as of March 2019, total year to date cash collections of net patient revenue is over 100%. Management is focused on comprehensive initiatives to further improve revenue cycle management as a result of FY 2018 AR adjustments. Currently, revenue cycle management is performed at a market level across five business offices; the California hospitals centralize into one office. Management is implementing a system-wide set of initiatives which are expected to further improve collections.

Revenue Cycle Impact on EBITDA Improvement

- Management has included an approximately $7.7M (3.6%) annual EBITDA improvement as a result of revenue cycle improvement.
  - Crozer is projected to benefit from the initiatives with a $1.8M (19%) improvement to annual EBITDA.
- Several improvement initiatives have been identified by management. These include:
  - Claim denials management
    - Using Rubixis (3rd party revenue cycle management), PMH is able to determine exact accounts which have been denied and will lend greater visibility into the claims approval workflow. This platform will improve PMH's ability to proactively identify and settle claims denials.
  - Patient revenue cash collections improvement
    - Management has stated that its' goal is to have at least 90% of Net Revenue before bad debt collected within 90 days. The current 90-day collection rate is approximately 89%, according to management.
  - Centralized billing and collection policies
    - Each market is currently operating under local policies. PMH is working to create system-wide policies based on best practices from each of the markets.

Market	Adj. Annual EBITDA ($M)	Projected Revenue Cycle EBITDA Improvement ($M)	Projected Revenue Cycle EBITDA Improvement (%)
California	$137,722	$1,750	1.3%
CharterCare	15,941	822	5.3%
Crozer	9,525	1,821	19.1%
ECHN	19,919	859	4.3%
Waterbury	29,612	2,446	8.3%
Total Hospital Segment	**$212,268**	**$7,698**	**3.6%**

Source: PMH 1 Year Forecast

Allowance for Doubtful Accounts

- Currently, the estimation of allowance for doubtful accounts is not standardized across the PMH hospitals. Specifically, the estimation is made depending on historical facility collection history.
- In Q4 2018, PMH recorded $105.0M of adjustments reducing net revenues as a result of changes in estimates and related to prior reporting periods.
  - An $18.7M adjustment was recorded at Crozer due to a change in AR valuation model. The model is now based on patient collection rate methodology and was formerly based on expected contractual reimbursements.

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FINANCIAL ANALYSIS

Revenue Cycle

Collection Metrics

- As of March 2019, TTM cash collections versus 60-day prior TTM net patient revenue was approximately 101.5%. This metric has ranged from 97.0% to 101.6% on a monthly basis since October 2017.
- The 90-day collection rate goal is 90%. As of 9/30/2018, days in A/R were 46.

Collection Workflow

- All payor contracts are monitored through Rubixis, a 3rd party that models all contracts to calculate expected receipts.
  - Rubixis was purchased by Transunion in 2019 which further drives management's confidence in the continued use of the successful system.
- PMH management is focused on Rubixis' ability to analyze data as a means to improve denial management.
- As collection and AR reserve policies are standardized, the efficiency gained by Rubixis will assist in more precise reserve estimates.



Source: PMH Cash Collections

(1) FY 2019 cash collections based on Q1 and Q2 figures.

Markets Of Note

CharterCare

BCBS and United volume has increased in FY 2019 while cash collected from these payors has slowed. PMH's revenue cycle team is aware of the delays and is identifying potential solutions and efficiencies to reduce days outstanding.

Crozer

The $11.0M adjustment to Patient AR in Q4 2018 is the driver of the substantial increase in cash collections from FY2018 to FYTD 2019.

Waterbury

Market converted to Cerner in November 2018, driving initial cash collection dips that are expected to normalize throughout FY 2019.

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PROSPECT OVERVIEW

PROSPECT MEDICAL HOLDINGS, INC.

Founded in 1996, Prospect is an integrated healthcare delivery system of affiliated and employed physician group practices, hospitals, urgent care centers, management services, and risk based payment models. From 2004 through 2010 it was a publicly traded company. It was acquired by PE firm Leonard Green Partners, and in July 2011 filed a certification and notice of termination of registration with the SEC to return to private status.

Hospitals & Urgent Care Centers

- Operates 18 acute care & two behavioral health facilities located across six states.
- Focused on providing service to densely populated urban markets.
- Consists of low-cost community hospitals with an integrated care network of outpatient clinics.

Physician Group Practices

- Manages over 750 employed physicians.
- Established relationships with 23 Independent Physician Associations (IPA) and an additional 11,000 affiliated physicians.

Regional Care Management

- Conducts at-risk population health management for nearly 500,000 members in California & Pennsylvania.
- Participates in state programs that provide payments for managing the risk of patient populations.

Hospitals	**20**
Acute Care	18
Behavioral Health	2
FY 2018 Annual Revenue (1)	$3.07B
FY 2018 EBITDA (As Reported) (1)	$51.9M
FY 2018 EBITDA (Normalized*) (1)	$189.8M
Debt Structure as of 9/30/2018	
Revolving Line of Credit, Net	$207.6M
Long-Term Debt, Net Current Portion	$1,099.4M
Current Portion of Long-Term Debt	$18.4M
Capital Leases	$50.2M
Total Debt	$1,375.6M
Beds	2,915
Employees (2)	18,300

**Normalized based on KPMG QofE*
(1) Includes Nix and East Orange General Hospital (EOGH)
(2) Source: 2018 Audit

Leadership Team

Samuel Lee (Chairman & CEO)



Prior to founding Prospect, Mr. Lee was a Partner at Kline Hawkes & Co., a healthcare services & technology venture capital firm, President & Founder of SFS, a healthcare systems and revenue cycle management company, and a Senior Consultant with Andersen Consulting. Mr. Lee received his B.S. in Industrial & Systems Engineering from Georgia Tech and his MBA from the Harvard Business School.

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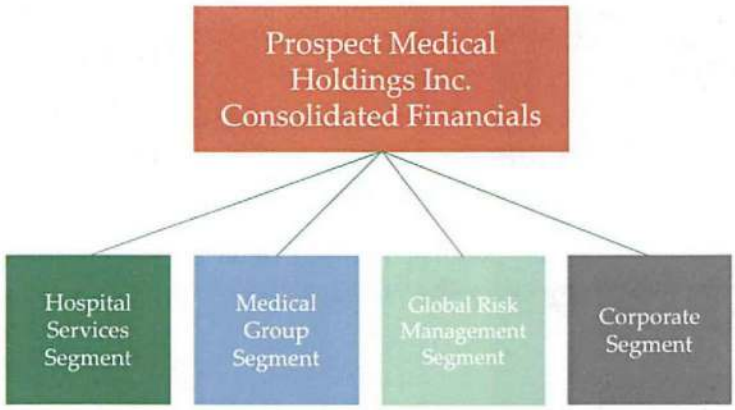
PROSPECT MEDICAL HOLDINGS, INC.

Overview by Financial Reporting Segment



Hospital Services Segment[(1)]

- 20 acute care and behavioral health hospitals, elder care facilities and a network of specialty and primary care clinics.
- Hospitals are wholly-owned by Prospect, except for the facilities in Rhode Island, which Prospect has an 85% interest in (Community Board owns 15%).
- Includes financials of employed physicians.

Medical Group Segment

- Healthcare Management Services Organization ("MSO") that provides management services to affiliated physician organizations that operate as independent physicians associations ("IPAs" or "Medical Groups").
- Medical Groups contract with physicians (primary care and specialists) and other healthcare providers to provide medical services under risk-based and fee-for-service contracts.
- Although employed physicians are reported within the Hospital Services Segment, the Medical Group Segment provides operational and strategic support.

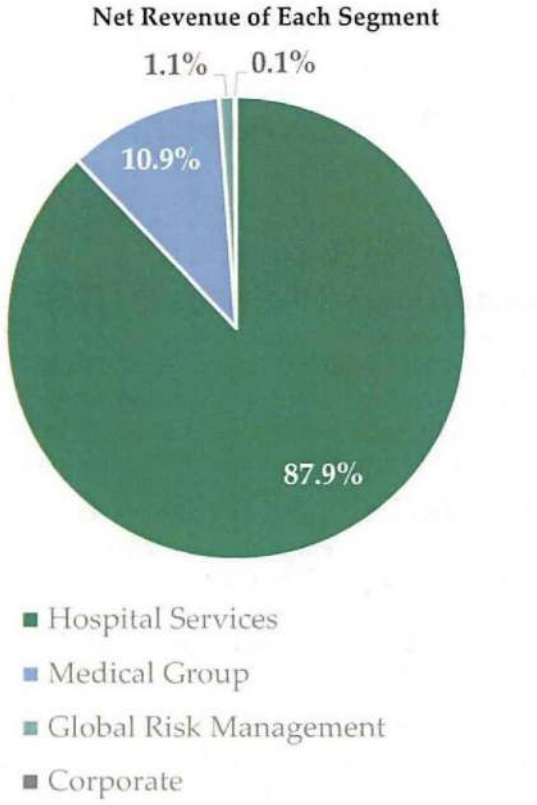
Global Risk Management Segment also known as CRC

- Enters into global and professional capitation arrangements with certain unrelated third-party health plans.
- Manages the provision of care for members in coordination with the Hospital Services and Medical Group segment.

Corporate Segment

- Prospect's corporate overhead costs and captive insurance companies.

Segments in Perspective



(1) This includes Nix Health in Texas and EOGH in New Jersey, both of which were marked as discontinued operations in fiscal Q2 2019. MPT is not purchasing the real estate of these facilities.

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PROSPECT MEDICAL HOLDINGS, INC.

Medical Group Segment[3]

In 000s	Q3 FY 2019 YTD	Q3 FY 2018 YTD		FY 2019[1]	FY 2018	FY 2017
Revenue:						
Capitation	$229,665	$226,533		$306,219	$307,444	$369,185[2]
Mgmt. Fees	10,323	5,701		13,764	10,501	7,976
Other Operating Rev.	31,863	22,822		42,484	16,462	16,787
Total Revenue	**$271,851**	**$255,056**		**$362,468**	**$334,408**	**$393,948**
PCP Capitation	35,294	36,804		47,059	49,350	48,291
Specialist Capitation	38,333	32,143		51,110	45,045	45,848
Claims Expense	108,055	104,918		144,074	153,552	129,255
Physician Incentives	14,952	9,540		19,936	15,097	46,127
Other Cost of Rev.	558	2,732		745	4,332	5,116
Total Cost of Revenues	**$197,193**	**$186,137**		**$262,924**	**$267,376**	**$274,636**
Gross Margin	**$74,658**	**$68,919**		**$99,544**	**$67,032**	**$119,312**
General and Admin.	50,907	51,638		67,876	73,405	64,478
EBITDA	$23,716	$17,186		$31,622	($6,373)	$54,834
Medical Cost Ratio	79.1%	76.8%		79.1%	80.6%	60.5%

2019 YTD results show a $6.5M increase in EBITDA thus far, driven by revenue growth that outpaced that of expenses:

- $16.8M increase in revenue driven by (1) $3.1M increase in capitation revenues driven by more favorable per-member-per month rates partially offset by membership losses (2) $4.6M increase in Management Fee Revenues and (3) $9.0M increase in Other Revenues driven by an increase in incentive, hospital, and shared risk incentives as a result of lower admissions and better utilization management.
- $11.1M increase in expenses primarily driven by (1) $5.4M increase in Physician Incentives due to payments for improved quality and profitability on profit sharing arrangements with contracted medical groups and (2) $3.1M increase in Claims Expense as a result of a $2M IBNR deficit at Q2 2018 as well as an increase in the cost basis of cases in 2019.

Capitation Revenues within Hospital Services Segment[3]

	Q3 FY 2019 YTD	Q3 FY 2018 YTD		FY 2019[1]	FY 2018	FY 2017[2]
Capitation Revenue	118,053	119,228		157,404	157,622	110,330
Capitation Expense	111,996	112,892		149,328	150,646	107,541
Margin	6,057	6,336		5,878	6,976	2,789
Margin Percentage	5.1%	5.3%		3.8%	4.4%	2.5%

2019 YTD results show a $0.3M decrease in EBITDA thus far, due to a decrease in the number of enrolled members. Management is focused on growing capitation and expects to increase enrollment over the next several years.

(1) Unaudited results through Q3 2019 annualized.
(2) 2017 Capitation Revenues included a $55M final risk settlement of a certain shared risk arrangement, which did not reoccur in 2018.
(3) Figures may not foot due to rounding.

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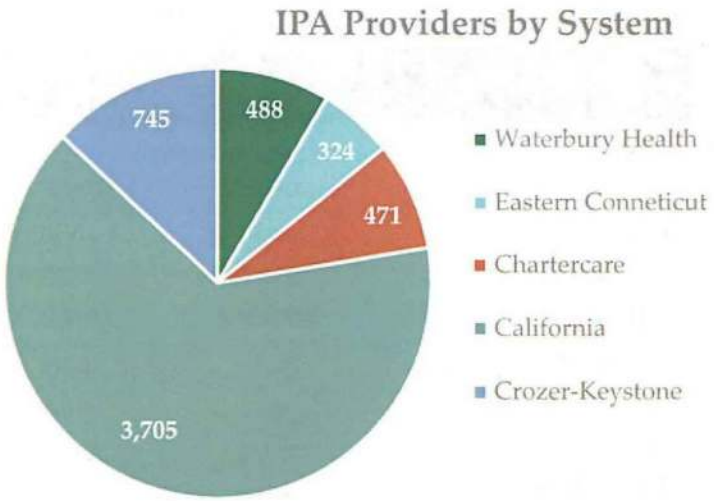
PROSPECT MEDICAL HOLDINGS, INC.

Medical Group Segment

- The Medical Group Segment includes 23 owned or managed IPAs in six states: California, Texas, Rhode Island, New Jersey, Pennsylvania, and Connecticut.
- The primary function of the Medical Group Segment is employing physicians or physician organizations that operate as IPAs ("Affiliates") and retaining patients within the health system. Employed physician expense is captured within the Hospital Services Segment.



- Operating Revenues for the segment primarily include:
  - ❑ Payments for medical services procured by Affiliates[1] under capitated contracts with various managed care providers including HMOs.
    - Capitation revenue under HMO contracts is prepaid monthly to the Affiliates based on the number of enrollees electing any of the Affiliates as their healthcare provider.
    - Capitation revenue is recognized in the month in which the physician organizations are obligated to provide services.
  - ❑ Management Fee Revenue – Management fee revenue for providing financial management, IT, marketing, admin, and other support services is earned in the month the services are rendered. The Medical Group Segment provides management services for both affiliated and unaffiliated entities. Contracts with unaffiliated entities provide for compensation ranging from 6.5% to 10% of revenues of the related management contracts.
- Cost of Revenues for the segment primarily include:
  - ❑ Capitation and claims payments, pharmacy costs, and incentive payments to contracted providers and are recognized in the period incurred or when the services are provided.
  - ❑ Additional expense includes discretionary incentive payment obligations to physicians which are in large part predicated on pay-for-performance, shared risk revenues, and favorable senior capitation risk adjustment payments received from Health Plans which are recorded when the amounts are known (generally in the 3rd or 4th quarter).

Capitation Enrollment Growth

- Prospect is focused on growing their capitated line of business when each of their markets is ready. Currently, the majority of capitation arrangements are located in California as it is the most advanced market for managed care. However, Prospect is planning for the future and working to build the required infrastructure for these types of arrangements within other markets.

Medical Services Provided by Affiliated Physician Organizations			
	2018	2017	2016
Managed Covered Lives through Directly Capitated Contracts	187,000	196,000	198,000
Managed Covered Lives for 3rd Parties	255,000	159,000	109,000

1) *Affiliates include affiliated physician organizations that operate as independent physician associations ("Medical Groups" or "IPAs")*

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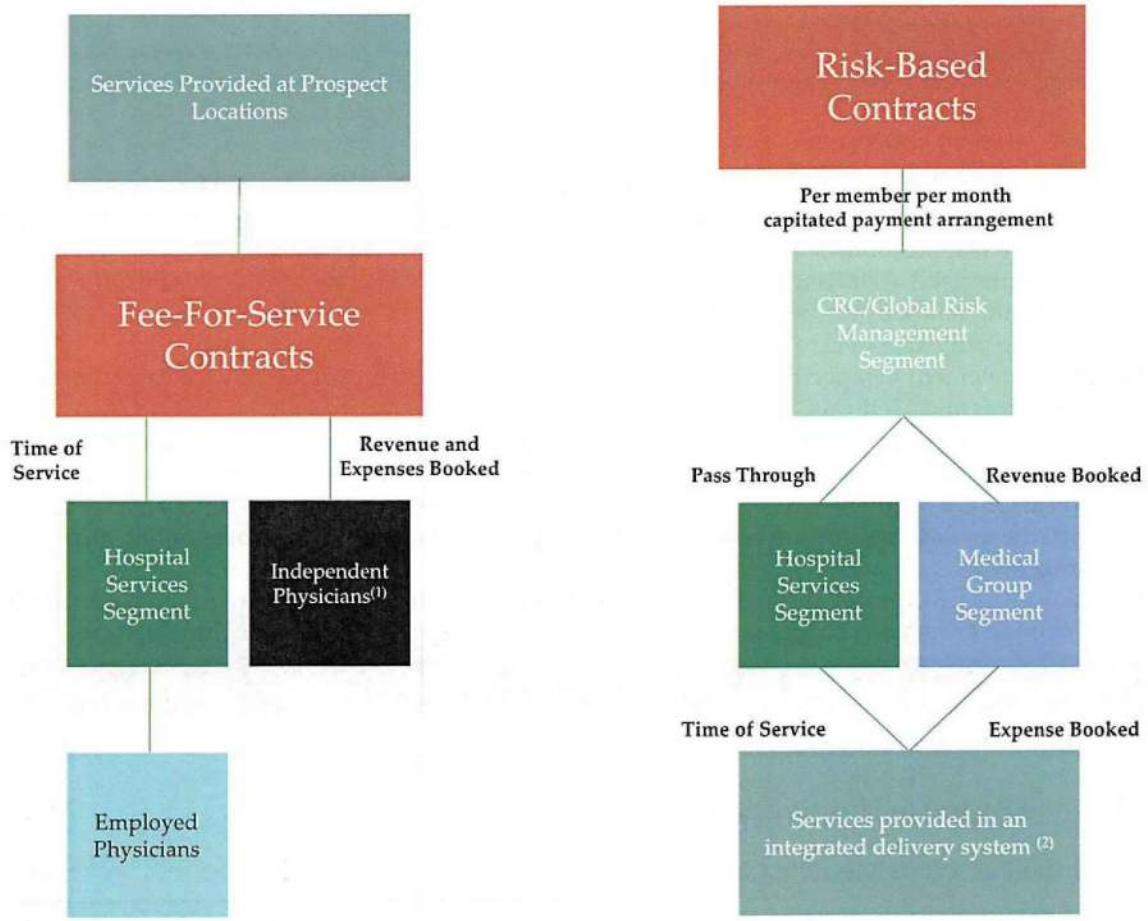
PROSPECT MEDICAL HOLDINGS, INC.

Coordinated Regional Care

Two Primary Sources of Patient Revenue

Prospect's strategy includes alignment and integration among physicians, hospitals and other medical, behavioral, social and community providers. The primary goal is to transform the organization into an open, integrated delivery system with strategic partner health plans to move from fee-for-service to a value-based, global risk reimbursement payment system. PMH describes this integrated model as Coordinated Regional Care ('CRC'). The model is focused on achieving improved patient care and experience at lower costs and better financial returns. Certain of Prospect's markets are more developed with respect to risk-based contracting, namely California, while others remain almost exclusively fee-for-service. FY2018 Patient Revenue was composed of 83% fee-for-service revenue and 17% risk-based revenue. However, Prospect has laid the foundation in each of its locations to capitalize on a shift to risk-based contracts when those markets develop. The CRC model is implemented by Prospect under their Global Risk Management business segment.

Patient Care Structure: Fee-For-Service vs. Risk-Based



(1) *Independent Physicians Association ("IPA") members leverage the contracts negotiated by the Medical Group Segment.*
(2) *This model increases the incentive to engage physicians and reduce utilization.*

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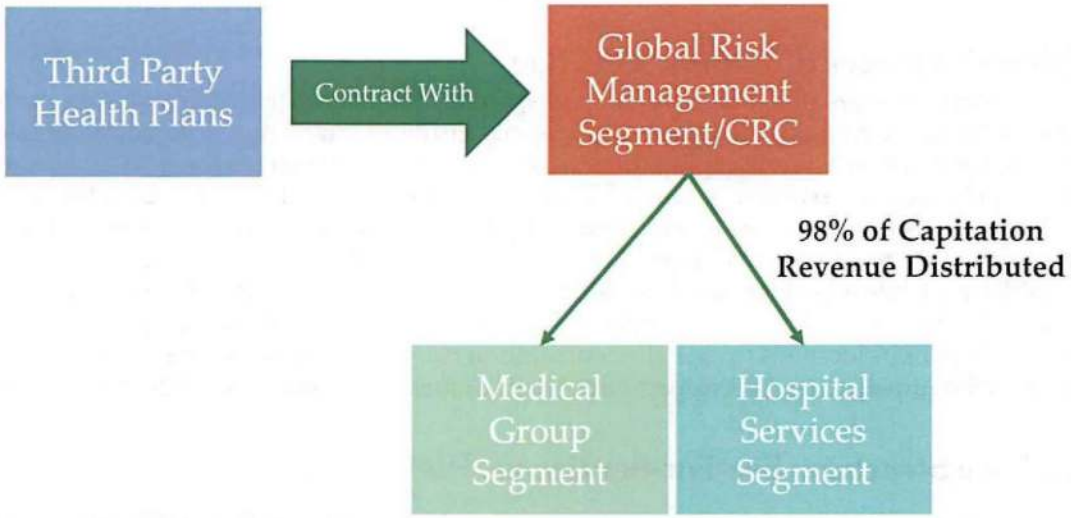
Global Risk Management Segment



Purpose

The CRC enters into global capitation arrangements with certain unrelated third-party health plans. The entity manages the provision of care for its members in coordination with the Hospital Services and Medical Group Segments. Primary responsibilities include:

- Negotiating risk-based contracts
- Maintaining relationships with insurance companies
- Managing provision of care downstream

From a financial statement perspective, CRC primarily serves as a pass through entity for capitation revenues to the Hospital Services and Medical Groups Segments.

- Hospital Segment – recognizes revenue and expenses for global capitation arrangements for which hospitals are responsible for the provision of care to members under such arrangements.
- Medical Group Segment -- recognizes revenue and expenses for global capitation arrangements for which the medical groups are responsible for the provision of care to members under such arrangements.

As shown below, the CRC passes through a vast majority of capitation revenues as required by contract and only retains enough to remain solvent as required by each state. Expenses follow the same pattern.

In Millions	2017	2018	Q3 2019 YTD
Capitation Revenue Received	$141.9	$258.2	$192.7
Revenue Passed to Hospital Services	62.5	101.8	77.2
Revenue Passed to Medical Groups	65.0	120.3	88.8
Revenue Remaining at CRC(1)	**$14.4**	**$36.1**	**$26.7**

(1) Does not tie to total CRC segment revenue as there is an immaterial amount of other revenue.

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Physician Alignment Strategy by Region

Physician alignment is a key focus area for Prospect. However, alignment strategies vary by region as a result of hospital history, physician preference and relationships, legal climate, and risk-based contracting opportunities. Physician alignment strategy by region:

Pennsylvania – Crozer Keystone Health System: **Strong Physician Alignment and Early Stages of Risk-Based Contracts**

- Physician alignment is the bedrock of CKHS' strategic vision and includes three facets:
  - ❑ Enhanced Primary Care Model – 100+ primary care physicians (largest PCP base in the area).
  - ❑ Physician joint venture strategy.
  - ❑ Independent Physician Association strategy – includes 600+ physicians (400+ are employed).
- System negotiates at-risk capitation contracts for medical and behavioral health care services and is looking to expand risk-based contracting.

Connecticut: **Focus on being a "doctor friendly" health system, but limited risk contracting**

- CRC contracts with a next-gen ACO that pays per member per month rates based on quality metrics. There are no full risk contract opportunities in Connecticut, but Prospect will continue to pursue them as a long term strategy.
- IPA arrangement with independent specialists is effective at managing system leakage.
- Waterbury Hospital
  - ❑ Heavily employed medical staff.
  - ❑ Approximately 400 employed physicians and an IPA with over 480 physicians.
- Eastern Connecticut Health Network – Manchester Memorial and Rockville General
  - ❑ Larger population of independent physicians given proximity to Hartford.
  - ❑ 40-50 employed physicians compared to an IPA with over 300 physicians.

Rhode Island -- CharterCARE: **Steadily increasing risk-based contracting bolstered by teaching hospital model**

- IPA includes over 420 physicians (65 employed physicians) started more than four years ago.
- ~20,000 lives in full risk contracts and ~70,000 covered lives in total as of Q1 2019.

California Hospital System: **System's Most Developed IPA and Risk-Based Contracts Market**

- Large IPA Network with Strong Primary Care Base.
  - ❑ In addition to owning a number of IPA groups in CA, Prospect provides management services for affiliated IPAs that are not owned by Prospect.
  - ❑ Coordinated movement between 7 facilities and IPAs allow patients to receive effective and efficient care.
- Serves Large Medicare & Medicaid Managed Care Population under Risk Arrangements.
  - ❑ Hospitals are designed to operate at low cost and focus on the primary medical needs of residents.

Additional Physician Strategies

- Employing physicians and acquiring practices where it makes financial sense and fits with the overall market strategy.
- Marketing management services Prospect can provide to IPAs in order to further develop their network and attract new IPA groups.
- Negotiating risk-based contracts when an individual market is ready and then continuing to further develop those contracts and markets over time.

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TAX CONSIDERATION & CONSEQUENCES

Impact to Medical Properties Trust

Note: Information below is based on an assessment provided by Redacted MPT Tax Director.

Acquisition Structure:

Medical Properties Trust ("MPT") is organized as a Real Estate Investment Trust ("REIT") and meets all of the requirements to operate as such under the Internal Revenue Code. The Prospect assets to be acquired (both mortgages and leases) are considered qualifying REIT assets. MPT will setup new legal entities under MPT Operating Partnership to serve as the acquisition company for each of the Prospect assets. Given the qualifying nature of the Prospect assets to be acquired, MPT will not be required to use its Taxable REIT Subsidiary for this transaction.

Federal:

MPT, as a REIT, is only taxed on its undistributed income and capital gains. MPT has sufficient dividends to cover the additional lease and mortgage revenue generated from the Prospect facilities. As a result, no federal tax impact from the Prospect acquisition is expected.

State:

a) **California**

i. **Income Taxes** - REIT income is treated the same under California state law as federal law. MPT will not incur state income tax in California on lease revenue generated from the California medical facilities.

ii. **Franchise Taxes** – California assesses an annual minimum franchise tax of $800 for each SPV LLC MPT uses to hold the real property. MPT will use a LP/LLC franchise tax blocker structure to avoid exposure to higher franchise taxes.

iii. **Real Estate Transfer Taxes** - California assesses a real estate transfer tax of 0.11%.

iv. **Transaction Privilege Taxes** - California does not assess sales or privilege tax on lease revenue.

b) **Pennsylvania**

i. **Income Taxes** - REIT income is treated the same under Pennsylvania state law as federal law. MPT will not incur state income tax in Pennsylvania on lease revenue generated from facilities in Pennsylvania.

ii. **Franchise Taxes** - Pennsylvania does not assess state franchise taxes.

iii. **Real Estate Transfer Taxes** – Pennsylvania assesses a real estate transfer tax of 1% of the value of real property.

iv. **Transaction Privilege Taxes** - Pennsylvania does not assess sales or privilege tax on lease revenue.

c) **Connecticut**

i. **Income Taxes** - REIT income is treated the same under Connecticut state law as federal law. MPT will not incur state income tax in Connecticut on lease revenue generated from Connecticut facilities.

ii. **Franchise Taxes** - Connecticut does not assess state franchise taxes.

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Connecticut (Continued)

iii. **Real Estate Transfer Taxes** - Connecticut assesses a real estate transfer tax of 1% of consideration on amounts up to $800,000 and then 1.5% of the amount in excess of $800,000.

iv. **Transaction Privilege Taxes** - Connecticut does not assess transaction privilege taxes.

d) **Rhode Island**

i. **Income Taxes** - REIT income is treated the same under Rhode Island state law as federal law. MPT will not incur state income tax in Texas on lease revenue generated from the Rhode Island facilities.

ii. **Franchise Tax**- Rhode Island does not assess state franchise taxes.

iii. **Real Estate Transfer Taxes** – Rhode Island assesses a real estate transfer tax of .46%

iv. **Transaction Privilege Taxes** – Rhode Island does not assess transaction privilege taxes.

Impact to Prospect Medical Holdings

Federal:

Prospect Medical Holdings, Inc. ("Prospect") is organized as a corporation for US federal tax purposes. Net income, adjusted for certain tax differences, from the acquisition of the portfolio will result in an increase to cash income tax expense for Prospect. The federal tax rate for Prospect that will be applied to the additional taxable income is 21%.

State:

Prospect will be subject to state income taxes in California, Pennsylvania, Connecticut, and Rhode Island on taxable income generated from operations. The applicable statutory tax rates are as follows: California (8.84%), Pennsylvania (9.99%), Connecticut (7.5%), and Rhode Island (7%). While Texas does not have an income tax regime, they do have a gross margin tax which is based upon the lesser of 70% of total revenue, revenue less compensation, or revenue less cost of service. The gross margin tax rate is 0.75%.

Tax Considerations from Acquisition:

- **Interest Expense:** Under the current tax law, taxpayers are only allowed to deduct interest expense in excess of interest income up to 30% of EBITDA. Depending on the break-out of investment between mortgage loans and leases, there is the potential Prospect will not be able to fully deduct the interest expense on the mortgage loans.

- **Depreciation:** Prospect will lose a tax shield related to the depreciation on the buildings that are sold to MPT through the sale-leaseback transactions. This is approximately 2.5% of the original cost basis of the building. However, Prospect will pick up a tax deduction for lease expense for operating leases which will exceed the depreciation deduction (assuming 7.5% cap rate) currently taken.

- **Capital Gains from Transaction**: It is expected that Prospect has sizeable built-in gains in the real estate to be acquired. Prospect will shield a portion of the capital gains from recognition by mixing the transaction between failed leases, loans and true leases. The failed lease arrangement will be utilized for the properties carrying the largest built-in gains. Prospect is expected to shield a large portion of the recognized built-in gains through the failed lease structuring and the utilization of prior year losses carried forward to 2019.

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TAX CONSIDERATION & CONSEQUENCES

Property Taxes

In accordance with the Master Lease, Prospect will be responsible for all real property taxes and property taxes on all tangible personal property. All applicable states assess property tax on a calendar year basis. Annual property tax varies from county to county and is based upon a millage rate adopted by the local tax assessor.

i. **Assessment/Valuation Basis:**

   a. California – Fair market value

   b. Pennsylvania – Predetermined ratio applied to actual value

   c. Connecticut – 70% of the true and actual value

   d. Rhode Island - Full cash value

ii. **Assessment Date:**

   a. California – July 1st

   b. Pennsylvania – July 1st

   c. Connecticut – October 1st

   d. Rhode Island – December 31st

iii. **Payment Date:**

   a. California – ½ November 1st, ½ February 1st

   b. Pennsylvania – June 1st in Delaware County

   c. Connecticut – July 1st

   d. Rhode Island – 4 installments on the 24th of July, October, January, and April in Providence County

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THIRD PARTY REPORTS

Phase I – Environmental Assessments

The following is a summary of the Phase I initial findings from Terracon and EMG.

	Hospital [1]	Findings
California	Southern California Hospital at Van Nuys	One REC Identified. • A 280 gallon gasoline UST was closed properly with the state in 2000, and is identified as a "controlled REC". No further investigation recommended.
	Southern California Hospital at Culver City	Five RECS identified. • Two underground storage tanks with incomplete records • Offsite gas station located near the hospital • Offsite dry cleaners near the hospital • Heavy hydrocarbon petroleum staining in the basement. **A Phase II report was completed post-closing per Section 39.27 of the Master Lease. No further investigation recommended.**
	Los Angeles Community Hospital at Bellflower	Three RECS identified. • Two underground storage tanks with incomplete inspection and/or disposal records • Offsite dry cleaner located near the hospital. **A Phase II report was completed post-closing per Section 39.27 of the Master Lease. No further investigation recommended.**
	Foothill Regional Medical Center	No RECS identified. A UST was removed in 2004 and soil sampled, but Terracon recommends obtaining the final closure letter.
Connecticut	Waterbury Hospital	Two RECS identified. • Insufficient information about the closure/removal of UST. EMG recommends additional file review. • When Prospect acquired Waterbury in 2016, they filed a "Form III" with the state to say that either the environmental conditions were unknown, or a prior release occurred. EMG recommends a further file review. The site is also in EPA Radon Zone 1, areas with potential for elevated radon levels in the building. EMG recommends radon testing to determine if installation of radon mitigation systems are warranted.
	Rockville General Hospital	Two RECS identified. • Insufficient information about the closure/removal of multiple UST. EMG recommends additional file review. • When Prospect acquired Rockville in 2016, they filed a "Form III" with the state to say that either the environmental conditions were unknown, or a prior release occurred. EMG recommends a further file review. **Compliance with Connecticut Department of Energy & Environmental Protection Bureau of Water Protection and Land Reuse Remediation Division ("CDEE") Letter required post-closing, per Section 39.27 of the Master Lease.**
	Manchester Memorial Hospital	Two RECS identified. • Insufficient information about the closure/removal of multiple UST. EMG recommends additional file review. • Contamination that occurred during removal of a UST in 2012. Approx. 1,142 tons of impacted soil were removed, and monitoring wells were subsequently installed. While the regulatory status of the release is "completed", Prospect reports that additional soil sampling is scheduled to occur in June 2019. Prospect filed a "Form III" when they acquired in 2016 to confirm that the remediation efforts had occurred, and EMG recommends a file review to confirm that all documentation relating to the monitoring has occurred. **Compliance with Connecticut Department of Energy & Environmental Protection Bureau of Water Protection and Land Reuse Remediation Division ("CDEE") Letter required post-closing, per Section 39.27 of the Master Lease.**
Rhode Island	Our Lady of Fatima Hospital	Two RECS identified. • Removal of prior tanks, one of which had a reported release in 1991. EMG recommends a further file review to confirm that the release case has been properly closed. • 2005 release of heating oil fuel which resulted in the installation of four monitoring wells and an instruction from the state of RI to continue "recovering" any contaminated soil as needed. EMG recommends those remediation continue, and the tenant work with the state to obtain final closure of the matter.
	CharterCARE Health Partners at Roger Williams	Three RECS identified. • "Controlled" REC relating to the owner's receipt of a no further action letter following remediation of a release in 2004. • Incomplete closure of state environmental files documenting the removal of a number of USTs. EMG recommends file reviews. • Gas station was on the southwest corner of the project through the 1970s. **A Phase II report is recommended and required post-closing per Section 39.27 of the Master Lease.**
Pennsylvania	Springfield Hospital	One REC identified. • A 6,000 gallon UST was removed in 1990 and caused a release of fuel oil. Although the state records show the cleanup was completed, EMG recommends a further file review to confirm how the UST was disposed of.
	Crozer-Chester Medical Center	Two RECS identified. • There is an active state case relating to a release of fuel oil seeping into Ships Creek that occurred prior to 2001, and a soil and groundwater remediation area located at a parking area onsite. This site has undergone several remedial actions, and EMG identified monitoring wells and a remediation shed onsite. Prospect confirmed that these are being used to track remediation progress. EMG recommends a further file review to confirm status of remediation. • There was a car repair facility onsite from the 1930s-2000s. **A Phase II report was completed post-closing per Section 39.27 of the Master Lease. No further investigation recommended.**
	Taylor Hospital	One REC identified. • Three USTs were reportedly closed in 1993, but EMG found no information about the location of those USTs and if/how they were disposed of. **A Phase II report was completed post-closing per Section 39.27 of the Master Lease. No further investigation recommended.**
	Delaware County Memorial Hospital	One REC identified. • The site is listed on the state environmental brownfield and cleanup database, but Prospect provided no information to EMG about why the listing is there. EMG recommends additional file review to determine status.

(1) *No RECs were identified at Southern California Hospital at Hollywood, Los Angeles Community Hospital, or Los Angeles Community Hospital at Norwalk. No further investigation recommended.*

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THIRD PARTY REPORTS

Property Condition Reports (PCRs)

Redacted performed the Property Condition Reports at all 16 Prospect facilities including ancillary sites. The most costly items needing immediate repair were roof upgrades and parking lot resurfacings. Nine facilities require major parking lot repairs estimated at $50,000 or more. Also, nine facilities require major roofing repairs estimated at $50,000 or more. Redacted recommendation are categorized as Immediate items needing to be completed within the next 12 months of signing and Near Term items needing to be completed within 24 months of signing. Total estimated cost for Immediate items is $5.2M, and repairs are required to be completed post-closing per Section 9.4 of the Master Lease. Of these repairs, the largest items are as follows:

Material Items Needing Immediate Repair (within 12 months)			
State	Facility	Repair	Estimated Cost
CA	Bellflower	Parking Area	$210,000
CT	Waterbury	Parking Area	$1,324,183
CT	Manchester	Parking Area	$215,257
RI	Our Lady of Fatima	Parking Area	$676,850
RI	Roger Williams	Parking Area	$442,103
PA	Crozer	Parking Area	$442,937
PA	Taylor	Roof Replacement	$300,000

In addition to the $5.2M of immediate repairs, Redacted recommends $3.0M in Near Term items. Most of these repairs are window and walls in need of sealing and re-chalking. Unchecked these Near Term items are not a threat to the real estate. These aged seals contribute to energy loss, especially since the majority of these repairs are at facilities located in the Northeast. The largest ticket items in the near term are as follows:

Material Items Needing Near Term Repair (within 24 months)			
State	Facility	Repair	Estimated Cost
PA	Crozer	Window and Brick Work	$1,050,000
PA	Taylor	Window and Roof Replacements	$500,000
PA	Delaware County	Window Replacements	$700,000

Prospect has provided MPT with the Capital Expenditure plan for the near future. A total of $15.7M of repairs and upgrades have recently been completed across the portfolio and $68.4M of repairs have been approved and are currently in work to be completed. However, an additional $38.3M of repair work has been identified as needing to be completed but has not yet received corporate approval.

Prospect CapEx Plan			
State	Recently Completed	In Process	Pending Approval
CA	$5,865,247	$13,252,235	$2,193,596
CT	$5,873,663	$11,673,999	$4,756,363
RI	-	$27,363,553	$28,658,134
PA	$3,939,302	$16,150,114	$ 2,704,945
Total	**$15,678,212**	**$68,439,901**	**$38,313,037**

See the following slides for a complete list of Redacted PCR recommendations.

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Complete Kemp PCR Recommendations

PMH: Summary of Facility Condition Assessments Conducted By Kemp Management Solutions, May 2019				
Property	**Immediate Repairs (6 to 12 months)**		**Near Term (within 1 to 2 years)**	
Crozer	Replace valves that are near failure in mechanical room	$30,000	Fix brick work and caulking on west and south wings	$150,000
	Replace hot water heater	50,000	Replace windows on west and south wings	600,000
	Replace controls for cooler for hot water pump	5,000	Replace leaking pipes in mechanical rooms	30,000
	Repair "failed" and "poor" parking areas outlined in parking assessment	442,937	Replace insulation around piping in mechanical rooms	50,000
			Replace windows and soffit on North Campus building	300,000
			Repair "fair" parking areas outlined in parking assessment	4,321
	Total	**$527,937**	**Total**	**$1,134,321**
Delaware County	Roof repair to address leaks and flashing	$50,000	Exterior windows for the facility (east wing) should be replaced	$300,000
	Repair "poor" parking areas outlined in parking assessment	60,566	Roof replacement allowance (does not include entire roof)	400,000
			Repair "fair" parking areas outlined in parking assessment	7,196
	Total	**$110,566**	**Total**	**$707,196**
Springfield	Assess HVAC system	$15,000	Roof patch and repair allowance	$50,000
	Perform roof assessment	15,000	Repair "fair" parking areas outlined in parking assessment	20,127
	Total	**$30,000**	**Total**	**$70,127**
Taylor	Roof replacement should be done as outlined in the roof assessment	$300,000	Exterior windows for the facility should be replaced	$500,000
	Roof repairs to be addressed as outlined in the provided roof assessment	30,000	Repair "fair" parking areas outlined in parking assessment	7,789
	Dielectric fittings on heating system need to be replaced	20,000		
	Repair "poor" parking areas outlined in parking assessment	30,435		
	Total	**$380,435**	**Total**	**$507,789**
Bellflower	Pressure wash and paint exterior as required	$60,000	Repair "fair" condition parking lot surfaces	$15,000
	Roof assessment allowance	15,000		
	Repair "poor" condition parking lot surfaces	10,000		
	Total	**$285,000**	**Total**	**$15,000**
Culver City	Repair "poor" condition parking lot surfaces	$81,000	Repair "fair" condition parking lot surfaces	$17,000
	Total	**$81,000**	**Total**	**$17,000**

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Complete Kemp PCR Recommendations

Property	Immediate Repairs (6 to 12 months)		Near Term (within 1 to 2 years)	
Foothill Regional	None identified	$0	None identified	$0
	Total	**$0**	**Total**	**$0**
Hollywood	Repair "poor" condition parking lot surfaces	$76,000	Repair "fair" condition parking lot surfaces	$20,000
	Perform roof assessment	15,000		
	Total	**$91,000**	**Total**	**$20,000**
Manchester	Parking area 2" overlay or full depth reclamation	$215,257	Parking area crack fill and moderate patching	$57,715
	Address falling cast stone at parking deck and parking deck connector	100,000	Complete roof replacement program	
	Address detached stair nosings	5,000		
	Total	**$320,257**	**Total**	**$57,715**
Norwalk	Install ADA compliant access point (entry door, ramp and access button)	$75,000	Repair "fair" condition parking lot surfaces	$15,000
	Repair roof where standing water is present	125,000	Window replacement allowance (Phased approach)	250,000
	Perform roof assessment	15,000		
	Repair "poor" condition parking lot surfaces	15,000		
	Perform small quantity of window caulking	25,000		
	Total	**$255,000**	**Total**	**$265,000**
Los Angeles Community	Repair roof where standing water is present	$95,000	Repair "fair" condition parking lot surfaces	$10,000
	Perform roof assessment	15,000		
	Total	**$110,000**	**Total**	**$10,000**
Our Lady of Fatima	Parking area 2" overlay or full depth reclamation	$676,850	Parking area crack fill and moderate patching	$30,723
	Roof patching to address active leaks	50,000	Roof replacement program (in capital expenditure plan)	
	Patch and replace cracked/spalled concrete sidewalks/stairs	20,000	Resurface remainder of parking lot (in capital expenditure plan)	
	Total	**$746,850**	**Total**	**$30,723**
Rockville	Parking area 2" overlay with undercuts	$138,793	Parking area crack fill and moderate patching	$21,064
	Roof patching at the mansion portion of the hospital	7,500	Replace roof at the mansion portion of the hospital (allowance)	75,000
			Repair deteriorating exterior ceiling at overhang	10,000
			Install permanent solution to painted plywood exterior- entrance corridor	20,000
	Total	**$146,293**	**Total**	**$126,064**

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THIRD PARTY REPORTS

Complete Redacted PCR Recommendations

Property	Immediate Repairs (6 to 12 months)		Near Term (within 1 to 2 years)	
Roger Williams	Parking area 2" overlay or full depth reclamation	$442,103	Parking area patching or 2" overlay	$12,081
	Roof patching to address active leaks	50,000		
	Pointing and patching of mortar joints and cast stone	150,000		
	Architectural assessment of alternate means of roof access (allowance)	10,000		
	Engineering assessment of spalled concrete in CEP building (allowance)	5,000		
	Total	**$657,103**	**Total**	**$12,081**
Van Nuys	Repair roof where standing water is present	$50,000	None identified	$0
	Perform roof assessment	15,000		
	Repair "poor" condition parking lot surfaces	28,000		
	Perform small quantity of window caulking	15,000		
	Total	**$108,000**	**Total**	**$0**
Waterbury	Parking area full depth reclamation and major patching with 2" overlay	$1,324,183	Parking area crack fill and patching	$2,009
	Roof patching	25,000		
	Roofing consultant	15,000		
	Total	**$1,364,183**	**Total**	**$2,009**
	Grand Total	**$5,213,624**	**Grand Total**	**$2,975,025**

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THIRD PARTY REPORTS

Seismic Reports

MPT commissioned [Redacted] to conduct a Level 0 seismic assessment of all seven Prospect California campuses. Level 0 reports are considered a screening level review based upon general information about the building and site. The report allows MPT's risk management department to assess the current seismic insurance policy at each hospital to ensure the risk is accounted for.

- [Redacted] uses ST-Risk™ software to compile data from site surveys, seismic data, public records, building structure, date of construction, and several other building and site related determinants to perform risk analysis.
- The two measurements of risk used are the Scenario Expected Loss (SEL) and the Scenario Upper Loss (SUL). The SEL is a measure of the expected average damage of a building during a seismic event at a 50% confidence interval. This means 5 of 10 similar buildings will suffer damages at a greater ratio than the SEL. The SUL is a more conservative estimate of damage at a 90% confidence interval. This means only 10% of similar buildings will suffer a greater percentage of damage than the SUL ratio.
- The loss estimate is considered the approximate repair cost divided by the replacement cost of the building. The replacement cost of the building does not include the value of equipment and inventory, or the monetary loss from discontinued operations.

MPT Conclusions Per Terracon Consultants' Report

- Using the SUL, Terracon predicts a potential loss range from 15% at Los Angeles Community Hospital at Bellflower to 28% at Southern California Hospital at Hollywood.
- The average SUL can be estimated at approximately 22% with a 10% chance of being exceeded.
- MPT and Prospect reviewed property insurance policies and increased levels of earthquake insurance to mitigate the seismic risk of the California facilities.
- Prospect should ensure its California hospital buildings are seismically evaluated and retrofitted, if needed, to be in compliance with OSHPD SPC rating requirements.

Probable Structural Damage Estimate (as % of Replacement Cost)		
Hospital Campus	**Scenario Expected Loss**	**Scenario Upper Loss**
Los Angeles Community Hospital - Olympic		
• Hospital Building	11%	20%
• Parking Structure	13%	20%
Los Angeles Community Hospital – Bellflower	8%	15%
Los Angeles Community Hospital – Norwalk	14%	25%
Foothill Regional Medical Center	14%	24%
Southern California Hospital at Culver City		
• Pavilion	13%	23%
• Tower	14%	25%
• Single-Story Building	13%	20%
• Historic Building	13%	22%
• Warehouse	12%	20%
Southern California Hospital at Van Nuys	14%	25%
Southern California Hospital at Hollywood	16%	28%

Source: [Redacted] PSRA May, 2019.
Damage estimates shown is determined based on a seismic event that has a 10% chance of exceedance in a 50-year exposure period, or a 475-year return period.

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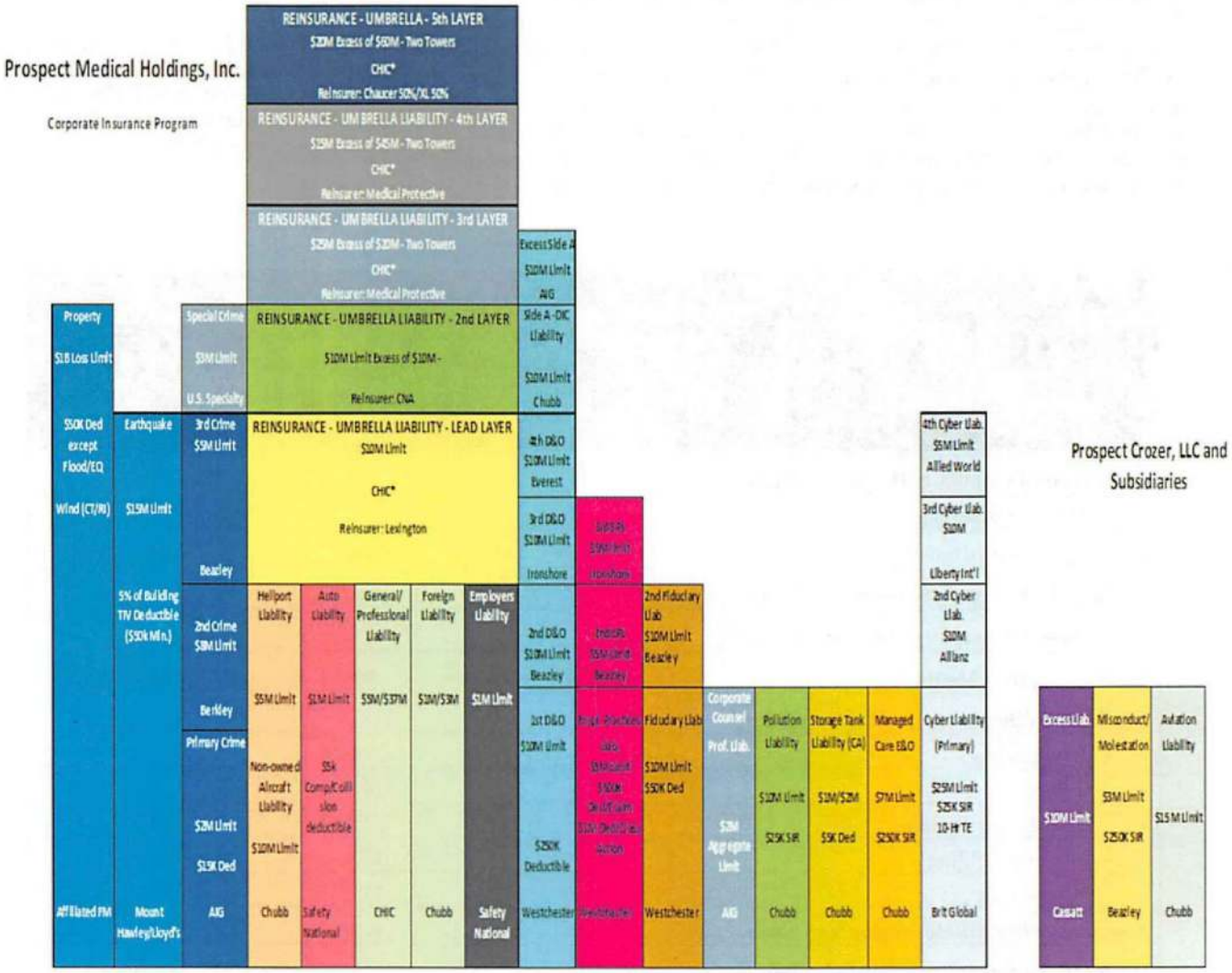
PROSPECT INSURANCE PROGRAM

Overview

The insurance program procured by Prospect is a comprehensive insurance arrangement with coverage and limits that are in line with what Risk Management would expect to see with respect to a healthcare company similar in size and scope of operations. A snapshot of Prospect's current program is included below.

It is important to note that Prospect's existing liability program maintains $80M in commercially insured Umbrella liability limits in excess of a $5M GL/PL self-insured retention with an annual aggregate retention limit of $37M.

Program Snapshot 2019-2020



NOTE: 1. CHIC (Connecticut Healthcare Insurance Company) is Prospect's Captive Insurer
2. Foreign Liability is maintained under a Foreign Package policy placed with Chubb
3. Upon closing, property insurance will be placed by MPT

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Reimbursement

Hospitals have several major sources of reimbursement. Hospitals generally offer discounts from established charges to certain group purchasers of health care services, including private insurance companies, employers, health maintenance organizations, preferred provider organizations and other managed care plans. These discount programs typically limit the hospital's ability to increase revenues in response to increasing costs. Patients are generally not responsible for the total difference between established hospital gross charges and amounts reimbursed for such services under Medicare, Medicaid, HMOs, PPOs and other managed care plans, but are responsible to the extent of any exclusions, deductibles or coinsurance features of their coverage. The amount of such exclusions, deductibles and coinsurance continues to increase. Collection of amounts due from individuals is typically more difficult to obtain than from government health care programs or other third-party payers. Discounts are typically provided to uninsured patients who do not qualify for Medicaid or charity care under the hospital's charity care policy.

Medicare

In addition to the reimbursement reductions and adjustments discussed below, the Budget Control Act of 2011 (the "BCA") requires automatic spending reductions to reduce the federal deficit, including Medicare spending reductions of up to 2% per fiscal year, with a uniform percentage reduction across all Medicare programs. These automatic spending reductions began on March 1, 2013, with the Centers for Medicare and Medicaid Services ("CMS") imposing a 2% reduction on Medicare claims beginning on April 1, 2013. These reductions have been extended through 2027.

Inpatient Acute Care

Under the Medicare program, reimbursement is received under a prospective payment system ("PPS") for general, acute care hospital inpatient services. Under the hospital inpatient PPS, fixed payment amounts per inpatient discharge are established based on the patient's assigned Medicare severity diagnosis-related group ("MS-DRG"). MS-DRGs classify treatments for illnesses according to the estimated intensity of hospital resources necessary to furnish care for each principal diagnosis. MS-DRG weights represent the average resources for a given MS-DRG relative to the average resources for all MS-DRGs. MS-DRG payments are adjusted for area wage differentials. Hospitals, other than those defined as "new," receive PPS reimbursement for inpatient capital costs based on MS-DRG weights multiplied by a geographically adjusted federal rate. When the cost to treat certain patients falls well outside the normal distribution, providers typically receive additional "outlier" payments.

MS-DRG rates are updated, and MS-DRG weights are recalibrated, using cost-relative weights each federal fiscal year (which begins October 1). The index used to update the MS-DRG rates (the "market basket") gives consideration to the inflation experienced by hospitals and entities outside the health care industry in purchasing goods and services. Each federal fiscal year, the annual market basket update is reduced by a productivity adjustment based on the Bureau of Labor Statistics 10 year moving average of changes in specified economy-wide productivity, as required by the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010(collectively, the "Health Reform Law"). A decrease in payment rates or an increase in rates that is below the increase in the hospital's costs may adversely affect the result of operations.

For federal fiscal year 2018, CMS increased the MS-DRG rate by approximately 1.2%. This increase reflected a 2.7% market basket increase adjusted by the following percentage points: a 0.75 reduction required by the Health Reform Law, a negative 0.6 productivity adjustment, a further reduction of 0.6 to remove the effects of prior adjustments related to the "two midnight rule," and a positive 0.46 adjustment in accordance with the 21st Century Cures Act. Under the two midnight rule, services provided to Medicare beneficiaries are payable as inpatient hospital services only when there is a reasonable expectation that the hospital care is medically necessary and will be required across two midnights, absent unusual circumstances.

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Inpatient Acute Care (continued)

For federal fiscal year 2019, CMS increased the MS-DRG rate by approximately 1.85%. This increase reflects a market basket update of 2.9%, adjusted by the following percentage points: a 0.75 reduction required by the Health Reform Law, a negative 0.8 productivity adjustment, and a positive 0.5 adjustment in accordance with the Medicare Access and CHIP Reauthorization Act of 2015 ("MACRA"). Additional adjustments may apply, depending on patient-specific or hospital-specific factors. For example, under the post-acute care transfer policy, Medicare reimbursement rates may be reduced when an inpatient hospital discharges a patient in a specific MS-DDRG to certain post-acute care settings, including effective October 1, 2018, hospice care.

CMS has implemented, or is implementing, a number of programs and requirements intended to transform Medicare from a passive payer to an active purchaser of quality goods and services. For example, hospitals that do not successfully participate in the Hospital Inpatient Quality Reporting Program are subject to a 0.25% reduction of the market basket update. Hospitals that do not demonstrate meaningful use of electronic health records ("EHR") are subject to a 0.75% reduction of the market basket update.

Medicare does not allow an inpatient hospital discharge to be assigned to a higher paying MS-DRG if certain designated hospital acquired conditions ("HACs") were not present on admission and the identified HAC is the only condition resulting in the assignment of the higher paying MS-DDRG. In this situation, the case is paid as though the secondary diagnosis was not present. There are currently 14 categories of conditions on the list of HACs. In addition, pursuant to the Health Reform Law, the 25% of hospitals with the worst risk-adjusted HAC scores in the designated performance period receive a 1% reduction in their inpatient PPS Medicare payments. CMS has also established three National Coverage Determinations that prohibit Medicare reimbursement for erroneous surgical procedures performed on an inpatient or outpatient basis.

The Health Reform Law also provides for reduced payments to hospitals based on readmission rates. Each federal fiscal year inpatient payments are reduced if a hospital experiences "excess" readmissions within the 30 day time period from the date of discharge for conditions designated by CMS. For federal fiscal year 2019, CMS has designated six conditions or procedures, including heart attack, pneumonia and total hip arthroplasty. Hospitals with what CMS defines as excess readmissions for these conditions or procedures receive reduced payments for all inpatient discharges, not just discharges relating to the conditions or procedures subject to the excess readmission standard. The amount by which payments are reduced is determined by assessing a hospital's performance relative to hospitals with similar proportions of dual eligible patients, subject to a cap established by CMS. The reduction in payments to hospitals with excess readmissions can be up to 3% of a hospital's base payments. Each hospital's performance is publicly reported by CMS.

In addition, pursuant to the Health Reform Law, CMS reduces the inpatient PPS payment amount for all discharges by 2.0%. The total amount collected from these reductions is pooled and used to fund payments to reward hospitals that meet certain quality performance standards established by CMS. CMS scores each hospital based on achievement (relative to other hospitals) and improvement ranges (relative to the hospital's own past performance) for each applicable performance standard. Because the Health Reform Law provides that the pool will be fully distributed, hospitals that meet or exceed the quality performance standards receive greater reimbursement under the value-based purchasing program than they would have otherwise.

Hospitals that do not achieve the necessary quality performance receive reduced Medicare inpatient hospital payments. Hospitals are scored on a number of individual measures that are categorized into four domains: clinical care; efficiency and cost reduction; safety and patient and caregiver experience of care. CMS estimates that $1.9 billion will be available to hospitals as incentive payments in federal fiscal year 2019 under the value-based purchasing program.

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Outpatient

CMS reimburses hospital outpatient services (and certain Medicare Part B services furnished to hospital inpatients who have no Part A coverage) on a PPS basis. CMS uses fee schedules to pay for physical, occupational and speech therapies, durable medical equipment, clinical diagnostic laboratory services, non-implantable orthotics and prosthetics, freestanding surgery center services and services provided by independent diagnostic testing facilities.

In addition, certain items and services furnished by off-campus provider-based departments, subject to certain exceptions, are not covered as outpatient department services under the outpatient PPS. These services are reimbursed under the Medicare Physician Fee Schedule subject to adjustments as specified by CMS. In 2018, CMS finalized a rule that will reimburse clinic visit services provided at all off-campus provider-based departments at the Physician Fee Schedule rate, which is generally lower than the PPS rate. Previously, this rate did not apply to "excepted" provider-based departments. CMS will phase in the expansion of this site-neutral policy over two calendar years, beginning in 2019.

Hospital outpatient services paid under PPS are classified into groups called ambulatory payment classifications ("APCs"). Services for each APC are similar clinically and in terms of the resources they require. A payment rate is established for each APC. Depending on the services provided, a hospital may be paid for more than one APC for a patient visit. The APC payment rates are updated for each calendar year. Each calendar year, the annual market basket update is further reduced by a productivity adjustment based on the BLS 10-year moving average of changes in specified economy-wide productivity as required by the Health Reform Law. For calendar year 2018, CMS increased APC payment rates by an estimated 1.4%. The change reflected a market basket increase of 2.7% with a negative 0.6 percentage point productivity adjustment and a negative 0.75 percentage point adjustment required by the Health Reform Law, along with other payment adjustments and policy changes. For calendar year 2019, CMS increased APC payment rates by an estimated 1.35%. This increase reflects a market basket increase of 2.9% with a negative 0.8 percentage point productivity adjustment and a negative 0.75 percentage point adjustment required by the Health Reform Law. CMS requires hospitals to submit quality data relating to outpatient care to avoid receiving a 2.0 percentage point reduction in the annual payment update under the outpatient PPS.

Psychiatric

Inpatient hospital services furnished in psychiatric hospitals and psychiatric units of general, acute care hospitals are reimbursed on a PPS basis. The inpatient psychiatric facility ("IPF") PPS is based upon a per diem payment, with adjustments to account for certain patient and facility characteristics. The IPF PPS contains an "outlier" policy for extraordinarily costly cases and an adjustment to a facility's base payment if it maintains a full-service emergency department.

CMS has established the IPF PPS payment rate in a manner intended to be budget neutral. Each payment year, the Health Reform Law provides for the annual market basket update to be further reduced by a productivity adjustment based on the BLS 10-year moving average of changes in specified economy-wide productivity. For federal fiscal year 2018, CMS increased inpatient psychiatric payment rates by approximately 1.0%, which reflected a 2.6% IPF market basket update, reduced by a 0.6% productivity adjustment and by 0.75% as required by the Health Reform Law, among other payment adjustments. For federal fiscal year 2019, CMS increased IPF payment rates by an estimated 1.1%, which reflects a 2.9% IPF market basket update with a negative 0.8% productivity adjustment, a negative 0.75% adjustment as required by the Health Reform Law, and other payment adjustments. Inpatient psychiatric facilities are required to report quality measures to CMS to avoid receiving a 2.0% point reduction to the market basket update.

Physician Services

Physician services are reimbursed under the Physician Fee Schedule system, under which CMS has assigned a national relative value unit ("RVU") to most medical procedures and services that reflects the various resources required by a physician to provide the services, relative to all other services. Each RVU is calculated based on a combination of work required in terms of time and intensity of effort for the services, practice expense (overhead) attributable to the service and malpractice insurance expense attributable to the service.

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Physician Services (continued)

These three elements are each modified by a geographic adjustment factor to account for local practice costs and then aggregated. While RVUs for various services may change in a given year, any alterations are required by statute to be virtually budget neutral, such that total payments made under the Physician Fee Schedule may not differ by more than $20 million from what payments would have been if adjustments were not made. CMS annually reviews resource inputs for select services as part of the potentially miss-valued code initiative. To determine the payment rate for a particular service, the sum of the geographically adjusted RVUs is multiplied by a conversion factor. For 2019, CMS updated the conversion factor based on the 0.25% increase required by the Bipartisan Budget Act of 2018 and a budget neutrality adjustment.

Medicare payments are adjusted based on participation in the Quality Payment Program ("QPP"), a payment methodology intended to reward high quality patient care. Physicians and certain other health care clinicians are required to participate in one of two QPP tracks. Under both tracks, performance data collected in each performance year will affect Medicare payments two years later. CMS expects to transition increasing financial risk to providers as the QPP evolves. The Advanced Alternative Payment Model ("APM") track makes incentive payments available for participation in specific innovative payment models approved by CMS. Providers may earn a 5% Medicare incentive payment between 2019 and 2024 and will be exempt from the reporting requirements and payment adjustments imposed under the Merit-Based Incentive Payment System ("MIPS") if the provider has sufficient participation (based on percentage of payments or patients) in an Advanced APM.

Alternatively, providers may participate in the MIPS track. Currently, providers electing this option may receive payment incentives or be subject to payment reductions of up to 5% of the provider's Medicare payments based on their performance with respect to clinical quality, resource use, clinical improvement activities, and meeting Promoting Interoperability standards related to the meaningful use of EHRs. The adjustment percentage will increase incrementally to 9% by 2022. MIPS consolidates components of three previously established physician incentive programs: the Physician Quality Reporting System, the Physician Value-Based Payment Modifier, and the Medicare EHR Incentive Program.

Other

Under PPS, the payment rates are adjusted for the area differences in wage levels by a factor ("wage index") reflecting the relative wage level in the geographic area compared to the national average wage level and taking into account occupational mix.

Medicare reimburses hospitals for a portion (65%) of bad debts resulting from deductible and coinsurance amounts that are uncollectable from Medicare beneficiaries.

CMS has implemented contractor reform whereby CMS competitively bids the Medicare fiscal intermediary and Medicare carrier functions to Medicare Administrative Contractors ("MACs"), which are geographically assigned across 12 jurisdictions to service both Part A and Part B providers.

CMS contracts with third parties to promote the integrity of the Medicare program through reviews of quality concerns and detections and corrections of improper payments. Quality Improvement Organizations ("QIOs"), for example, are groups of physicians and other health care quality experts that work on behalf of CMS to ensure that Medicare pays only for goods and services that are reasonable and necessary and that are provided in the most appropriate setting. Under the Recovery Audit Contractor ("RAC") program, CMS contracts with RACs on a contingency basis to conduct post-payment reviews to detect and correct improper payments in the fee-for-service Medicare program. The compensation for RACs is based on their review of claims submitted to Medicare for billing compliance, including correct coding and medical necessity, and the amount of overpayments and underpayments they identify. CMS limits the number of claims that RACs may audit by limiting the number of records that RACs may request from hospitals based on each provider's claim denial rate for the previous year.

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Other (continued)

CMS has implemented the RAC program on a permanents, nationwide basis and expanded the RAC program to the Managed Medicare program and Medicare Part D. CMS is transitioning some of its other integrity programs to a consolidated model engaging Unified Program Integrity Contractors to perform audits, investigations and other integrity activities.

Managed Medicare

Under the Managed Medicare program, the federal government contracts with private health insurers to provide members with Medicare Part A, Part B and Part D benefits. Managed Medicare plans can be structured as HMOs, PPOs or private fee-for-service plans. In addition to covering Part A and Part B benefits, the health insurers may choose to offer supplemental benefits and impose higher premiums and plan costs on beneficiaries. CMS makes fee payment adjustments based on service benchmarks and quality ratings and publishes star ratings to assist beneficiaries with plan selection. According to CMS, over one-third of all Medicare enrollees participate in managed Medicare plans.

Medicaid

Medicaid programs are funded jointly by the federal government and the states and are administered by states under approved plans. Most state Medicaid program payments are made under a PPS or are based on negotiated payment levels with individual hospitals. Medicaid reimbursement is often less than a hospital's cost of services. The Health Reform Law, as enacted requires states to expand Medicaid coverage to all individuals under age 65 with incomes effectively at or below 138 of the federal poverty level ("FPL"). However, states may opt out of the expansion without losing existing federal Medicaid funding. A number of states have opted out of the Medicaid expansion, but these states could choose to implement the expansion at a later date. Some states use, or have applied to use, waivers granted by CMS to implement expansion, impose different eligibility or enrollment restrictions, or otherwise implement programs that vary from federal standards.

Because most states must operate with balanced budgets and because the Medicaid program is often the state's largest program, states can be expected to adopt or consider adopting legislation designed to reduce their Medicaid expenditures. Budgetary pressures have, in recent years, resulted and likely will continue to result in decreased spending, or decreased spending growth, for Medicaid programs in many states.

Federal funds under the Medicaid program may not be used to reimburse providers for medical assistance provided to treat certain provider preventable conditions. Each state Medicaid program must deny payments to providers for the treatment of health care-acquired conditions designated by CMS as well as other provider-preventable conditions that may be designated by the state.

Congress has expanded the federal government's involvement in fighting fraud, waste and abuse in the Medicaid program through the Medicaid Integrity Program. CMS employs UPICs to perform post-payment audits of Medicaid claims, identify overpayments, and perform other program integrity activities, many of which were previously performed by Medicaid Integrity Contractors. The UPICs collaborate with states and coordinate provider investigations across the Medicare and Medicaid programs. In addition, state Medicaid agencies are required to establish Medicaid RAC programs. These programs vary by state in design and operation.

Certificates of Need

In some states, the construction or expansion of health care facilities, the acquisition of existing facilities, the transfer or change of ownership, capital expenditures, and the addition of new beds or services may be subject to review by and prior approval of, or notifications to, state regulatory agencies under a CON program. Such laws generally require the reviewing state agency to determine the public need for additional or expanded health care facilities or services. Failure to provide required notifications or obtain necessary state approvals can result in the inability to expand facilities, complete an acquisition or expenditure or change ownership or other penalties.

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Federal Health Care Program Regulations

Participation in any federal health care program, including the Medicare and Medicaid programs, is heavily regulated by statute and regulation. If a hospital fails to substantially comply with the numerous conditions of participation in the Medicare and Medicaid programs or performs certain prohibited acts, the hospital's participation in the federal health care programs may be terminated, and civil and/or criminal penalties may be imposed. Civil monetary penalties are adjusted annually based on updates to the consumer price index and were increased under the Bipartisan Budget Act of 2018.

Anti-kickback Statute

A section of the Social Security Act known as the "Anti-kickback Statute" prohibits providers and others from directly or indirectly soliciting, receiving, offering or paying any remuneration with the intent of generating referrals or orders for services or items covered by a federal health care program. Courts have interpreted this statute broadly and held that there is a violation of the Anti-kickback Statute if just one purpose of the remuneration is to generate referrals, even if there are other lawful purposes. Furthermore, the Health Reform Law provides that knowledge of the law or the intent to violate the law is not required. Violations of the Anti-kickback Statute may be punished by a criminal fine of up to $100,000 for each violation, imprisonment, substantial civil monetary penalties per violation that are subject to annual adjustment based on updates to the consumer price index and damages of up to three times the total amount of the remuneration and/or exclusion from participation in federal health care programs, including Medicare and Medicaid. In addition, violators may be subject to additional penalties under the federal False Claims Act ("FCA") as a false or fraudulent claim.

Stark Law

The Social Security Act also includes a provision commonly known as the "Stark Law." The Stark Law prohibits physicians from referring Medicare and Medicaid patients to entities with which they or any of their immediate family members have a financial relationship, if these entities provide "designated health services" reimbursable by Medicare or Medicaid, unless an exception applies. The Stark Law also prohibits entities that provide designated health services reimbursable by Medicare and Medicaid from billing the Medicare and Medicaid programs for any items or services that result from a prohibited referral and requires the entities to refund amounts received for items or services provided pursuant to the prohibited referral on a timely basis. "Designated health services" include inpatient and outpatient hospital services, clinical laboratory services and radiology services. Sanctions for violating the Stark Laws include denial of payment, substantial civil monetary penalties per claim submitted and exclusion from the federal health care programs. Failure to refund amounts received as a result of a prohibited referral on a timely basis may constitute a false or fraudulent claim and may result in civil penalties and additional penalties under the FCA. The statue also provides for a penalty for a circumvention scheme. These penalties are updated annually based on changes to the consumer price index.

Other Fraud and Abuse Provisions

Certain federal fraud and abuse laws apply to all health benefit programs and provide for criminal penalties. The Social Security Act also imposes criminal and civil penalties for making false claims and statements to Medicare and Medicaid. False claims include, but are not limited to, billing for services not rendered or for misrepresenting actual services rendered in order to obtain higher reimbursement, billing for unnecessary goods and services and cost report fraud. Federal enforcement officials have the ability to exclude from Medicare and Medicaid any investors, officers and managing employees associated with business entities that have committed health care fraud, even if the officer or managing employee had no knowledge of the fraud.

Managed Medicaid

Managed Medicaid programs enable states to contract with one or more entities for patient enrollment, care management and claims adjudication. The states usually do not relinquish program responsibilities for financing, eligibility criteria and core benefit plan design.

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Managed Medicare (continued)

Enrollment in Managed Medicaid plans has increased in recent years, as state governments seek to control the cost of Medicaid programs. The provisions of these programs are state-specific. Many states direct managed care plans to pass through supplemental payments to designated providers, independent of services rendered, to ensure consistent funding of providers that serve large numbers of low-income patients. However, in an effort to more closely tie funds to delivery and outcomes, CMS began limiting these "pass-through payments" to managed Medicaid plans in 2016 and will ultimately prohibit such payments by 2027.

Accountable Care Organizations and Bundled Payment Initiatives

An Accountable Care Organization ("ACO") is a network of providers and suppliers that work together to invest in infrastructure and redesign delivery processes to attempt to achieve high quality and efficient delivery of services. Promoting accountability and coordination of care, ACOs are intended to produce savings as a result of improved quality and operational efficiency. ACOs that achieve quality performance standards established by Health and Human Services ("HHS") are eligible to share in a portion of the amounts saved by the Medicare program. There are several types of ACO programs, including the Medicare Shared Savings Program which was established pursuant to the Health Reform Law, and the Next Generation ACO Model.

HHS continues to focus on shifting from traditional fee-for-service reimbursement models to alternative payment models that tie reimbursement to quality and/or value, including bundled payment and pay-for-performance programs. Several private third-party payers are increasingly employing such reimbursement models, which may increasingly shift financial risk to providers.

Disproportionate Share Hospital Payments

In addition to making payments for services provided directly to beneficiaries, Medicare makes additional payments to hospitals that treat a disproportionately large number of low-income patients (Medicaid and Medicare patients eligible to receive Supplemental Security Income). Disproportionate Share Hospital ("DSH") payments are determined annually based on certain statistical information required by HHS and are calculated as a percentage addition to MS-DRG payments.

Hospitals that provide care to a disproportionately high number of low income patients may receive Medicaid DSH payments. The federal government distributes federal Medicaid DSH funds to each state based on a statutory formula. The states then distribute the DSH funding among qualifying hospitals. States have broad discretion to define which hospitals qualify for Medicaid DSH payments and the amount of such payments.

Annual Cost Reports

All hospitals participating in the Medicare and Medicaid programs, whether paid on a reasonable cost basis or under a PPS, are required to meet certain financial reporting requirements. Federal and, where applicable, state regulations require the submission of annual cost reports covering the revenues, costs and expenses associated with the services provided by each hospital to Medicare beneficiaries and Medicaid recipients. These annual cost reports are subject to routine audits, which may result in adjustments to the amounts ultimately determined to be due under these reimbursement programs.

Managed Care and Other Discounted Plans

The hospitals offer discounts from established charges to certain large group purchasers of health care services, including managed care plans and private insurance companies. There is no assurance that these plans will increase their rates in the future although they have done so in the past. It is not clear what impact, if any, health reform efforts at the federal and state levels, consolidation within the third-party payer industry and vertical integration among third-party payers and health care providers will have on the company's ability to negotiate reimbursement rates.

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Uninsured and Self Pay Patients

Self-pay revenues are derived from providing health care services to patients without health insurance coverage and from the patient responsibility portion of payments for health care services that are not covered by an individual's health plan. Collection of amounts due from individuals is typically more difficult than collection of amounts due from government health care programs or private third party payers. Any increases in uninsured individuals, changes to the payer mix or greater adoption of health plan structures that result in higher patient responsibility amounts could increase amounts due from individuals.

A high percentage of uninsured patients are initially admitted through emergency rooms. The Emergency Medical Treatment and Labor Act ("EMTALA") requires any hospital that participates in the Medicare program to conduct an appropriate medical screening examination of every person who presents to the hospital's emergency room for treatment, and if the individual is suffering from an emergency medical condition, to either stabilize that condition or make an appropriate transfer of the individual to a facility that can handle the condition. The obligation to screen and stabilize emergency medical conditions exists regardless of an individual's ability to pay for treatment. The Health Reform Law requires health plans to reimburse hospitals for emergency services provided to enrollees without prior authorization and without regard to whether a participating provider contract is in place. The financial impact of the obligation to screen for and stabilize emergency medical conditions has been offset, in part, by provisions of the Health Reform Law that decrease the number of uninsured individuals. However, effective January 1, 2019, Congress eliminated the financial penalty associated with the individual mandate. Further, final rules issued in 2018 expand the availability of association health plans and allow the sale of short-term, limited-duration health plans, neither of which are required to cover all of the essential health benefits mandated by the Health Reform Law. It is difficult to predict the impact of these changes, but they may result in fewer individuals electing to obtain public or private health insurance or affect the scope of such coverage, if purchased.

Regulation and Other Factors

Licensure, Certification and Accreditation

Health care facility construction and operation are subject to numerous federal, state and local regulations relating to the adequacy of medical care, equipment, personnel, operating policies and procedures, maintenance of adequate records, fire prevention, rate-setting and compliance with building codes and environmental protection laws. Facilities are subject to periodic inspection by governmental and other authorities to assure continued compliance with the various standards necessary for licensing and accreditation. Hospitals are properly licensed under applicable state laws. Hospitals are eligible to participate in Medicare and Medicaid programs and are accredited by The Joint Commission. If a hospital loses its Medicare or Medicaid certification, the facility would be unable to receive reimbursement from federal health care programs. If a hospital loses accreditation, the facility would be subject to state surveys, increased scrutiny by CMS and likely lose payment from private third-party payers.

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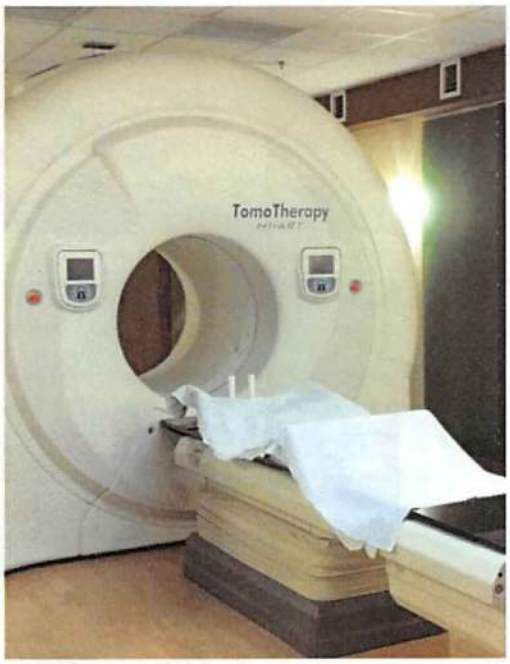
FACILITY SUMMARIES



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CALIFORNIA HOSPITAL SYSTEMS

System Overview

Hospital System	Facilities included under System Hospital License
LACH Hospitals	Los Angeles Community Hospital Los Angeles Community Hospital at Norwalk Los Angeles Community Hospital at Bellflower (Behavioral)
Southern California	Southern California Hospital at Culver City Southern California Hospital at Hollywood Southern California Hospital at Van Nuys (Behavioral)
Independent	Foothill Regional Medical Center



Southern California Hospital at Culver City



Southern California Hospital at Van Nuys



Foothill Regional Medical Center

5 Acute Care Facilities (876 licensed beds)

- Southern California Hospital at Hollywood – 100 beds
- Southern California Hospital at Culver City – 420 beds
- Los Angeles Community Hospital – 129 beds
- Los Angeles Community Hospital at Norwalk – 50 beds
- Foothill Regional Medical Center – 177 beds

2 Behavioral Health Facilities (201 licensed beds)

- Southern California Hospital at Van Nuys – 57 beds
- Los Angeles Community Hospital at Bellflower – 144 beds

Large IPA Network with Strong Primary Care Base

- In addition to owning a number of IPA groups in CA, Prospect provides management services for affiliated IPAs that are not owned by Prospect.
- Coordinated movement between 7 facilities and IPAs allow patients to receive effective and efficient care.

Serves Large Medicare & Medicaid Managed Care Population under Risk Arrangements

- Prospect Hospitals are designed to operate at low cost and focus on the primary medical needs of residents.
- Prospect Hospitals serve low-income residents reflecting their heavily Medi-Cal payor mix.
- Prospect Hospitals benefit from California Provider Fee payments.
- Strategic relationship with Medicaid Health Plans and contracts with most major health plans.
- Receives approximately $70M per year from California QAF.



Projecting Strong Growth YoY

(in millions)	Year 1[(1)]	Year 2	Year 3
Net Revenues	$719.4	$731.0	$743.1
Expenses	$578.4	$583.9	$591.2
EBITDAR[(2)]	$141.0	$147.1	$151.9

1) Year 1 timeframe is Q4 FY19-Q3 FY20. Projections include all 7 hospitals and CA corporate.
2) Adjusted EBITDA per Prospect's projections that do not include rent expense.
Note: Strategic initiatives driving growth outlined on Page 66.

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CALIFORNIA HOSPITAL SYSTEMS

Market Overview

Hospital Operations

- Prospect California has 3 distinct systems: ALTA (Los Angeles Community Hospitals), Southern California Hospitals, and Foothill Regional Medical Center.
- LA Market is fragmented by multiple well-known systems. No single hospital or system holds the dominate market share.
- Most area hospitals operate at a higher cost structure than Prospect, offering specialized clinical services with Medi-Cal representing a relatively small proportion of their patients.
- Prospect continues to grow its behavioral health programs as the need continues to increase in underserved markets.
- Prospect relies on Medi-Cal capitation payments from risk-based managed care plans in LA and Orange County.

Los Angeles, CA Demographics (1)

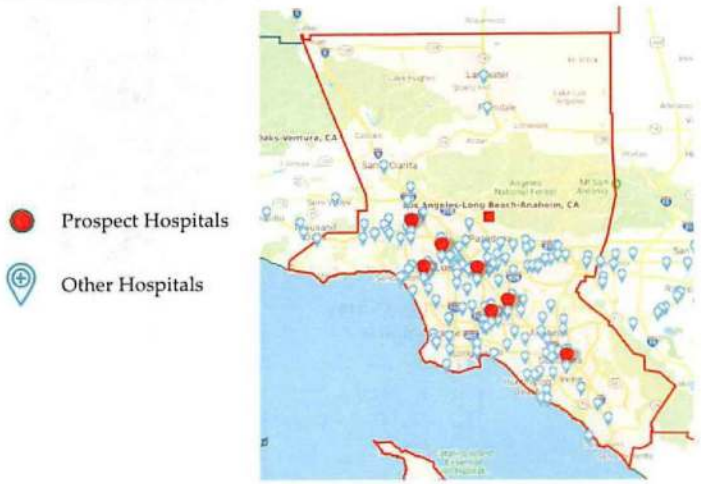
Market Stats	Los Angeles MSA (2)	CA	USA
2018 Population	13.2M	39.4M	331.7M
0-18	23.3%	23.4%	22.6%
19-64	62.8%	62.0%	61.2%
65+	14.0%	14.5%	16.2%
% growth 2010-18	*3.2%*	*5.8%*	*6.1%*
% growth 2018-23	*2.0%*	*4.6%*	*3.9%*
Median HH Income	$65,370	$66,612	$57,056
Poverty Level	15%	14%	14%

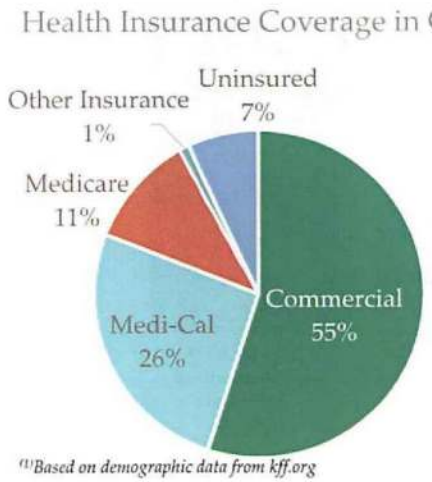
(1) Source: Sitewise market statistics.
(2) Los Angeles MSA includes the counties of Los Angeles and Orange County.

Competition Among Several Major Multi-Hospital Systems

Competitor	# Facilities in Market (1)	Ownership	Acute Beds	Behavioral Health Beds	Notes
Prospect	***7***	***Profit***	***876***	**201**	
Kaiser Permanente	9 (2)	Non-Profit	2,573	68	Large fully integrated not-for-profit system and closed medical staff
Prime Healthcare	9	Profit	1,351 (3)	30	Large LA and Orange County for-profit health system
UCLA Health	4	Non-Profit	710	74	Academic healthcare system ranked #1 in LA & #7 in US
Cedars Sinai	2	Non-Profit	866	0	Academic healthcare system that has pursued highly specialized care
Providence Saint Joseph Health	10	Non-Profit	3,637	0	Non-profit Catholic health system bolstered by a strong parent system which has leverage with payers
AHMC Healthcare	6	Profit	1,102	0	For-profit six hospital system located in LA and Orange County

(1) Los Angeles MSA market includes the counties of Los Angeles and Orange County.
(2) Includes 8 general acute and 1 behavioral health facility located within the Los Angeles MSA.
(3) Includes 22 SNF beds located at West Anaheim Medical Center.





(1)Based on demographic data from kff.org

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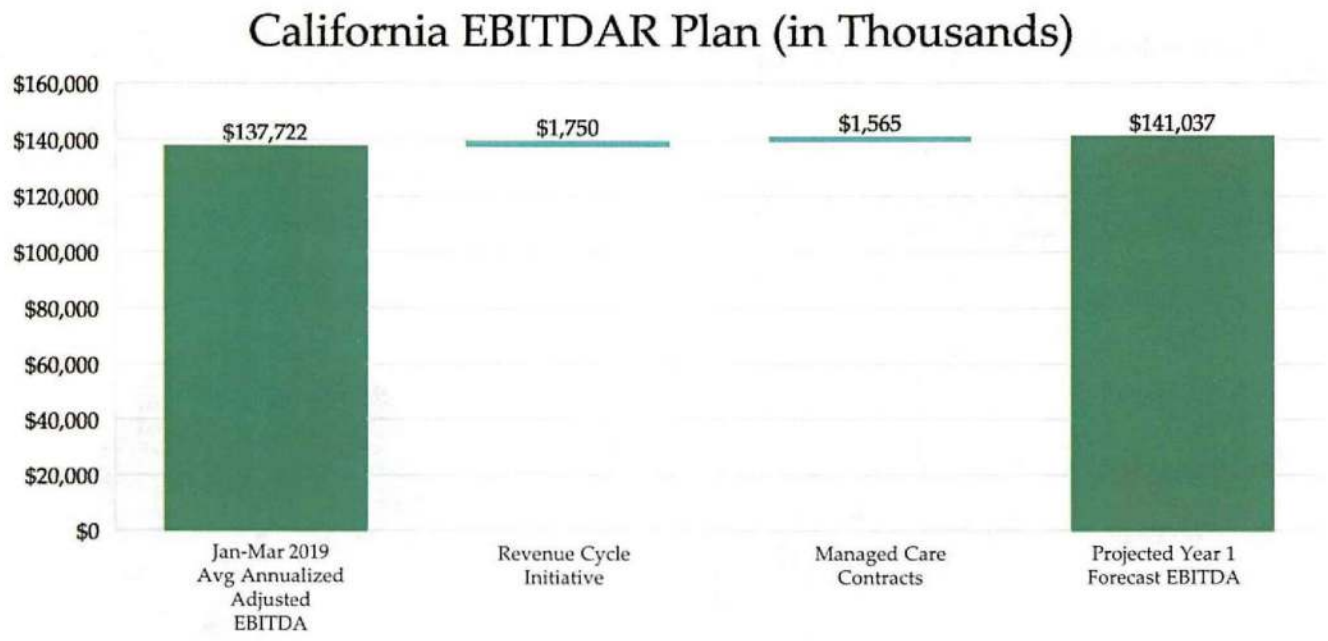
Strategic Initiatives

Revenue Cycle Improvements

- Prospect's California hospitals are projecting an additional $1.75M annually in EBITDAR from an increase in cash collections, driven by bad debt reduction and denials management.
  - ALTA Hospitals account for $986k.
  - Southern California Hospitals account for $291k.
  - Foothill Regional Medical Center accounts for $474k.
- Hired new Corporate Revenue Cycle leader who has implemented new data analytic tools enabling operational focus on root causes of denials.
- Creation of a billing analyst position as well as a centralized financial clearance center to streamline processing of denials and rejection and ensure clean claims are sent to payors.
- Greater emphasis on appropriately placing patients in observation, which is expected to help reduce denials.
- Increased focus on case management, with replacement of leaders across the organization, enhanced training, and additional physician advisors to review cases.

Managed Care Contracts

- Prospect's California hospitals are projecting an additional $1.57M annually in EBITDAR from 2019 rate increases with managed care providers.
  - ALTA Hospitals account for $1,005k.
  - Southern California Hospitals account for $483k.
  - Foothill Regional Medical Center accounts for $78k.
- These contracts have been fully negotiated and executed; effective June 2019.
- Redacted



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LOS ANGELES COMMUNITY HOSPITAL

4081 East Olympic Boulevard
Los Angeles, CA 90023

Beds[1]	129
Square Feet	72,727
Year Built	1955
Market Share	9.1%

(1) Includes 91 acute beds and 39 sub-acute beds.

Overview

Los Angeles Community Hospital (LACH) is a 129-bed acute care hospital located in East Los Angeles, CA.

- Located approximately 5 miles from Los Angeles city center.
- Operates under one license as the ALTA system, along with Los Angeles Community Hospitals at Norwalk and Bellflower.

Low-Cost Provider in High Medi-Cal Population

- Partners with various Health Science Colleges to employ Licensed Vocational Nurses (LVNs) with lower labor costs than Registered Nurses (RNs).
- Minimal infrastructure keeps fixed costs down.
- An estimated 24% of the PSA population is in poverty, with an average household size of 4.1 (U.S. average is 2.6).

Integrated with Providers and Community

- Excellent relationships with entities providing post-acute care which has been critical for successful case management and shorter LOS.
- Utilize entire hospital system to ensure the patient is aligned with the appropriate care and facility.
- Fosters relationships with doctors through the IPAs and nurses through hospital partnerships.

Consistent High Census

- Nearby hospitals such as UCLA Medical Center and Cedars-Sinai transfer Medi-Cal patients to the facility.
- Closing of 10 hospitals within a 10 mile radius over the past 20 years has driven strong volume growth.

Active Sub-Acute Unit

- 39-bed sub-acute unit where 37 to 38 of the beds are consistently occupied.
- Received a 5-star rating by the CMS in January of 2019.

Recent/Upcoming Capital Expenditures

- Future capital expenditures include bringing a CT Unit in-house and remodeling the physical plant.
- Future initiatives include a new emergency generator, new ultrasound equipment, and a new patient central monitoring system.



Los Angeles Community Hospital



Patient Waiting Area

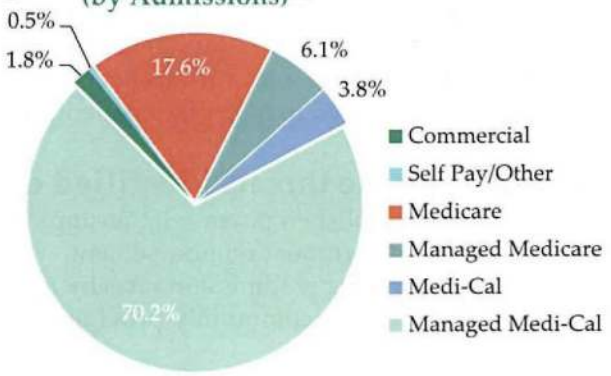
Admission Stats[1]

- Acute Admits: 5,700
- Sub-Acute Admits: 76
- Annual ED Visits: 7,700

Key Services

- Orthopedics
- Pulmonary
- Face and Neck Surgery
- Wound Care Services
- Sub-Acute Care
- Emergency Services

Payor Mix (by Admissions)[1]



(1) FY2018 Annual Admissions as provided by Prospect

1) Facility Level payor mix for Q2 2019 YTD as presented by Prospect

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LOS ANGELES COMMUNITY HOSPITAL

Strengths	Weaknesses
1. Profitable operations as a low-cost provider, driven by minimal infrastructure and aggressive case management 2. Utilize Stratus Video Application to bridge language barriers between patients and physicians 3. Reduced competition due to 10 hospitals in a 10 mile radius closing within the past 20 years, driving a 95% occupancy 4. Vertical integration with post-acute facilities and health plans	1. Rely heavily on timing of QAF payments, which often have delays 2. Non-ER receiving center – relies on emergencies from neighboring hospitals 3. Growing homeless population may lead to difficulty in managing LOS and discharges
Opportunities	**Threats**
1. Potential cost savings by bringing CT in-house 2. Continued partnership with other large CA systems to transfer Medi-Cal patients to LACH 3. Growth of ENT program and face and neck surgeries	1. Changes in government reimbursement 2. Readmission rates are high, leading to penalization in 2018

SWOT Mitigants

Mitigants to the weaknesses identified during the SWOT analysis are:

1. LACH's operations can withstand delays in supplemental reimbursement by focusing on core infrastructure and maintaining profitability before the receipt of QAF distributions.
2. Transfers from other hospitals within the ALTA system can be received in the emergency department before admittance to the hospital is finalized.
3. Prospect's contracts with various hospitals in Los Angeles, which are typically used to direct patients to LACH, can be used to help place patients in appropriate facilities to ensure proper care.

Mitigants to the threats identified during the SWOT analysis are:

1. Prospect's established payor relationships will help the facility favorably adjust to any potential changes in government reimbursement.
2. LACH is reducing readmission rates by leveraging observation stays and enhancing transitional care opportunities with community providers.

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LOS ANGELES COMMUNITY HOSPITAL AT NORWALK

13222 Bloomfield Avenue
Norwalk, CA 90650

Beds	50
Square Feet[1]	25,981
Year Built [2]	1954
Market Share	9.1%

(1) *Hospital SF only; Property totals 168,058 SF.*
(2) *Facility Upgrades were made in 1974, 1982, 1983, 1985.*

Overview

Los Angeles Community Hospital at Norwalk is a 50-bed acute care hospital located in Norwalk, Los Angeles, CA.

- Located east of Bellflower and southeast of Los Angeles, this area is one of the most densely populated areas within LA.
- Operates under the Los Angeles Community Hospital license.

Low-Cost Provider in High Medi-Cal Population

- Minimal infrastructure keeps fixed costs down.
- Large, underserved, transient population that keeps facility census near capacity.
- Under-utilized 7-bed pediatric unit; plans are to close service.
- 2018 estimated per capita income for Norwalk City is approximately $13.3k lower than California overall ($19,282 in Norwalk City and $32,374 in CA).

First Responder Lounge

- Introduction of a lounge for first responders who previously had needed to wait outside of the ED when on duty.
- Lounge was opened in January 2018.

Recent/Upcoming Capital Expenditures

- Future capital expenditures include bringing a CT Unit in-house and remodeling the physical plant.
- Future initiatives include a new emergency generator, new ultrasound equipment, and a new patient central monitoring system.



Los Angeles Community Hospital at Norwalk



Exterior



Patient Bed in Recovery Unit



Patient Hallway

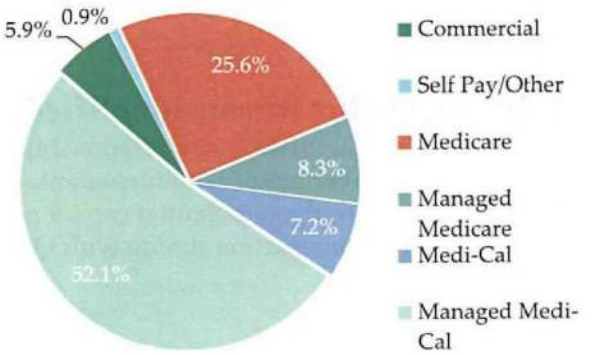
Admission Stats[1]

- Annual Admits: 2,900
- Annual ED Visits: 7,300

Key Services

- Critical Care
- Cardiology
- Surgery
- Cardiovascular
- Pulmonary

Payor Mix (by Admissions)[1]



(1) *Facility Level payor mix for Q2 2019 YTD as presented by Prospect*

(1) *FY2018 Annual Admissions as provided by Prospect*

MPT CONFIDENTIAL MPT_PROSPECT_00000086

LOS ANGELES COMMUNITY HOSPITAL AT NORWALK

Strengths	Weaknesses
1. Profitable operations as a low-cost provider, driven by minimal infrastructure 2. Utilize Stratus Video Application to bridge language barriers between patients and physicians 3. Integration within Prospect's CA system can facilitate transfers between facilities to ensure patients needs are met 4. More profitable payor mix than other ALTA hospitals	1. Rely heavily on timing of QAF payments, which often have delays 2. Crowded facility with patient rooms often housing 4 patients or more
Opportunities	**Threats**
1. Potential cost savings by bringing CT in-house 2. Continued partnership with other large CA systems to receive transfers of Medi-Cal patients	1. Changes in government reimbursement 2. Potential high unforeseen cap-ex costs associated with age of building

SWOT Mitigants

Mitigants to the weaknesses identified during the SWOT analysis are:

1. Norwalk's operations can withstand delays in supplemental reimbursement by focusing on core infrastructure and maintaining profitability before the receipt of QAF distributions.
2. High census combined with a drive to lower Length of Stay (LOS) increases the QAF payments allocated to Norwalk.

Mitigants to the threats identified during the SWOT analysis are:

1. Prospect's established payor relationships will help the facility favorably adjust to any potential changes in government reimbursement.
2. Norwalk can mitigate potential capital project expenditures associated with an aging building by aligning the construction timing with QAF and other supplemental payments.

MPT CONFIDENTIAL MPT_PROSPECT_00000087

LOS ANGELES COMMUNITY HOSPITAL AT BELLFLOWER

9542 Artesia Boulevard
Bellflower, LA 90706

Beds[1][2]	32
Square Feet	47,858
Year Built	1972
Market Share	9.1%

(1) All beds in service are inpatient psychiatric beds.
(2) An additional 112 beds are suspended, for a total of 144 licensed beds.

Overview

LA Community Hospital at Bellflower is a 2-story, 32-bed behavioral health hospital located 10 miles Southwest of downtown Los Angeles.

- After operating as a general acute facility for more than 60 years, Prospect purchased Bellflower out of bankruptcy in 2013.
- Due to implications of seismic regulations, Prospect eventually decided to convert its patients beds and operate exclusively as a behavioral health facility.
- The Bellflower facility shares its hospital license with Norwalk and LA Community Hospital.

Clinical Operations

- Bellflower operates as a voluntary admission behavioral health center.
- As Bellflower does not have any emergency services, the majority of admissions are driven through referrals from nearby acute care hospitals – not limited to Prospect-operated facilities.
- Bellflower typically sees 85-95% occupancy levels and a cyclical stream of returning patients that need recurring care.

Strengthening Market Position

- Niche position in the LA market as the premier low-cost Medi-Cal-based provider. Nearly all competitors in the market have shut down their behavioral health units, with some facilities now directing patients towards Prospect facilities.
- Additionally, Prospect's continuum of care across Los Angeles allows patients to be retained within the system as the patients are directed towards the Prospect facility that best meets the patient's needs.
- Bellflower's primary competitor is College Hospital Cerritos that operates 2 behavioral health units in the market. These units run at full capacity. However, market demands continue to be high for behavioral service.

Facility Expansion

- Bellflower's operations encompass only a fraction of the available space in the hospital itself. Bellflower is in the design-stage for an additional 60-bed expansion between the 1st and 2nd floors. Expected construction budget is $9-11M with a timeline of 1-2 years.

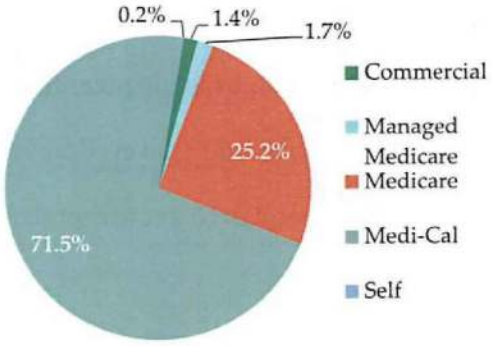


Los Angeles Community Hospital at Bellflower



Courtyard

Payor Mix (by Admissions)[1]



1) Facility Level payor mix for Q2 2019 YTD as presented by Prospect

Admission Stats [1]

- Psych Admits: 1,800
- Patient Days: 10,250

Key Services

- Psychiatry
- Intensive Outpatient Program
- Medication Management

(1) FY2018 Annual Admissions as provided by Prospect

MPT CONFIDENTIAL MPT_PROSPECT_00000088

LOS ANGELES COMMUNITY HOSPITAL AT BELLFLOWER

Strengths	Weaknesses
1. Profitable operations 2. Currently operating near full occupancy 3. Facility located in appropriate area for population which it serves	1. Large underutilized campus 2. Poor reputation due to bankruptcy in 2013
Opportunities	**Threats**
1. 60 bed expansion 2. Affiliation with nearby academic institutions 3. High demand in market for behavioral health services	1. Changes in government reimbursement 2. OSHPD intervention may delay expansion capabilities 3. Cyclical volume due to timing of government assistance income 4. Located in competitive market

SWOT Mitigants

Mitigants to the weaknesses identified during the SWOT analysis are:

1. Bellflower can better utilize its campus by following through on its plan to add additional behavioral health beds.
2. Bellflower can improve its reputation by continuing to offer quality services and meeting community needs.

Mitigants to the threats identified during the SWOT analysis are:

1. Bellflower can weather changes in government reimbursement by focusing on core operations and maintaining profitability before the receipt of QAF distributions.
2. Bellflower can expedite potential capital projects by aligning with and preparing for OSHPD regulations.
3. Bellflower can mitigate cyclical volume by increased provider-patient communication and patient education.
4. High demand drives consistently strong occupancy despite multiple competitors.

MPT CONFIDENTIAL MPT_PROSPECT_00000089

SOUTHERN CALIFORNIA HOSPITAL AT CULVER CITY

3828 Delmas Terrace
Culver City, CA 90232

Beds	420
Square Feet	273,944
Year Built	1969
Market Share	9.1%

Overview

Southern California Hospital at Culver City is a 420-bed acute care hospital, located in a well-maintained commercial area within Culver City.

- Originally owned by Dr. David Brotman, Prospect acquired the facility out of bankruptcy from Tenet Healthcare in 2009.
- Operates under one license as the Southern California hospital system, along with Southern California Hospitals at Norwalk and Van Nuys.

Clinical Operations

- Facility offers cutting edge surgical procedures, including its gender confirmation surgery.
- Approximately 30-45% of Culver City's admissions come from IPAs, with the rest of admissions through the ED, primary care physicians, and Skilled Nursing Facilities ("SNF").
- Operates eight ORs, has capacity for two Cath Labs (one currently non-operational), and manages a high-acuity behavioral health unit.

Culver City Market

- Due to close proximity to Hollywood and its growing tech industry, this area is experiencing a positive change in real estate and population.

Physician Relationships

- Over 15 IPA partnerships with LA Care providing the largest share of covered lives.
- Through capitation agreements, these IPAs direct ~30k covered lives to Culver City.
- Despite competing with large systems like UCLA and Cedars for physicians, Prospect has found that many physicians are frustrated with big systems and prefer physician-centric hospitals such as Culver City.

Capital Addition Needs

- Several near-term capital projects with a total budget of ~$4-5M have been identified including: Cardiac Cath Lab, elevator renovations, roof replacement, and pharmacy clean room.
- Future objectives include expansion of the Emergency Department to create more efficiency for both patients and EMS.



Southern CA Hospital at Culver City



Patient Room

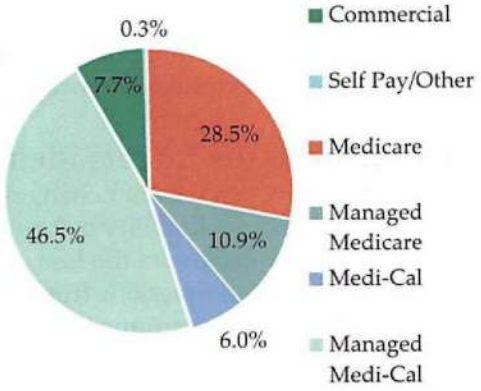
Admission Stats (1)

- Total Admits: 11,600
- Annual ED Visits: 21,100

Key Services

- Primary Stroke Designation
- Elective Cardiac Intervention
- Voluntary Psych Services
- Detox
- ENT – Head and Neck
- Gender Confirmation Surgery

Payor Mix (by Admissions)(1)



1) Facility Level payor mix for Q2 2019 YTD as presented by Prospect

(1) FY2018 Annual Admissions as provided by Prospect

MPT CONFIDENTIAL MPT_PROSPECT_00000090

SOUTHERN CALIFORNIA HOSPITAL AT CULVER CITY

Strengths	Weaknesses
1. Profitable operations as a low-cost provider, driven by minimal infrastructure 2. No significant IT investments needed 3. Strong physician relationships 4. High real estate value due to growth of Culver City	1. Low brand recognition due to recent facility name change 2. Slow growth of high margin surgical procedures 3. Emergency Room is not easily accessible and detached from main tower
Opportunities	**Threats**
1. Marketing of gender confirmation program 2. Strengthen relationship with LA Care & other IPAs 3. Continuing to draw business through ER by removing locked psych unit 4. Applying for stroke designation which should increase EMS runs	1. Changes in government reimbursement 2. Main competitors in the market are moving to closed medical staff models causing pressure on IPAs 3. Direct competition with academic systems and other for profit systems for surgical volumes

SWOT Mitigants

Mitigants to the weaknesses identified during the SWOT analysis are:

1. Culver City can increase its brand recognition by continuing to offer high-quality services and participating in community engagement programs.
2. Culver City can increase its volume of high margin surgical programs by continuing to market and refine its approach towards its spine and gender confirmation procedures and reopening one non-operational Cath Lab.
3. Culver City can mitigate emergency room accessibility by following through on the plan to renovate / rebuild the exterior entrance to the emergency department.

Mitigants to the threats identified during the SWOT analysis are:

1. Culver City can weather changes in government reimbursement by focusing on core operations and maintaining profitability before the receipt of QAF distributions.
2. Culver City can avoid the loss of affiliated physicians by continuing to expand its network of IPAs, and by increasing admissions from other avenues such as the ER.
3. Culver City can continue to establish relationships with large market players to capture the underserved patient population.

MPT CONFIDENTIAL MPT_PROSPECT_00000091

SOUTHERN CALIFORNIA HOSPITAL AT HOLLYWOOD

6245 De Longpre Avenue
Los Angeles, CA 90028

Beds	100
Square Feet	48,710
Year Built	1962
Market Share	9.1%

Overview

Southern California Hospital at Hollywood is a 100-bed acute care hospital, located in the affluent Hollywood area.

- Established in the early 1960s, this facility was historically known as a center of HIV/AIDS treatment in the heart of Hollywood.
- Caters to specialized needs of the community, including several services for LGBT healthcare.

Clinical Operations

- General acute services are the primary base of operations.
- Facility offers some cutting edge surgical procedures, including its gender confirmation surgery.
- Majority of admissions come from referrals from nearby SNFs.
- Hollywood does not have an emergency room, but instead offers urgent care services that yield a lower reimbursement rate.

Hollywood Market

- Flourishing market can be attributed to the arrival of major tech players in the immediate area, including Amazon, Apple, and Google, and has brought young, well-insured professionals to the area.
- Main competitors for this facility include Silver Lake Medical Center, Olympia Medical Center (MPT-owned), and Hollywood Presbyterian Medical Center.

Physician Relationships

- Facility has 15 active admitting doctors, six of which are major contributors, all of which are affiliated with Prospect owned and managed IPAs.
- Many of these physicians provide services to SNFs in the area.
- Hollywood's health care function is largely geriatric in nature.

Focus on Facility Conditions

- Utilizing employee feedback, Hollywood's management team is working to improve patient and employee experience.
- Improvement initiatives include staff recognition, updated equipment, patient and employee rounding, and tech integration.



Southern CA Hospital at Hollywood



Patient Room

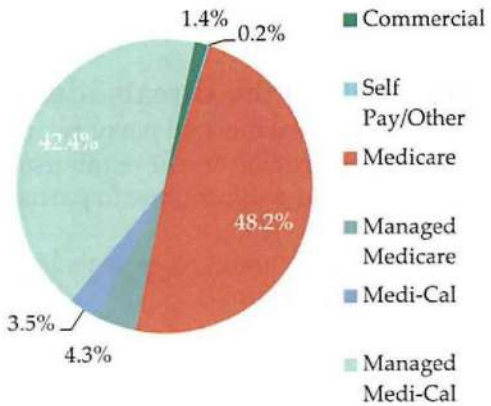
Admission Stats (1)

- Annual Admits: 4,200
- Total Surgeries: 900
- Total IP Surgeries: 775

Service Lines

- Cardiology
- Urgent Care
- Gender Confirmation Surgery
- Plastic Surgery

Payor Mix (by Admissions)(1)



(1) FY2018 Annual Admissions as provided by Prospect

1) Facility Level payor mix for Q2 2019 YTD as presented by Prospect

MPT CONFIDENTIAL MPT_PROSPECT_00000092

SOUTHERN CALIFORNIA HOSPITAL AT HOLLYWOOD

Strengths	Weaknesses
1. Profitable operations as a low-cost provider, driven by minimal infrastructure 2. Innovative service lines including gender confirmation 3. Strong focus on increasing employee satisfaction to reduce turnover 4. No significant IT investments needed	1. High employee turnover 2. Aging physical plant 3. No Emergency Room therefore all inpatients must be referred by a physician
Opportunities	**Threats**
1. High real estate value 2. Marketing of gender confirmation program 3. Continue improvement in public perception driven by patient satisfaction ratings	1. Changes in government reimbursement 2. Target population may be displaced by rising real estate costs 3. Reliance on IPA relationships with SNFs in the area to drive patient volume

SWOT Mitigants

Mitigants to the weaknesses identified during the SWOT analysis are:

1. Hollywood can decrease employee turnover by continuing to focus on improving patient and employee satisfaction levels.
2. Hollywood can mitigate aging physical plant by engaging in capital addition and renovation projects.
3. Management is considering the build out of an emergency department on campus.

Mitigants to the threats identified during the SWOT analysis are:

1. Prospect's established payor relationships will help the facility favorably adjust to any potential changes in government reimbursement.
2. Hollywood will continue to partner with SNFs throughout Los Angeles to maintain a strong patient base.
3. Prospect continues to grow its IPAs, which include SNF Physicians, to drive persistent improvement of patient retention.

MPT CONFIDENTIAL MPT_PROSPECT_00000093

SOUTHERN CALIFORNIA HOSPITAL AT VAN NUYS

14433 Emelita Street
Van Nuys, CA 90401

Beds[1]	57
Square Feet	38,850
Year Built	1958
Market Share	9.1%

(1) All beds in service are inpatient psychiatric beds.

Overview

Southern California Hospital at Van Nuys is a 57-bed behavioral health hospital located in Van Nuys, CA.

- Located approximately 15 miles Northwest of Los Angeles city center, Van Nuys is considered to be within Los Angeles city limits.
- An estimated 20% of the population within Los Angeles City limits is in poverty, with an average per capita income of $30,570. [1]
- Approximately 60% of the population speaks a language other than English at home. [1]
- Operates under one license as the Southern California system, along with Southern California Hospitals at Culver City and Hollywood.

Successful Intensive Outpatient Program (IOP)

- Provides independence for patients to live on their own and reduces the need for future hospitalization.
- Operates 5 days a week with approximately 50-60 patients per day.

Financial Performance and Strategies

- Declines in 2019 FYTD due to increased expenses.
- While YTD inpatient admissions are up 0.1% YoY, IOP visits have decreased.

Capital Expenditures

- Several capital investments are planned or underway, including parking lot improvements, replacement of fan coil units, and locking doors in Unit 1 and the lobby.
- Larger renovations include a $700k HVAC addition in the kitchen and roof replacements (planned in 3 stages).

Voluntary Inpatient Program

- 24 hour nursing and psychiatry services allow patients to call in at any time. Inpatient program sees an average length of stay of 5.4 days.
- Declines in census at month end are attributed to patients checking out as their government checks arrive.



Southern CA Hospital at Van Nuys


Hospital Main Entrance

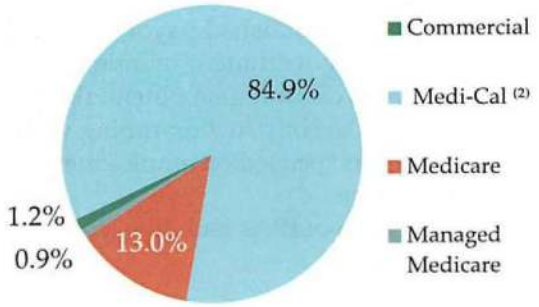
Admission Stats [2]

- Annual Admits: 3,400
- Recurring IOP Visits: 34,300

Service Lines

- Outpatient Adult Psychiatry (Chemical Dependency Track)
- Inpatient Adult Psychiatry

Payor Mix (by Admissions)[1]



1) Facility Level payor mix for Q2 2019 YTD as presented by Prospect
2) Includes Managed Medi-Cal (0.2% of payor mix)

(1) Source: SiteWise
(2) FY2018 Annual Admissions as provided by Prospect

MPT CONFIDENTIAL MPT_PROSPECT_00000094

SOUTHERN CALIFORNIA HOSPITAL AT VAN NUYS

Strengths	Weaknesses
1. Profitable Operations as a low-cost provider, driven by minimal infrastructure 2. Integration within Prospect's CA system to allow for transfers depending on patient needs 3. Patient satisfaction is above 95% 4. No significant IT investments needed	1. Rely heavily on timing of QAF payments, which often have delays 2. Census drops at end of month as government checks are released
Opportunities	**Threats**
1. Potential expansion of Intensive Outpatient Program ("IOP") to include nights and weekends 2. Management focus on increasing managed care volumes	1. Changes in government reimbursement 2. Potential high unforeseen cap-ex costs associated with age of building 3. Largely unionized labor force 4. One of four psychiatrists is nearing retirement age, and management believes it to be a difficult position to fill

SWOT Mitigants

Mitigants to the weaknesses identified during the SWOT analysis are:

1. Van Nuys' operations can withstand delays in supplemental reimbursement by focusing on core infrastructure and maintaining profitability before the receipt of QAF distributions.
2. Given the known cyclical nature of the census drops, Prospect is able to adjust staffing and other variable expenses as needed.

Mitigants to the threats identified during the SWOT analysis are:

1. Prospect's established payor relationships will help the facility favorably adjust to any potential changes in government reimbursement.
2. Van Nuys can mitigate potential capital project expenditures associated with an aging building by aligning the construction timing with QAF and other supplemental payments.
3. Prospect is focused on employment engagement to reduce turnover and provide support for employee satisfaction.
4. Integration of IPAs and Physician Groups allows for an extensive network of qualified physicians for replacement.

MPT CONFIDENTIAL MPT_PROSPECT_00000095

FOOTHILL REGIONAL MEDICAL CENTER

14662 Newport Avenue
Tustin, CA 92780

Beds[1]	177
Square Feet	104,000
Year Built	1972
Market Share	9.1%

(1) Includes 120 general acute, 15 intensive care, and 42 pediatric sub-acute beds.

Overview

Foothill Regional Medical Center is an acute care hospital and only Prospect facility located in Orange County, CA.

- Prospect purchased Foothill out of bankruptcy in 2014, and began to slowly reintroduce various service lines while undergoing renovations of the entire facility before re-opening in October 2015.
- Licensed for 177 beds, but there are currently 46 beds in suspension.
- 2018 estimated per capita income for Orange County is approximately $4,500 higher than California overall ($36,922 in Orange County and $32,374 in CA).
- Operates under a separate license than the other 2 California systems.

Serves Niche Market with Pediatric Sub-Acute Unit

- One of six Pediatric Sub-Acute units in California.
- Recently negotiated a 36% increase in per diem for patients with Cal-Optima, an Orange County specific branch of Medi-Cal.
  - Approximately 80% of the unit is covered by Cal-Optima, leading to an estimated $2.7M annual increase in EBITDA.

Development of New Service Lines

- Planning to bring 24 chemical dependency beds out of suspension and run a detox program.
- In process of applying for spine and orthopedic program.
- Beta testing a surgical Personal Injury and Workers Comp Program.
  - Program is anticipated to bring in 150% of Medicare, with a goal to sell and settle the contracts within 30 days.
- Negotiating a "Concierge Program" to bring cash-paying patients from China for various surgical services.

Recent/Upcoming Capital Expenditures

- $960k in planned CapEx to bring two units out of suspension.
- Additional capital projects include a $208k remodel of the lobby and approximately $647k various utility replacements and upgrades.



Foothill Regional Medical Center



Private Patient Room

Admission Stats[1]

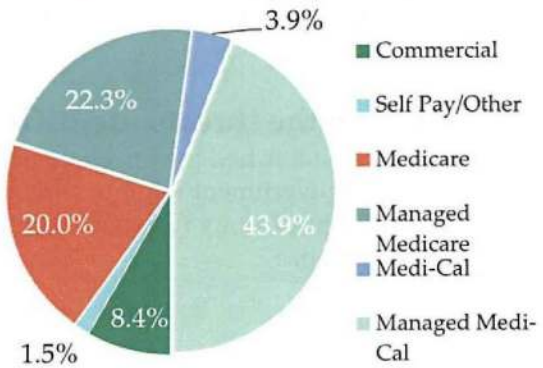
- Acute Admits: 2,800
- Pediatric Sub-Acute Admits: 17
- Annual ED Visits: 5,000

Key Services

- Pediatric Sub-Acute
- Urology
- Inpatient Geriatric and Adult Care
- Intensive Care
- Bariatric Surgery

(1) FY2018 Annual Admissions as provided by Prospect

Payor Mix (by Admissions)[1]



1) Facility Level payor mix for Q2 2019 YTD as presented by Prospect

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FOOTHILL REGIONAL MEDICAL CENTER

Strengths	Weaknesses
1. Profitable operations as a low-cost provider, driven by minimal infrastructure 2. Utilize Stratus Video Application to bridge language barriers between patients and physicians 3. No significant IT investments needed 4. Pediatric sub-acute unit is one of six in California 5. Strong nurse retention 6. Recently renovated OR driving increase in surgical procedures	1. Rely heavily on timing of QAF payments, which often have delays 2. Previously poor reputation within the community has driven a low census
Opportunities	**Threats**
1. Reintegrate 2 units (46 beds), which are currently in suspension, including a 24 bed chemical detox unit 2. Identified IPA expansion with physicians in Orange County 3. 25% of Orange County population is enrolled in Medi-Cal providing growth market for Prospect 4. Target Medi-Cal mental health and physical health plan providers in Orange County 5. Capitalize on QAF, given that current patient mix is predominately Medi-Cal	1. Changes in government reimbursement 2. Proximity and lack of integration with other Prospect facilities in California

SWOT Mitigants

Mitigants to the weaknesses identified during the SWOT analysis are:

1. Prospect has implemented a positive marketing campaign and is heavily involved in the community.
2. Foothill's operations can withstand delays in supplemental reimbursement by focusing on core infrastructure and maintaining profitability before the receipt of QAF distributions.

Mitigants to the threats identified during the SWOT analysis are:

1. Prospect's established payor relationships will help the facility favorably adjust to any potential changes in government reimbursement.
2. Prospect's opportunity to extend their model of integrating with post-acute facilities to the Orange County region.

MPT CONFIDENTIAL MPT_PROSPECT_00000097

EASTERN CONNECTICUT HEALTH NETWORK

System Overview

2-Hospital System East of Hartford, CT

- 2 acute care hospitals (351 licensed beds) located 2 miles apart along I-384 and CT Route 44.
  - Manchester Memorial Hospital – 249 beds
  - Rockville General Hospital – 102 beds
- Shared leadership team manages both hospitals.
- Network of patient access points surrounding hospitals that include urgent care centers, medical office buildings and imaging centers.

Large IPA with Strong Physician Retention

- IPA includes over 290 physicians
- Physician retention rate is 95%
- Currently no risk-based contracts

Strong Ties Within Community

- Both hospitals have been in existence in their respective communities for almost one hundred years.
- Eastern Connecticut Health Network (ECHN) was founded in 1995, merging both hospitals under single leadership. Each hospital still has a separate license as the state denied granting a singular license.
- Facilities are needed within the communities as they serve a high Medicare and Medicaid population.



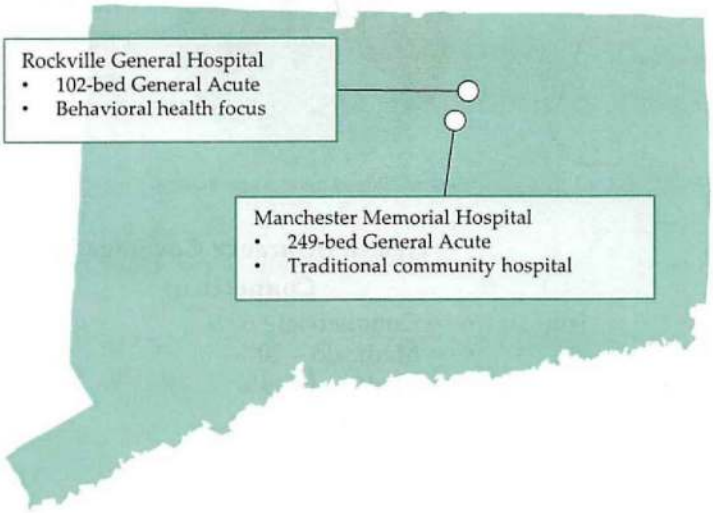


Manchester Memorial Hospital

Projecting Strong Revenue and EBITDAR Growth

(in millions)	Year 1[1]	Year 2	Year 3
Net Revenues	$307.3	$316.5	$324.4
Expenses	$277.1	$283.2	$287.8
EBITDAR[2]	$30.2	$33.3	$36.6

1) Year 1 timeframe is Q4 FY19-Q3 FY20. Projections include both hospitals.
2) Adjusted EBITDA per Prospect's projections do not include rent expense.
Note: Strategic initiatives driving growth outlined on Page 83.







Rockville General Hospital

MPT CONFIDENTIAL MPT_PROSPECT_00000098

EASTERN CONNECTICUT HEALTH NETWORK

Market Overview

- Manchester Memorial Hospital is located in an area with a middle and upper-middle class population.
- Rockville General Hospital is located in an area with a heavier concentration of working class individuals and is more rural than Manchester.
- Primary competition is Hartford HealthCare as they have a large presence in the state and two facilities on the outskirts of the primary service area.
- The median household income in the primary service area is well above the national figure.

Connecticut Demographics

Market Stats	PSA[1]	Connecticut	USA
2018 Population	183.7k	3.6M	331.7M
0-18	20.2%	20.2%	22.6%
19-64	62.2%	62.1%	61.2%
65+	17.6%	17.7%	16.2%
% growth 2010-18	*2.0%*	*1.5%*	*6.1%*
% growth 2018-23	*1.3%*	*1.3%*	*3.9%*
Median HH Income	$77,566	$72,910	$57,056
Poverty Level	7%	10%	14%

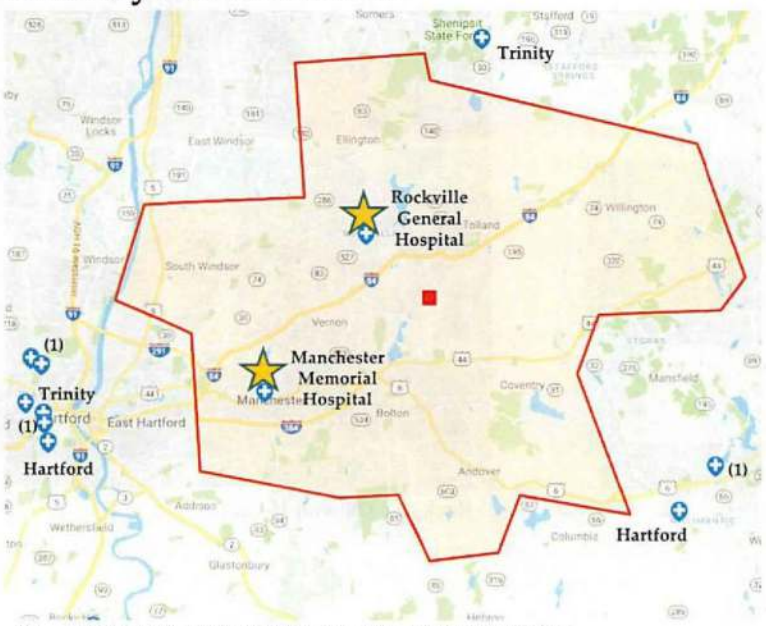
(1) Per hospital leadership, PSA covers area in map below.
Source: Sitewise

Connecticut Healthcare Market Led by Non-Profit Providers

Competitor	# Facilities in Market	Ownership	Acute Beds[1]	Notes
Prospect	3	*For-Profit*	*708*	**Dominant Medicaid population provider**
Trinity Health	4	Non-Profit	1,312	Nationally-recognized healthcare brand with 94 hospitals
Hartford HealthCare	6	Non-Profit	1,524	Fully integrated health system with $3.1B in revenue
BayState Health	3	Non-Profit	665	4-hospital system and owner of the insurer Health New England

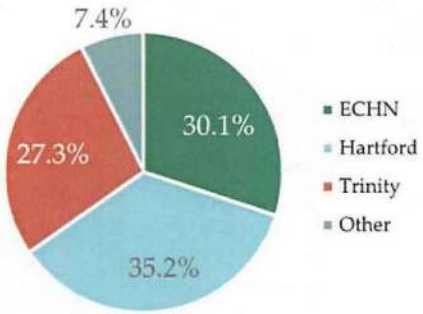
(1) Totals may differ from actuals due to database availability.
Source: Sitewise market statistics.

Primary Service Area



(1) Facilities are not considered direct competition as they are freestanding rehabilitation or psych facilities

Inpatient Market Share



Source: ECHN market overview presentation.

Health Insurance Coverage in Connecticut

- Commercial - 60%
- Medicaid – 20%
- Medicare – 14%
- Uninsured – 6%

Source: KFF.org based on 2017 data

MPT CONFIDENTIAL MPT_PROSPECT_00000099

Strategic Initiatives

Managed Care Contracts

A $6.5M EBITDAR pickup is expected, due to favorable rate increases with managed care providers. Contracts with United Healthcare, Oxford, Aetna, Connecticare, Anthem, and Cigna have been fully negotiated and executed. The rate increases for these contracts range from 3.40% to 9.00%.

Expense Initiative - SWB

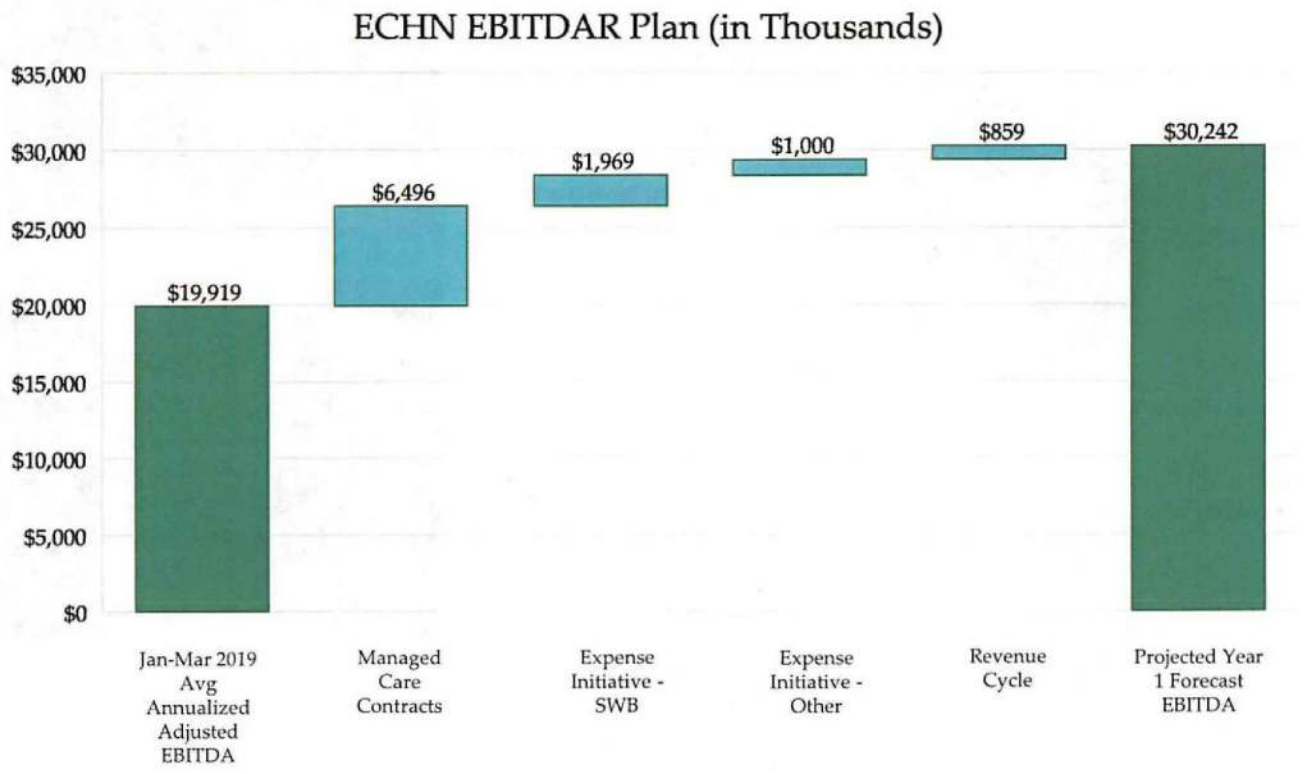
A $2.0M EBITDAR increase is expected to come from a reduction in force (RIF). The RIF of 42 positions occurred between the months of February and April 2019. The reduction in force is not expected to affect volumes at the facilities.

Expense Initiative - Other

A $1.0M EBITDAR increase for FY2019 is projected due to the utilization of TeamHealth in orthopedic surgeries. TeamHealth is expected to add 20 IP surgeries and 5 OP surgeries per month, resulting in $122k in monthly EBITDAR.

Revenue Cycle

Prospect has various initiatives in place for CharterCare to improve revenue cycle performance. One initiative is to focus on reducing denials, which will be accomplished by making sure all claims are viewed within 48 hours to ensure any potential denials are dealt with in a timely manner. The $859k EBITDAR pickup is based off of a 1% improvement from 2018's collection rate.



MPT CONFIDENTIAL

MANCHESTER MEMORIAL HOSPITAL

Overview

Manchester Memorial Hospital is a 249-bed acute care hospital located in Manchester, CT, approximately 10 miles east of Hartford.

Heavy Reliance on ED and OP Volume

- 95% of admissions come through the ED.
  - ED includes a 12-bed behavioral health unit.
- Facility recently partnered with TeamHealth and anticipates pickup of additional 25-30 surgeries per month.
- Approximately 65% of gross charges are from OP volume.

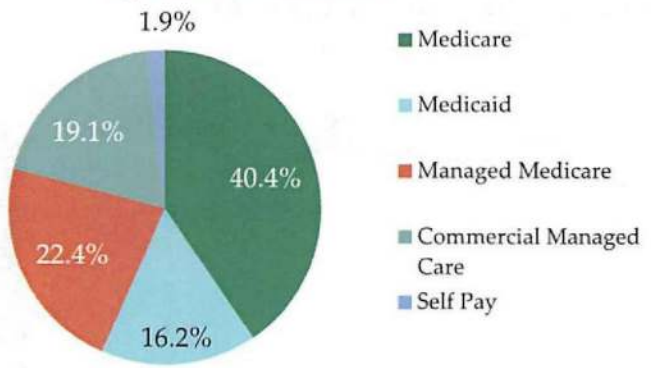
Focus on Med/Surg and Obstetrics (OB)

- Inpatient Med/Surg service lines include General Surgery, Orthopedics, Urology, Oncology, and Vascular services.
- 15-bed Maternity unit that sees 1,500 births per year.
  - Expanding Maternity wing to include a 5-bed postpartum unit.
- 7-bed Neonatal ICU.

Recent/Upcoming Capital Expenditures

- $2.6M Maternity expansion is currently underway. $1M has been completed with the next phase beginning in October 2019.
- $3.0M to open a second cardiac catheterization laboratory, pending state approval.
- $1.5M will be needed for generator and switchgear replacements, but no work has been started yet.

Payor Mix (by Acute Admissions)(1)



1) Facility Level payor mix for Q2 2019 YTD as presented by Prospect

FY 2018 Facility Stats(1)

- Admissions: 6,667
  - Acute Admissions: 5,245
  - Psych Admissions: 1,422
- Surgical Cases: 5,555
  - IP Surgeries: 1,191
  - OP Surgeries: 4,364
- ED Visits: 56,398

(1) Based on FY 2018 statistics file, provided by Prospect.

Key Services

- Emergency Medicine
- Maternity Services
- Orthopedics
- Oncology
- Diabetes Care
- Cardiology
- Bariatrics
- Digestive Health
- Pulmonary Services
- Wound Care

71 Haynes Street
Manchester, CT 06040

Beds	249
Square Feet(1)	413,320
Year Built	1920
Market Share(2)	30.1%

(1) Includes the main hospital complex.
(2) Represents ECHN inpatient market share for FY 2018.



Manchester Memorial Hospital



Family Birthing Center



Critical Care Suite

MPT CONFIDENTIAL MPT_PROSPECT_00000101

ROCKVILLE GENERAL HOSPITAL

31 Union Street
Vernon, CT 06066

Beds	102
Square Feet[1]	188,645
Year Built	1921
Market Share[2]	30.1%

(1) Includes the main hospital complex.
(2) Represents ECHN inpatient market share for FY 2018.

Overview

Rockville General Hospital is a 102-bed acute care hospital located in Vernon, CT, approximately 10 miles east of Hartford. The facility was built around an historical mansion from the 1800s and has incorporated it into the facility's operations.

Focus on Behavioral Health

- Established adult and adolescent behavioral health units drive volume at the hospital.
- Geriatric and Eating Disorder programs are less than 2 years old but are ramping as expected.
- Facility has a 30-bed locked eating disorder unit, which is one of two of its kind that exist in the United States.

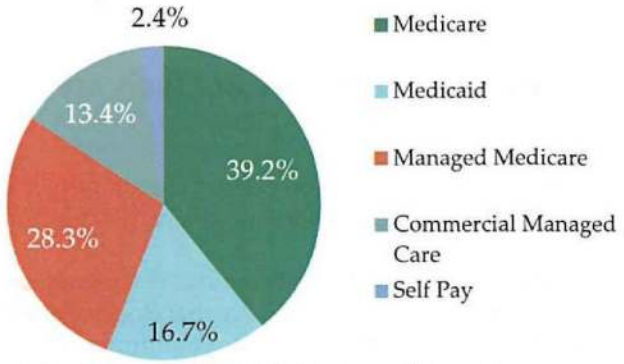
Challenging Payor Mix

- Cities of Rockville and Vernon recently merged; not as affluent as Manchester and the area has been slow to recover from factories shutting down in the 1960s.
- Market following trend of increased Managed Medicare.
  - For FY2019 Q2 YTD payor mix, Medicare and Medicaid dropped to 55.9%, while Managed Medicare increased to 28.3%.

Recent/Upcoming Capital Expenditures

- The Geriatric and Eating Disorder Units were recently renovated and opened less than 2 years ago.
- No major capital projects were discussed, but the building is aging and will require capital to maintain going forward.

Payor Mix (by Acute Admissions)[1]



1) Facility Level payor mix for Q2 2019 YTD as presented by Prospect

FY 2018 Facility Stats[1]

- Admissions: 2,313
  - Acute Admissions: 2,037
  - Psych Admissions: 276
- Surgical Cases: 915
  - IP Surgeries: 229
  - OP Surgeries: 686
- ED Visits: 37,478

(1) Based on FY 2018 statistics file, provided by Prospect.

Key Services

- Behavioral Health
- Emergency Medicine
- Orthopedics and Spine
- Breast Imaging
- Cardiology
- Pain Management
- OP Surgery



Rockville General Hospital


Locked Eating Disorder Unit


Patient Room

MPT CONFIDENTIAL MPT_PROSPECT_00000102

EASTERN CONNECTICUT HEALTH NETWORK

Strengths	Weaknesses
1. Only two hospitals in the suburban communities to the east of Hartford 2. Increasing volume for psychiatric services 3. Hospitals that have close to a 100 year history in their communities 4. Manchester located in a market with a favorable payor mix	1. Aging facilities that have been partially renovated but still with significant capital needs to modernize the space 2. Limited use of on call specialists can impact patient referral patterns 3. Patient service area overlap
Opportunities	**Threats**
1. CON application in place for Cath Lab 2. Stemming the outmigration to the larger, Hartford-based systems 3. Cost savings and service line optimization from synergies of being a 2 hospital system with shared leadership	1. Market leakage from the PSA to Hartford; volume has decreased YoY 2. Low growth service area with limited economic drivers 3. State level Medicaid tax disputes

SWOT Mitigants

Mitigants to the weaknesses identified during the SWOT analysis are:

1. $75M capital commitment is in place ($37M has been completed) and SALB with MPT could be a source of financing for other renovations.
2. ECHN management recently entered a contract with TeamHealth for on call orthopedic surgeries. As a result of this coverage total orthopedic surgeries are up by 65 in the first two months. A contract for maternity services is underway.
3. The facilities are located two miles apart, and serve a similar broader community. The management team is evaluating and reducing the duplication of services where possible. It is likely that Rockville will continue to increase its psychiatric service line, while Manchester promotes its full service community hospital offerings.

Mitigants to the threats identified during the SWOT analysis are:

1. ECHN is in the process of renovating their facilities and recruiting physicians to their IPA to bring more patients into the system.
2. ECHN's management is focused on expanding the defined service area while also focusing on reducing the cost of care delivery for its population.
3. While Waterbury serves a disproportionate share of the Medicaid population in the state, the hospital is currently a net payor into the state funding program, due to the hospital provider tax. The Connecticut Hospital Association has pending lawsuits against the state to release funds from the tax program back to the hospitals.

MPT CONFIDENTIAL MPT_PROSPECT_00000103

WATERBURY HEALTH

Hospital and System Overview

Comprehensive Healthcare Services

Waterbury Health, which includes Waterbury Hospital, offers comprehensive healthcare services – from primary care to emergency and acute care, to home healthcare.

- 1 hospital, Waterbury Health, with 357 licensed beds.
- 25 access points including 11 outpatient facilities and 7 labs.
- System recently underwent a rebranding to tie all services together.



Waterbury Hospital

Potential for Growth

Waterbury Health continues to expand their network into the more affluent suburbs and has the following growth initiatives in place:

- Opening new offices in Watertown, Woodbury, Naugatuck, and Thomaston.
- Establishing a Women's Health Center in Southbury.
- Installing an open MRI in Southbury.



Waterbury Hospital

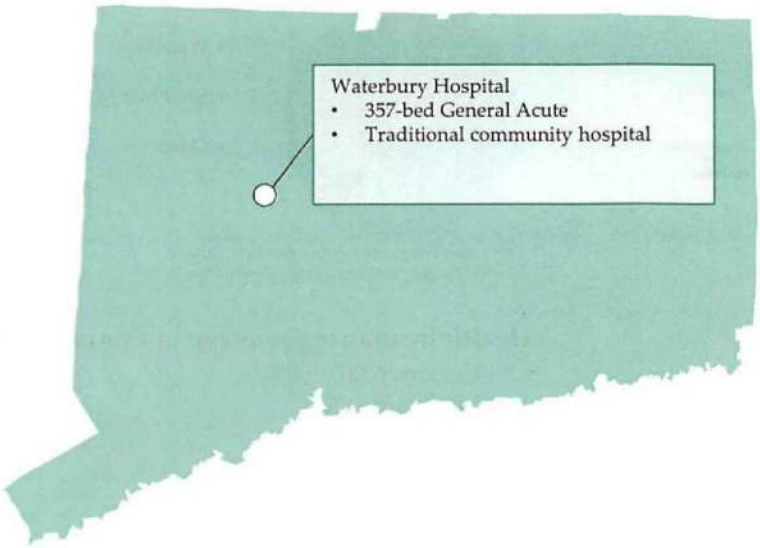
Projecting Revenue and EBITDAR Growth Driven by Payor Contract Rate Increases

(in millions)	Year 1[(1)]	Year 2	Year 3
Net Revenues	$297.1	$303.1	$310.7
Expenses	$261.4	$265.6	$271.3
EBITDAR[(2)]	$35.7	$37.5	$39.4

1) Year 1 timeframe is Q4 FY19-Q3 FY20.
2) Adjusted EBITDA per Prospect's projections do not include rent expense.
Note: Strategic initiatives driving growth outlined on Page 89.



Behavioral Health Entrance





Hospital Lobby

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WATERBURY HEALTH

Market Overview

- The Primary Service Area (PSA) is a very diverse population with higher rates of poverty than the state, a higher percentage of English as a Second Language (ESL), and a medically underserved area/population.
- Primary competition is Trinity Health's Saint Mary's Hospital, which is located two miles away.
- Significant leakage of around 20% from the market to Hartford HealthCare and Yale New Haven Health System.
- Waterbury Hospital splits the remaining 80% market share with Saint Mary's Hospital.

Connecticut Demographics

Market Stats	PSA[1]	Connecticut	USA
2018 Population	237.1k	3.6M	331.7M
0-18	20.9%	20.2%	22.6%
19-64	62.0%	62.1%	61.2%
65+	17.1%	17.7%	16.2%
% growth 2010-18	*0.5%*	*1.5%*	*6.1%*
% growth 2018-23	*1.5%*	*1.3%*	*3.9%*
Median HH Income	$59,829	$72,910	$57,056
Poverty Level	14%	10%	14%

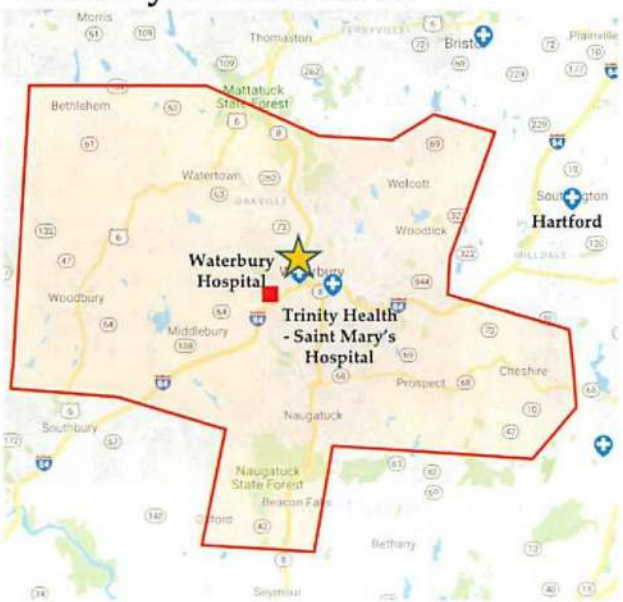
(1) Per hospital leadership, PSA covers area in map below.
Source: Sitewise

Connecticut Healthcare Market Led by Non-Profit Providers

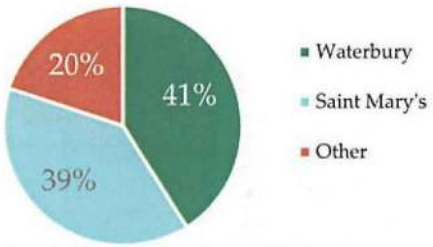
Competitor	# Facilities in Market	Ownership	Acute Beds[1]	Notes
Prospect	***3***	***For-Profit***	***708***	**Dominant Medicaid population provider**
Yale New Haven Health System	5	Non-Profit	1,705	Connecticut's largest healthcare system; established in 1996
Trinity Health	4	Non-Profit	1,312	Nationally-recognized healthcare brand with 94 hospitals
Hartford HealthCare	6	Non-Profit	1,524	Fully integrated health system with $3.1B in revenue
BayState Health	3	Non-Profit	665	4-hospital system and owner of the insurer Health New England

(1) Totals may differ from actuals due to database availability.
Source: Sitewise market statistics.

Primary Service Area



Market Share in Primary Service Area[1]



(1) Based on Revenue before Bad Debt Expense.
Source: Prospect market overview presentation.

Health Insurance Coverage in Connecticut

- Commercial – 60%
- Medicaid – 20%
- Medicare – 14%
- Uninsured – 6%

Source: KFF.org based on 2017 data

MPT CONFIDENTIAL MPT_PROSPECT_00000105

Strategic Initiatives

Revenue Cycle

Prospect has various initiatives in place for Waterbury to improve revenue cycle performance. One initiative is to focus on reducing denials, which will be accomplished by making sure all claims are viewed within 48 hours to ensure any potential denials are dealt with in a timely manner. The $2.4M EBITDAR pickup is based off of a 1% improvement from 2018's collection rate.

Managed Care Contracts

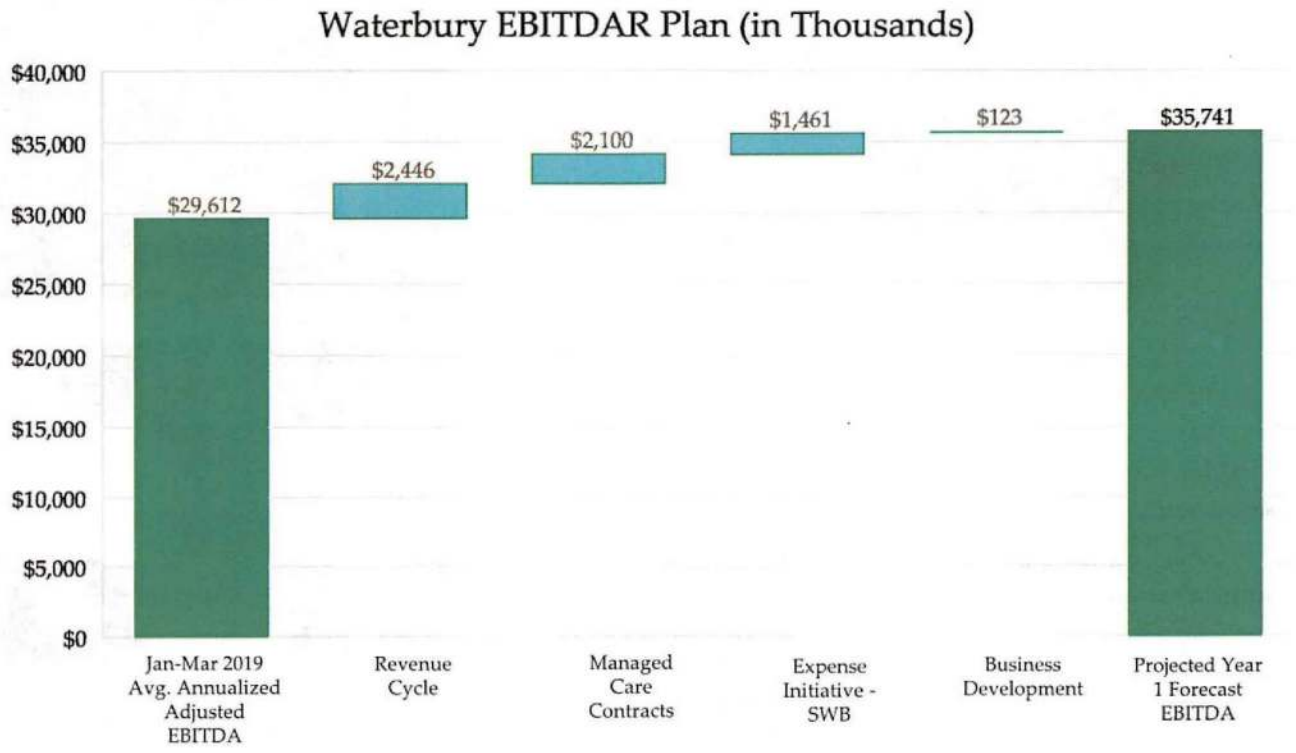
Management is projecting an additional $2.1M annually in EBITDAR as a result of favorable rate increases with managed care providers. Contracts with Redacted have been fully negotiated and executed. The rate increases for these contracts range from 3.00% to 9.38%, except for Redacted which has a 40.00% increase.

Expense Initiative - SWB

A $1.5M annual EBITDAR increase is projected to come from SWB savings due to a reduction in force (RIF) of 12.6 FTEs implemented in fiscal year 2019.

Business Development

Management is projecting a $123k pickup due to new growth related to chronic care outreach. To achieve this initiative, each office in the Waterbury Health network will contact patients in the provider panel that have not come in for follow up in over four months.



WATERBURY HOSPITAL

64 Robbins Street
Waterbury, CT 06708

Overview

Waterbury Hospital is a 357-bed acute care hospital located in Waterbury, CT, which is 30 miles southwest of Hartford, CT.

Emergency Department Driving Admissions

- High Emergency Department (ED) volume of 53,600 visits per year as hospital sits right off of interstate.
- ED volume drives 80% of inpatient admissions.
- Level II Trauma Center.

Teaching Hospital with Prestigious Affiliations

- Two residency programs affiliated with Yale and Quinnipiac.
- Significant number of Yale grads on medical staff.

Recent/Upcoming Capital Expenditures

- Hospital is an aging facility with significant capital needs.
- Renovation of a Wound Care Center was recently completed.
- $30M ED renovation is currently in the planning stages.
- Updating the north entrance to the building.
- Renovating the bridge entrance to the building.
- Outfitting a second catheterization lab with TAVR capability.

History of Failed Acquisition Attempts

- "Left at the altar" three times over the past 5 years in recent acquisition attempts prior to Prospect transaction.

Beds	357
Square Feet(1)	574,395
Year Built(2)	1911
Market Share	41%

(1) Includes the main building and additional building area.
(2) Year that the main building of today's complex opened. Several wings were constructed over the next sixty years.



Waterbury Hospital

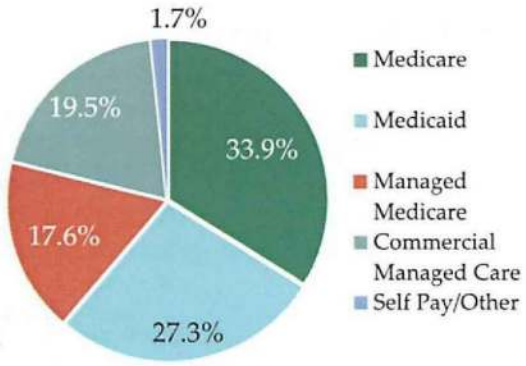


Behavioral Health Unit



Recently Renovated Wound Care Center

Payor Mix
(by Acute Admissions)(1)



1) Facility Level payor mix for Q2 2019 YTD as presented by Prospect

FY 2018 Facility Stats(1)

- Admissions: 11,516
  - Acute Admissions: 10,750
  - Psych Admissions: 766
- Surgical Cases: 6,072
  - IP Surgeries: 1,937
  - OP Surgeries: 4,135
- ED Visits: 48,130

(1) Based on FY 2018 statistics file, provided by Prospect.

Key Services

- Emergency Services
- Orthopedics
- Cardiology
- Center for Surgical Innovation (robotics, minimally invasive surgery)
- Behavioral Health
- Family Birthing Center
- Wound Care

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WATERBURY HOSPITAL

Strengths	Weaknesses
1. Profitable operations 2. Full service community hospital that provides high quality care locally 3. Academic affiliations 4. Low nursing turnover (6% annually)	1. Facility with significant capital needs 2. Lack of a brand; not known in the community for any particular service lines 3. Overcrowded ED
Opportunities	**Threats**
1. Increasing access points in communities to the west of Waterbury with favorable payor mix and farther distance to Hartford market 2. Differentiating from the services and care delivery of Saint Mary's (Trinity) model 3. Improving image with planned ED renovation project	1. Trinity (Saint Mary's) becoming more aggressive in the market 2. Low growth service area with limited economic drivers 3. State level Medicaid tax disputes

SWOT Mitigants

Mitigants to the weaknesses identified during the SWOT analysis are:

1. ED renovation is being planned and SALB with MPT could be a source of financing for other renovations.
2. While cardiology and orthopedics are a focus of the hospital, the marketing efforts to promote these and other services are in their infancy. The new management team is active with these efforts.
3. ED volume is generally positive; however a high volume of patients, including patients with behavioral needs has a negative effect on patient perception. The ED renovation should also assist with this weakness.

Mitigants to the threats identified during the SWOT analysis are:

1. Saint Mary's is located downtown while Waterbury is trying to draw patients from the more affluent suburban areas who don't want to drive into town. Waterbury's new women's health center and imaging center in Southbury brings another presence to the surrounding suburbs.
2. Waterbury's management is focused on expanding the defined service area while also focusing on reducing the cost of care delivery for its population.
3. While Waterbury serves a disproportionate share of the Medicaid population in the state, the hospital is currently a net payor into the state funding program, due to the hospital provider tax. The Connecticut Hospital Association has pending lawsuits against the state to release funds from the tax program back to the hospitals.

MPT CONFIDENTIAL MPT_PROSPECT_00000108

CROZER-KEYSTONE HEALTH SYSTEM

System Overview

Dominant Provider in Delaware County, PA

- 4 hospitals (598 licensed beds)
  - Crozer-Chester Medical Center – 300 beds
  - Springfield Hospital – 25 beds
  - Taylor Hospital – 105 beds
  - Delaware County Memorial Hospital – 168 beds
- 2 large OP Centers (>100k SF each)
- 67 physician practice locations across 37 physical locations to ensure broad market coverage.

Patient Volume Driven by Large IPA with Strong Primary Care Base

- IPA includes over 600 physicians (400 employed).
- Over 100 primary care physicians – largest PCP base in the area.

System Serves a County Medicaid Population

- System has negotiated favorable Medicaid managed care contracts being the dominant, low cost provider in the market.
- System hospitals are organized to treat and transfer patients to the most cost effective facility.
- 80% of Medicaid beneficiaries in the state are enrolled in some form of managed care.

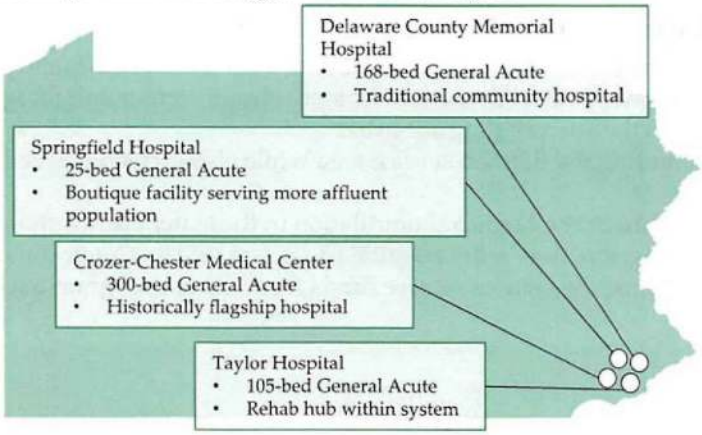
Coordinated Regional Care

- System negotiates at-risk capitation contracts for medical and behavioral health care services.
- Contract negotiations underway with Independence Blue Cross.

Revenue and EBITDAR Growth Projected Through Network Expansion and Additional Contracts

(in millions)	Year 1[(1)]	Year 2	Year 3
Net Revenues	$794.4	$818.2	$842.8
Expenses	$742.5	$753.4	$768.2
EBITDAR[(2)]	$51.9	$64.8	$74.6

1) Year 1 timeframe is Q4 FY19-Q3 FY20. Projections include all 4 hospitals.
2) Adjusted EBITDA per Prospect's projections that do not include rent expense.
Note: Strategic initiatives driving growth outlined on Page 94.





Crozer-Chester Medical Center



Delaware County Memorial Hospital



Springfield Hospital



Taylor Hospital

MPT CONFIDENTIAL MPT_PROSPECT_00000109

CROZER-KEYSTONE HEALTH SYSTEM

Market Overview

- Crozer-Keystone Health System's ("CKHS") market is defined as Delaware and Philadelphia Counties combined. CKHS's primary service area is Delaware County, however, it also draws patients from neighboring Philadelphia County.
- Within Delaware County, Crozer is the dominant provider, followed by Main Line.
- The market has seen a shift from shipyards being the major industry player to national companies including Boeing, Comcast, and AmeriSourceBergen having a strong presence.
- CKHS's competition operates at a higher cost structure and is less inclined to take Medicaid patients.

Philadelphia, PA Demographics

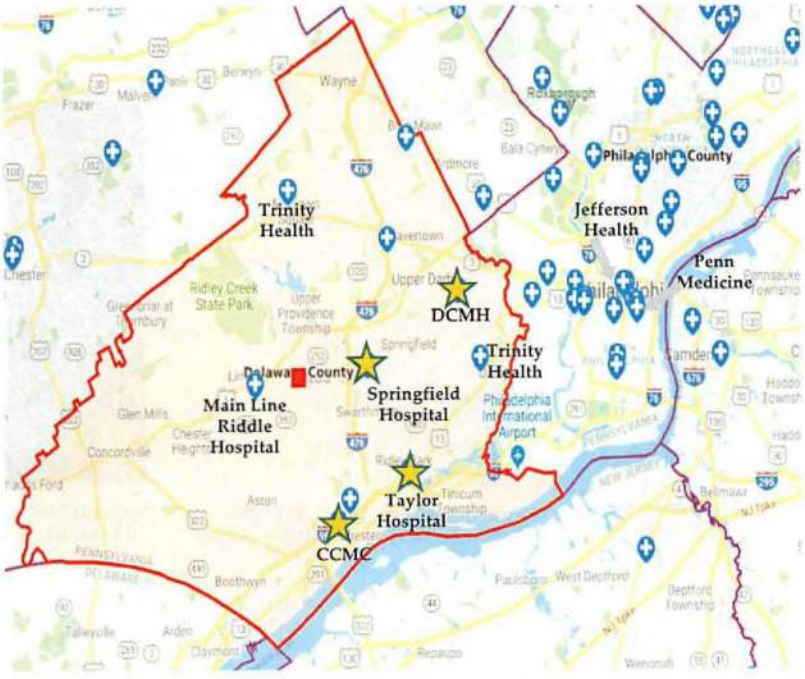
Market Stats	Delaware County	Delaware and Philadelphia Counties	Philadelphia MSA	USA
2018 Population	568.3k	2.2M	6.1M	331.7M
0-18	20.0%	21.9%	21.4%	22.6%
19-64	63.0%	63.1%	62.3%	61.2%
65+	17.0%	15.0%	16.3%	16.2%
% growth 2010-18	*1.7%*	*3.4%*	*3.0%*	*6.1%*
% growth 2018-23	*2.8%*	*3.2%*	*2.9%*	*3.9%*
Median HH Income	$47,767	$34,630	$65,193	$57,056
Poverty Level	20%		13%	14%

Source: Sitewise market statistics.

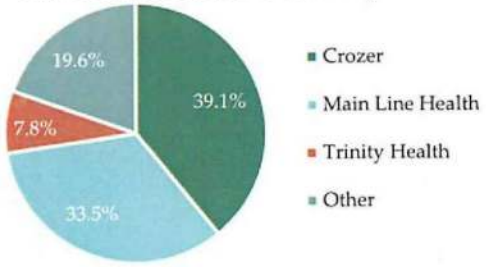
Competition Among 5 Major Multi-hospital Systems

Competitor	# Facilities in Market	Ownership	Acute Beds[1]	Notes
Prospect	*4*	*Profit*	*598*	**Dominant Medicaid population provider**
Jefferson Health	11	Non-Profit	3,301	High-quality teaching hospitals of Thomas Jefferson University
Trinity Health	7	Non-Profit	1,791	Nationally-recognized healthcare brand with 94 hospitals
Main Line Health	4	Non-Profit	1,041	Vertically-integrated Philadelphian health system
Penn Medicine	4	Non-Profit	1,659	Long-standing health brand; division of the University of Pennsylvania

(1) Totals may differ from actuals due to database availability.
Source: Sitewise market statistics.



Inpatient Admissions Market Share in Delaware County



Health Insurance Coverage in Pennsylvania

- Commercial - 46%
- Medicaid – 14%
- Medicare – 35%
- Other Insurance – 5%

Source: Pennsylvania Health Care Cost Containment Council Annual Report, FY18

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Strategic Initiatives

Expense Initiative - SWB

- A $13M annual EBITDAR increase is expected to come from a reduction in force by the end of 2019.
  - 170 FTEs have been identified as necessary reductions. As of May 2019, the system had already terminated employment of 105 of the 170 FTEs and has a termination schedule for the remaining 65 FTEs.
  - 25 positions are to be eliminated within physician practice groups.
  - The system recognized $1.3M of savings in February and March related to this initiative.
  - Reductions are not expected to affect volumes.
- Annual EBITDAR increase of $12M from the outsourcing of ED physicians and Hospitalist services (Team Health agreement).
  - Another agreement has been signed with Sound for hospitalist services and Crozer expects utilization management to improve.

Managed Care Contracts

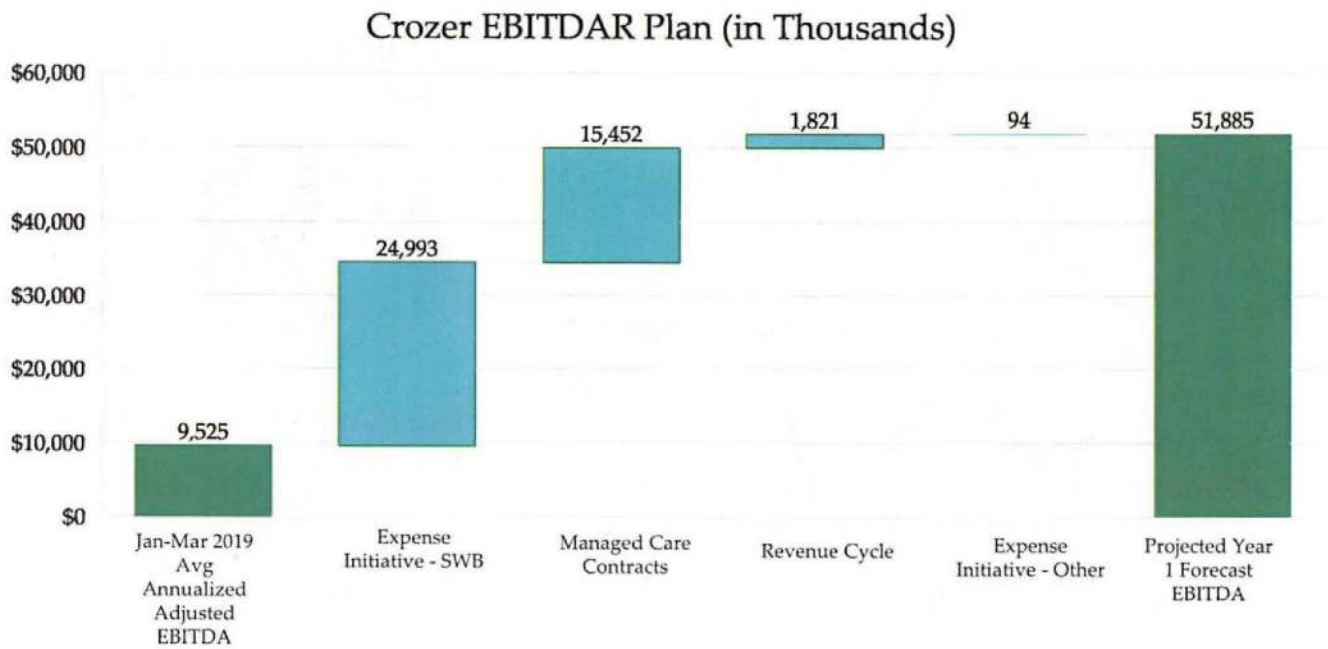
- Crozer is projecting an additional $15M annually in EBITDAR from rate increases with managed care providers.
- These contracts have been fully negotiated and executed; effective June 2019.
- The largest rate increase comes from IBC (Blue Cross). Retropay is embedded in this amount and will continue for a 13 month period. The other rate increases come from Aetna and Cigna.

Revenue Cycle Improvements

- Focus on reducing denials, which will be accomplished by ensuring all claims are viewed within 48 hours to ensure any potential denials are dealt with in a timely manner.
- Creating revenue cycle teams for certain specialty units such as Burn, Neuro, and Trauma, since varying circumstances can occur within the revenue cycle for these units.
- Greater emphasis on appropriately placing patients in observation, which is expected to help reduce denials.

Expense Initiative - Other

- The final initiatives driving additional EBITDAR include the elimination of certain accounting services, OR improvements, medical directorship modifications, and various other initiatives.



MPT CONFIDENTIAL MPT_PROSPECT_00000111

CROZER-CHESTER MEDICAL CENTER

1 Medical Center Blvd.
Upland, PA 19013

Beds	300
Square Feet[1]	1,427,207
Year Built	1952
Market Share[2]	39% | #1 PSA

(1) Includes 20 buildings, 2 parking garages, and adjoining surface parking areas.
(2) Inpatient admissions for Delaware county only.

Overview

Crozer Chester Medical Center ("CCMC") is a 300-bed acute care hospital located on a 69-acre campus in the suburb of Upland, PA, approximately 20 miles southwest of Philadelphia.

- Flagship hospital of the Crozer-Keystone system.
- Located in Delaware County, PA, and also draws patients from New Jersey and Maryland.
- ED drives admissions for the facility, along with referrals from sister hospitals.
- Crozer operates under the same license as Taylor Hospital and Springfield Hospital.

Top-Ranked Tertiary Care Specialties

- Focus on higher-level tertiary care, providing services to an urban population in need of specialized care.
- Burn Unit ranked #1 in the country by the ABA in 2017.
- World-renowned Neurosciences program.
- Nearing completion of comprehensive stroke certification, which would make CCMC the only facility in Delaware County with this certification.

Limited Market Competition

- Consistently running at ADC of 280-290.
- Nearest hospital is Jefferson Health, which has historically struggled.
- High bargaining power with Managed Medicaid payors due to the large Medicaid population in the area and Crozer's large market share of this population.
- Serves a local population that has remained loyal to the hospital since its inception in 1902.

Recent/Upcoming Capital Expenditures

- Hybrid OR has been completed and a new CT scanner is close to opening.
- $16M in boiler replacements ongoing.
- Replacement of LED lighting in common areas to be completed soon.

Convenient Access to Outpatient Services Center

- Crozer-Chester is tied to Crozer-Brinton Lake, which is less than 11 miles away.
- Brinton Lake is in the Crozer-Keystone network, which allows for elective OP volumes to be shifted to the OP center.
- Services include Cancer Care, Cardiology, Dialysis, Primary Care, and more.



Crozer-Chester Medical Center



Crozer Brinton Lake (not part of MPT transaction).

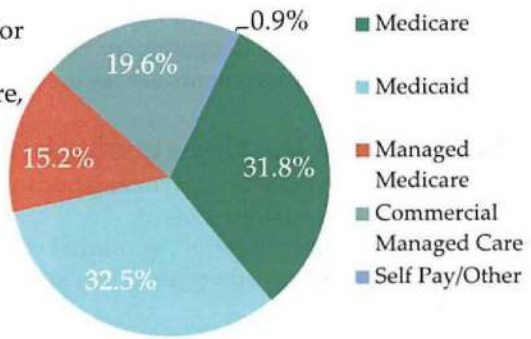
Admission Stats

- Annual Admits: 18,000
- Annual ED Visits: 52,000

Key Services

- Emergency Medicine
- Burn Treatments
- Primary Care
- Behavioral Health
- Neurosurgery

Payor Mix (by Acute Admissions)[1]



1) Facility Level payor mix for Q2 2019 YTD as presented by Prospect

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CROZER-CHESTER MEDICAL CENTER

Strengths	Weaknesses
1. Tertiary hospital with world-class burn, neuroscience, and stroke units 2. Serves as the main referral hospital from three other Prospect Hospitals in the area 3. Local population loyal to facilities 4. Strong Medicaid bargaining power 5. Strong physician relationships and large employed medical group	1. Inadequate financial/accounting system at the individual hospital level 2. Current IT systems limit management ability to strategically plan on a service line level 3. Lack of focus on specific service lines 4. 1-star hospital rating 5. Historical low patient experience ratings
Opportunities	**Threats**
1. Shifting service lines to other Crozer facilities (OB/GYN) 2. Improving patient experience from pre-admission to discharge 3. Increase retainage of primary care referrals from employed physician group	1. Changes in government reimbursement 2. Largely unionized labor force 3. World-class academic facilities located throughout Philadelphia market

SWOT Mitigants

Mitigants to the weaknesses identified during the SWOT analysis are:

1. Prospect is implementing Oracle software at the Crozer facilities at the end of 2019, which will allow the system to begin analyzing performance at the facility and service line levels.
2. Crozer-Chester is working to relocate certain services to other hospitals in the system so they can focus on key service lines.
3. The system has worked to improve quality data points such as patient experience, mortality, and readmissions, and believes the current run-rate will improve this rating (rating currently uses data that is 3 years old).
4. The system has made patient experience a key focus and has recently hired two patient experience officers to help drive improvements across the system.

Mitigants to the threats identified during the SWOT analysis are:

1. Prospect's established payor relationships will help the facility favorably adjust to any potential changes in government reimbursement.
2. Prospect has leverage in the market considering the facilities are the dominant healthcare provider in Delaware County, therefore, they should be able to avoid highly unfavorable collective bargaining agreements.
3. Prospect focuses on its facilities being "community assets," which should allow the facilities to be successful without creating direct competition with the large academic centers.

MPT CONFIDENTIAL

DELAWARE COUNTY MEMORIAL HOSPITAL

501 N. Lansdowne Ave.
Drexel Hill, PA 19026

Beds	168
Square Feet[1]	337,393
Year Built	1925
Market Share[2]	39% | #1 PSA

(1) Includes land under a 32,315 SF MOB condo unit.
(2) Inpatient admissions for Delaware county only

Overview

Delaware County Memorial Hospital ("DCMH") is a 168-bed acute care hospital located in the suburb of Drexel Hill, PA, approximately 7 miles west of Philadelphia.

- One of the founding hospitals in the Crozer-Keystone system and part of the "hub and spoke" model with CCMC.
- Traditional community hospital that serves the local and surrounding community.
- Surrounding area has the highest population density in the Philadelphia area.
- ED has historically driven admissions, but facility is seeing an increase in direct admits from employed and affiliated physicians.
- Only hospital in the Crozer system that does not share a license with another facility.

Favorable Market Demographics

- Local population is more loyal to facility than any other facility in the system. This also applies to the physicians.
- Growing Medicaid population in the area, which is favorable due to the current rates the system receives from Medicaid.

Convenient Access to Outpatient Services Center

- DCMH is tied to Crozer-Keystone at Broomall, which is less than 12 miles away.
- Broomall is in the Crozer-Keystone network, which allows for elective OP volumes to be shifted to the OP center.
- Services include Cancer Care, Cardiology, Dialysis, Primary Care, and more.

Addition of a Transitional Care Unit

- Conversion of a former rehab unit into a 23-bed Transitional Care Unit (expected to open in the near future).
- Allows the Crozer system to further the continuum of care and keep patients within the system in a post-acute setting.

Voluntary Drug & Alcohol Rehab Unit

- 25-bed unit that is expected to begin construction in December.
- The county will reimburse the $1.4M construction costs.
- DCMH is also opening an OP Drug & Alcohol Rehab Unit in June.



Delaware County Memorial Hospital


Crozer-Keystone at Broomall (not part of MPT transaction)

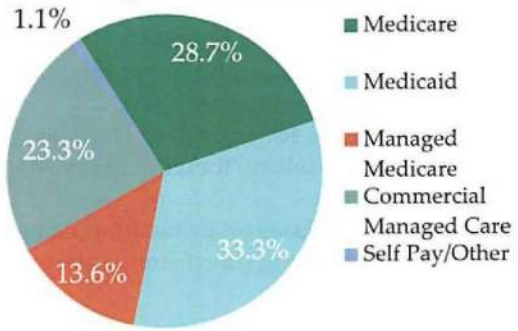
Admission Stats

- Annual Admits: 10,500
- Annual ED Visits: 37,000

Key Services

- Cardiology
- General Surgery
- Primary Care
- Cancer Care
- Orthopedics

Payor Mix (by Acute Admissions)[1]



1) Facility Level payor mix for Q2 2019 YTD as presented by Prospect

MPT CONFIDENTIAL

DELAWARE COUNTY MEMORIAL HOSPITAL

Strengths	Weaknesses
1. Densely populated market is loyal to facility 2. Operating benchmarks are better than local competitors 3. Strong primary care physician base 4. Able to leverage specialty services offered by Crozer and retain patients within the system	1. Inadequate financial/accounting system at the individual hospital level 2. Historically low patient experience ratings 3. Aging primary care physician base
Opportunities	**Threats**
1. Opportunity to convert to all private beds 2. Furthering continuum of care by adding transitional services 3. Drive additional volume through cosmetic upgrades, especially in maternal health 4. Capacity to add additional services at hospital	1. Changes in government reimbursement 2. Largely unionized labor force 3. World-class academic facilities located throughout Philadelphia market

SWOT Mitigants

Mitigants to the weaknesses identified during the SWOT analysis are:

1. Prospect is implementing Oracle software at the Crozer facilities at the end of 2019, which will allow the system to begin analyzing performance at the facility and service line levels.
2. Prospect has made patient experience a key focus and has recently hired two patient experience officers to help drive improvements across the facilities.
3. Prospect's experience with maintaining strong physician relationships will help the system recruit new physicians to replace physicians lost to retirement.

Mitigants to the threats identified during the SWOT analysis are:

1. Prospect's established payor relationships will help the facility favorably adjust to any potential changes in government reimbursement.
2. Prospect has leverage in the market considering the facilities are the dominant healthcare provider in Delaware County, therefore, they should be able to avoid highly unfavorable collective bargaining agreements.
3. Prospect focuses on its facilities being "community assets," which should allow the facilities to be successful without creating direct competition with the large academic centers.

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SPRINGFIELD HOSPITAL

190 W. Sproul Road
Springfield, PA 19064

Overview

Springfield Hospital is a 25-bed acute care hospital located in the suburb of Springfield, PA, approximately 20 miles west of Philadelphia.

- Located in the center of Delaware County with an increased number of physicians relocating and opening practices in the area.
- Most favorable payor mix in the Crozer-Keystone system, as it serves a more affluent, commercial-based population.
- Operates under the same license as with Crozer-Chester Medical Center and Taylor Hospital.

Beds	25
Square Feet[1]	91,800
Year Built	1974
Admits Market Share[2]	39% | #1 PSA

(1) Excludes land totaling 419,764 SF
(2) Inpatient admissions for Delaware county only.

Acquired Prominent Primary Care Group

- Recently acquired the primary care group Rose Tree, which was formerly with local competitor, Main Line Riddle.
- Springfield currently receives 20% of referrals from Rose Tree, but expects this number to grow as a result of the acquisition, with the goal of 70%.

Recent and Ongoing Capital Additions

- $12M spent so far with an unspecified amount budgeted for Phase 2, which is expected to start in Q3 2019.
- Completed new inpatient unit (14 beds) and finalizing new MRI. Phase 2 plans include a Telemetry addition and lobby and radiology upgrades.

Partnerships with On-Campus Sportsplex

- Springfield features a 190,000 square feet gym attached to the facility including a fitness area, basketball courts, tennis courts, yoga studio, lap pool, and more.
- The hospital is looking to create additional partnerships with the gym that would allow physical therapy services to be held using the gym amenities, potentially driving additional revenues to the main hospital.



Main Hospital Building

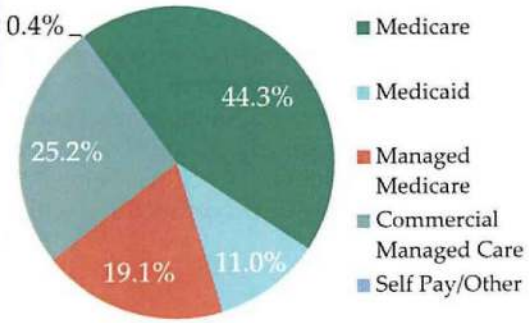


HealthPlex Sports Club at Springfield Hospital


HealthPlex Lap Pool


HealthPlex Indoor Tennis Courts

Payor Mix (by Acute Admissions)[1]



1) Facility Level payor mix for Q2 2019 YTD as presented by Prospect

Admission Stats

- Annual Admits: 2,000
- Annual ED Visits: 13,000

Key Services

- Senior Care
- Joint Replacement Surgery
- Pain Management
- Ophthalmology
- Primary Care

MPT CONFIDENTIAL MPT_PROSPECT_00000116

SPRINGFIELD HOSPITAL

Strengths	Weaknesses
1. Favorable payor mix 2. Strong ortho and geriatric service lines fueled by an increasing elderly population 3. Experienced senior leadership team 4. Outpatient services provide majority of revenues	1. Inadequate financial/accounting system at the individual hospital level 2. Aging primary care physician base 3. Semi-private patient rooms
Opportunities	**Threats**
1. Diversify services by increasing specialist base 2. Incorporate large on-campus sportsplex into physical therapy and diabetic care programs 3. Increase inpatient volume from recently acquired Rose Tree primary care practice	1. Changes in government reimbursement 2. Largely unionized labor force 3. World-class academic facilities located throughout Philadelphia market

SWOT Mitigants

Mitigants to the weaknesses identified during the SWOT analysis are:

1. Prospect is implementing Oracle software at the Crozer facilities at the end of 2019, which will allow the system to begin analyzing performance at the facility and service line levels.
2. Prospect's experience with maintaining strong physician relationships will help the system recruit new physicians to replace physicians lost to retirement.
3. Prospect still has close to $100M of capital commitments remaining from the Crozer-Keystone acquisition, which can be used to convert semi-private patient rooms into private rooms.

Mitigants to the threats identified during the SWOT analysis are:

1. Prospect's established payor relationships will help the facility favorably adjust to any potential changes in government reimbursement.
2. Prospect has leverage in the market considering the system is dominant healthcare provider in Delaware County. Therefore, they should be able to avoid highly unfavorable collective bargaining agreements.
3. Prospect focuses on its facilities being "community assets," which should allow the facilities to be successful without creating direct competition with the large academic centers.

MPT CONFIDENTIAL MPT_PROSPECT_00000117

TAYLOR HOSPITAL

175 E. Chester Pike
Ridley Park, PA 19078

Beds	105
Square Feet[1]	282,681
Year Built	1971
Admits Market Share[2]	39% | #1 PSA

(1) Excludes land of 822,936 SF
(2) Inpatient admissions for Delaware County only.

Overview

Taylor Hospital is a 105-bed acute care hospital located in the suburb of Ridley Park, PA, approximately 15 miles southwest of Philadelphia.

- Located in Delaware County with a loyal patient population (outmigration for tertiary services).
- Strong focus on post-acute services.
- Operates under one license with Crozer-Chester Medical Center and Springfield Hospital.

Favorable Geographic Location

- Closest facility to Philadelphia in the Crozer-Keystone system.
- Close proximity to the airport and the local Boeing plant, which are two of the largest employers in the area.

Recent/Upcoming Capital Additions

- Taylor recently completed a renovation, which includes a renovated ED and a new CT scanner.
- There are currently additional renovations planned for the ED, which are intended to improve the cosmetics and flow of patients.



Exterior


Renovated Patient Admit Area


Exam Room


Renovated ER Lobby

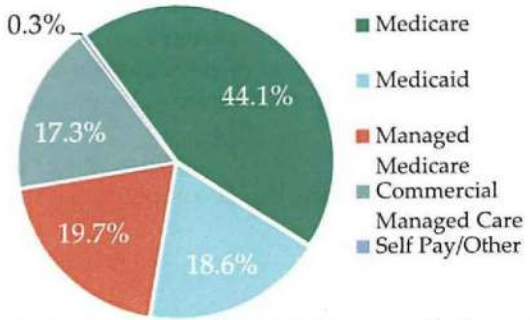
Admission Stats

- Annual Admits: 6,800
- Annual ED Visits: 27,000

Key Services

- Physical Therapy and Rehabilitation
- Sleep Surgery
- General Surgery
- Primary Care
- Orthopedics

Payor Mix (by Acute Admissions)[1]



1) Facility Level payor mix for Q2 2019 YTD as presented by Prospect

MPT CONFIDENTIAL MPT_PROSPECT_00000118

TAYLOR HOSPITAL

Strengths	Weaknesses
1. Patient friendly building layout 2. Proximity to local Boeing plant and airport 3. Historically considered the #1 ED in Crozer's system, in terms of experience and efficiencies	1. Inadequate financial/accounting system at the individual hospital level 2. 1-star CMS rating 3. Aging primary care physician base
Opportunities	**Threats**
1. Drive ER volume through recently renovated ER space 2. Develop new service lines including colorectal surgeries and GERD program 3. Increase utilization of inpatient rehab unit	1. Changes in government reimbursement 2. Largely unionized labor force 3. World-class academic facilities located throughout Philadelphia market

SWOT Mitigants

Mitigants to the weaknesses identified during the SWOT analysis are:

1. Prospect is implementing Oracle software at the Crozer facilities at the end of 2019, which will allow the system to begin analyzing performance at the facility and service line levels.
2. Prospect has worked to improve quality data points such as patient experience, mortality, and readmissions, and believes the current run-rate will improve this rating (rating currently uses data that is 3 years old).
3. Prospect's experience with maintaining strong physician relationships will help the system recruit new physicians to replace physicians lost to retirement.

Mitigants to the threats identified during the SWOT analysis are:

1. Prospect's established payor relationships will help the facility favorable adjust to any potential changes in government reimbursement.
2. Prospect has leverage in the market considering the facilities are the dominant healthcare provider in Delaware County. Therefore, they should be able to avoid highly unfavorable collective bargaining agreements.
3. Prospect focuses on its facilities being "community assets," which should allow the facilities to be successful without creating direct competition with the large academic centers.

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CHARTERCARE HEALTH PARTNERS

System Overview

Third Largest Provider in Rhode Island

- 2 acute care hospitals (532 licensed beds)
  - Roger Williams Medical Center (RWMC) – 220 beds
  - Our Lady of Fatima Hospital (OLFH) – 312 beds
- 35 OP facilities and clinics
- Prospect has 85% interest in subsidiary that owns facilities. MPT has requested the JV agreement from Prospect.
- Shared leadership team manages both hospitals
- $100M in capital improvements since Prospect acquisition

Large IPA and Strong Payor Relationships

- IPA includes over 420 physicians (65 employed physicians)
- Strong payor relationships with all major health plans

System Serves a Large Medicaid Population

- 24% of the population is low income and covered by the State Medicaid program

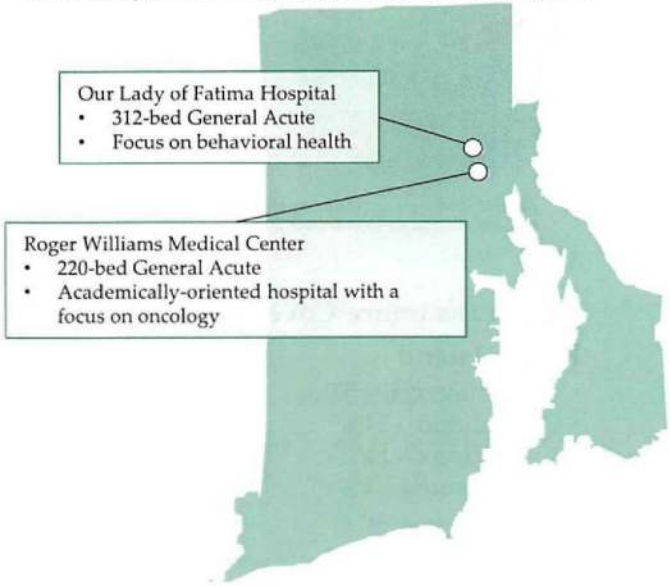
Low Cost Leader

- CharterCare Health Partner's coordinated regional care model allows them to deliver services to patients at multiple levels of care, at the right time and place and at lower costs to effectively serve Medicaid patients.

Projecting Strong Revenue and EBITDAR Growth

(in millions)	Year 1[(1)]	Year 2	Year 3
Net Revenues	$358.0	$368.7	$378.0
Expenses	$330.1	$339.4	$347.2
EBITDAR[(2)]	$27.9	$29.3	$30.8

1) Year 1 timeframe is Q4 FY19-Q3 FY20. Projections include both hospitals.
2) Adjusted EBITDA per Prospect's projections do not include rent expense.
Note: Strategic initiatives driving growth outlined on Page 105.







Roger Williams Medical Center





Our Lady of Fatima Hospital

MPT CONFIDENTIAL MPT_PROSPECT_00000120

CHARTERCARE HEALTH PARTNERS

Market Overview

- CharterCare's primary service area is Providence County, but given the small size of Rhode Island, the hospitals see patients from across the state.
- Rhode Island's primary industries are healthcare, tourism, manufacturing, financial services, and education.
- In 2018, 14% of Rhode Island's population lived below the poverty line.
- CharterCare's primary competition comes from non-profit hospitals operated by Care New England, LifeSpan, and Prime Healthcare.
- There are additional hospitals close to CharterCare's hospitals, but they are focused on obstetrics so not considered direct competition as CharterCare does not offer these services.

Rhode Island Demographics

Market Stats	PSA(1)	Rhode Island	USA
2018 Population	872k	1.1M	331.7M
0-18	20.1%	19.2%	22.6%
19-64	63.4%	63.1%	61.2%
65+	16.5%	17.7%	16.2%
% growth 2010-18	*1.34%*	*1.03%*	*6.1%*
% growth 2018-23	*0.70%*	*0.79%*	*3.9%*
Median HH Income	$57,361	$59,985	$57,056
Poverty Level	15%	14%	14%

(1) Based on a 15 mile driving radius.
Source: Sitewise market statistics.

Rhode Island Healthcare Market Led by Non-Profit Providers

Competitor	# Facilities in Market	Ownership	Acute Beds(1)	Notes
Prospect	2	*For-Profit*	*532*	**Dominant Medicaid population provider**
LifeSpan	4	Non-Profit	1,242	Rhode Island's oldest and largest healthcare system
Care New England Health System	2	Non-Profit	666	Partners announced acquisition of CNE in 2018
Prime Healthcare	1	Non-Profit(2)	141	Well-established healthcare brand; current MPT relationship

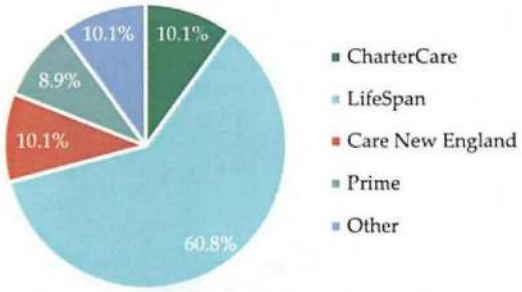
(1) Totals may differ from actuals due to database availability.
(2) MPT-owned Prime Healthcare facilities are For-Profit.
Source: Sitewise market statistics.

Primary Service Area



(1) Facilities are not considered direct competition as they are freestanding rehabilitation facilities, psych facilities, OB facilities, or are located in the state of Massachusetts.

Market Share In Primary Service Area(1)



(1) Based on discharges and excluding obstetrics market share as CharterCare does not provide these services

Health Insurance Coverage in Rhode Island

- Commercial – 57%
- Medicaid – 24%
- Medicare – 14%
- Uninsured – 5%

Source: KFF.org based on 2017 data

MPT CONFIDENTIAL MPT_PROSPECT_00000121

Strategic Initiatives

Business Development

A $4.8M EBITDAR increase is expected due to volume growth and the closure of an outpatient clinic. The anticipated volume growth is driven by the following:

- $2.0M pickup from Certified Clinical Medical Assistant (CCMA) mitigation. This initiative is to replace non-productive physicians with more productive physicians at the facilities and is not yet finalized.
- $1.3M pickup from growth of ED volume and inpatient conversions at RWMC. RWMC completed a renovation of their ED on 2/12/2019. Per Prospect, ED volumes were suppressed due to the renovation taking place so they expect volumes to increase to pre-renovation levels going forward.
- $0.5M pickup from podiatry volume growth. This initiative is based off of hiring an additional podiatrist.
- $1.0M pickup is driven by the closure of the outpatient alcohol addiction clinic at RWMC. The program lost ~$1M EBITDAR per year and was closed on 5/9/2019.

Managed Care Contracts

A $3.4M EBITDAR pickup is expected, due to favorable rate increases with managed care providers. Contracts with BCBS, Tufts, Aetna, and United Healthcare have been fully negotiated and executed. The rate increases for these contracts range from 2.10% to 8.00% and represent $3.0M of the $3.4M projected EBITDAR increase. The additional $0.4M of projected EBITDAR pickup is due to rate increases with Neighborhood and Medicaid. These contracts are not yet executed.

Expense Initiative - SWB

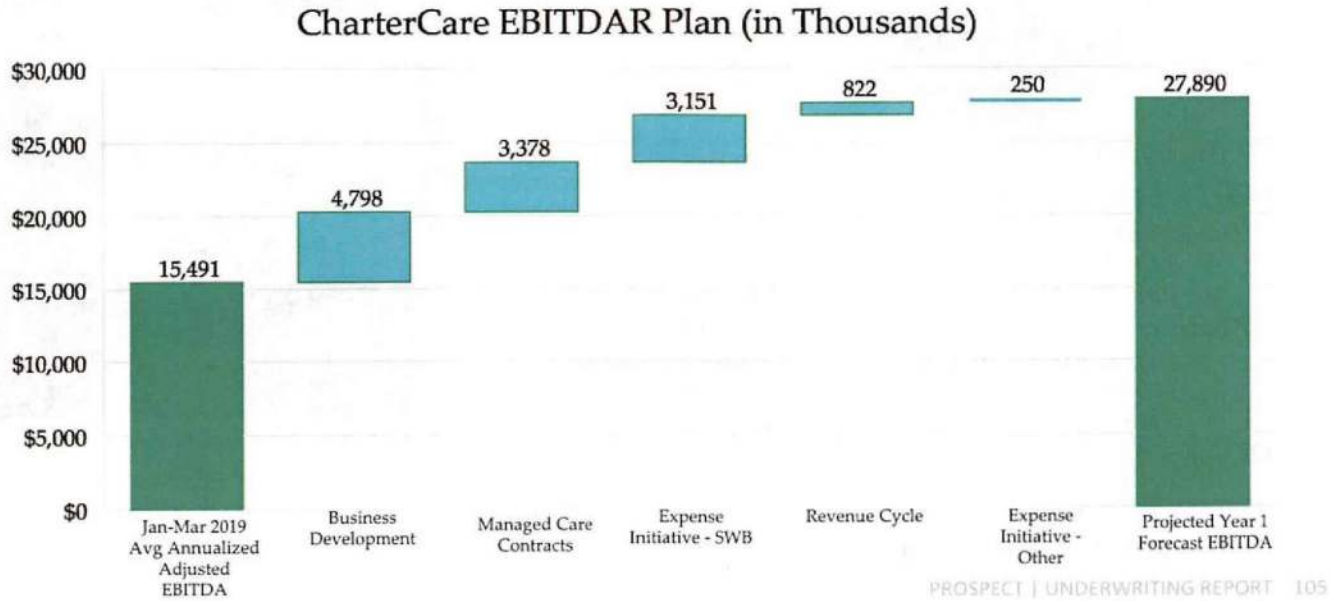
A $3.2M EBITDAR increase is expected to come from more effective seasonality staffing and the closure of an outpatient health center. More effective seasonality staffing is estimated to save $2.4M per year by staffing Fridays during the summer months to mimic Saturday staffing levels. The closure of an outpatient health center has to be approved by the state in a reverse Certificate of Need (CON) hearing so the initiative is uncertain at this point in time. It is estimated to save $0.8M.

Revenue Cycle

Prospect has various initiatives in place for CharterCare to improve revenue cycle performance. One initiative is to focus on reducing denials, which will be accomplished by making sure all claims are viewed within 48 hours to ensure any potential denials are dealt with in a timely manner. The $822k EBITDAR pickup is based off of a 1% improvement from 2018's collection rate.

Expense Initiative - Other

The final initiative driving additional EBITDAR is a medical education cap increase. This is expected to generate $250k of additional EBITDAR and become effective prior to Prospect's 2019 fiscal year end. There is no underlying data to this assumption as the initiative was not implemented at the time of this report.



MPT CONFIDENTIAL MPT_PROSPECT_00000122

ROGER WILLIAMS MEDICAL CENTER

825 Chalkstone Avenue
Providence, RI 02908

Beds	220
Square Feet[1]	399,186
Year Built	1920
Market Share[2]	10.1%

(1) *Includes the hospital, parking lots, and Medical Office Buildings ("MOBs").*
(2) *Based on discharges and excluding obstetrics market share as CharterCare does not provide these services.*

Overview

Roger Williams Medical Center is a 220-bed acute care hospital located 2 miles outside of the heart of Providence, RI.

Leading Cancer Center

- Leader in the delivery of high quality cancer care.
- The Cancer Center was recently expanded and redesigned and includes a Chemotherapy Infusion Center, Bone Marrow Transfer Clinic, Multi-Disciplinary Clinic, and a Hematology-Oncology Clinic.
- The Bone Marrow Transfer Clinic is the only one that exists in the state of Rhode Island.

Academically Oriented

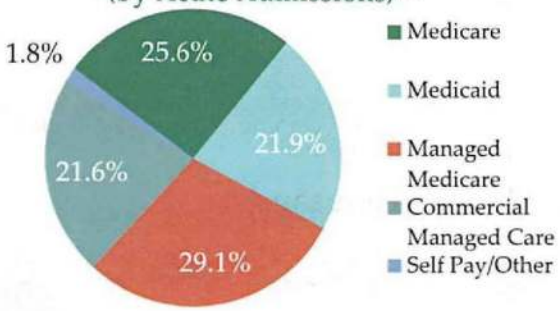
RWMC has strong relationships with nearby colleges and has a reputation as a teaching hospital.

- Affiliations with Brown University and Boston University
- Fellowships in Oncology, Rheumatology, Dermatology, and Pulmonary
- Facility has 42 residents per year
- Only bone marrow therapy unit in Rhode Island

Recent/Upcoming Capital Expenditures

- $15M Emergency Department (ED) renovation was completed on 2/12/2019.
- Phase II of the ED renovation will be a locked BH unit.

Payor Mix (by Acute Admissions)[1]



1) Facility Level payor mix for Q2 2019 YTD as presented by Prospect

FY 2018 Facility Stats

- IP Cases: 6,883
  - 2,499 Internal Medicine
  - 1,818 Psychiatry
- OP Surgery Cases: 9,954
  - 5,398 Gastroenterology
  - 1,053 General Surgery
  - 669 Surgical Oncology
- OP Cases: 64,550
  - 46,543 Lab
  - 4,112 OP Addiction Med
  - 3,297 Diagnostic Imaging

Key Services

- Emergency Services
- Oncology
- Behavioral Medicine
- Diagnostic Imaging
- Gastroenterology
- Laboratory Services
- Sleep Disorder Center
- Stroke Center
- Bariatric Surgery



Roger Williams Medical Center


Recently Renovated Emergency Department


Bone Marrow Transplant Unit

Source: CharterCare presentation to MPT on 5/9/2019.

MPT CONFIDENTIAL MPT_PROSPECT_00000123

OUR LADY OF FATIMA HOSPITAL

200 High Service Avenue
North Providence, RI 02904

Beds	312
Square Feet[1]	413,700
Year Built	1953
Market Share[2]	10.1%

(1) *Includes the hospital, parking lots, and Medical Office Buildings ("MOBs").*
(2) *Based on discharges and excluding obstetrics market share as CharterCare does not provide these services.*

Overview

Our Lady of Fatima Hospital is a 312-bed acute care hospital located 4 miles outside of the heart of Providence, RI and 2 miles from RWMC.

Focus on Behavioral Health

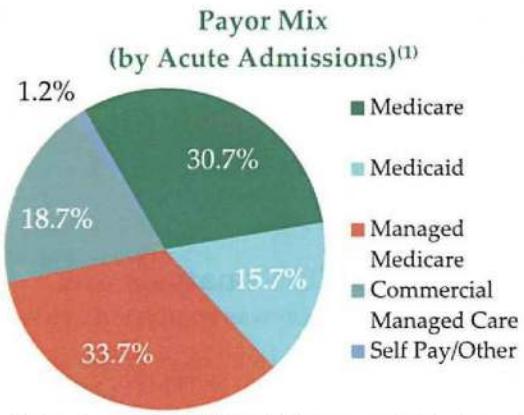
- Focus on behavioral health with a long-term behavioral health unit where the ALOS is often greater than a year. The facility is paid on a per diem basis for these patients.
- Designated six-bed behavioral health emergency department, which is separate from the rest of the emergency department.

Breast Care Center

- Breast care center that provides quality breast imaging services in a quiet and comfortable atmosphere.
- The center has state of the art equipment where imaging services such as 3D mammography, breast ultrasound, and breast biopsy can be performed.

Recent/Upcoming Capital Expenditures

- $100M in capital improvements to the CharterCare facilities were added in the five years since Prospect ownership.
- No major capital projects were discussed, but the building is aging and will require capital to maintain going forward.



1) Facility Level payor mix for Q2 2019 YTD as presented by Prospect

FY 2018 Facility Stats

- IP Cases: 5,508
  - 1,790 Internal Medicine
  - 1,671 Psychiatry
- OP Surgery Cases: 7,563
  - 2,283 Gastroenterology
  - 1,596 Urology
  - 1,068 Dental
- OP Cases: 148,675
  - 124,046 Lab
  - 6,037 Wound Care
  - 2,415 Breast

Key Services

- Emergency Services
- Breast Care Center
- Psychiatry
- Endoscopy Center
- Imaging Services
- Laboratory Services
- Surgical Services
- Wound Care
- Rehabilitation

Source: CharterCare presentation to MPT on 5/9/2019.



Our Lady of Fatima Hospital



Breast Care Center



Intensive Care Unit

MPT CONFIDENTIAL

CHARTERCARE HEALTH PARTNERS

Strengths	Weaknesses
1. Profitable hospitals with loyal physician base and experienced leadership team 2. RWMC has strong reputation for clinical quality and oncology services 3. RWMC has the only bone marrow therapy unit in Rhode Island 4. Only Level IV addiction treatment program in RI 5. Teaching hospital affiliations with Brown University and Boston University	1. Aging facilities with significant capital needs 2. Medicaid heavy payor mix 3. No OB or Pediatrics 4. ~40% patient leakage from the system
Opportunities	**Threats**
1. Low-cost provider well-positioned for a risk-based contracting environment 2. Consolidate services between two facilities 3. Discontinue non-profitable service lines or negotiate higher rates with state to offset 4. Increase employed physician base and capitalize on disruption from Care New England divestiture	1. Changes in government reimbursement 2. Market leakage to downtown Providence; 3rd place provider in terms of market share in a competitive market 3. Market does not change to capitation payments as they hope

SWOT Mitigants

Mitigants to the weaknesses identified during the SWOT analysis are:

1. $100M capital investment since Prospect acquisition. $15M ED renovation was completed at RWMC in February 2019.
2. Building brand around oncology, orthopedics, and behavioral health. Offer services that are not found anywhere else in the state.
3. Working with the physicians to improve patient leakage. They have already seen the financial benefits of keeping the patients in the system. Direct admit programs in place with 4 hospitalists at RWMC and 7 at OLFH.

Mitigants to the threats identified during the SWOT analysis are:

1. Prospect's established payor relationships will help the facility favorably adjust to any potential changes in government reimbursement.
2. The hospitals are entrenched in the community as they have been serving the community for over 100 years. Building around their strong market position in behavioral health.
3. Indicators are pointing towards more capitation payments in the future and is a nationwide trend.

MPT CONFIDENTIAL MPT_PROSPECT_00000125

Medical Properties Trust

PROJECT PROSPECT
Final Underwriting Report Approval Form

Those signing below have read the Final Underwriting Report and give their final approval to close this transaction.

Final Underwriting Report Approval Signatures:

Redacted

Managing Director - Asset Mangement & Underwriting - Redacted — 2.4.2020 — Date

Redacted

Director, Asset Management & Underwriting - Redacted — 2/4/2020 — Date

Director of Healthcare - Redacted — Date

Redacted

Manager, Asset Management & Underwriting - Redacted — 2/5/2020 — Date

Redacted

Manager, Asset Management & Underwriting - Redacted — 2/5/2020 — Date

Redacted

Manager, Asset Management & Underwriting - Redacted — 2/5/2020 — Date

Redacted

Sr. Analyst, Asset Management & Underwriting - Redacted — 2/5/2020 — Date

Redacted

Analyst, Asset Management & Underwriting - Redacted — 2/5/2020 — Date

Redacted

Analyst, Asset Management & Underwriting - Redacted — 2/5/20 — Date

Redacted

Risk Manager, Asset Management & Underwriting - Redacted — Date

Rev. 8/29/11

Medical Properties Trust

PROSPECT MEDICAL HOLDINGS - PROJECT PROSPECT
Closing Approval Form

The following give their final approvals to close this transaction:

General Counsel

- ☐ 1. Final Underwriting Report Submitted — N/A
- ☐ 2. Final Summary Report Submitted — Redacted 3/11/20
- ☐ 3. Due Diligence Checklist Completed — discussed w/ Redacted
- ☐ 4. Closing Approval Signatures

The following give their final approvals to close this transaction.

EXECUTIVE COMMITTEE

All members required

Chairman, President & CEO - Edward K. Aldag, Jr. — Date 2/5/20

Redacted — 3/10/2020

EVP & COO Redacted — Date

EVP & CFO - R. Steven Hamner — Date 2/7/20

Rev 5-27-05



Consolidated Financial Statements

As of and For the Years Ended
September 30, 2016 and 2015

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.



Prospect Medical Holdings, Inc.

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Tel: Redacted
Fax: Redacted
www.bdo.com

Redacted

Independent Auditor's Report

Board of Directors
Prospect Medical Holdings, Inc.
Los Angeles, California

We have audited the accompanying consolidated financial statements of Prospect Medical Holdings, Inc. (the "Company"), which comprise the consolidated balance sheets as of September 30, 2016 and 2015, and the related consolidated statements of operations, statements of comprehensive (loss) income, statements of stockholder's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Prospect Medical Holdings, Inc. and its subsidiaries as of September 30, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

December 29, 2016

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.

Consolidated Financial Statements

Prospect Medical Holdings, Inc.

Consolidated Balance Sheets
(in thousands except par value and share amounts)

September 30,	**2016**	2015
Assets		
Current assets		
Cash and cash equivalents	$ **29,587**	$ 65,899
Restricted cash	**6,117**	4,585
Restricted investments	**4,568**	1,266
Patient accounts receivable, net of allowance for doubtful accounts of $91,723 and $49,882	**262,497**	135,529
Due from government payers	**38,806**	38,460
Other receivables, prepaid expenses and other current assets	**99,228**	24,690
Income taxes receivable, net	**24,731**	-
Inventories	**25,590**	12,115
Hospital fee program receivable	**43,039**	32,285
Current assets held for sale	**10,494**	7,199
Total current assets	**544,657**	322,028
Property, improvements and equipment, net	**441,352**	238,205
Deferred income taxes, net	**25,294**	11,865
Goodwill	**341,488**	159,821
Intangible assets, net	**41,897**	28,820
Other assets	**42,560**	9,901
Long-term assets held for sale	**2,384**	4,978
Total assets	$ **1,439,632**	$ 775,618

See accompanying notes to the consolidated financial statements.

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Prospect Medical Holdings, Inc.

Consolidated Balance Sheets
(in thousands except par value and share amounts)

September 30,	2016	2015
Liabilities and Stockholder's Equity		
Current liabilities:		
Accrued medical claims and other healthcare costs payable	$ 52,761	$ 53,531
Accounts payable and other accrued liabilities	205,946	101,708
Accrued salaries, wages and benefits	108,795	56,694
Hospital fee program liability	18,684	15,022
Due to government payers	23,002	27,078
Income taxes payable, net	-	15,110
Revolving line of credit	55,000	20,000
Current portion of capital leases	6,894	2,900
Current portion of long-term debt	6,951	135
Other current liabilities	10,293	2,168
Current liabilities held for sale	2,630	1,972
Total current liabilities	490,956	296,318
Long-term debt, net of current portion	613,005	415,466
Malpractice reserves	34,757	6,632
Capital leases, net of current portion	33,334	9,296
Asset retirement obligations	5,056	4,583
Other long-term liabilities	22,235	6,754
Pension obligation	209,658	-
Long-term liabilities held for sale	787	129
Total liabilities	1,409,788	739,178
Commitments, contingencies and subsequent events		
Stockholder's equity:		
Common stock, $0.01 par value; 100 shares authorized, issued and outstanding at September 30, 2016 and 2015	1	1
Additional paid-in capital	21,277	20,037
Accumulated other comprehensive income	11,338	-
(Accumulated deficit) retained earnings	(9,999)	6,158
Total stockholder's equity attributable to Prospect Medical Holdings, Inc.	22,617	26,196
Non-controlling interests	7,227	10,244
Total stockholder's equity	29,844	36,440
Total liabilities and stockholder's equity	$ 1,439,632	$ 775,618

See accompanying notes to the consolidated financial statements.

Confidential

Prospect Medical Holdings, Inc.

Consolidated Statements of Operations
(in thousands)

For the Years Ended September 30,	**2016**	2015
Revenues:		
Net Hospital Services revenues	**$ 1,273,038**	$ 1,021,038
Provision for bad debts	**(41,427)**	(42,042)
Net Hospital Services revenues less provision for bad debts	**1,231,611**	978,996
Medical Group revenues	**369,730**	333,238
Net Global Risk Management revenues	**19,635**	3,440
Other revenues	**9,582**	5,371
Total net revenues	**1,630,558**	1,321,045
Operating Expenses:		
Hospital operating expenses	**990,385**	768,863
Medical Group cost of revenues	**248,063**	224,028
Global Risk Management cost of revenues	**17,661**	3,119
General and administrative	**270,988**	188,956
Depreciation and amortization	**47,106**	34,128
Total operating expenses	**1,574,203**	1,219,094
Operating (loss) income from unconsolidated joint venture	**(931)**	6,400
Operating income	**55,424**	108,351
Other (income) expense:		
Interest expense and amortization of deferred financing costs, net	**48,616**	42,027
Loss on debt extinguishment	**26,561**	-
Adjustment to bargain purchase	**-**	319
Other (income) expense, net	**(315)**	230
Total other expense, net	**74,862**	42,576
(Loss) income before income taxes	**(19,438)**	65,775
Income tax (benefit) provision	**(4,750)**	31,279
Net (loss) income from continuing operations	**(14,688)**	34,496
Loss from discontinued operations:		
Loss from discontinued operations	**(8,277)**	(327)
Income tax benefit	**(3,373)**	(133)
Loss on discontinued operations	**(4,904)**	(194)
Net (loss) income before allocation to non-controlling interests	**(19,592)**	34,302
Net loss attributable to non-controlling interests	**(3,435)**	(337)
Net (loss) income attributable to Prospect Medical Holdings, Inc.	**$ (16,157)**	$ 34,639

See accompanying notes to the consolidated financial statements.

Confidential

Prospect Medical Holdings, Inc.

Consolidated Statements of Comprehensive (Loss) Income
(in thousands)

For the Years Ended September 30,	**2016**	2015
Net income attributable to Prospect Medical Holdings, Inc.	**$ (16,157)**	$ 34,639
Other comprehensive income, net of tax:		
Pension obligation and other post-retirement benefits adjustment (net of $7,800 tax)	**11,332**	-
Debt and equity securities, unrealized gain	**6**	-
Total other comprehensive income, net of tax	**11,338**	-
Total comprehensive (loss) income	**$ (4,819)**	$ 34,639

See accompanying notes to the consolidated financial statements.

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Prospect Medical Holdings, Inc.

Consolidated Statements of Stockholder's Equity
(in thousands except share amounts)

	Number of Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings (Accumulated Deficit)	Prospect Medical Holdings, Inc. Stockholder's Equity (Deficit)	Non-controlling Interests	Total Stockholder's Equity (Deficit)
Balance at October 1, 2014	100	$ 1	$ 18,457	$ -	$ (28,481)	$ (10,023)	$ 8,817	$ (1,206)
Options exercised	-	-	396	-	-	396	-	396
Stock-based compensation	-	-	1,184	-	-	1,184	-	1,184
Non-controlling interest attributed to PCC Seller	-	-	-	-	-	-	1,764	1,764
Net income (loss)	-	-	-	-	34,639	34,639	(337)	34,302
Balance at September 30, 2015	100	1	20,037	-	6,158	26,196	10,244	36,440
Options exercised	-	-	121	-	-	121	-	121
Stock-based compensation	-	-	1,119	-	-	1,119	-	1,119
Non-controlling interest attributed to PCC Seller	-	-	-	-	-	-	418	418
Net loss	-	-	-	-	(16,157)	(16,157)	(3,435)	(19,592)
Other comprehensive income, net of tax	-	-	-	11,338	-	11,338	-	11,338
Balance at September 30, 2016	100	$ 1	$ 21,277	$ 11,338	$ (9,999)	$ 22,617	$ 7,227	$ 29,844

See accompanying notes to the consolidated financial statements.

Confidential

Prospect Medical Holdings, Inc.

Consolidated Statements of Cash Flows
(in thousands)

For the Years Ended September 30,	2016	2015
Operating activities		
Net (loss) income	$ (19,592)	$ 34,302
Adjustments to reconcile net (loss) income to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	47,106	34,128
Amortization of deferred financing costs, net	2,245	2,223
Gain on outlier settlement	(5,741)	-
Write-off of deferred financing costs	5,587	-
Amortization of original issue discount and premium, net	1,200	1,080
Write-off of original issue discount and premium	3,030	-
Provision for bad debts	41,427	42,042
Pension obligation net periodic benefit credit	(1,356)	-
Deferred income taxes, net	20,863	(14,008)
Stock-based compensation	1,119	1,184
Undistributed earnings from equity method investments	(4)	(135)
Loss on disposal of assets	-	271
Adjustment to (Gain on) bargain purchase	-	319
Gain on sale of equity method investment	-	(296)
Changes in operating assets and liabilities, net of business combinations:		
Patient accounts receivable	(68,660)	(59,985)
Due to/from government payers, net	(9,942)	2,389
Other receivables, prepaid expenses and other current assets	(20,946)	9,973
Hospital fee program receivable	(10,754)	(32,285)
Inventories	(2,095)	(1,809)
Hospital fee program liability and deferred revenue	3,662	12,216
Income taxes payable/receivable, net	(39,841)	9,289
Deposits and other assets	(8,293)	(636)
Accrued medical claims and other healthcare costs payable	(769)	14,217
Accounts payable and other accrued liabilities	47,215	21,935
Pension obligation	(100,000)	-
Net cash and cash equivalents used in operating activities from discontinued operations	(583)	(969)
Net cash and cash equivalents (used in) provided by operating activities	(115,122)	75,445
Investing activities		
Purchases of property, improvements and equipment	(38,642)	(37,231)
Cash paid for acquisitions, net of cash received and working capital adjustments	(72,259)	(1,740)
Cash in escrow for acquisitions (see Note 16)	(22,854)	-
Proceeds from sale of property and improvements	-	987
Proceeds from sale of equity method investment	-	1,233
Cash paid for equity method investments	-	(1,880)
Change in note receivable (net)	42	70
Increase in restricted investments	(3,302)	(624)
Net cash and cash equivalents used in investing activities from discontinued operations	(150)	(186)
Net cash and cash equivalents used in investing activities	(137,165)	(39,371)

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Prospect Medical Holdings, Inc.

Consolidated Statements of Cash Flows (Continued)
(in thousands)

For the Years Ended September 30,	2016	2015
Financing activities		
Borrowings on Senior Secured Notes, net of original issue discount	**615,625**	-
Repayments on Senior Secured Notes	**(1,563)**	-
Repayment of Retired Senior Secured Notes	**(425,000)**	-
Borrowings on line of credit, net	**55,000**	-
Repayments on retired line of credit, net	**(20,000)**	-
Repayments of long-term debt, net	**(1,634)**	(133)
Proceeds from financing leases, net	**17,072**	-
Repayments of capital leases	**(4,350)**	(4,935)
Proceeds from exercise of stock options	**121**	396
Cash paid for deferred financing costs, net	**(12,251)**	-
Change in restricted cash	**(1,532)**	391
Repayments of insurance premium financing	**(5,513)**	(4,554)
Net cash and cash equivalents provided by (used in) financing activities	**215,975**	(8,835)
(Decrease) increase in cash and cash equivalents	**(36,312)**	27,239
Cash and cash equivalents, beginning of year	**65,899**	38,660
Cash and cash equivalents, end of year, continuing operations	**$ 29,587**	$ 65,899
Supplemental disclosure of cash flow information		
Interest paid (including cash paid on debt extinguishment)	**$ 54,688**	$ 38,099
Income taxes paid, net	**$ 12,255**	$ 35,778
Schedule of non-cash investing and financing activities		
Equipment acquired under capital leases	**$ 11,575**	$ 1,999
Insurance premium financed	**$ 5,513**	$ 4,472
Partial satisfaction of long-term liability assumed from acquisition of PCC	**$ 418**	$ 1,446

See accompanying notes to the consolidated financial statements.

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1. Organization

Prospect Medical Holdings, Inc. ("Prospect" or the "Company" or the "Parent Entity") is a Delaware corporation and a wholly-owned indirect subsidiary of Ivy Holdings Inc. ("Ivy Holdings").

The Company's operations are currently organized into four primary reportable segments: Hospital Services, Medical Group, Global Risk Management and Corporate, as discussed below.

Hospital Services Segment

The Company owns 18 acute care and behavioral hospitals and multi-level elder care facilities in Southern California, the Greater San Antonio, Texas region, Rhode Island, New Jersey and Pennsylvania with approximately 3,100 licensed beds, and a network of specialty and primary care clinics, through its subsidiaries, Southern California Healthcare System, Inc. ("SCHS"), Alta Los Angeles Hospitals, Inc. ("Alta Los Angeles Hospitals"), Alta Newport Hospital, Inc., Prospect Hospital Holdings, LLC ("Nix Health"), Prospect CharterCARE, LLC ("PCC" or "CharterCARE"), Prospect EOGH, Inc. ("East Orange"), and Prospect Crozer, LLC ("Crozer") (collectively, the "Hospital Services segment"). The Hospital Services segment subsidiaries are wholly-owned by Prospect, except for PCC, in which Prospect has an 85% interest.

The Company's three community hospitals in Hollywood, Los Angeles and Norwalk offer a comprehensive range of medical and surgical services, including general acute care hospital services, pediatrics, obstetrics and gynecology, pediatric sub-acute care, general surgery, medical-surgical services, orthopedic surgery, and diagnostic, outpatient, skilled nursing and urgent care services. The Company's psychiatric hospital in Van Nuys provides acute inpatient and outpatient psychiatric services on a voluntary basis. The Company's hospital in Culver City ("SCH Culver City") offers a comprehensive range of inpatient and outpatient services: including general surgery, orthopedic, spine, cardiology, diagnostic outpatient, rehabilitation, psychiatric and detox services. In addition, SCH Culver City has an active emergency room that plays an integral part in providing emergency services to the West Los Angeles area. Foothill Regional Medical Center ("Foothill"), located in Tustin, California, is a general acute care hospital and also operates pediatric sub-acute unit. Los Angeles Hospital at Bellflower ("Bellflower"), which opened in July 2015, operates a 32-bed voluntary adult behavioral health unit.

Nix Health provides comprehensive service offerings at various locations throughout the greater San Antonio, Texas region. These locations include Nix Medical Center, which provides inpatient acute care, geriatric psychiatry services, and emergency room services; Nix Specialty Health Center, which provides a full range of behavioral health and rehabilitation services for children, adolescents, and adults, and a range of health clinics and provider based clinics throughout San Antonio, Texas; and Nix Behavioral Health Center, which provides psychiatric emergency services and a crisis intervention unit. Nix Community General Hospital ("Nix CGH"), located in Dilley, Texas, ceased operations effective September 30, 2016 (see Note 5). Nix Physicians, Inc., a wholly-owned indirect subsidiary of Nix Health, commenced operations during the year ended September 30, 2016 and acquired a medical practice (see Note 4).

CharterCARE's operating subsidiaries include Prospect CharterCARE RWMC, LLC ("Roger Williams Medical Center"), Prospect CharterCARE SJHSRI, LLC ("St. Joseph Health Services of Rhode Island" or "SJHSRI"), Prospect CharterCARE Elmhurst, LLC ("Elmhurst Extended Care"), Prospect CharterCARE Physicians, LLC ("CharterCARE Physicians"), and New University Medical Group, LLC, which include hospitals, medical centers, a multi-level elder care facility, and a network of approximately 60 contracted primary care and specialist physicians located in Rhode Island with 785 licensed beds (collectively, "CharterCARE"). PCC is 85% owned by Prospect and 15% by CharterCARE Community Board (formerly known as CharterCARE Health Partners). Elmhurst Extended Care is included in discontinued operations in the accompanying consolidated financial statements (see Note 5).

East Orange, acquired March 1, 2016 (see Note 4), has 212 licensed beds and provides health care services, including a broad range of adult, psychiatric and intensive care services as well as outpatient ambulatory services and emergency care.

Crozer, acquired July 1, 2016 (see Note 4), provides medical services to Pennsylvania, Southern New Jersey and Northern Delaware including inpatient and outpatient acute care services, sub-acute care, emergency and trauma services, nursing and rehabilitative services, physician care services and other health care services. Crozer includes four hospitals including Crozer Chester Medical Center and Delaware County Memorial Hospital, a network of outpatient centers, a comprehensive physician network and a sports club.

Admitting physicians are primarily practitioners in the local area. The hospitals have payment arrangements with Medicare, Medicaid (Medi-Cal in California) and other third party payers, including commercial insurance carriers, health maintenance organizations ("HMOs") and preferred provider organizations ("PPOs").

Medical Group Segment

The Medical Group segment is a healthcare management services organization that provides management services to affiliated physician organizations that operate as independent physician associations ("Medical Groups" or "IPAs"). The affiliated physician organizations enter into agreements with HMOs to provide HMO enrollees with a full range of medical services in exchange for fixed, prepaid monthly fees known as "capitation" payments. The Medical Groups contract with physicians (primary care and specialist) and other healthcare providers to provide enrollees with medical services. Prospect currently manages the provision of prepaid healthcare services for its affiliated physician organizations in Southern California, Texas and Rhode Island. The network consists of the following physician organizations as of September 30, 2016 (individually referred to as an "Affiliate"):

Prospect Medical Group, Inc. ("PMG")
Prospect Health Source Medical Group, Inc. ("PHS")
Prospect Professional Care Medical Group, Inc. ("PPCM")
Genesis HealthCare of Southern California, Inc. ("Genesis")
Prospect NWOC Medical Group, Inc. ("PNW")
StarCare Medical Group, Inc. ("PSC")
AMVI/Prospect Medical Group ("AMVI/Prospect")
Nuestra Familia Medical Group, Inc. ("Nuestra")
Upland Medical Group, a Professional Medical Group ("UMG")*
Pomona Valley Medical Group, Inc. ("PVMG")*

* PVMG and UMG are collectively referred to as the "ProMed Entities."

These Affiliates are managed by the following two medical management company subsidiaries that are wholly-owned by Prospect (collectively, "MSOs"):

Prospect Medical Systems, Inc. ("PMS")
ProMed Healthcare Administrators ("PHCA")

In addition to the Affiliates and MSOs, the Medical Group segment includes Prospect Provider Group TX, Inc. ("PPGTX"), Prospect Provider Group RI, LLC ("PPGRI"), and Prospect Provider Group NJ, Inc. ("PPGNJ"), each of which are wholly-owned subsidiaries of Prospect Provider Groups, Inc. ("PPG"). PPG is a subsidiary of Prospect.

All of the Affiliates are wholly-owned by PMG, with the exception of Nuestra, which was 72.53% owned by PMG as of September 30, 2016 and 2015, and AMVI/Prospect which is a 50/50 Joint Venture between AMVI Care Health Network, Inc. ("AMVI") and PMG. The operations of all of these entities, with the exception of AMVI/Prospect, are consolidated in the accompanying consolidated financial statements. PMG is owned by a nominee physician shareholder pursuant to an assignable option agreement described below.

The AMVI Joint Venture was formed for the sole purpose of combining enrollment in order to meet minimum enrollment levels required for participation in the CalOptima Medicaid (Medi-Cal in California) program in Orange County, California. The joint venture ownership is set at 50/50 to prevent either party from exerting control over the other; however, AMVI's and PMG's businesses are operated autonomously, and enrollees, financial results and cash flows are each separately tracked and recorded. In accordance with the joint venture partnership agreement, profits and losses are not split in accordance with the partnership ownership interest, but rather, are directly tied to the results generated by each separate portion of the business. Separate from any earnings the Company generates from PMG's portion of business within the joint venture, the Company also earns fees for management services PMS provides to PMG's partner in the joint venture. The Company accounts for PMG's interest in the joint venture partnership using the equity method of accounting. The Company includes in the consolidated financial statements only the net results attributable to those enrollees specifically identified as assigned to the Company, together with the management fee that PMS charges for managing those enrollees specifically assigned to the other joint venture partner.

PMS has entered into an assignable option agreement with PMG and the nominee physician shareholder of PMG. Under the assignable option agreement, Prospect has an assignable option, obtained for a nominal amount from PMG and the nominee shareholder to designate the purchaser (successor physician) for all or part of PMG's issued and outstanding stock held by the nominee physician shareholder (the "Stock Option") in its sole discretion. The Company may also assign the assignable option agreement to any person. The assignable option agreement has an initial term of 30 years and is automatically extended for additional terms of 10 years each, as long as the term of the related management services agreement described below (the "Management Agreement") is automatically extended. Upon termination of the Management Agreement with PMG, the related Stock Option would be automatically and immediately exercised. The Stock Option may be exercised for a purchase price of $1,000. Under these nominee shareholder agreements, Prospect has the unilateral right to establish or effect a change of the nominee, at will, and without the consent of the nominee, on an unlimited basis and at nominal cost throughout the term of the Management Agreement. In addition to the Management Agreement with PMG, Prospect, through one of its management company subsidiaries, has a management agreement with each Affiliate. The term of the Management Agreements is generally 30 years. PMG is the sole shareholder of PHS, PPCM, Genesis, PNW, PSC, UMG, and PVMG. New Genesis Medical Associates, Inc. ("NGMA") is controlled through a nominee shareholder arrangement like the Stock Option structure utilized for PMG and discussed above.

The Company's Affiliates and NGMA have entered into Management Agreements with PMS or PHCA, as applicable. Each Affiliate has agreed to pay a management fee to PMS or PHCA, as applicable. The fee is based in part on the costs to the management company and on a percentage of revenues the Affiliate receives (i) for the performance of medical services by the Affiliate's employees and independent contractor physicians and physician extenders, and (ii) for all other services performed by the Affiliates. The revenue from which this fee is determined includes medical capitation (except for NGMA which provides professional and ancillary services), all sums earned from participation in any risk pools and all fee-for-service revenue earned. The management fee also includes a fixed amount for marketing and public relations services. Except in the case of Nuestra and AMVI/Prospect, the Management Agreements had initial terms of 30 years, renewable for successive 10-year periods thereafter, unless terminated by either party for cause. Effective September 1, 2013, the Managements Agreements for the ProMed Entities were consolidated under one new Management Agreement with PHCA. Effective October 1, 2013, the

Management Agreements for the rest of the Affiliates, other than Nuestra and AMVI/Prospect, were consolidated under one new Management Agreement with PMS. Those two new Management Agreements with PHCA and PMS include initial five year terms and are renewable for successive five year periods thereafter. In the case of Nuestra, its Management Agreement had an initial 10 year term renewable for successive one year terms, subsequently amended in January 15, 2009 to an initial 20 year term renewable for two 10 year periods. In the case of AMVI/Prospect, the Management Agreement has a one year term with successive one year renewal terms. The management agreement for NGMA was effective October 1, 2012 with an initial term of 30 years, renewable for successive 10-year periods thereafter, unless terminated by either party for cause. In return for payment of the management fee, Prospect (through PMS and PHCA) has agreed to provide financial management, information systems, marketing, advertising, public relations, risk management, and administrative support, including for utilization review and quality of care. At its cost, Prospect has assumed the obligations for all facilities, medical and non-medical supplies, and employment of non-physician personnel of its affiliated medical clinics.

The management fee earned by Prospect fluctuates based on the profitability of each Affiliate. Prospect is allocated a 50% residual interest in any profits after the first 8% of the profits. The remaining balance is retained by the Affiliates.

The Management Agreements are not terminable by the Affiliates except in the case of gross negligence, fraud or other illegal acts of Prospect, or bankruptcy of the Company.

Further, Prospect's rights under the Management Agreements are unilaterally saleable or transferable. Based on the provisions of the Management Agreements and the assignable option agreement with PMG, Prospect has determined that it has a controlling financial interest in the Affiliates, with the exception of AMVI/Prospect. Consequently, under applicable accounting principles, Prospect consolidates the revenues and expenses of all the Affiliates except AMVI/Prospect from the respective dates of execution of the Management Agreements. All significant inter-entity balances have been eliminated in consolidation. In the case of AMVI/Prospect, only that portion of the results which are contractually identified as Prospect's are recognized in the consolidated financial statements, together with the management fee that the Company charges AMVI for managing AMVI's share of the joint venture operations.

Prospect has also entered into management agreements with unaffiliated third parties to manage services to their HMO enrollees. These management agreements do not have characteristics that give rise to the consolidation of the entities under current accounting literature.

The affiliated physician organizations provided medical services to a combined total of approximately 307,000 and 258,900 HMO enrollees as of September 30, 2016 and 2015, respectively. The enrollees include approximately 109,000 and 63,700 enrollees that the Company manages for the economic benefit of certain independent third parties, and for which the Company earns management fee income as of September 30, 2016 and 2015, respectively. The total paid member months including managed enrollees, for the fiscal years ended September 30, 2016 and 2015 was approximately 3,600,500 and 3,067,200, respectively.

On December 19, 2013, NGMA, an Affiliate of the Company, purchased stock of Chaparral Medical Group, Inc. ("CMG"), a California medical corporation. Consideration was composed of $1,100,000 in cash at the closing, $700,000 in future cash consideration to be used for the acquired company's general corporate purposes, and 3,750 shares of Ivy Holdings common stock issued at closing to the selling shareholders. As of December 19, 2013, NGMA owned 13.44% of the stock of CMG. During June 2015, CMG repurchased shares from a physician shareholder, which increased NGMA's ownership to 13.57%. After CMG's issuance of shares to physicians recruited to join CMG, NGMA's ownership decreased to 12.99%. After payment of the entire consideration, including the future cash consideration, NGMA will own 17.64% of the stock of

CMG. Pursuant to the terms of the stock purchase agreement, NGMA will have the right and option to make additional stock investments at the same share valuations and prices and upon the same applicable terms and conditions as the initially acquired shares, to bring its aggregate ownership up to 50%. CMG is a multi-specialty group serving communities primarily in the Los Angeles and San Bernardino counties. The Company accounts for NGMA's interest in CMG using the cost method as the Company does not have the ability to exercise significant influence over the operating and financial policies of CMG.

Global Risk Management Segment

The Global Risk Management segment commenced operations during the year ended September 30, 2015 and entered into global capitation arrangements with certain unrelated third-party health plans. The Global Risk Management segment also manages the provision of care for members in coordination with the Hospital and Medical Group segments. The Global Risk Management segment includes Prospect Health Plan, Inc. ("PHP") with operations in California, Prospect Health Services TX, Inc. ("PHSTX") with operations in Texas, Prospect Health Services RI, Inc. ("PHSRI") with operations in Rhode Island, and Coordinated Regional Care Group, Inc. ("CRCG") with operations in various states. The Company has also incorporated Prospect Health Services PA, Inc. Prospect Health Services CT, Inc. and Prospect Health Services NJ, Inc., in Pennsylvania, Connecticut and New Jersey, respectively. PHP, PHSTX, and PHSRI have entered into global capitation arrangements with certain third-party health plans and manage the provision of care for members in coordination with the Hospital Services and Medical Group segments.

Corporate Segment

The Corporate segment primarily reflects certain expenses incurred at the Parent Entity not specifically allocable to the Hospital Services, Medical Group, or Global Risk Management segments. These include, but are not limited to: salaries, benefits and other compensation for corporate employees; financing expenses; insurance expenses; rent; legal fees; and accounting fees. During the current fiscal year, the Company established a captive insurance company, Prospect Medical Holding Risk Retention Group, Inc. ("RRG"), which was incorporated on June 20, 2016 in the state of Vermont. RRG was formed to provide primary insurance coverage for hospital and physician professional and general liability risks for the Company's subsidiary health care organization. RRG is a wholly owned subsidiary of the Company with all intercompany balances and transactions being eliminated upon consolidation. The Company does not allocate interest expense related to acquisition debt or income taxes to the other reporting segments.

2. Significant Accounting Policies

Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of all controlled subsidiaries, of which control is effectuated through ownership of voting common stock or by other means, but do not include the accounts of the parent companies, Ivy Holdings and Ivy Intermediate Holding Inc. The Medical Group segment Affiliates and NGMA and its subsidiaries have been determined to be variable interest entities due to the existence of a call option under which the Company has the ability to require the holders of all of the voting common stock of the underlying subsidiaries to sell their shares at a fixed nominal price ($1,000) to another designated physician chosen by the Company. This call option agreement represents rights provided through a variable interest other than the equity interest itself that limits the returns that could be earned by the equity holders. In addition, the Company has management agreements with the Affiliates and NGMA and its subsidiaries and the holders of the voting common stock which allows the Company to direct the activities of the Affiliates and NGMA and its subsidiaries that most significantly impact their economic performance, retain the right to receive expected residual returns

and assume the obligation to absorb losses. Although the Company has disproportionately few voting rights (based on the terms of the equity), the Company is considered to be the primary beneficiary of the activities of the Affiliates and NGMA and its subsidiaries. As a result, the Affiliates and NGMA and its subsidiaries are consolidated within the accompanying consolidated financial statements.

Operating results for the CharterCARE Physicians and Nix medical practices acquisitions, Primary and Multi-Specialty Clinics of Anaheim, Inc., East Orange and Crozer are consolidated with the Company's financial statements from their acquisition dates (various dates during the years ended September 30, 2015 and 2016, December 1, 2015, March 1, 2016, and July 1, 2016, respectively) (see Note 4). All significant intercompany balances and transactions have been eliminated in consolidation.

Reclassifications

Certain reclassifications were made to the 2015 consolidated financial statements in order to conform to the 2016 presentation.

Revenues

Revenues by reportable segment are comprised of the following amounts (in thousands):

For the Years Ended September 30,	**2016** *(a)*	2015 *(b)*
Net Hospital Services *(c)*		
Inpatient	$ **826,128**	$ 713,291
Outpatient	**332,243**	192,302
Capitation	**94,232**	98,964
Other	**20,435**	16,481
Total Hospital Services revenues	**1,273,038**	1,021,038
Less: Provision for bad debts	**(41,427)**	(42,042)
Total net Hospital Services revenues less provision for bad debts	**1,231,611**	978,996
Medical Group		
Capitation	**335,542**	312,031
Management fees	**10,760**	7,814
Other	**23,428**	13,393
Total Medical Group revenues	**369,730**	333,238
Global Risk Management *(c)*		
Capitation	**19,635**	3,440
Other revenues	**9,582**	5,371
Total net revenues	$ **1,630,558**	$ 1,321,045

(a) The revenues of Primary and Multi-Specialty Clinics of Anaheim, Inc., East Orange, Crozer and the medical practices acquired by CharterCARE Physicians and Nix Health have been included in the accompanying consolidated financial statements for the period from the acquisition date of December 1, 2015, March 1, 2016, July 1, 2016 and various dates during the year ended September 30, 2016 through September 30, 2016.

(b) The revenues of various medical practices acquired by CharterCARE Physicians have been included in the accompanying consolidated financial statements from their various dates of acquisition during the year ended September 30, 2015.

(c) Excluding revenues from discontinued operations.

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Hospital Services Segment

Net Patient Service Revenues

Operating revenue of the Hospital Services segment consists primarily of net patient service revenue. The Company reports net patient service revenue at the estimated net realizable amounts from patients and third-party payers and others in the period in which services are rendered. The Company has agreements with third-party payers, including Medicare, Medicaid (Medi-Cal in California), managed care and other insurance programs that are paid at negotiated rates. These payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments, as further described below. Estimates of contractual allowances are based upon the payment terms specified in the related contractual agreements. The Company accrues for amounts that it believes may ultimately be due to or from the third-party payers. Normal estimation differences between final settlements and amounts accrued in previous years are reported as changes in estimates in the current year. Outstanding receivables, net of allowances for contractual discounts and bad debts, are included in patient accounts receivable in the accompanying consolidated balance sheets.

The following is a summary of sources of patient service revenues (net of contractual allowances and discounts) before provision for bad debts and exclude revenues from discontinued operations:

September 30,	2016	2015
Medicare	$ 410,147	$ 315,545
Medicaid	437,968	367,842
Managed Care	231,146	166,465
Self Pay/Other	79,110	55,741
Capitation	94,232	98,964
Total patient service revenue	$ 1,252,603	$ 1,004,557

A summary of the payment arrangements with major third-party payers follows:

Medicare: Medicare is a federal program that provides certain hospital and medical insurance benefits to persons aged 65 and over, some persons with end-stage renal disease and certain other beneficiary categories. Most inpatient hospital services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge, according to a patient classification system based on clinical, diagnostic, and other factors. Outpatient services are generally paid based on prospectively determined rates. The Company is also reimbursed for various disproportionate share and Medicare bad debt components at tentative rates, with final settlement determined after submission of the annual Medicare cost report and audit thereof by the Medicare fiscal intermediary. The Company also receives Medicare outlier payments on an ongoing basis during the year for cases that are unusually costly, and under certain circumstances these payments may be reconciled to more closely reflect the costs in excess of outlier thresholds after the submission and audit of the annual Medicare cost report. Normal estimation differences between filed settlements and amounts accrued are reflected in net patient service revenue.

Cost report settlement estimates are recorded based upon as-filed cost reports and are adjusted for tentative settlements, if any, and when a final Notice of Program Reimbursement ("NPR") is issued. The latest updated Supplemental Security Income ("SSI") ratios for 2014, which are used in determining disproportionate share payments, were issued on July 19, 2016. To date, the Company has received final NPRs for SCH Culver City (formerly, Brotman Medical Center) through 2012, SCHS

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through 2013, Alta Los Angeles Hospitals through 2013, Nix Health through 2013, Elmhurst through 2014, East Orange through 2012, Crozer Chester Medical Center through 2011, Delaware County Memorial Hospital through 2014. No NPR has been issued for Roger Williams Medical Center or St. Joseph's Health Services of Rhode Island since their acquisition by the Company during June 2014.

Medicaid: Medicaid is a joint federal-state funded healthcare benefit program that is administered by states to provide benefits to qualifying individuals who are unable to afford care. The Company receives reimbursements under the Medicaid program at prospectively determined rates for both inpatient and outpatient services. Similar to Medicare, cost report settlements are recorded based upon as-filed cost reports (if required by the respective facility's state) and adjusted for tentative and final settlements, if any. Medi-Cal is the version of the federal Medicaid program that is applicable to California residents. Inpatient services are reimbursed under prospectively determined rates based on diagnosis related groups, subject to outlier payments. Outpatient services are paid based on prospectively determined rates per procedure provided.

The SCHS and Alta Los Angeles Hospitals are eligible to participate in the State of California Medi-Cal Disproportionate Share ("DSH") programs, under which medical facilities that serve a disproportionate number of low-income patients receive additional reimbursements. Eligibility is determined annually based on prescribed guidelines. The Company accrues revenue based on the expected total annual DSH awards. Differences between the estimated and the actual awards are recorded in the period they become known. DSH amounts are subject to retrospective revision prior to finalization and such revisions could lead to material retractions. The Company records retrospective retractions when they are estimable and probable. Retrospective additional DSH revenues are recorded when the amounts are received. The Medi-Cal DSH receivable as of September 30, 2016 and 2015 was approximately $12,146,000 and $13,787,000, respectively, and were included in due from government payers in the accompanying consolidated balance sheets. For the fiscal years ended September 30, 2016 and 2015, total Medi-Cal DSH payments received by the SCHS and Alta Los Angeles Hospitals were approximately $21,566,000 and $15,690,000, respectively, and total Medi-Cal DSH revenues recorded were approximately $19,926,000 and $19,005,000, respectively. Additionally, pursuant to an audit of Medi-Cal cost reports and notification sent to the Company, the Company accrued a cost report liability payable to Medi-Cal of $1,764,000 and $1,743,000 as of September 30, 2016 and 2015, respectively.

Certain of the Company's California hospitals also participate in *the California Hospital Fee Program* (see Note 12).

In Texas, the Medicaid program reimburses under prospectively determined rates for inpatient services and based on costs for outpatient services. Medicaid reimbursement may be subject to periodic adjustment, as well as to changes in existing payment levels and rates, based on the amount of funding available to the Medicaid program. Nix Health has also been receiving payments from the Texas Health and Human Services Commission under the Section 1115 Waiver ("the waiver") that was recently granted to the state of Texas by CMS. Under the first year of the waiver ending September 30, 2012, a transition payment was paid to Nix Health based upon prior levels of payment under the "Upper Payment Limit" ("UPL") program, which the waiver replaced. Payments for years two through five under the waiver are based upon two pools. One pool is for payments for uncompensated care ("UCC") which includes the shortfall in Medicaid reimbursement as compared to cost and the cost of providing services to uninsured patients. The other pool is the Delivery System Reform Initiative Payments ("DSRIP"), where approved programs and services are undertaken to improve access and services provided. Programs are established by regions and approved by the Texas Health and Human Services Commission and CMS. These programs are assigned a value and milestones are established to measure success and the timing and level of payment from the DSRIP funds. Nix Health recorded revenue related to the UCC pool of $12,368,000 and $8,354,000 for the years ended September 30, 2016 and

2015, respectively. Revenue recorded related to the DSRIP pool was $11,356,000 for both of the years ended September 30, 2016 and 2015. At September 30, 2016 and 2015, amounts receivable under the Section 1115 Waiver totaled $20,974,000 and $20,536,000, respectively.

Nix Health also recorded $12,965,000 and $11,804,000 during the years ended September 30, 2016 and 2015, respectively, in costs for rural community provision of services. As of September 30, 2016 and 2015, prepaid expenses related to such costs of $3,565,000 and none, respectively.

The CharterCARE hospitals are participants in the State of Rhode Island's DSH program, which was established in 1995 to assist hospitals that provide a disproportionate amount of uncompensated care. Under the program, Rhode Island hospitals, including the CharterCARE hospitals, receive federal and state Medicaid funds as additional reimbursement for treating a disproportionate share of low income patients. The CharterCARE hospitals recognized revenue and received payments related to DSH and Upper Payment Limit ("UPL") reimbursement of $20,496,000 and $16,636,000 during the years ended September 30, 2016 and 2015, respectively. The State of Rhode Island also assesses a license fee to all hospitals in Rhode Island based on each hospital's net patient revenue. The CharterCARE hospitals recorded $16,199,000 and $15,058,000 of expense during the years ended September 30, 2016 and 2015, respectively, as a result of the license fee.

The New Jersey Health Care Reform Act of 1992 established the Health Care Subsidy Funds to provide certain hospitals in New Jersey, including East Orange, with funds necessary to provide charity care and other forms of uncompensated care. East Orange recognized $8,569,000 of revenue related to Hospital Relief Funds, charity care subsidies and mental health subsidies for the period from March 1, 2016 (inception) through September 30, 2016.

Pursuant to Pennsylvania Act 49 of 2010 ("Act 49"), the Pennsylvania Department of Public Welfare, as approved by the Centers for Medicare and Medicaid Services, established a revised inpatient hospital fee-for-service payment system utilizing All Patient Refined Diagnosis-Related Groups and provided an enhanced hospital reimbursement model. Act 49 imposes a statewide hospital assessment on net inpatient revenue of Pennsylvania licensed acute care hospitals for the periods July 1, 2010 through June 30, 2016. The assessments have enabled the Commonwealth of Pennsylvania to maintain the updated inpatient payment system, make changes to existing disproportionate share/supplemental payments, and to create new payments where applicable.

Under Pennsylvania's Medicaid Modernization Assessment ("MMA"), Crozer recognized $10,293,000 of revenue and received cash payments of $11,672,000 for the period from July 1, 2016 (inception) through September 30, 2016. Amounts receivable under the MMA were $7,388,000 as of September 30, 2016. Crozer also recognized $4,181,000 of expense for the period from July 1, 2016 (inception) through September 30, 2016, which are also accrued and are included in September 30, 2016 in the accompanying consolidated balance sheets.

Crozer also recognized $14,948,000 of revenue and received $4,029,000 of cash payments related to the Pennsylvania Community Access Fund Grant and Legislative Initiative for the period from July 1, 2016 (inception) through September 30, 2016. Amounts receivable under these programs was $17,809,000 and are included in September 30, 2016 in the accompanying consolidated balance sheets.

Managed Care: The Company has also entered into payment agreements with certain commercial insurance carriers, HMOs, and PPOs. The basis for payment under these agreements is in accordance with negotiated contracted rates or at the Company's standard charges for services provided. Some of these payments are capitated, meaning that the Company receives an agreed amount per patient for providing an agreed range of services.

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Self-Pay: Self-pay patients represent those patients who do not have health insurance and are not covered by some other form of third party arrangement. Such patients are evaluated, at the time of services or shortly thereafter, for their ability to pay based upon federal and state poverty guidelines, qualifications for Medicaid, as well as the Company's local hospital's indigent and charity care policy.

See "Concentrations of Credit Risks" below for discussion of revenues received from the Medicare and Medicaid programs.

Similar to other hospital operators, the Company is subject to audits by Recovery Audit Contractors ("RAC") and other similar programs. As of September 30, 2016 and 2015, the Company accrued $1,879,000 and $262,000, respectively, in due to government payors in the accompanying consolidated balance sheets related to such programs.

SCH Culver City Outlier Liability

Following the acquisition of a majority interest in SCH Culver City, effective April 14, 2009, the Company consolidated SCH Culver City's estimated liability to CMS arising out of outlier payments received for services provided by the hospital to Medicare eligible inpatients, primarily for the last four months of calendar year 2005 and all of calendar year 2006.

While SCH Culver City (formerly Brotman Medical Center, Inc.) reports financial statements on a fiscal year ending September 30, Medicare cost reports are filed on a calendar year basis. Acute care hospitals receive Medicare reimbursement payments pursuant to a prospective payment methodology primarily based on the diagnosis of the patient, but are entitled to receive additional payments, referred to as "outliers" for patients whose treatment is very costly. When Brotman Medical Center, Inc. acquired the hospital in 2005, CMS provided a ratio of cost to charges (the "RCC") based on the statewide average. Payments received by SCH Culver City on this basis were an interim estimate, subject to final determination upon audit of SCH Culver City's cost reports. SCH Culver City filed its Medicare cost reports, but determined that its outlier reimbursement for services provided in fiscal years 2005, 2006 and part of 2007 might be subject to adjustment based on certain outlier reconciliation rules.

On October 12, 2012, SCH Culver City received from its Medicare fiscal intermediary a proposed outlier adjustment for Medicare fiscal year 2006 in the amount of $12,785,000. SCH Culver City had previously been notified of an adjustment of $2,149,000 for 2005. As of September 30, 2015 and 2014, the Company accrued $13,834,000 of the estimated $14,934,000 liability to CMS included in the accompanying consolidated balance sheets. The difference between the $14,934,000 asserted by CMS and the $13,834,000 accrued by the Company relates to accrued interest of approximately $1,100,000. The Company does not agree, however, with the outlier reconciliation liability. Accordingly, in accordance with relevant literature related to accounting for contingencies, the Company recorded the lower end of the range of the liability.

The Company filed an appeal of the outlier issue with the Provider Reimbursement Review Board for the 2006 cost reporting period after it received the notice of program reimbursement. Mediation was held with CMS and the U.S. Department of Justice in March 2015 for settlement of fiscal years 2005 and 2006. The terms of a final settlement were approved by CMS and the Health and Human Services Office of the General Counsel in December 2015. The Company received final approval of the settlement by the U.S. Department of Justice on January 19, 2016. Pursuant to the final agreement, CMS will receive $7,457,000 from SCH Culver City, including $5,357,000 from previously withheld reimbursement and $2,100,000 through recoupment from current payments to SCH Culver City of $60,000 per month over thirty-six months, accruing interest at the current Medicare Trust Fund rate. The final settlement resulted in a gain

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of $5,741,000 recognized during the year ended September 30, 2016, which is included within Net Hospital Services revenues in the accompanying consolidated statements of operations.

The following is a summary of due from and due to governmental payers at September 30 (in thousands):

September 30,	**2016**	2015
Due from government payers:		
Medicaid Disproportionate Share (DSH)	$ **12,146**	$ 13,787
Medicare cost report settlements	**5,686**	3,906
Medicaid cost report settlements	**-**	231
Medicaid Section 1115 receivable	**20,974**	20,536
	$ **38,806**	$ 38,460
Due to government payers:		
Outlier liability	$ **-**	$ 13,834
Medicare cost report settlements	**21,238**	11,501
Medicaid cost report settlements	**1,764**	1,743
	$ **23,002**	$ 27,078

The Company is not aware of any material claims, disputes, or unsettled matters with any payers that would affect revenues that have not been adequately provided for and disclosed in the accompanying consolidated financial statements.

Charity Care

The Company's California facilities provide charity care to patients whose income level is below 300% of the Federal Poverty Level. Patients with income levels between 300% and 350% of the Federal Poverty Level qualify to pay a discounted rate under the requirements of California State Assembly Bill 774 (AB 774) based on various government program reimbursement levels. Patients without insurance are offered assistance in applying for Medicaid and other programs they may be eligible for, such as state disability. Patient advocates from the Company's Medical Eligibility Program ("MEP") screen patients in the Hospital and determine potential linkage to financial assistance programs. They also expedite the process of applying for these government programs. The Company's hospitals in other states provide care to patients who meet certain criteria under their respective financial assistance policies without charge. Key elements used to determine eligibility include a patient's demonstrated inability to pay based on family size and household income related to federal income poverty guidelines.

The approximate cost of providing charity care was $2,645,000 and $1,683,000 for the years ended September 30, 2016 and 2015, respectively. The Company has estimated the cost of charity care based on a ratio of the cost to charges, with cost consisting of operating expenses, excluding depreciation, interest and management fees.

Provisions for Contractual Allowances and Bad Debts

Collection of receivables from third-party payers and patients is the Company's primary source of cash and is critical to its operating performance. The Company closely monitors its historical collection rates, as well as changes in applicable laws, rules and regulations and contract terms, to assure that provisions for contractual allowances are made using the most accurate information available. However, due to the

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complexities involved in these estimations, actual payments from payers may be materially different from the amounts management estimates and records. The Company's primary collection risks relate to uninsured patients and the portion of the bill which is the patient's responsibility, primarily co-payments and deductibles. Payments for services may also be denied due to issues over patient eligibility for medical coverage, the Company's ability to demonstrate medical necessity for services rendered and payer authorization of hospitalization.

Accounts receivable are reduced by an allowance for doubtful accounts. Valuation of the collectability of accounts receivable and provision for bad debts is based on historical collection experience, payer mix and the age of the receivables. Management routinely reviews accounts receivable balances in conjunction with these factors and other economic conditions which might ultimately affect the collectability of the patient accounts, and makes adjustments to the Company's allowances as warranted. For receivables associated with services provided to patients who have third-party coverage, management analyzes contractually due amounts and subsequently calculates an allowance for doubtful accounts and provision for bad debts once the age of the accounts reaches a specific age category based on historical experience. For receivables associated with self-pay patients, management records a significant provision for bad debts beginning in the period services were provided based on past experience that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The allowance for doubtful accounts as a percent of gross accounts receivable decreased from 27% at September 30, 2015 to 26% at September 30, 2016. The allowance for doubtful accounts was $91,723,000 and $49,822,000 as of September 30, 2016 and 2015, respectively. The decrease in the allowance for doubtful accounts as a percent of gross accounts receivable was due primarily to the acquisition of Crozer during the year ended September 30, 2016. Crozer's allowance for doubtful accounts as a percent of gross accounts receivable was 23% as of September 30, 2016.

Legislation

All of the Company's hospital facilities are subject to the Emergency Medical Treatment and Active Labor Act ("EMTALA"). This federal law requires any hospital that participates in the Medicare program to conduct an appropriate medical screening examination of every person who presents to the hospital's emergency department for treatment and, if the patient is suffering from an emergency medical condition, to either stabilize that condition or make an appropriate transfer of the patient to a facility that can handle the condition. The obligation to screen and stabilize emergency medical conditions exists regardless of a patient's ability to pay for treatment. There are severe penalties under EMTALA if a hospital fails to screen or appropriately stabilize or transfer a patient or if the hospital delays appropriate treatment in order to first inquire about the patient's ability to pay. Penalties for violations of EMTALA include civil monetary penalties and exclusion from participation in the Medicare program. In addition, an injured patient, the patient's family or a medical facility that suffers a financial loss as a direct result of another hospital's violation of the law can bring a civil suit against that other hospital. The Company believes that it is in compliance with EMTALA and is not aware of any pending or threatened EMTALA investigations involving allegations of potential wrongdoing that would have a material effect on the Company's consolidated financial statements.

See Note 12 regarding the *Affordable Care Act*.

Other Revenues

Other revenues consist primarily of meaningful use incentive revenue, rental revenue from operating leases, tuition revenue, and Crozer Health Club and other revenues and totaled $9,582,000 and $5,371,000 for the years ended September 30, 2016 and 2015, respectively.

A summary of other revenues recorded during the years follows:

Meaningful Use incentives: The American Recovery and Reinvestment Act of 2009 ("ARRA") established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that meaningfully use certified electronic health record ("EHR") technology or adopt or implement such technology. The Medicare incentive payments will be paid out to qualifying hospitals over four consecutive years on a transitional schedule. To qualify for Medicare incentives, hospitals and physicians must meet EHR "meaningful use" criteria that become more stringent over three stages.

Medicaid programs and payment schedules vary from state to state. The Medicaid programs require hospitals to register for the program prior to 2016, to engage in efforts to adopt, implement or upgrade certified EHR technology in order to qualify for the initial year of participation, and to demonstrate meaningful use of certified EHR technology in order to qualify for payment for up to three additional years.

For the years ended September 30, 2016 and 2015, the Company recorded revenues of a nominal amount and $1,150,000, respectively, related to the Medicare and Medicaid Meaningful Use programs in the consolidated statements of operations. These incentives have been recognized following the grant accounting model, recognizing income ratably over the applicable reporting period as management becomes reasonably assured of meeting the required criteria. Subsequent changes to these estimates will be recognized in the consolidated statement of operations in the period in which additional information is available. Such estimates are subject to audit by the federal government, the state, or its designee.

Rental Revenue: Rental revenue from operating leases is recorded based on the fixed, minimum required rents (base rents) per the lease agreements. Rental revenue from base rents is recorded on the straight-line method over the terms of the related lease agreements. During the years ended September 30, 2016 and 2015, the Company recorded rental revenues of $3,817,000 and $2,417,000.

Tuition Revenue: St. Joseph Health Services of Rhode Island operates the St. Joseph School of Nursing and recorded tuition revenue of $1,727,000 and $1,639,000 during the years ended September 30, 2016 and 2015, respectively.

Crozer Health Club and Other Revenues: In addition to rental revenues, Crozer recognized other revenues for the period from July 1, 2016 (inception) through September 30, 2016 of $1,238,000 for health club membership dues, $1,019,000 for outside contract revenue, and $1,599,000 for other health club and miscellaneous revenues.

Medical Group Segment

Medical Group Revenues

Operating revenue of the Medical Group segment consists primarily of payments for medical services procured by the Affiliates under capitated contracts with various managed care providers including HMOs. Capitation revenue under HMO contracts is prepaid monthly to the Affiliates based on the number of enrollees electing any one of the Affiliates as their health care provider. See "Concentrations of Credit Risks" below for revenues received from the five largest contracted HMOs.

Capitation revenue (net of capitation withheld to fund risk share deficits discussed below) is recognized in the month in which the Affiliates are obligated to provide services. Minor ongoing adjustments to prior months' capitation, primarily arising from contracted HMOs' finalizing of monthly patient eligibility data for additions or subtractions of enrollees, are recognized in the month they are communicated to the Company. Additionally, Medicare pays capitation using a "Risk Adjustment model," which compensates managed care organizations and providers based on the health status (acuity) of each enrollee. Health

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plans and providers with higher acuity enrollees will receive more and those with healthier enrollees will receive less. Under Risk Adjustment, capitation is determined based on health severity, measured using patient encounter data. Capitation is paid on an interim basis based on data submitted for the enrollee for the preceding year and is adjusted in subsequent periods (generally in the Company's fourth quarter) after the final data is compiled. Positive or negative capitation adjustments are made for Medicare enrollees with conditions requiring more or less healthcare services than assumed in the interim payments. Since the Company cannot reliably predict these adjustments, periodic changes in capitation amounts earned as a result of Risk Adjustment are recognized generally in the fourth quarter when those changes are communicated by the health plans to the Company. The Company received and recorded as additional revenue, approximately $13,601,000 and $17,503,000, respectively, in positive capitation risk adjustments for the Medical Group segment during the years ended September 30, 2016 and 2015, respectively.

HMO contracts also include provisions to share in the risk for hospitalization, whereby the Affiliate can earn additional incentive revenue or incur penalties based upon the utilization of hospital services. Typically, any shared risk deficits are not payable until and unless the Company generates future risk sharing surpluses, or if the HMO withholds a portion of the capitation revenue to fund any risk share deficits. At the termination of the HMO contract, any accumulated risk share deficit is typically extinguished. Due to the lack of access to information necessary to estimate the related costs, shared-risk amounts receivable from the HMOs are only recorded when such amounts are known. Risk pools for the prior contract years are generally final settled in the third or fourth quarter of the following fiscal year. For the years ended September 30, 2016 and 2015, Medical Group revenues included approximately $11,827,000 and $8,402,000, respectively, of additional revenues due to favorable settlements on prior year risk-sharing arrangements. At September 30, 2016 and 2015, contingent liabilities for carry-forward risk-pool deficits expected to be forgiven, or offset against future surpluses were approximately $7,953,000 and $6,422,000, respectively, based on the available information from the health plans.

The Company also receives incentives under "pay-for-performance" programs for quality medical care based on various criteria. These incentives, which are included in other revenues within Medical Group revenues, are generally recorded in the third and fourth quarters of the fiscal year when such amounts are known. During the year ended September 30, 2016 and 2015, the Company recognized $3,560,000 and $9,059,000, respectively, related to a shared savings incentive program with one health plan. Pay-for-performance revenues recorded during the years ended September 30, 2016 and 2015 were $6,263,000 and $11,387,000, respectively.

Management fee revenue is earned in the month the services are rendered. Management fee arrangements with unaffiliated entities provide for compensation ranging from 6.5% to 12% of revenues. Management fee revenues recorded during the years ended September 30, 2016 and 2015 were $10,760,000 and $7,814,000, respectively.

Medical Group Cost of Revenues

The cost of health care services consists primarily of capitation and claims payments, pharmacy costs and incentive payments to contracted providers. These costs are recognized in the period incurred, or when the services are provided. Claims costs also include an estimate of the cost of services which have been incurred but not yet reported to the Company. The estimate for accrued medical costs is based on projections of costs using historical studies of claims paid and adjusted for seasonality, utilization and cost trends. These estimates are subject to trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management records its best estimate of the amount of medical claims incurred at each reporting period. Estimates are continually monitored and reviewed and, as

settlements are made or estimates adjusted, differences are reflected in current operations. See Note 14 for changes in claims estimates during the years ended September 30, 2016 and 2015.

In addition to contractual reimbursements to providers, the Company also makes discretionary incentive payments to physicians, which are in large part based on the pay-for-performance and shared risk revenues and favorable senior capitation risk adjustment payments received by the Company. Since the Company records these revenues generally in the third or fourth quarter of each fiscal year when the incentives and capitation adjustments due from the health plans are known, the Company also finalizes the discretionary physician bonuses in the same periods. During the years ended September 30, 2016 and 2015, the Company recorded discretionary physician incentives expense totaling approximately $16,311,000 and $14,082,000, respectively. As of September 30, 2016 and 2015, physician bonus accruals of approximately $9,665,000 and $9,021,000, respectively, were included in accounts payable and other accrued liabilities.

The Company also periodically evaluates the need to establish premium deficiency reserves for the probability that anticipated future health care costs could exceed future capitation payments from HMOs under capitated contracts and, where appropriate, records a premium deficiency reserve.

The Company, for certain matters, maintains stop loss coverage for health care costs that are in excess of set thresholds.

Global Risk Management Segment

Global Risk Management Revenues

Operating revenue of the Global Risk Management segment consists primarily of payments for medical services procured under global capitation arrangements from third-party health plans. Capitation revenue under these global capitation contracts is prepaid monthly to the Global Risk Management segment based on the number of enrollees. Entities within the Global Risk Management segment entered into Management Services Agreements with the Hospital and Medical Group segments, under which 98% of capitation revenue received is transferred to these segments.

Similar to the Medical Group segment, capitation revenue is recognized in the month in which the Global Risk Management segment is obligated to provide services. Minor ongoing adjustments to prior months' capitation, primarily arising from contracted HMOs' finalizing of monthly patient eligibility data for additions or subtractions of enrollees, are recognized in the month they are communicated to the Company. Additionally, Medicare pays capitation using a "Risk Adjustment model," which compensates managed care organizations and providers based on the health status (acuity) of each enrollee. Health plans and providers with higher acuity enrollees will receive more and those with healthier enrollees will receive less. Under Risk Adjustment, capitation is determined based on health severity, measured using patient encounter data. Capitation is paid on an interim basis based on data submitted for the enrollee for the preceding year and is adjusted in subsequent periods (generally in the Company's fourth quarter) after the final data is compiled. Positive or negative capitation adjustments are made for Medicare enrollees with conditions requiring more or less healthcare services than assumed in the interim payments. Since the Company cannot reliably predict these adjustments, periodic changes in capitation amounts earned as a result of Risk Adjustment are recognized generally in the fourth quarter when those changes are communicated by the health plans to the Company. During the years ended September 30, 2016 and 2015, the Global Risk Management Segment recognized capitation risk adjustments of $2,108,000 and $0.

Global Risk Management Cost of Revenues

The cost of health care services consists primarily of the transfer of capitation revenue to the Hospital and Medical Group segments under the Management Services Agreements, and capitation and claims

payments. These costs are recognized in the period incurred, or when the services are provided. Claims costs also include an estimate of the cost of services which have been incurred but not yet reported to the Company. The estimate for accrued medical costs is based on projections of costs using historical studies of claims paid and adjusted for seasonality, utilization and cost trends. These estimates are subject to trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management records its best estimate of the amount of medical claims incurred at each reporting period. Estimates are continually monitored and reviewed and, as settlements are made or estimates adjusted, differences are reflected in current operations.

The Company also periodically evaluates the need to establish premium deficiency reserves for the probability that anticipated future health care costs could exceed future capitation payments from HMOs under capitated contracts and, where appropriate, records a premium deficiency reserve.

The Company, for certain matters, maintains stop loss coverage for health care costs that are in excess of set thresholds.

Property, Improvements and Equipment

Property, improvements and equipment are stated on the basis of cost or, in the case of acquisitions, at their acquisition date fair values. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, and amortization of leasehold improvements is provided using the straight-line basis over the shorter of the remaining lease period or the estimated useful lives of the leasehold improvements. Leasehold improvements are generally depreciated over five to ten years, buildings are depreciated over five to 28 years, equipment is depreciated over two to eight years and furniture and fixtures are depreciated over two to seven years. Equipment capitalized under capital lease obligations are amortized over the lesser of the life of the lease or the useful life of the asset.

As more fully described in Note 12, the Company is required to comply with certain seismic standards as required by the state of California by January 1, 2020. The useful life of buildings subject to seismic retrofit requirements may be limited if the Company does not make the necessary upgrades by the required compliance date.

Goodwill and Other Intangible Assets

Goodwill totaled $341,488,000 and $159,821,000 at September 30, 2016 and 2015, respectively, and arose as a result of the ProMed, Alta, SCH Culver City, Nix Health, Prospect CharterCARE Physicians medical practices, PMCA, East Orange, and Crozer acquisitions. Goodwill represents the excess of the consideration paid and liabilities assumed over the fair value of the net assets acquired, including identifiable intangible assets.

Goodwill is not amortized; rather it is reviewed annually for impairment for each reporting unit, or more frequently if impairment indicators arise. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. A two-step impairment test is used to identify potential goodwill impairment and to measure the amount of goodwill impairment loss to be recognized, if any. The Company has six reporting units with goodwill, consisting of the Southern California Hospitals (which includes SCH Hollywood, SCH Van Nuys, SCH Culver City, Los Angeles Community Hospital, Norwalk Community Hospital, Bellflower and Foothill), SCH Culver City, Nix Health, the MSOs and Medical Groups located in California ("California Medical Groups"), CharterCARE, East Orange and Crozer. The Southern California Hospitals reporting unit was a change in reporting units during the year ended September 30, 2016, and the California Medical Groups reporting unit was a change in reporting units during the year ended September 30, 2015; see Note 6.

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The Company tests for goodwill impairment as of September 30 each year. In evaluating whether indicators of impairment exist, the Company considers adverse changes in market value, laws and regulations, profitability, cash flows, ability to maintain enrollment and renew payer contracts at favorable terms, among other factors. The goodwill impairment test is a two-step process. The first step consists of estimating the fair value of the reporting unit based on a weighted combination of (i) the guideline company method that utilizes revenue or earnings multiples for comparable publicly-traded companies, and (ii) a discounted cash flow model that utilizes expected future cash flows, the timing of those cash flows, and a discount rate (or weighted average cost of capital, which considers the cost of equity and cost of debt financing expected by a typical market participant) representing the time value of money and the inherent risk and uncertainty of the future cash flows. If the estimated fair value of the reporting unit is less than its carrying value, a second step is performed to compute the amount of the impairment by determining the "implied fair value" of the goodwill, which is compared to its corresponding carrying value. The Company recorded goodwill impairment related to the closure of Nix CGH and classification as discontinued operations effective September 30, 2016 (see Note 5). The Company's impairment test related to goodwill during the years ended September 30, 2016 and 2015, resulted in no additional impairment charges.

Long-Lived Assets and Amortizable Intangibles

Amortizable intangible assets totaled $41,897,000 and $28,820,000, net of accumulated amortization at September 30, 2016 and 2015, respectively, and arose as a result of the ProMed, Alta, Nix Health, NGMA, PCC, CharterCARE Physicians medical practices, East Orange and Crozer acquisitions. Intangible assets include customer relationships, trade names, favorable leasehold, and physician guarantees. The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The Company considers assets to be impaired and writes them down to fair value if estimated undiscounted cash flows associated with those assets are less than their carrying amounts. Fair value is based upon the present value of the associated cash flows. Changes in circumstances (for example, changes in laws or regulations, technological advances or changes in strategies) may also reduce the useful lives from initial estimates. Changes in planned use of intangibles may result from changes in customer base, contractual agreements, or regulatory requirements. In such circumstances, management will revise the useful life of the long-lived asset and amortize the remaining net book value over the adjusted remaining useful life. There were no impairments recorded during the years ended September 30, 2016 and 2015.

Medical Malpractice Liability Insurance

The individual physicians who contract with the Affiliates carry their own medical malpractice insurance. In the Hospital Services segment, the Company's hospitals carry professional and general liability insurance to cover medical malpractice claims under claims-made policies. Under the policies, insurance premiums cover only those claims actually reported during the policy term. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims related to occurrences during the policy term but reported subsequent to the policy's termination may be uninsured. The Company's hospitals have a consolidated policy for professional and general liability insurance with separate retentions for each entity. East Orange was fully insured for professional and general liability claims with no deductible from March 1, 2016 through September 30, 2016. Crozer was insured for professional and general liability claims through Prospect Medical Holding Risk Retention Group, Inc. for primary coverage from July 1, 2016 through September 30, 2016. The Pennsylvania MCARE fund provides the $500,000 in excess of $500,000 RRG malpractice coverage for Crozer.

For the current fiscal year, the RRG provided primary malpractice insurance ($500,000 per occurrence and $2,500,000 in the aggregate) and general liability ($1,000,000 per occurrence and $2,000,000 in the

aggregate). In addition, the RRG provided coverage for losses of $4,000,000 in excess of $1,000,000 for each hospital professional liability claim with no aggregate limit. The RRG also provides additional layers of excess coverage over $5,000,000 up to $20,000,000, which are 100% reinsured by third party insurance carriers through multiple layers. The reserve for losses, which was determined with the assistance of a third party actuarial consulting firm, included estimates of claims incurred but not reported, was approximately $2,753,000 as of September 30, 2016.

GAAP requires that a health care organization record and disclose the estimated costs of medical malpractice claims in the period of the incident of malpractice, if it is reasonably possible that liabilities may be incurred and losses can be reasonably estimated. The Company has recognized an estimated liability for incurred but not reported claims and the self-insured risks (including deductibles and potential claims in excess of policy limits) based upon an actuarial valuation of the Company's historical claims experience of the Company's hospitals. At September 30, 2016 and 2015, the total gross claims liability, was $14,591,000 and $6,632,000 and reinsurance recoverable on unpaid losses were $4,107,000 and $1,406,000, respectively, and were estimated using a discount factor of 4%. In addition, with the acquisitions of East Orange and Crozer during the current fiscal year, the Company recorded IBNR related to tail coverage for both East Orange and Crozer, which were determined with the assistance of a third party actuarial consulting firm. At September 30, 2016, IBNR reserves related to tail coverage for East Orange and Crozer was $2,223,000 and $15,190,000, respectively, using a discount factor of 4%.

The claims reserve is based on the best data available to the Company. The estimate, however, is subject to a significant degree of inherent variability. The estimate is continually monitored and reviewed, and as the reserve is adjusted, the difference is reflected in current operations. While the ultimate amount of medical malpractice liability is dependent on future developments, management is of the opinion that the associated liabilities recognized in the accompanying consolidated financial statements are adequate to cover such claims. Management is not aware of any potential medical malpractice claims whose settlement, if any, would have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Workers' Compensation Insurance

The workers' compensation coverage provides the statutory benefits required by law with a $250,000 deductible policy with limits of $1,000,000 per occurrence and aggregate for the Companies' entities located in California. Nix Health has opted out of the Texas Workers' Compensation system as a non-subscriber, and provides its employees with benefits for occupational injury or disease through an ERISA plan. Nix Health has an Employer's Excess Indemnity policy with a $25,000 deductible with limits of $10,000,000 per occurrence and $25,000,000 aggregate. CharterCARE was fully insured for workers' compensation claims with no deductible. East Orange was fully insured for workers' compensation claims with no deductible from March 1, 2016 through September 30, 2016. Crozer has a workers' compensation policy with a $500,000 deductible, with limits of $1,000,000 per occurrence and aggregate. At September 30, 2016 and 2015, included in accrued salaries, wages and benefits are accruals for uninsured claims and claims incurred but not reported of approximately $17,675,000 and $14,110,000 and reinsurance recoverable on unpaid losses were $5,829,000 and $5,220,000, respectively. The amounts are estimated based upon an actuarial valuation of their claims experience, using a discount factor of 4%.

The claims reserve is based on the best data available to the Company. The estimate, however, is subject to a significant degree of inherent variability. The estimate is monitored and reviewed, and as the reserve is adjusted, the difference is reflected in current operations. While the ultimate amount of the claims liability is dependent on future developments, management is of the opinion that the associated liabilities recognized in the accompanying consolidated financial statements are adequate to cover such claims.

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Management is not aware of any potential claims whose settlement, if any, would have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Asset Retirement Obligations

The Company recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. Over time, the liability is accreted to its present value each period. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the statement of operations. The Company has accrued $5,056,000 and $4,583,000 in other long-term liabilities related to asset retirement obligations for the CharterCARE and Crozer hospitals as of September 30, 2016 and 2015, respectively.

Stock Options

On December 15, 2010, the Board of Directors (the "Ivy Board") of Ivy Holdings adopted the 2010 Stock Option Plan of Ivy Holdings Inc. (the "Ivy Plan") and, on December 16, 2010, the stockholders of Ivy Holdings adopted the Ivy Plan. The Ivy Plan provides that it shall be administered by the Compensation Committee of the Ivy Board. The Ivy Plan includes an Incentive Stock Option Agreement and a Non-Qualified Stock Option Agreement to be used in connection with the grant of options under the Ivy Plan. These options granted under the Ivy Plan are exercisable into Ivy Holdings stock and vest based on a number of criteria.

On June 30, 2015, the Board of Directors of Ivy Holdings adopted the First Amendment to the Ivy Plan and concurrently, on June 30, 2015, the stockholders of Ivy Holdings approved the First Amendment to the Ivy Plan (the "Amended Ivy Plan"). Pursuant to the Amended Ivy Plan, the Board of Directors authorized the issuance of options exercisable for an additional 13,972 shares of common stock of Ivy Holdings to employees, certain consultants and independent members of the boards of directors of Ivy Holdings and its subsidiaries (including the Company and its subsidiaries). These options granted under the Amended Ivy Plan are exercisable into Ivy Holdings stock and vest based on a number of criteria, including the same criteria as options granted under the Ivy Plan as well as the occurrence of certain corporate transactions, including a change in control of Ivy Holdings, as defined in the Incentive Stock Option Agreements; see Note 10.

Compensation costs for option awards are measured and recognized in the consolidated financial statements based on their grant date fair value, net of estimated forfeitures over the awards' service period. Options subject to variable accounting treatment are subject to revaluation at the end of each reporting period. The Company uses the Black-Scholes option pricing model and a single option award approach to estimate the fair value of stock options granted. The fair value of restricted stock grants are determined on the date of grant, based on the number of shares granted and the quoted price or estimated fair market value of the Company's common stock. Equity-based compensation is classified within the same line items as cash compensation paid to employees. Compensation costs related to stock options that vest or are exercisable when certain corporate transactions occur, including a change in control, are recognized at the time that such an event occurs.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments with initial maturities of 90 days or less to be cash equivalents. Cash and cash equivalents are primarily comprised of deposits with banks. The Company maintains its cash at banks with high credit-quality ratings.

Restricted Cash

At September 30, 2016 and 2015, $1,725,000 and $1,277,000 was restricted for research at CharterCARE hospitals as of September 30, 2016 and 2015, respectively. An additional $4,392,000 and $1,308,000 was restricted for various other purposes including regulatory requirements and letters of credit as of September 30, 2016 and 2015, respectively.

Restricted Investments

The Company is required to keep restricted deposits by certain HMOs for the payment of claims. Such restricted deposits are classified as a current asset in the accompanying consolidated balance sheets, as they are restricted for payment of current liabilities. Investments also include certificates of deposit with maturity dates of more than 90 days when purchased.

Inventories

Inventories of supplies are valued at the lower of amounts that approximate the weighted average cost or market. Inventories consist primarily of medical and surgical supplies and pharmaceuticals.

Deferred Financing Costs

Deferred financing costs are amortized over the period in which the related debt is outstanding using the effective interest method and are classified as a deduction from the carrying amount of the related debt.

Deferred financing costs at September 30, 2016 and 2015 are as follows (in thousands):

	2016			2015		
	Gross Book Value	Accumulated Amortization	Net Book Value	Gross Book Value	Accumulated Amortization	Net Book Value
Deferred financing costs	$ 12,251	$ 602	$11,649	$ 14,398	$ 7,165	$ 7,233

During the year ended September 30, 2016, the Company wrote off $5,587,000 of unamortized deferred financing costs and capitalized $12,251,000 related to Senior Secured Notes (see Note 9).

Income Taxes

Deferred income tax assets and liabilities are recognized for differences between financial and income tax reporting bases of assets and liabilities based on enacted tax rates and laws. To the extent a deferred tax asset cannot be recognized under the preceding criteria, allowances must be established. The impact on deferred taxes of changes in tax rates and laws, if any, are applied to the years during which temporary differences are expected to be settled and reflected in the financial statements in the period of enactment. The Company recognizes interest and penalties associated with income tax matters and unrecognized tax benefits in the income tax expense line item of the statements of operations. For the years ended September 30, 2016 and 2015, the Company incurred $225,000 and $0 of interest and penalties related to incomes taxes.

An entity is required to evaluate its tax positions using a two-step process. First, the entity should evaluate the position for recognition. An entity should recognize the financial statement benefit of a tax position if it determines that it is more likely than not that the position will be sustained on examination. Next, the entity should measure the amount of benefit that should be recognized for those tax positions that meet the more-likely-than-not test.

Consolidated federal tax returns are filed, with the exception of PMG and NGMA, which file their own federal tax returns. The Company files separate state tax returns for California, Texas, Rhode Island, Pennsylvania, Connecticut and New Jersey. The Company's filed tax returns are generally subject to examination by the IRS and state tax boards for 3 to 4 years.

Sale-Leaseback Transactions

The Company evaluates sale-leaseback transactions by determining whether the transaction meets the qualifying criteria to be recognized as a sale-leaseback, including the transfer of risk and rewards of ownership as well as the absence of continuing involvement of the Company (see Note 9).

Comprehensive Income

Comprehensive income consists of net income and other gains and losses affecting stockholder's equity that, under generally accepted accounting principles, are excluded from net (loss) income attributable to the Company. For the Company such items consist primarily of unrealized gains or losses on debt and equity securities as well as changes related to pension and other postretirement liabilities that are not recognized immediately in net periodic benefit costs. See Note 11.

Fair Value of Financial Instruments

Financial instruments consist primarily of cash and cash equivalents, restricted cash, restricted investments, patient and other accounts receivables, accrued salaries and benefits, accounts payable and accrued expenses, medical claims and related liabilities, amounts due to government agencies, notes receivable and payable, capital lease obligations, debt, and other liabilities. The carrying amounts of current assets and liabilities approximate their fair value due to the relatively short period of time between the origination of the instruments and their expected realization.

Fair Value Measurement

Relevant accounting guidance establishes a framework for measuring fair value and clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

The guidance requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of inputs as follows: Level 1 quoted prices in active markets for identical assets or liabilities; Level 2 quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; or Level 3 unobservable inputs for the asset or liability, such as discounted cash flow models or valuations. The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The Company's Level 1 assets include cash and cash equivalents and investments (certificates of deposit and money market mutual funds). The inputs for fair value of goodwill and intangible assets (including long lived assets and intangible assets subject to amortization) would be based on Level 3 inputs as data used for such fair value calculations would be based on discounted cash flows that are not observable from the market, directly or indirectly.

Financial Items Measured at Fair Value on a Recurring Basis

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis and where they are classified within the hierarchy (in thousands):

	Total	Level 1	Level 2	Level 3
As of September 30, 2016				
Certificates of deposit	$ 1,302	$ 1,302	$ -	$ -
Mutual funds	3,266	3,266	-	-
Total	$ 4,568	$ 4,568	$	$
As of September 30, 2015				
Certificates of deposit and money market mutual funds	$ 1,266	$ 1,266	$ -	$ -

The Company's investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices. The Company's defined benefit pension plan assets are also measured at fair value; see Note 11.

The fair values of the Company's current financial liabilities approximate their reported carrying amounts. The carrying values and the fair values of long term financial liabilities that qualify as financial instruments under the guidance are as follows (in thousands):

	2016		2015	
September 30,	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Liabilities:				
Long-term debt	$ 613,005	$ 613,005	$ 415,466	$ 445,269

As of September 30, 2016, the Company's carrying amount of long-term debt approximated the fair value. The fair value of the Company's long-term debt was determined based on market prices as of September 30, 2015.

Nonfinancial Items Measured at Fair Value on a Nonrecurring Basis

Nonfinancial assets such as goodwill and identifiable intangible assets are measured at fair value when there is an indicator of impairment and recorded at fair value only when impairment is recognized. The Company performs an annual impairment test on the goodwill, and performs an impairment test on the intangibles when there are indications of impairment.

Concentrations of Credit Risk

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits of $250,000 per depositor of each financial institution. The Company has not experienced any losses to date related to these balances.

Financial instruments that potentially subject the Company to concentrations of credit risk consist of receivables due from Medicare, Medicaid (Medi-Cal in California), patients, and health plans including shared-risk arrangements.

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The Company invests excess cash in liquid securities at institutions with strong credit ratings, following established guidelines relative to diversification and maturities to maintain safety and liquidity. These guidelines are periodically reviewed and modified to take into consideration trends in yields and interest rates and principal risk. Management attempts to schedule the maturities of the Company's investments to coincide with the Company's expected cash requirements. Credit risk with respect to receivables is limited since amounts are generally due from large HMOs within the Medical Group Management segment and from the Medicare and Medicaid (Medi-Cal in California) programs within the Hospital Services segment. Management reviews the financial condition of these institutions on a periodic basis and does not believe the concentration of cash or receivables results in a high level of risk.

For the years ended September 30, 2016 and 2015, the Hospital Services segment received a total of 66% and 67% of its net patient revenues from Medicare and Medicaid programs, respectively, and the Medical Group segment received a total of 65% and 59%, respectively, of their capitation revenues from its five largest HMOs, as follows (in thousands):

Years Ended September 30,	**2016**	**% of Total Revenue**		2015	% of Total Revenue
Hospital Services:					
Government Payers:					
Medicare	**$ 410,147**	**32%**		$ 315,545	31%
Medicaid	**437,968**	**34%**		367,842	36%
Total	**$ 848,115**	**66%**		$ 683,387	67%
Medical Group:					
HMO A	$ 64,346	20%	HMO A	39,759	13%
HMO B	42,417	13%	HMO B	38,934	12%
HMO F	37,137	12%	HMO C	37,900	12%
HMO C	35,300	11%	HMO D	34,806	11%
HMO E	27,898	9%	HMO E	32,239	11%
Total	$ 207,098	65%		$ 183,638	59%

The Global Risk Management segment received 100% of their revenues from four health plans during the year ended September 30, 2016.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities at the dates, and for the periods, that the consolidated financial statements are prepared. Actual results could materially differ from those estimates. Principal areas requiring the use of estimates include third party settlements, settlements under risk sharing programs, allowances for contractual discounts and doubtful accounts, accruals for medical claims, impairment of goodwill, long-lived assets and intangible assets, share-based payments, professional and general liability claims and workers' compensation claims, reserves for pension obligations and other postretirement benefit reserves, reserves for outcome of legislation and valuation allowances against deferred tax assets.

Recently Adopted Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-11 that requires an unrecognized tax benefit or portion of an unrecognized tax benefit to be presented as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward except when certain conditions exist. The amendment is effective for the Company for fiscal years beginning after December 15, 2014, including interim periods in 2014. The Company adopted this guidance effective October 1, 2015 with no material impact to its consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs." This ASU amends existing guidance to require the presentation of debt issuance cost on the balance sheet as a deduction from the carrying amount of the related debt, instead of an asset. This ASU is effective for reporting periods beginning after December 15, 2015 and early adoption is permitted. The Company elected early adoption of ASU No. 2015-03 effective October 1, 2014. The following table discloses the impact of the adoption of ASU No. 2015-03 on the amounts previously reported in the consolidated balance sheet (in thousands):

Balance Sheet as of September 30, 2015	As Previously Reported	Impact of ASU No. 2015-17	As Reported
Deferred financing costs, net	$ 7,233	$ (7,233)	$ -
Total assets	$ 782,851	$ (7,233)	$ 775,618
Long-term debt, net of current portion	$ 422,699	$ (7,233)	$ 415,466
Total liabilities	$ 746,411	$ (7,233)	$ 739,178

In November 2015, the FASB issued ASU No. 2015-17, "Income Taxes (Topic 740), Balance Sheet Presentation of Deferred Tax Assets and Liabilities". This ASU amends existing guidance by simplifying the presentation of deferred income taxes on a net basis as non-current deferred tax assets or liabilities. ASU No. 2015-17 did not modify the requirement that deferred tax assets and liabilities of a tax-paying component of an entity be offset and presented as a single amount. This ASU is effective for reporting reports beginning after December 15, 2017 with earlier adoption permitted. The Company elected early adoption of ASU No. 2015-17 effective October 1, 2013.

New Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (ASU 2014-09)," as amended by ASU 2015-14. The core principle of ASU 2014-09 is built on the contract between a vendor and a customer for the provision of goods and services, and attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this objective, the standard requires five basic steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, (v) recognize revenue when (or as) the entity satisfies a performance obligation. Nonpublic entities will apply the new standard for annual periods beginning after December 15, 2018, including interim periods therein. Three basic transition methods are available — full retrospective, retrospective with certain practical expedients, and a cumulative effect approach. Under the third alternative, an entity would apply

the new revenue standard only to contracts that are incomplete under legacy U.S. GAAP at the date of initial application (e.g. January 1, 2019) and recognize the cumulative effect of the new standard as an adjustment to the opening balance of retained earnings. That is, prior years would not be restated and additional disclosures would be required to enable users of the financial statements to understand the impact of adopting the new standard in the current year compared to prior years that are presented under legacy U.S. GAAP. Early adoption is permitted for fiscal years beginning after December 15, 2016. The Company is currently evaluating the effect of this guidance on its consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements - Going Concern: Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern." This ASU provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Specifically, this ASU provides a definition of the term substantial doubt and requires an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). It also requires certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans and requires an express statement and other disclosures when substantial doubt is not alleviated. The new standard will be effective for reporting periods beginning after December 15, 2016, with early adoption permitted. The Company will apply the provisions of this standard upon adoption.

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments" ("ASU 2016-01"). ASU 2016-01 requires all equity investments to be measured at fair value with changes in fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). ASU 2016-01 also requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition, ASU 2016-01 eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities. ASU 2016-01 is effective for annual and interim periods beginning after December 15, 2017. The Company is currently evaluating the standard and the impact on its consolidated financial statements and footnote disclosures.

In February 2016, the FASB issued ASU No. 2016-02, "Leases" ("ASU 2016-02"). The core principle of ASU 2016-02 is that a lessee should recognize the assets and liabilities that arise from leases, including operating leases. Under the new requirements, a lessee will recognize in the statement of financial position a liability to make lease payments (the lease liability) and the right-of-use asset representing the right to the underlying asset for the lease term. For leases with a term of 12 months or less, the lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous GAAP. The standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application of the amendment is permitted. The Company is currently evaluating the standard and the impact on its consolidated financial statements and footnote disclosures.

In March 2016, the FASB issued ASU No. 2016-07, "Investments - Equity Method and Joint Ventures" ("ASU 2016-07"). ASC 2016-07 eliminates the requirement for an entity to retroactively adopt the equity method of accounting if an investment qualifies for use of the equity method as a result of an increase in the level of ownership or degree of influence. Rather, ASU 2016-07 requires that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting on a prospective basis upon adoption. The standard is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early

application of the amendment is permitted. The Company is currently evaluating the standard and the impact on its consolidated financial statements and footnote disclosures.

In March 2016, the FASB issued ASU 2016-09, "Compensation – Stock Compensation (Topic 718)" ("ASU 2016-09"). The updated standard simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for non-public business entities for annual reporting periods beginning after December 15, 2017, including interim periods within those annual reporting periods. Early adoption is permitted. The Company is currently evaluating the impact of its pending adoption of the new standard on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230)" ("ASU 2016-15"). The updated standard addresses eight specific cash flow issues with the objective of reducing diversity in practice. ASU 2016-15 is effective for non-public business entities for annual reporting periods beginning after December 15, 2018, including interim periods within those annual reporting periods. Early adoption is permitted. The Company is assessing the impact of the adoption of ASU 2016-15 on the Company's consolidated financial statements.

3. Property, Improvements and Equipment

Property, improvements and equipment, consisted of the following (in thousands):

September 30,	**2016**	2015
Property, improvements and equipment:		
Land and land improvements	**$ 73,675**	$ 53,327
Buildings and improvements	**277,292**	134,730
Leasehold improvements	**22,169**	20,009
Equipment	**185,045**	106,919
Furniture and fixtures	**6,926**	6,891
	565,107	321,876
Less: accumulated depreciation	**(123,755)**	(83,671)
Property, improvements and equipment, net	**$ 441,352**	$ 238,205

At September 30, 2016 and 2015, the Company had assets under capitalized leases of approximately $33,118,000 and $20,299,000, respectively, and related accumulated depreciation of $21,766,000 and $14,356,000, respectively.

Depreciation expense was approximately $40,128,000 and $27,538,000 for the years ended September 30, 2016 and 2015, respectively.

4. Acquisitions

Effective March 1, 2016, Prospect EOGH, Inc. acquired substantially all of the assets and associated real estate of East Orange General Hospital, located in East Orange, New Jersey. The acquisition of East Orange was accounted for as a business combination using purchase accounting. All assets acquired and liabilities assumed were at fair value in accordance with GAAP. The Company incurred $1,800,000 of transaction

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costs during the year ended September 30, 2016, which are included in General and Administrative expenses in the accompanying consolidated statements of operations.

The following table summarizes the assets acquired and liabilities assumed in connection with the East Orange acquisition as of March 1, 2016 (in thousands):

		Purchase Price Allocation (Preliminary)
Patient accounts receivable and other receivables	$	10,064
Prepaid expenses and other current assets		2,602
Property, improvements and equipment		38,851
Intangible assets		2,423
Other assets		20
Accounts payable and other current liabilities		(25,542)
Capital leases		(1,691)
Other long-term liabilities		(7,550)
Goodwill		3,531
Cash consideration, net of cash acquired	$	22,708

As asset purchases, the goodwill and intangible assets acquired are deductible for tax purposes. The purchase price allocation is preliminary as it may be adjusted for currently unknown assets or liabilities related to the pre-acquisition period, and adjustments to the fair value of property, plant and equipment, intangible assets, and goodwill for unknown factors related to the pre-acquisition period. These adjustments may be material.

Crozer

Effective July 1, 2016, Prospect Crozer, LLC acquired certain assets and assumed certain liabilities of Crozer-Keystone Health System, located in Delaware County, Pennsylvania and the surrounding areas. The acquisition of Crozer was accounted for as a business combination using purchase accounting. All assets acquired and liabilities assumed were at fair value with the exception of the defined benefit pension liability and other post retirement employee benefits which allows for an exception to fair value accounting for business combinations in accordance with GAAP. The recognized tax bases (the amount that is attributable for tax purposes) of the assets and liabilities are compared to the financial reporting values of the acquired assets and assumed liabilities (book bases) to determine the appropriate temporary differences. The Company identified a temporary difference related to assumed pension liabilities, due primarily to differences in tax law regarding when a liability is or is not assumed in an asset acquisition; this difference in the treatment of the pension liability resulted in the recording of a deferred tax asset of approximately $40.7 million, which is reflected in the acquisition accounting. The Company incurred $4,200,000 of transaction costs during the year ended September 30, 2016, which are included in General and Administrative expenses in the accompanying consolidated statements of operations.

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The following table summarizes the assets acquired (at fair value) and liabilities assumed (at fair value, except pension obligation, see above) in connection with the Crozer acquisition as of July 1, 2016 (in thousands):

		Purchase Price Allocation (Preliminary)
Patient accounts receivable	$	89,901
Other receivables, prepaid expenses and other current assets		57,147
Property, improvements and equipment		153,785
Deferred income taxes, long-term		40,746
Intangible assets		17,620
Other assets		1,272
Accounts payable and other current liabilities		(102,162)
Capital leases		(19,116)
Other long-term liabilities		(25,158)
Pension obligation		(330,331)
Goodwill		172,744
Cash consideration, net of cash acquired	$	56,448

As asset purchases, the goodwill and intangible assets acquired are deductible for tax purposes. The purchase price allocation is preliminary as it may be subject to further working capital and other adjustments under the asset purchase agreement due to currently unknown assets or liabilities related to the pre-acquisition period, income taxes, and adjustments to the fair value of property, plant and equipment, intangible assets, and goodwill for unknown factors related to the pre-acquisition period. These adjustments may be material. Of the total cash consideration of $56,488,000, $12,930,000 was accrued and included in accounts payable and other accrued liabilities in the accompanying consolidated balance sheets as of September 30, 2016.

Primary and Multi-Specialty Clinics of Anaheim

Effective December 1, 2015, NGMA entered into a Stock Purchase Agreement pursuant to which it simultaneously closed its acquisition of all issued and outstanding shares of Primary and Multi-Specialty Clinics of Anaheim, Inc. ("PMCA"). PMCA operates a medical practice consisting of primary and multi-specialty clinics in Orange County, California. The purchase price consisted of cash consideration less certain liabilities and adjustments as specified in the Stock Purchase Agreement. Included within the purchase price is $1,080,000 of future consideration which was not yet paid as of September 30, 2016. The Company elected to treat the stock acquisition as a taxable asset acquisition under Internal Revenue Code Section 338.

The following table summarizes the assets acquired (at fair value) and liabilities assumed (at fair value) in connection with the PMCA acquisition as of December 1, 2015 (in thousands):

		Purchase Price Allocation
Property, improvements and equipment	$	169
Other assets		219
Accrued expenses		(11)
Goodwill		5,050
Cash consideration, net of cash acquired	$	5,427

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Medical Practices Acquisitions

During the year ended September 30, 2016, CharterCARE Physicians and Nix Physicians, Inc., a subsidiary of Nix Health, entered into three asset purchase agreements to acquire medical practices with primary care physicians as well as specialties in general surgery and orthopedic services in Rhode Island and Texas for total cash consideration of $606,000. The Nix Health acquisition includes a second closing date to be mutually determined by the seller and Nix Physicians, Inc., at which time certain additional assets will be acquired.

The acquisitions of the medical practices were accounted for as business combinations using purchase accounting. Under the purchase accounting method, assets acquired and liabilities assumed are recorded based on their estimated fair values.

The following table summarizes the assets acquired (at fair value) and liabilities assumed (at fair value) in connection with the medical practices acquisitions during the year ended September 30, 2016 (in thousands):

		Purchase Price Allocation
Inventory	$	11
Improvements and equipment		253
Goodwill		342
Net cash consideration	$	606

During the year ended September 30, 2015, CharterCARE Physicians entered into asset purchase agreements to acquire 11 medical practices with primary care physicians as well as physicians with specialties in general surgery, bariatric surgery and urology. Total cash consideration for the medical practices was $3,865,000, with cash consideration for each practice ranging from $9,000 to $2,100,000.

The acquisitions of the medical practices were accounted for as business combinations using purchase accounting. Under the purchase accounting method, assets acquired and liabilities assumed are recorded based on their estimated fair values.

The following table summarizes the assets acquired (at fair value) and liabilities assumed (at fair value) in connection with the CharterCARE Physician medical practices acquisitions during the year ended September 30, 2015 (in thousands):

		Purchase Price Allocation
Inventory	$	8
Improvements and equipment		328
Intangible assets		97
Goodwill		3,432
Net cash consideration	$	3,865

As asset purchases, the goodwill and intangible assets acquired are deductible for tax purposes.

University Medical Group

Effective December 18, 2014, New University Medical Group ("New UNMG"), a wholly-owned subsidiary of RWMC, entered into an Asset Purchase Agreement, pursuant to which New UNMG will acquire substantially all of the assets of University Medical Group ("UNMG"), a physician medical practice with approximately 35 primary care and specialist physicians with various specialties. As consideration for the acquisition, New UNMG will assume certain liabilities of UNMG.

As of December 18, 2014, New UNMG acquired certain assets of the practice and assumed certain liabilities related to the administrative functions of UNMG ("Initial Close"). At a later date, New UNMG will acquire certain additional assets and assume certain additional liabilities ("Second Close"). Concurrent with the Initial Close, UNMG and New UNMG entered into an Interim Administrative Services Agreement, which is effective until the Second Close occurs. New UNMG also entered into the First Amendment to the Interim Administrative Services Agreement effective December 18, 2014. In addition, Prospect, RWMC and CharterCARE Physicians have receivables from various transactions of $5,297,000 and $4,345,000 due from UNMG as of September 30, 2016 and 2015, respectively, which are included in other assets in the accompanying consolidated balance sheet.

Because Second Close had not occurred as of September 30, 2016, the acquisition of UNMG is not reported in the accompanying consolidated financial statements. As a result of the Asset Purchase Agreement, Interim Administrative Services Agreement (as amended), and various transactions, New UNMG has the obligation to absorb certain losses of UNMG and the right to receive certain benefits from UNMG. However, New UNMG does not have the power to direct the activities of UNMG which most significantly impact its performance based on the terms of the Interim Administrative Services Agreement (as amended) and the governance of UNMG. As a result, New UNMG is not the primary beneficiary of UNMG, and the results of UNMG are not consolidated in the accompanying consolidated financial statements.

5. Discontinued Operations

During the year ended September 30, 2016, the Company determined the operations of Elmhurst Extended Care, Nix CGH and CA ACO, LLC ("CA ACO") would be discontinued. Elmhurst Extended Care and Nix CGH are reported in the Hospital Services segment and the CA ACO is reported in the Global Risk Management segment. Elmhurst Extended Care was sold effective December 22, 2016 (see Note 16). The Company anticipates Nix CGH will be sold within the next twelve months. The Company's decision to discontinue the operations of each of the entities was based on the Company's management's strategy in their respective markets and financial results.

Summarized financial information for discontinued operations is included below (in thousands):

September 30,		**2016**		2015
Carrying amounts of major classes of assets included as part of discontinued operations				
Cash	$	910	$	(293)
Restricted cash		4,296		-
Patient accounts receivable, net of allowance for doubtful accounts and other receivables		3,039		4,118
Due from government payors		1,894		3,126
Other current assets		355		248
Total current assets		10,494		7,199
Property, plant and equipment, net		1,985		2,131
Other assets		399		2,847
Total assets of the disposal groups classified as held for sale in the consolidated balance sheets	$	12,878	$	12,177
Carrying amounts of major classes of liabilities included as part of discontinued operations				
Accounts payable and other accrued liabilities	$	2,630	$	1,972
Long-term liabilities		787		129
Total liabilities of the disposal groups classified as held for sale in the consolidated balance sheets	$	3,417	$	2,101

For the Year Ended September 30,		**2016**		2015
Major line items constituting pretax loss of discontinued operations				
Net Hospital Services revenues	$	22,520	$	24,498
Operating expenses		(28,009)		(24,544)
Depreciation and amortization		(276)		(246)
Loss on write-off of goodwill		(2,475)		-
Interest expense		(37)		(35)
Loss on discontinued operations before income taxes		(8,277)		(327)
Income tax benefit		(3,373)		(133)
Loss on discontinued operations	$	(4,904)	$	(194)

The Company's consolidated financial statements and notes to consolidated financial statements have been retrospectively reclassified for discontinued operations as of and for the year ended September 30, 2015.

6. Goodwill and Intangible Assets

As of September 30, 2016 and 2015, goodwill and intangible assets relate to the ProMed, Alta, SCH Culver City, Nix Health, NGMA, CharterCARE Physicians medical practices, East Orange and Crozer acquisitions. The Company performed its annual goodwill impairment analysis for each reporting unit that constitutes a business for which 1) discrete financial information is produced and reviewed by management, and 2) services that are distinct from the other reporting units.

During the year ended September 30, 2015, the Company reorganized its reporting structure for the Medical Group segment due to changes in financial information produced and reviewed by management and the convergence of the economic characteristics of the MSOs and Medical Groups located in California. Prior to the reorganization of the reporting structure, the Medical Group segment was comprised of two reporting units: PHCA and the ProMed Entities (collectively referred to as the "ProMed IPAs") as well as PMS and the other affiliated physician organizations, including NGMA (collectively, "Prospect IPAs"). As a result of the reorganization of reporting structure, the MSOs and Medical Groups located in California comprise a single reporting unit (collectively, "California Medical Groups").

During the year ended September 30, 2016, the Company reorganized its reporting structure for its hospitals located in Southern California. Prior to the year ended September 30, 2016, the reporting units for hospitals located in Southern California consisted of one reporting unit including the four hospitals located in Hollywood, Los Angeles, Norwalk, and Van Nuys and a second reporting unit for SCH Culver City. During the year ended September 30, 2016, the Company determined all seven hospitals located in Southern California (including the hospitals located in Tustin and Bellflower) represented a single reporting unit due to shared economic characteristics, geography and review of financial information.

During the year ended September 30, 2016, $2,475,000 of goodwill related to the Nix reporting unit was written off in conjunction with the classification of Nix CGH as discontinued operations (see Note 5).

For the Hospital Services segment, the reporting unit for the annual goodwill impairment analysis has been determined to be at the business unit level. Reporting units consist of the Southern California Hospitals, Nix Health, and CharterCARE.

The carrying value of goodwill by reporting unit is as follows (in thousands):

September 30,	**2016**	2015
Southern California Hospitals	**$ 130,912**	$ 130,912
Nix Health	**3,138**	3,138 *(a)*
CharterCARE	**3,775**	3,432
California Medical Groups	**27,388**	22,339
East Orange	**3,531**	-
Crozer	**172,744**	-
	$ 341,488	$ 159,821 *(a)*

(a) Excludes $2,475,000 of goodwill related to the Nix Health reporting unit that is reflected in assets held for sale as of September 30, 2015 that was impaired during the year ended September 30, 2016 in connection with the closure of Nix CGH (see Note 5).

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The following is a roll-forward of goodwill from October 1, 2014 to September 30, 2016 (in thousands):

	Amount
Balance, October 1, 2014	$ 156,389
Acquisition of CharterCARE Physicians medical practices (see Note 4)	3,432
Balance, September 30, 2015	159,821
Acquisitions of Nix Physicians and CharterCARE Physicians medical practices	342
Acquisition of PMCA	5,050
Acquisition of East Orange	3,531
Acquisition of Crozer	172,744
Balance, September 30, 2016	$ 341,488

Identifiable intangible assets are comprised of the following (in thousands):

	September 30, 2016								
	Alta	SCH Culver City	Nix Health	Charter CARE	Prospect	Promed	East Orange	Crozer	Total
HMO membership	$ -	$ -	$ -	$ -	$ -	$ 25,200	$ -	$ -	$ 25,200
Trade names, net of impairment	9,690	1,320	2,740	8,130	-	9,450	2,423	17,620	51,373
Favorable leasehold	-	-	20	-	-	-	-	-	20
Physician guarantees	-	-	547	-	-	-	-	-	547
Customer relationships	-	-	-	-	350	-	-	-	350
Other	-	-	-	97	-	-	-	-	97
Gross carrying value	9,690	1,320	3,307	8,227	350	34,650	2,423	17,620	77,587
Accumulated amortization	(4,432)	(1,320)	(2,965)	(3,728)	(200)	(22,444)	(141)	(460)	(35,690)
Intangible assets, net	$ 5,258	$ -	$ 342	$ 4,499	$ 150	$ 12,206	$ 2,282	$ 17,160	$ 41,897

	September 30, 2015						
	Alta	SCH Culver City	Nix Health	Charter CARE	Prospect	Promed	Total
HMO membership	$ -	$ -	$ -	$ -	$ -	$ 25,200	$ 25,200
Trade names, net of impairment	10,310	1,320	2,740	8,130	-	9,450	31,950
Favorable leasehold	-	-	20	-	-	-	20
Physician guarantees	-	-	1,530	-	-	-	1,530
Customer relationships	-	-	-	-	350	-	350
Other	-	-	-	97	-	-	97
Gross carrying value	10,310	1,320	4,290	8,227	350	34,650	59,147
Accumulated amortization	(4,361)	(880)	(2,964)	(2,082)	(150)	(19,890)	(30,327)
Intangible assets, net	$ 5,949	$ 440	$ 1,326	$ 6,145	$ 200	$ 14,760	$ 28,820

During the years ended September 30, 2016 and 2015, intangibles related to physician guarantees of $990,000 and $539,000, respectively, were fully amortized and removed from intangible assets.

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Amortization is recognized on a straight-line basis (management's best estimate of the period of economic benefit) over the respective useful lives and expense for the years ended September 30, 2016 and 2015 was $6,978,000 and $6,590,000, respectively.

Estimated amortization expense for each future fiscal year is as follows (in thousands):

Years ended September 30,	
2017	$ 6,854
2018	6,459
2019	5,957
2020	4,740
2021	4,721
Thereafter	13,166
Total	$ 41,897

The following table shows the estimated useful lives for each of the intangible assets:

	Estimated useful lives
HMO membership	14 years
Trade names	3 - 20 years
Favorable leasehold	6 years
Physician guarantees	2 to 3 years
Customer relationships	7 years
Other	5 years

The weighted-average remaining useful life for the intangible assets was 7.6 years as of September 30, 2016.

7. Related Party Transactions

Jeereddi Prasad, M.D., a shareholder of Ivy Holdings, a director of Ivy Holdings and the Company, and an officer of the ProMed Entities, has ownership interests in physician medical groups that provide medical services to ProMed members, including CMG. For the years ended September 30, 2016 and 2015, the ProMed Entities paid these groups approximately $17,125,000 and $18,170,000, respectively. As of September 30, 2016 and 2015, the Company had accounts payable and other accrued liabilities due to these related parties of $392,000 and $531,000, respectively.

Pursuant to a Management Services Agreement, dated December 15, 2010 and amended on May 3, 2012 (the "LGP Management Agreement"), between the Company and Leonard Green & Partners, L.P. ("LGP"), a private equity fund with affiliated funds that collectively constitute the majority shareholder of Ivy Holdings, LGP provides to the Company, (a) certain investment banking services, (b) management, consulting and financial planning services and (c) financial advisory and investment banking services in connection with major financial transactions from time to time. In consideration for the services provided by LGP under the LGP Management Agreement, the Company pays LGP an annual fee of $1,000,000, payable in monthly installments, and reimburses LGP for its related expenses up to $50,000 annually. If approved by the unanimous consent of the Board of Directors of the Company, additional customary fees

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may be due to LGP pursuant to the terms of the LGP Management Agreement for services rendered in connection with major transactions from time to time. No amounts were payable related to these related party transactions as of September 30, 2016 or 2015.

The Company is a wholly-owned indirect subsidiary of Ivy Holdings. Therefore, Ivy Holdings is the parent of an affiliated group of corporations within the meaning of Section 1504(a) of the Internal Revenue Code of 1986. On December 15, 2010, Ivy Holdings, Ivy Intermediate and the Company entered into a Tax Sharing Agreement. The Tax Sharing Agreement allows the Company to make payments to Ivy Holdings as necessary to fund their payment of any required taxes incurred due to such parent status. During the years ended September 30, 2016 and 2015, the Company made payments (net of refunds) under this arrangement of $7,460,000 and $24,977,000, respectively.

8. Income Taxes

The components of the income tax (benefit) provision for continuing operations are as follows (in thousands):

For the years ended September 30,	**2016**	2015
Current:		
Federal	**$ (23,645)**	$ 35,578
State	**(1,968)**	9,709
	(25,613)	45,287
Deferred:		
Federal	**18,897**	(12,957)
State	**1,966**	(1,051)
	20,863	(14,008)
Total:		
Federal	**(4,748)**	22,621
State	**(2)**	8,658
	(4,750)	**$** 31,279

Temporary differences and carry forward items that result in deferred income tax balances as of September 30, are as follows (in thousands):

September 30,	2016	2015
Deferred tax assets:		
State tax benefit	$ -	$ 2,306
Allowances for bad debts	21,294	7,889
Vacation accrual and other	9,693	4,800
Workers compensation	4,956	3,991
Accrued bonuses	3,783	4,837
Malpractice reserves	6,014	2,546
Deferred rent	125	139
Tax credits	2,002	1,261
Net operating losses	2,615	302
Partnership outside basis difference	6,310	8,323
Transaction Cost	4,519	-
Claims Payable	688	-
Other	229	157
Deferred tax assets	62,228	36,551
Valuation allowance	(742)	(984)
Net deferred tax assets	61,486	35,567
Deferred tax liabilities:		
Intangible assets	(5,998)	(6,448)
Fixed assets	(16,873)	(17,035)
OCI-Pension liability	(8,389)	-
State tax	(3,552)	-
Other	(1,380)	(219)
Deferred tax liabilities	(36,192)	(23,702)
Net deferred tax assets (liabilities)	$ 25,294	$ 11,865

Deferred tax assets and liabilities reflect the effect of temporary differences between the assets and liabilities recognized for financial reporting purposes and the amounts recognized for income tax purposes.

As of September 30, 2016, the Company maintains a valuation allowance of $742,000 on a certain portion of the California Enterprise credit and net operating losses of non-consolidated and separately filed entities for federal and state purposes, as it is more likely than not that the deferred tax asset will not be realized. As of September 30, 2015, valuation allowances were $984,000.

As of September 30, 2016, the Company has $1,261,000 of California Enterprise Zone credit carryforwards and $741,000 of federal and state AMT credit which can be carried over indefinitely. The Company has approximately $30,000,000 of state net operating loss carryforward for September 30, 2016, which expires through September 30, 2037.

The Company finalized an IRS examination for fiscal year 2012 during the year ended September 30, 2016 with no material impact on the consolidated financial statements. During fiscal 2016, the Company received a notice of review from the Franchise Tax Board of California for refunds claimed on its California

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returns reflecting additional Enterprise tax credits. Additionally, the Company received a notice from the Internal Revenue Service in connection with the examination of fiscal 2015 federal tax return.

Generally, the Company's tax years 2011 through 2014 are open for federal and state tax examination. As of September 30, 2016, the Company does not have material unrecognized tax benefits. The Company believes that it is reasonably possible that an increase in unrecognized tax benefits may be necessary within the coming year, and these unrecognized tax benefits would primarily impact deferred taxes and taxes payable, and the expected range of potential increase in the unrecognized tax benefits is not expected to be material to the balance sheet nor the income statement.

The FASB issued ASU No. 2015-17, which requires entities to offset deferred tax assets and liabilities for each tax paying jurisdiction within each tax paying component. The deferred taxes must be reported as non-current. The Company elected early adoption of the ASU (see Note 2 under New Accounting Pronouncements).

The differences between the income tax provision at the federal statutory rate and that reflected in the accompanying consolidated statements of operations are summarized as follows:

For the years ended September 30,	**2016**	2015
Tax provision at statutory rate	**35 %**	35%
State taxes, net of federal benefit	**0 %**	7%
Non-controlling interest	**(6)%**	0%
Other	**(4)%**	6%
	25 %	48%

9. Long-Term Debt

Long-term debt consists of the following (in thousands):

September 30,	**2016**	2015
Prospect's debt:		
Senior secured notes		
Term loan	**$ 623,438**	$ -
Less: discount, net	**(8,984)**	-
2019 Notes	**-**	325,000
Less: discount, net	**-**	(4,950)
	614,454	320,050
Additional 2019 Notes	**-**	100,000
Plus: premium, net	**-**	1,110
	-	101,110
East Orange medical arts building financing	**11,253**	-
Nix Alamo Heights building financing	**5,818**	-
	17,071	-
	631,525	421,160
Nix Health's debt:		
Mortgage debt	**-**	1,674
Other debt:	**80**	-
Less: Deferred financing costs, net	**(11,649)**	(7,233)
Total Debt *(1)*:	**619,956**	415,601
Less: current maturities	**(6,951)**	(135)
Long-term debt, net of current maturities *(1)*	**$ 613,005**	$ 415,466

(1) Net of discount, premium, and deferred financing costs

Prospect's Debt:

Senior Secured Notes

On June 30, 2016, the Company entered into a six-year $625 million senior secured term loan B (the "Term Loan"), the proceeds of which were used to repay $425 million for PMH's existing 8.375% senior secured notes due during 2019; to repay $60 million for borrowings under the Company's existing revolving credit facility (the "Replaced Revolver"); to fund acquisitions, including the acquisition of Crozer; and to finance transaction fees and expenses. The Term Loan bears interest at LIBOR (subject to a 1.0% floor) plus 6.0%, and the effective interest rate was 7.00% as of September 30, 2016. The Term Loan was issued with an original discount of 1.5%, or $9,375,000.

Additionally, the Company refinanced the Replaced Revolver with a new $100 million asset-based revolving credit facility ("ABL Facility" and together with the Term Loan, the "New Senior Secured Credit Facilities"). The ABL facility was amended in August 2016 to $115 million. The ABL Facility bears interest at a variable base rate plus an applicable spread, contingent on the Company's ABL Facility availability, as defined in the ABL Facility credit agreement. The ABL Facility effective interest rate was 2.31% as of September 30, 2016. The ABL Facility balance as of September 30, 2016 was $55,000,000. As of September 30, 2016, the Company had unused letters of credit of $9,200,000, which offset the Company's ability to borrow additional funds, and the ABL Facility had unused lender commitments of $50,800,000 as of September 30, 2016.

The maturity date for the ABL Facility is June 30, 2021, and the maturity date for the Term Loan is June 30, 2022. As of September 30, 2016, the Company was in compliance with the financial covenants of the New Senior Secured Credit Facilities.

The New Senior Secured Credit Facilities are guaranteed on a senior secured basis by all assets of the Company and its subsidiaries ("Guarantors") except Prospect Health Plan, Inc., AMVI/Prospect Medical Group, Nuestra Familia Medical Group, Inc. and certain immaterial subsidiaries. The ABL Facility has a first priority security interest on the working capital assets of the Company and the Guarantors and a second priority security interest on their fixed assets. The Term Loan has a first priority security interest on fixed assets and a second priority security interest on working capital assets. The New Senior Secured Credit Facilities are effectively senior to all of the Company's existing and future indebtedness.

Capitalized deferred financing costs of $12,251,000 related to the New Senior Secured Credit Facilities are being amortized over the term of the related debt using the straight line method, which approximates the effective interest method.

Retired Senior Secured Notes

On May 3, 2012, the Company closed the offering of $325 million in 8.375% senior secured notes due May 1, 2019 ("PMH 2019 Notes"). Interest is payable semi-annually in arrears on May 1 and November 1, commencing on November 1, 2012. The offering was executed in accordance with Rule 144A and Regulation S under the Securities Act of 1933. The terms of the PMH 2019 Notes are governed by an indenture among the Company, certain of its subsidiaries and affiliates (as "Guarantors"), and U.S. Bank National Association (as trustee) (the "Indenture"). The Indenture contains certain covenants that, among other things, limit the Company's ability, and the ability of its restricted subsidiaries (as such term is defined in the Indenture) to: retire and pay dividends or distributions on capital stock or equity interests, prepay subordinated indebtedness or make other restricted payments; incur additional debt; make investments; create liens on assets; enter into transactions with affiliates; engage in other businesses; sell or issue capital stock of restricted subsidiaries; merge or consolidate with another company; transfer and sell assets; create dividend and other payment restrictions affecting subsidiaries; and designate unrestricted subsidiaries. The Credit Agreement (defined below), executed in connection with the PMH Senior Secured Credit Facility (discussed below), contains a number of customary covenants as well as covenants requiring the Company to maintain a maximum consolidated secured leverage ratio and limiting the amount of capital expenditures.

Concurrent with the issuance of the PMH 2019 Notes, the Company entered into a five year $50 million revolving senior secured credit facility (the "PMH Senior Secured Credit Facility") which replaced the existing senior secured credit facility. The PMH Senior Secured Credit Facility provides, among other things, for borrowings up to the amount of the facility with sublimits of up to (i) $20 million to be available for the issuance of letters of credit and (ii) $10 million to be available for swingline loans. The commitment under the facility may be increased by up to $10 million upon the Company's request at the discretion of

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the lenders and subject to certain customary requirements. The interest rate per annum applicable to loans under the PMH Senior Secured Credit Facility will be, at the Company's option, either a rate per annum equal to (i) LIBOR plus 3.50% or (ii) an alternate base rate, which will be the higher of the administrative agent's prime rate, the federal funds rate plus 0.50%, and the 1-month LIBOR rate plus 1.00%, plus in each case, 2.50%. In August 2013, the PMH Senior Secured Credit Facility limit was increased to $60 million. As of September 30, 2015, the Company had $20 million outstanding debt related to the PMH Senior Secured Credit Facility. As of September 30, 2015, the interest rate for the PMH Senior Secured Credit Facility was 3.95%.

The terms of the PMH Senior Secured Credit Facility are governed by the Credit Agreement, dated as of May 3, 2012, (as amended in connection with the Company's November 2012 offering of additional PMH 2019 Notes - see below) among the Company, Morgan Stanley Senior Funding, Inc. (as administrative agent), Royal Bank of Canada and Credit Suisse AG, Cayman Islands Branch (as co-syndication agents) and the lenders party thereto (the "Credit Agreement").

On November 16, 2012, the Company closed the offering of $100 million in aggregate principal amount of 8.375% senior secured notes due 2019 (the "Additional 2019 Notes") at a price equal to 102% of the principal amount of the Additional 2019 Notes. The Additional 2019 Notes were issued in a private placement to qualified institutional buyers and form a part of the same series as the PMH 2019 Notes issued on May 3, 2012.

The Additional 2019 Notes were issued under the Indenture, dated May 3, 2012 and described above, as supplemented by two supplemental indentures entered into in connection with the issuance of the Additional 2019 Notes (the "Supplemental Indentures"). The Additional 2019 Notes are treated as a single series with the previously issued PMH 2019 Notes for all purposes under the Indenture, including, without limitation, restrictive covenants, waivers, amendments, redemptions and offers to purchase. Prior to closing the issuance of the Additional 2019 Notes, the Company was required to obtain the consent of the majority in interest of its PMH 2019 Notes issued on May 3, 2012 to certain amendments to the Indenture contained in the first Supplemental Indenture. The Company obtained such consent from the holders of approximately $324 million in aggregate principal amount of outstanding PMH 2019 Notes and paid an aggregate consent fee of approximately $8.9 million. The Company determined that the transaction represents a debt modification under the applicable accounting guidance and capitalized the consent fee and recorded it as a debt discount during the year ended September 30, 2013, which is being amortized over the term of the Additional 2019 Notes using the effective interest method.

In connection with the issuance of the Additional 2019 Notes, the Company entered into an amendment of its Credit Agreement governing the PMH Senior Secured Credit Facility that waived and amended certain provisions of the Credit Agreement, including certain restrictive covenants. In conjunction with the repayment of the PMH 2019 Notes, Additional 2019 Notes, and the PMH Senior Secured Credit facility, the Company recognized a loss on debt extinguishment of $26,561,000. The loss on debt extinguishment included $17,799,000 of bond redemption costs, $3,030,000 of unamortized debt discount and premium, and $5,732,000 of unamortized debt financing costs, which are included within loss on debt extinguishment in the accompanying consolidated statement of operations for the year ended September 30, 2016.

Demand Notes

During the year ended September 30, 2012, the Company obtained a commitment from a bank for a $9.3 million equipment leasing facility to finance various equipment at the Company's hospital facilities. During January 2014, the commitment was increased to $15.0 million. As of September 30, 2016 and 2015, draws under the facility are classified as capital lease arrangements. Draws represent demand notes until

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conversion to capital leases, and interest accrues on such draws at the bank prime rate plus 1.5% with a floor of 4.5% and payable monthly.

Other Debt:

In connection with the Nix Health acquisition, Nix SPE, LLC ("Nix SPE") executed a Loan Assumption Agreement, effective as of February 29, 2012, pursuant to which Nix SPE assumed the obligations of the sellers of Nix Health under a mortgage loan facility provided by The Ohio National Life Insurance Company on December 27, 1999. Nix SPE assumed the obligation to pay the outstanding principal amount of the mortgage loan and interest accruing thereafter. The outstanding balance of the mortgage loan as of 2015 was $1,675,000.

Prospect Hospital Holdings, LLC, the parent company of Nix SPE, has provided a guaranty of the obligations of Nix SPE under the loan. The obligations under the loan facility are secured by a deed of trust on a neighborhood medical center known as Nix Alamo Heights. The loan is subject to a 7.0% interest rate and requires monthly installment payments of $21,000, with a balloon payment on the maturity date of November 1, 2019. Prepayment is subject to a fee and the loan contains customary covenants.

During the year ended September 30, 2016, Nix SPE entered into a Purchase and Sale Agreement with a third party ("NAH Buyer") for the sale of Nix Alamo Heights for $6,300,000. Concurrently, the Company entered into a lease with the NAH Buyer to lease Nix Alamo Heights for 13 years, with 2% annual rent increases and four consecutive options to extend the lease term for five years each. Pursuant to the terms of the lease, the Company is required to repair, maintain and replace all aspects of the Nix Alamo Heights building. The Company's ability to lease the Nix Alamo Heights for up to 33 years and the requirement to fully maintain the property constitute continuing involvement for financial reporting purposes. As a result, the transaction has been accounted for as a financing transaction and is included within long-term debt as of September 30, 2016.

The Company also entered into an Agreement of Purchase and Sale effective September 14, 2016 to sell the East Orange medical arts building for a purchase price of $11,860,000 to a third party ("East Orange MAB Buyer"). Concurrently, the Company entered into a lease with the East Orange MAB Buyer to lease the East Orange medical arts building for 10 years, with 2% annual rent increases and four consecutive options to extend the lease term for five years each. East Orange sub-leases a significant portion of the building to third parties, resulting in continuing involvement for financial reporting purposes. As a result, the transaction has been accounted for as a financing transaction and is included within long-term debt as of September 30, 2016.

Scheduled payments under the Company's current and long-term debt as of September 30, 2016 are as follows (in thousands):

Years ending September 30,	
2017	$ 6,951
2018	7,067
2019	7,067
2020	7,140
2021	7,217
Thereafter	605,147
Total scheduled payments	640,589
Less: Senior Secured Notes discount, net	(8,984)
Less: Deferred financing costs, net	(11,649)
Total long-term debt	$ 619,956

Future amortization of the Company's debt discount and deferred financing costs as of September 30, 2016 are as follows (in thousands):

Years ending September 30,	
2017	$ 3,721
2018	3,721
2019	3,721
2020	3,721
2021	3,515
Thereafter	2,234
	$ 20,633

10. Stockholder's Equity

Equity Based Compensation Plans

Effective December 15, 2010, the Board of Directors of Ivy Holdings adopted the Ivy Plan that authorized the issuance of options exercisable for up to 155,110 shares of the common stock of Ivy Holdings ("Initial Options") to employees, certain consultants and independent members of the boards of directors, of Ivy Holdings and its subsidiaries (including the Company and its subsidiaries). During the year ended September 30, 2015, the Compensation Committee of the Board of Directors of Ivy Holdings ("Compensation Committee") granted 37,814 options to certain members of the Company's management and employees. These options are exercisable into Ivy Holdings stock and vest based on a number of criteria, including time, Company and Business Unit performance based on EBITDA targets and CEO and Compensation Committee discretion. Since the Ivy Holdings stock options were granted to Company employees for their services related to the Company, the related compensation cost has been recorded in the Company's consolidated financial statements.

Effective June 30, 2015, the Board of Directors of Ivy Holdings adopted the First Amendment to the Ivy Plan, pursuant to which the Board of Directors authorized the issuance of options exercisable for an additional 13,972 shares of common stock of Ivy Holdings ("New Options") to employees, certain consultants and independent members of the boards of directors of Ivy Holdings and its subsidiaries (including the Company and its subsidiaries). Concurrently, the Compensation Committee granted 13,972

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options to certain members of the Company's management and employees. The New Options are exercisable into Ivy Holdings stock and vest based on a number of criteria, including the same criteria as the Initial Options however, they only become exercisable on the occurrence of certain corporate transactions, including a change in control of Ivy Holdings, as defined in the Incentive Stock Option Agreements ("Corporate Transaction"). Because the occurrence and timing of a Corporate Transaction is not determinable as of September 30, 2016, no compensation cost has been recorded in the Company's consolidated financial statements.

Under the terms of the Ivy Plan, the exercise price of an incentive stock option ("ISO") may not be less than 100% of the fair market value of the Company's common stock on the date of grant and, if granted to a shareholder owning more than 10% of the Company's common stock, then not less than 110%. Stock options granted under the Ivy Plan have a maximum term of 10 years from the grant date, and are exercisable at such time and upon such terms and conditions as determined by the Compensation Committee. Stock options granted to employees generally vest over four years, subject to continued service, performance, and other criteria. In the case of an ISO, the amount of the aggregate fair market value of common stock with respect to which the ISO grant is exercisable, for the first time by an employee during any calendar year, may not exceed $100,000.

Stock Options Activity

The following table summarizes information about Ivy Holdings stock options outstanding as of September 30, 2016 and 2015 and activity during the years then ended for the Initial Options and the New Options:

	Shares Subject to Options	Weighted Average Exercise Price	Weighted Average Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term (Months)
Outstanding as of September 30, 2014	115,475	$ 45.37	$ 74.63	84.1
Granted *(1)*	51,786	176.00	—	—
Exercised	(12,620)	31.38	—	—
Canceled/Forfeited	(4,079)	46.24	—	—
Outstanding as of September 30, 2015	150,562	91.42	436.51	88.2
Granted	-	-	—	—
Exercised	(4,063)	30.00	—	—
Canceled/Forfeited	(3,093)	134.58	—	—
Outstanding as of September 30, 2016	143,406	$ 92.30	$ 445.70	76.2

(1) The options granted include 37,814 Initial Options and 13,972 New Options.

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the estimated fair value of the Company's common stock for those awards that have an exercise price currently below the estimated fair value. As of September 30, 2016, the aggregate intrinsic value of outstanding shares was approximately $64,000,000. As of September 30, 2016, there were 111,638 options that are exercisable at a weighted average exercise price of $68.91.

A summary of Ivy Holdings non-vested options and the changes during the fiscal years ended September 30, 2016 and 2015 is presented as follows for the Initial Options and New Options:

	Shares	Weighted Average Grant Date Fair Value
Ivy Holdings Stock Options:		
Nonvested at September 30, 2014	13,637	$ 70.47
Granted	51,786	98.65
Vested	(19,005)	89.73
Canceled/Forfeited	(1,672)	88.79
Nonvested at September 30, 2015	44,746	94.22
Vested	(15,991)	89.10
Canceled/Forfeited	(2,279)	91.45
Nonvested at September 30, 2016	26,476	$ 97.55

Stock-Based Compensation Expense

Stock-based compensation expense for all share-based payments in exchange for employee services (including stock options and restricted stock) is measured at fair value on the date of grant, estimated using an option pricing model and is recognized in the consolidated financial statements, net of estimated forfeitures over the awards requisite service period.

The Company uses the Black-Scholes option pricing model and a single option award approach to estimate the fair value of options granted. Estimated forfeitures will be revised in future periods if actual forfeitures differ from the estimates and will impact compensation cost in the period in which the change in estimate occurs. The determination of fair value using the Black-Scholes option-pricing model is affected by the Company's estimated stock price as well as assumptions regarding a number of complex and subjective variables, including expected stock price volatility, risk-free interest rate, expected dividends and projected employee stock option exercise behaviors.

Fair value for options granted during the year ended September 30, 2015 was estimated with the following assumptions for Ivy Holdings (no options were granted during the year ended September 30, 2016):

For the year ended September 30,	2015
Weighted average fair value of option grants	$ 98.65
Estimated fair market value of the Company's common stock on the date of grant	$ 176.00
Weighted average expected life of the options	9.8 years
Risk-free interest rate	1.8%
Weighted average expected volatility	45.0%
Dividend yield	0.00%

Expected Term - The expected term of options granted represents the period of time that they are estimated to be outstanding.

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Risk-Free Interest Rate - The Company bases the risk-free interest rate on the implied yield in effect at the time of option grant on U.S. Treasury zero-coupon issues with equivalent remaining terms.

Expected Volatility - The Company estimates the volatility of the common stock at the date of grant based on the average of the historical volatilities of a group of peer companies. The Company has identified a group of comparable companies to calculate historical volatility from publicly available data for sequential periods approximately equal to the expected terms of the option grants. In selecting comparable companies, Management considered several factors including industry, stage of development, size and market capitalization.

Forfeitures - Share-based compensation is recognized only for those awards that are ultimately expected to vest. Compensation expense is recorded net of estimated forfeitures. Those estimates are revised in subsequent periods if actual forfeitures differ from those estimates. The Company used data since December 2010 to estimate pre-vesting option forfeitures.

Stock-based compensation expense for the Ivy Holdings stock options recognized by the Company during the years ended September 30, 2016 and 2015 was $1,119,000 and $1,184,000, respectively. At September 30, 2016, there were 26,476 unvested options, which could potentially vest over the next six fiscal years, subject to meeting the vesting requirements noted above. The remaining maximum estimated stock compensation expense to be amortized to expense in future periods is approximately $1,659,000. Options which are expected to vest based on CEO and Compensation Committee discretion are treated as variable stock options and are subject to revaluation at each reporting period. Management determined the fair value of the discretionary vested options using a Black Scholes calculation but determined that the change in compensation expense was not material to the consolidated financial statements for the years ended September 30, 2016 and 2015.

11. Retirement Benefits

In conjunction with the acquisition of certain assets and the assumption of certain liabilities of Crozer-Keystone Health System, effective July 1, 2016 (the "Effective Date"), the Company became the sponsor and assumed the Crozer-Keystone Health System ("CKHS") Employee Retirement Plan, an employee non-contributory, defined benefit pension plan (the "DB Plan") covering certain full-time employees.

Pursuant to the Asset Purchase Agreement entered into by and among the Company, Prospect Crozer, LLC and Crozer's wholly-owned subsidiary, CKHS, on January 8, 2015, as amended, (the "Agreement") at Closing, CKHS agreed to pay out of the Purchase Price (Note 4) $100 million into an escrow, which funds was subsequently used by the Company upon becoming the sponsor of the DB Plan pursuant to IRS rules and regulations to fund in part the underfunded Plan liability then outstanding. Additionally, pursuant to the Agreement, within five years after the Effective Date and subject to applicable filing and authorization by the applicable Government Entity, the Company shall adopt a plan amendment to terminate the DB Plan effective within such five year period and shall liquidate, fully fund and satisfy, and pay all benefits owed to participants and beneficiaries of the DB Plan by providing lump sum distributions to participants, purchasing annuities for participants who do not elect a lump sum distribution.

Pursuant to an amendment to the DB Plan, effective July 1, 2016, the DB Plan was frozen with all benefit accruals ceased as of July 1, 2016. With respect to each Represented Employee who is a member of the Laborers' International Union of North America, the Monthly Compensation (as defined), the Credited Service (as defined), the Eligibility Service (as defined) and the accrued benefit was frozen and determined as of July 1, 2016. No benefits will accrue on or after such date. Additionally, the DB Plan was amended to provide that for purposes of determining Vesting Service (as defined) for employees who were

employed with the Company before July 1, 2016, years of service shall include all periods of employment completed on and after July 1, 2016, subject to the Break in Service rules (as defined).

Effective September 3, 2016, the DB Plan was further amended to provide certain Qualifying Participants (as defined) the right to make a Special Benefit Election (as defined) during "2016 Lump Sum Option Window" period from October 15, 2016 through November 30, 2016 to receive or commence receiving his or her vested Accrued Benefit as of December 1, 2016 in accordance with procedures adopted by the Committee.

In conjunction with the acquisition transaction, on the Effective Date, the Company also became the sponsor and assumed CKHS postretirement benefit program (the "OPEB Plan") which is an unfunded medical care and life insurance benefit program, and a supplemental executive retirement plan (the "SERP Plan") which is an unfunded retirement plan that covers a group of current and former executives.

Pursuant to an amendment to the OPEB Plan and SERP Plan, effective July 1, 2016, the Plans were frozen with all benefit accruals ceased as of July 1, 2016. No benefits will accrue on or after such date. With respect to each Represented Employee who is a member of the Laborers' International Union of North America, benefits will continue to accrue until a settlement of an ongoing union contract negotiation is reached.

The activity of the Pension Plan and the OPEB for the period from July 1, 2016 (Crozer inception) through September 30, 2016 is as follows (in thousands):

	Pension Plan	OPEB
Changes in benefit obligations		
Projected benefit obligations, beginning of period	$ 680,724	$ 6,888
Service cost	-	20
Interest cost	5,573	51
Actuarial (gain) loss	(3,616)	118
Benefits paid	(5,759)	(236)
Projected benefit obligation (Pension Plan) and Accumulated benefit obligation (OPEB), end of period	$ 676,922	$ 6,841
Changes in plan assets		
Fair value of plan assets, beginning of period	$ 350,393	$ -
Actual return on plan assets	22,630	-
Contributions by plan sponsor	100,000	236
Benefits paid	(5,759)	(236)
Fair value of plan assets, end of period	$ 467,264	$ -
Funded status of the plan, end of period	$ (209,658)	$ (6,841)
Accumulated benefit obligation, end of period	$ (209,658)	$ (6,841)

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The funded status of the Pension Plan and OPEB as of September 30, 2016 and the components of net periodic benefit cost for the period from July 1, 2016 (Crozer inception) through September 30, 2016 were as follows (in thousands):

	Pension Plan	OPEB
Amounts recognized in the consolidated balance sheets consist of:		
Current liability	$ -	$ 1,050
Non-current liability	209,658	5,791
Amount recognized, end of year	$ 209,658	$ 6,841
Components of net periodic benefit cost:		
Service cost	$ -	$ 20
Interest cost	5,573	51
Expected return on plan assets	(7,000)	-
Total net periodic benefit (credit) cost	$ (1,427)	$ 71
Other change in benefit obligations recognized in accumulated other comprehensive income:		
Liability (gain) loss due to assumption change	$ 2,116	$ -
Liability (gain) loss due to participant experience	(5,732)	117
Asset return (gain) loss	(15,630)	-
Total recognized in other comprehensive income and accumulated other comprehensive income	$ (19,246)	$ 117

The assumptions used in determining the actuarial present value of the projected benefit obligations are as follows:

	Pension Plan	OPEB
Weighted average assumptions used to determine benefit obligations at end of period		
Discount rate	3.68%	3.27%
Rate of compensation increase	0.00 %	2.00%
Weighted average assumptions used to determine net periodic benefit cost for the period from July 1, 2016 (Crozer inception) through September 30, 2016		
Discount rate	3.68%	3.27%
Rate of compensation increase	0.00%	0.00%
Expected return on the plan assets	6.50%	0.00%

Assumed health care cost trend rates for the next period used to measure the expected cost of benefits covered by the plan are as follows:

	2016
Health care trend rate assumed for next year	7.0%
Rate to which the cost trend is assumed to decline (the ultimate rate)	4.5%
Year that the rate reaches the ultimate trend rate	2025

Assumed health care cost trend rates have a significant effect on amounts reported for other postretirement benefit programs. A one-percentage-point change in assumed health care cost trends would have the following effects (in thousands):

	1% Increase	1% Decrease
Effect on other postretirement benefit obligations	$ 6,934	$ 6,754
Effect on total of service and interest cost components	$ 312	$ 290

The asset allocation percentage by major asset class for the Plan and the target allocation for 2016 follows:

	Target	2016
Asset class:		
Cash and cash equivalents	0% - 20%	- %
Fixed income	10% - 100%	87
Domestic equity	0% - 100%	-
International equity	0% - 40%	-
Real estate	0% - 30%	-
Alternative investments and hedge funds	0% - 30%	13
		100 %

The investment objectives of the Plan are to invest consistently with the fiduciary standards of ERISA, to provide for the funding and anticipated withdrawals on an ongoing basis, conserve and enhance the capital value of the Plan in real terms while maintaining a moderate risk profile, to minimize principal fluctuations over the investment cycle, and achieve a long-term level of return commensurate with contemporary economic conditions. The expected long-term rate of return with respect to the Plan is based on an aggregate of expected capital market returns within each asset category.

The following tables set forth the assets in the Plan measured at fair value, by input level (in thousands):

September 30, 2016	Level 1	Level 2	Level 3	Total
Fixed income securities:				
Short-Term Duration	$ -	$ 7,533	$ -	$ 7,533
Extended Duration	-	135,880	-	135,880
Interim Duration	-	31,614	-	31,614
Long-Term Duration	-	229,541	-	229,541
Collective trust funds:				
Real estate	-	-	8,898	8,898
Alternative investments	-	-	31,203	31,203
Hedge funds	-	-	22,295	22,295
Cash and cash equivalents	300	-	-	300
Total	$ 300	$ 404,568	$ 62,396	$ 467,264

Pension plan assets classified as Level 3 in the fair value hierarchy represent investments in which the trustee has used significant unobservable inputs in the valuation model. The hedge funds consist of equity/long/short funds and multi-strategy funds in which fair values have been estimated using the net asset value per share of the investment. The alternative investments primarily consist of investments in limited partnerships that invest in the Public-Private Investment Program which fair values have been estimated using the net asset value per share of the investment.

On an annual basis, the Company assesses the valuation hierarchy for pension assets recorded at fair value. From time to time, assets will be transferred within the fair value hierarchy as a result of changes in, among other things, inputs used, liquidity, or valuation methodologies. During the period from July 1, 2016 (inception) through September 30, 2016, there were no transfers in classification within the fair value hierarchy.

The following table is a rollforward of the Plan's assets classified within Level 3 of the fair value hierarchy (in thousands):

For the year ended September 30,	2016
July 1, 2016 (Crozer inception)	$ 69,528
Actual return on plan assets:	
Realized gain (loss)	282
Unrealized gain (loss)	1,367
Purchases	-
Sales	(8,780)
September 30, 2016	$ 62,397

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The expected long-term future benefit payments to retirees with respect to the Plan and Other Retirement Benefits are as follows (in thousands):

	Pension Plan	OPEB
2017	$ 38,520	$ 1,050
2018	39,400	570
2019	39,800	440
2020	39,570	420
2021	38,900	400
2022 - 2026	192,290	1,850
	$ 388,480	$ 4,730

The Company also sponsors three defined contribution plans covering substantially all employees who meet certain eligibility requirements. Under these plans, employees can contribute up to 50% of their compensation up to the IRS deferred annual maximum. There is currently no company match offered under the plans, except at Nix Health, PCC, and Crozer, for which the expense for the employer match was $3,417,000 and $1,865,000 for the years ended September 30, 2016 and 2015, respectively. Total expenses under the plan were approximately $509,850 and $480,000 during the years ended September 30, 2016 and 2015, respectively.

12. Commitments and Contingencies

Leases

The Company leases various office facilities and equipment from third parties under non-cancelable operating and capital lease arrangements expiring at various dates through 2030. Certain operating leases contain rent escalation clauses and renewal options, which have been factored into determining rent expense on a straight-line basis over the lease terms. Capital leases bear interest at rates ranging from 2% to 11% per annum.

The future minimum annual lease payments (net of anticipated sublease income) required under leases in effect at September 30, 2016, are as follows (in thousands):

For the Years ending September 30,	Capital Leases	Operating Leases
2017	$ 9,803	$ 20,330
2018	8,259	18,004
2019	6,413	15,291
2020	3,364	13,617
2021	3,343	10,722
Thereafter	29,919	43,722
Total minimum lease payments	61,101	$ 121,686
Less: amounts representing interest	(20,873)	
	40,228	
Less: current portion	(6,894)	
	$ 33,334	

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Rent expense for the years ended September 30, 2016 and 2015 was approximately $22,481,000 and $15,258,000, respectively. Sublease rental income was not material to the consolidated financial statements for the years ended September 30, 2016 and 2015.

Litigation

The Company is subject to a variety of claims and suits that arise from time to time in the ordinary course of its business, acquisitions, or other transactions. While the Company's management currently believes that resolving all of these matters, individually or in the aggregate, will not have a material adverse impact on the Company's consolidated financial position or results of operations, the litigation and other claims that the Company faces are subject to inherent uncertainties and management's view of these matters may change in the future. Should an unfavorable final outcome occur, there exists the possibility of a material adverse impact on the Company's consolidated financial position, results of operations and cash flows for the period in which the effect becomes probable and reasonably estimable.

Seismic Standards

The Company's SCHS Hospitals, Alta Los Angeles Hospitals, and FRMC are required to comply with California's Alfred E. Alquist Hospital Facilities Seismic Safety Act (the "Alquist Act"), which regulates the seismic performance of all aspects of hospital facilities in California. The Alquist Act imposes near-term and long-term compliance deadlines for seismic safety assessment, submission of corrective plans, and the retrofitting or replacement of medical facilities to comply with current seismic standards. The Alquist Act also requires that the California Building Standards Commission adopt earthquake performance categories, seismic evaluation procedures, standards and timeframes for upgrading certain facilities, and seismic retrofit building standards. These regulations require hospitals to meet seismic performance standards to ensure that they are capable of providing medical services to the public after an earthquake or other disaster. The Building Standards Commission completed its adoption of evaluation criteria and retrofit standards in 1998.

The Alquist Act requires that within three years after the Building Standards Commission had adopted evaluation criteria and retrofit standards:

- Hospitals in California must conduct seismic evaluation and submit these evaluations to the Office of Statewide Health Planning and Development ("OSHPD"), Facilities Development Division for its review and approval;
- Hospitals in California must identify the most critical nonstructural systems that represent the greatest risk of failure during an earthquake and submit timetables for upgrading these systems to the OSHPD, Facilities Development Division for its review and approval; and
- Hospitals in California must prepare a plan and compliance schedule for each regulated building demonstrating the steps a hospital will take to bring the hospital buildings into substantial compliance with the regulations and standards.

The Company was required to conduct engineering studies at its hospitals to determine whether and to what extent modifications to the hospital facilities will be required. Management believes that SCH Culver City meets all current requirements; however, it may be required to make significant capital expenditures in the future to comply with the seismic standards, which could impact its earnings. The cost at September 30, 2016, is unknown at this time but could be material. In addition, such modifications to the hospital facilities could potentially result in environmental remediation liabilities which may be material to the Company.

The OSHPD has a voluntary program to re-evaluate the seismic risk of hospital buildings classified as Structural Performance Category ("SPC") 1. These buildings are considered hazardous and at risk of collapse in the event of an earthquake and they were required to be retrofitted, replaced or removed from providing acute care services by 2013, unless granted an extension. OSHPD is using HAZARDS U.S. ("HAZUS"), a state-of-the-art methodology, to reassess the seismic risk of SPC-1 buildings and those that are determined to pose a low seismic risk may be reclassified to SPC-2. The SPC-2 buildings would have until 2030 to comply with the structural seismic safety standards. Participation in the HAZUS program is optional for hospital owners wishing to have their SPC-1 building(s) re-evaluated. Applications for a HAZUS re-evaluation of the seismic risk were submitted for SCH Hollywood, SCH Culver City and Los Angeles Community Hospital, but there is no assurance they will result in extensions.

In addition, in 2011, the California Legislature enacted Senate Bill 90, which permitted some hospitals to apply for up to an additional seven year extension to the seismic retrofit deadlines, not to extend beyond January 1, 2020. SB 90 also permits OSHPD to extend until January 1, 2018 the date by which the hospitals must obtain a building permit and commence the required retrofit project. OSHPD has discretion to approve or disapprove SB 90 extension requests, and to determine the length of the extension (up to the maximum seven years), based on eligibility factors including seismic risks associated with the affected buildings (which can be impacted by the updated HAZUS findings), community access to essential hospital services in the area and financial hardships facing the applicant.

SCH Culver City and Los Angeles Community Hospitals both applied for the SB 90 extension from OSHPD. Two of the multi-story buildings owned by SCH Culver City were granted SB 90 extensions until January 1, 2019 or July 1, 2019. An additional single-story building is classified as SPC-2. Also, the facility operated by Los Angeles Community Hospital received an SB 90 extension until January 1, 2019.

The Company is in the process of pursuing Non-Structural Performance Category ("NPC") 2 classification and SB 499 Item 2 extensions of the compliance deadlines that would result for Foothill. Bellflower is not currently subject to the requirements of SB90 as the facility currently only provides psychiatric services.

These requirements can result in significant operational changes and capital outlays. Management is continuing to assess its options and the methods of financing the required retrofits. Based on management's evaluation, the costs of renovation needed to comply with the California seismic safety standards for its acute-care facilities, including asbestos abatement, are not estimable at this time.

Legislation and HIPAA

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

The Company believes that it is in compliance with fraud and abuse regulations as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

The Health Insurance Portability and Accountability Act ("HIPAA") assures health insurance portability, reduces healthcare fraud and abuse, guarantees security and privacy of health information, and enforces standards for health information. The Health Information Technology for Economic and Clinical Health Act ("HITECH Act") expanded upon HIPAA in a number of ways, including establishing notification requirements for certain breaches of protected health information. In addition to these federal rules, California has also developed strict standards for the privacy and security of health information as well as for reporting certain violations and breaches. The Company may be subject to significant fines and penalties if found not to be compliant with these state or federal provisions.

Affordable Care Act

The Patient Protection and Affordable Care Act ("PPACA") will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer-provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible that the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

Future changes to the Affordable Care Act and in other federal and state legislation could have a material impact on the operations of the Company. The Company is continuing to monitor the legislative environment for risks and uncertainties.

California Hospital Fee Program

The State of California enacted Assembly Bill 1383 ("AB 1383") effective January 1, 2010, as amended by Assembly Bill 1653 (collectively, the "Program"), to provide supplemental payments to certain hospitals such as the hospitals owned and operated by the Company's subsidiaries. The Program requires participating hospitals to pay fee assessments into a pool of funds to which the federal government contributes matching funds. Most of these funds, including the federal matching funds, are then distributed to qualifying hospitals. In addition, on April 13, 2011 SB 90 was signed into law and provided for a six-month extension of the Hospital Fee Program for dates of service from January 1, 2011 through June 30, 2011. CMS granted final approval of SB 90 on December 29, 2011, at which point the revenue and expense was recognized for the retroactive period. In September 2011, the State of California enacted Senate Bill 335 ("SB 335") which provides a 30-month hospital fee program for dates of service from July 1, 2011 through December 31, 2013. The elements of SB 335 related to the fee for service payments were approved by CMS on June 22, 2012. The payments due under the managed care component were made in three cycles, the last of which was approved by CMS during the year ended September 30, 2015. Certain technical changes to the legislation required by CMS are included in Senate Bill 920.

Governor Brown signed Senate Bill 239 ("SB 239") in October 2013. SB 239 enacted a hospital fee program for a program period beginning January 1, 2014 and ending December 31, 2016, contained language for the continuation of a hospital fee program thereafter, but provided that the program would terminate on December 31, 2016. In November 2016, the California voters approved Proposition 52, which made the hospital fee program permanent so that it continues after December 31, 2016. The hospital fee program is operated in cycles known as program periods. The next program period will begin on January 1, 2017

and end on June 30, 2019. Subsequent program periods will be of a duration not to exceed three years. The fee for service component of SB 239 for the period January 1, 2014 through December 31, 2016 was approved by CMS during December 2014, and the first cycle of the managed care component from January 2014 through June 2014 was approved by CMS during July 2015. In November 2016, Proposition 52 was approved in California, extending the existing hospital fee program and continuing the program on an on-going basis. Proposition 52 also prohibits lawmakers from diverting Medi-Cal funds to pay for anything other than their intended purpose.

Management of SCH Culver City estimated that SCH Culver City would be a "net" payer under the Program for AB 1383 and SB 90, since the fee assessments on SCH Culver City exceeded the supplemental payments by approximately $1,074,000 and $4,000,000, respectively. Accordingly, on October 6, 2010, the Company notified the California Department of Healthcare Services ("DHCS") that SCH Culver City was opting out of the Program.

SCH Culver City did not pay the required fee assessments under the Program. As of September 30, 2012, SCH Culver City recorded a liability of approximately $5,494,000, representing the accrued loss above, as well as deferred recognition of payments received from managed care plans. On November 15, 2012 the Company entered into a settlement agreement with DHCS with regards to SCH Culver City's liability under AB 1383, SB 90 and SB 335, as discussed above. Under the terms of the agreement, the DHCS agreed to forgive approximately $2,000,000 of the fees due under AB 1383, which was recorded by the Company during the year ended September 30, 2013. The remaining liability due to DHCS of $4,605,000 will be repaid by the Company monthly over a 10-year period without interest or penalties. The Company recorded a net liability of $3,233,000 as of the settlement date, which represents the net present value of the liability due to DHCS discounted at an effective interest rate of 7.5%. As of September 30, 2016 and 2015, the unamortized balance of the liability amounted to $2,268,000 and $2,547,000, respectively. The DHCS will no longer withhold against any other amounts due to SCH Culver City unless the Company is delinquent on payments owed under the agreement.

As of September 30, 2016 and 2015, the Company had a receivable related to the California Hospital Fee Program of $43,039,000 and $32,285,000, respectively, in the accompanying consolidated balance sheets. As of September 30, 2016 and 2015, the Company had a liability related to the California Hospital Fee Program of $18,684,000 and $15,022,000, respectively, in the accompanying consolidated balance sheets.

Total California Hospital Fee program revenues and expenses recognized during the years ended September 30, 2016 and 2015 were as follows (in thousands):

Years Ended September 30,	**2016**	2015
Hospital services revenues	**$ 91,929**	$ 134,604
Hospital operating expenses	**60,376**	91,325
Net pre-tax impact	**$ 31,553**	$ 43,279

Collective Bargaining Agreements

A small group of employees at SCH Hollywood, which is one of the hospitals under the consolidated group of Southern California Healthcare System, Inc., and Service Employees International Union, United Healthcare Workers-West ("SEIU") are currently parties to a collective bargaining agreement which expires May 2019. In addition, approximately 950 employees at SCH Culver City are part of a collective bargaining agreement with the SEIU or the California Nurses Association ("CNA"). SCH Culver City and CNA

are currently parties to a collective bargaining agreement which expires March 2019. SEIU and SCH Culver City are currently parties to a three-year term agreement that expires on April 27, 2017.

Approximately 300 employees at Our Lady of Fatima Hospital ("Fatima") are subject to a collective bargaining agreement with United Nurses and Allied Professionals ("UNAP"), which expired July 31, 2016. The parties are currently negotiating a new collective bargaining agreement. During April 2015, a hospital unit consisting of approximately 400 service employees of Fatima elected to be represented by UNAP. The parties entered into a new collective bargaining agreement which expires October 2018. A small number of employees are subject to a collective bargaining agreement with the Federation of Nurses and Health Professionals ("FNHP"), which expires April 30, 2017.

East Orange and the International Union of Operating Engineers are party to a collective bargaining agreement expiring December 2016 for the hospital's maintenance unit, consisting of approximately 15 employees.

Approximately 1,000 employees of Crozer are subject to seven collective bargaining agreements expiring on various dates from October 2017 through December 2019. Crozer is also negotiating certain new and expired collective bargaining agreements as of September 30, 2016.

Tangible Net Equity ("TNE") Requirement

The Company's affiliated physician organizations and PHP must comply with a minimum working capital requirement, Tangible Net Equity ("TNE") requirement, cash-to-claims ratio and claims payment requirements prescribed by the California Department of Managed Health Care ("DMHC"). Additionally, PHP has a TNE requirement as prescribed by the California Department of Managed Health Care. TNE is defined as net assets, less intangibles and amounts due from affiliates, plus subordinated obligations. As of September 30, 2016, PHP was in compliance with these regulatory requirements.

The California DMHC determined that, as of March 31, 2015, PMG, on a consolidated basis with its subsidiaries, was not in compliance with the California DMHC's positive TNE requirement for a Risk Bearing Organizations ("RBO"). As a result, the California DMHC required PMG to develop and implement a six-month corrective action plan ("CAP") for such deficiency. Such six-month period has expired, and PMG believes that it has fully complied with all related requirements. As of the date of this report, PMG has not yet received the California DMHC's official release of the CAP.

The Company contributed $2,000,000 of cash and $300,000 of Restricted Investments to PHP in conjunction with PHP's commencement of operations during the year ended September 30, 2015.

Employee Health Plans

Effective January 1, 2013 the Company offered self-insured EPO/HMO and PPO plans to all eligible employees. CharterCARE had a separate low-deductible employee health plan from the date of acquisition through December 31, 2014. Effective January 1, 2015, CharterCARE changed to self-insured EPO/HMO and PPO plans for all eligible employees. Effective March 1, 2016, East Orange offered self-insured EPO/HMO and PPO plans for all eligible employees. Effective July 1, 2016, Crozer offered self-insured EPO/HMO and PPO plans for all eligible employees.

Employee health benefits are administered by a third party claims administrator, based on plan coverage and eligibility guidelines determined by the Company, as well as by collective bargaining agreements (as reflected above). Commercial insurance policies cover per occurrence losses in excess of $750,000 for Crozer, $160,000 for East Orange, $275,000 for CharterCARE, $250,000 for all other hospitals and $175,000

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for the Medical Group and Corporate segments. An actuarially and internally-estimated liability of approximately $4,157,000 and $3,850,000 for incurred but not reported claims has been included in accrued salaries, wages, and benefits as of September 30, 2016 and 2015, respectively. As of September 30, 2016, approximately $1,009,000 of the total liability for incurred but not reported claims was estimated using an internally-developed model.

Provider Contracts

Many of the Company's payer and provider contracts are complex in nature and may be subject to differing interpretations regarding amounts due for the provision of medical services. Such differing interpretations may not come to light until a substantial period of time has passed following contract implementation. Liabilities for claims disputes are recorded when the loss is probable and can be estimated. Any adjustments to reserves are reflected in current operations.

14. Accrued Medical Claims and Other Healthcare Costs Payable

The following table presents the roll-forward of incurred but not reported ("IBNR"), claims reserves (Medical Group segment, Global Risk Management segment, and full risk contracts) as of and for each of the fiscal years ended September 30, 2016 and 2015 (in thousands):

September 30,	**2016**	2015
IBNR as of beginning of year	**$ 53,531**	$ 39,314
Claim expenses incurred during the year:		
Related to current year	**226,431**	203,400
Related to prior year	**2,715**	1,606
Total incurred	**229,146**	205,006
Claims paid during the year:		
Related to current year	**(179,457)**	(156,485)
Related to prior year	**(50,459)**	(34,304)
Total paid	**(229,916)**	(190,789)
IBNR as of end of year	**$ 52,761**	$ 53,531

Following is a table showing the details of the Medical Group and Global Risk Management segments cost of revenues per the consolidated statements of operations (in thousands):

Years Ended September 30,	**2016**	2015
Capitation expense	**$ 100,673**	$ 93,340
Fee-for-service claims expense	**142,674**	118,529
Other physician compensation	**20,436**	14,082
Other cost of revenues	**1,941**	1,196
Total cost of revenues	**$ 265,724**	$ 227,147

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15. Joint Ventures and Unconsolidated Equity Investments

AMVI

The Company (through Prospect Medical Group, Inc.) and an unrelated third party, AMVI Care Health Network, Inc. ("AMVI") are partners in a joint venture initially formed to service Medi-Cal members under the CalOptima program in Orange County, California. Healthy Families and OneCare members were subsequently added to the joint venture arrangement. Effective January 1, 2013, all Healthy Family participants were transferred to the Company's Medi-Cal line of business and therefore no longer part of the joint venture. The Company does not consolidate the joint venture. The Company includes in its consolidated financial statements only the net results attributable to those enrollees specifically identified as assigned to it, together with the management fee that it charges the joint venture partner for managing those enrollees specifically assigned to AMVI. Costs incurred by the Company in managing the joint venture are included in general and administrative expenses in the accompanying consolidated financial statements. As of September 30, 2016 and 2015, the net liability balances of the Company investment in the joint venture under the equity method were approximately $181,000 and $1,944,000, respectively, and were included in accounts payable and other accrued liabilities in the accompanying consolidated financial statements.

Summarized unaudited financial information for the unconsolidated joint venture as of and for each of the years ended September 30, 2016 and 2015 is as follows (in thousands):

September 30,		**2016**		2015
Cash	$	**646**	$	(96)
Receivables		**626**		2,344
Total assets	$	**1,272**	$	2,248
Accrued medical claims	$	**144**	$	1,652
Other payables		**179**		158
Other partner's capital		**844**		437
Prospect's capital		**106**		1
Total liabilities and partner's capital	$	**1,273**	$	2,248

Years Ended September 30,		**2016**		2015
Revenues	$	**9,179**	$	19,817
(Loss) Income before income taxes	$	**(1,103)**	$	4,532
Prospect's equity (loss) income	$	**(1,303)**	$	5,867
Management fees earned by Prospect	$	**437**	$	1,106

RWRT and SNERCC

Roger Williams Medical Center and an unrelated third party are owners of Roger Williams Radiation Therapy ("RWRT") and Southern New England Regional Cancer Center, LLC ("SNERCC"), which provide radiation therapy services. As of September 30, 2014, RWMC owned 29% of RWRT and 20% of SNERCC. On January 6, 2015, RWMC sold a 9% interest in RWRT for $1,233,000, reducing its ownership in RWRT from 29% to 20%. Also on January 6, 2015, RWMC increased its investment in SNERCC by $1,600,000 in

connection with SNERCC's acquisition of a radiation oncology business. RWMC's interest in SNERCC remained at 20% after the additional investment as RWMC's additional investment was its pro rata portion of the radiation oncology business purchase price. Roger Williams accounts for these investments using the equity method of accounting.

RWMC is not liable for any obligations insured by RWRT or SNERCC nor is it obligated to make any further capital contributions or lend funds to RWRT or SNERCC. As of September 30, 2016 and 2015, RWMC's investments in RWRT and SNERCC under the equity method were approximately $4,281,000 and $4,217,000, respectively, and are included in equity method investments in the accompanying consolidated balance sheets. For the years ended September 30, 2016 and 2015, the Company recognized approximately $448,000 and $455,000, respectively, as its share of the financial results of RWRT and SNERCC and received $320,000 and $423,000, respectively, in distributions.

Summarized combined unaudited financial information for RWRT and SNERCC as of September 30, 2016 and 2015 and for the year ended September 30, 2016 and for the period from June 20, 2014 (inception) through September 30, 2015 is as follows (in thousands):

September 30,	2016	2015
Cash	$ 2,567	$ 1,299
Receivables	1,265	1,547
Other current assets	271	274
Total current assets	4,103	3,120
Property, improvements and equipment, net	6,495	7,432
Goodwill	7,142	7,142
Intangible assets	912	943
Other long-term assets	1,641	1,663
Total assets	$ 20,293	$ 20,300
Accounts payable and accrued liabilities	$ 1,251	$ 1,618
Other long-term liabilities	378	345
Equity	18,664	18,337
Total liabilities and partner's capital	$ 20,293	$ 20,300

Years ended September 30,	2016	2015
Revenues	$ 15,007	$ 14,626
Net income	$ 1,927	$ 2,000
Roger Williams Medical Center's income from equity method investments	$ 448	$ 455

16. Subsequent Event (Unaudited)

The Company has evaluated subsequent events through December 29, 2016, the date the Company's consolidated financial statements were available for issuance.

Effective October 1, 2016, a wholly-owned subsidiary of the Company, Prospect ECHN, Inc. (and affiliated wholly-owned subsidiaries), acquired substantially all of the assets, and certain liabilities, of Eastern

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Connecticut Health Network, Inc. and certain of its subsidiaries in exchange for cash consideration of $105 million (subject to certain adjustments). The acquired assets include a network of hospitals, outpatient service centers and providers and specialists serving eastern Connecticut. The acquired hospitals are The Manchester Memorial Hospital and The Rockville General Hospital. Results of operations for the acquired assets will be included in the results of the Hospital Services segment from the date of acquisition and are not included in the results of operations for the year ended September 30, 2016.

Also effective October 1, 2016, a wholly-owned subsidiary of the Company, Prospect Waterbury, Inc. (and affiliated wholly-owned subsidiaries), acquired substantially all of the assets, and certain liabilities, of Greater Waterbury Health Network, Inc. and certain of its subsidiaries in exchange for cash consideration of $31.8 million (subject to certain adjustments). The acquired assets include Waterbury Hospital, an acute-care hospital with 357 licensed beds, and a network of outpatient centers and affiliated physicians. Waterbury Hospital provides a comprehensive range of inpatient, outpatient and ancillary services for residents of Waterbury, Connecticut, and its surrounding community. Results of operations for the acquired assets will be included in the results of the Hospital Services segment from the date of acquisition and are not included in the results of operations for the year ended September 30, 2016.

Effective December 22, 2016, Prospect CharterCare RWMC, LLC and Prospect CharterCare Elmhurst, LLC ("Elmhurst") sold assets related to its Elmhurst Extended Care 206 bed nursing facility, including certain real property, to Valley Stream Property, LLC. (an affiliate of Tryko Partners, and its health care subsidiary, Marquis Health Services) for cash consideration of approximately $15 million. Results of operations of Elmhurst, and the related sold assets, are included in discontinued operations for the year ended September 30, 2016 and 2015.

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STATE OF CONNECTICUT
DEPARTMENT OF PUBLIC HEALTH

Raul Pino, M.D., M.P.H.
Commissioner

Dannel P. Malloy
Governor
Nancy Wyman
Lt. Governor

Office of Health Care Access

Final Decision

Applicants: Eastern Connecticut Health Network, Inc.
[redacted]
Manchester, CT 06040

Prospect Medical Holdings, Inc.
[redacted]
Los Angeles, CA 90025

Docket Number: 15-32016-486

Project Title: Transfer of assets of Eastern Connecticut Health Network, Inc. to Prospect Medical Holdings, Inc.

Procedural History: On July 16, 2015, the Applicants filed with the Office of Health Care Access ("OHCA") and the Office of the Attorney General ("OAG") the Certificate of Need ("CON") Determination Letter proposing the transfer of assets of Eastern Connecticut Health Network, Inc. and affiliates ("ECHN") to Prospect Medical Holdings, Inc. ("PMH"). The Applicants filed the application for the proposal on October 13, 2015. On January 13, 2016, OHCA and the OAG deemed the application complete, and on January 21, 2016 OHCA and the OAG jointly published a Summary of the proposal in the *Journal Inquirer*.

On February 19, 2016, OHCA and the OAG notified the Applicants of the date, time and place of the public hearing. On March 10, 2016, OHCA and the OAG notified the Applicants of the revised date, time and place of the public hearing. On March 11, 2016, a notice to the public announcing the hearing was published in the *Journal Inquirer*. Thereafter, pursuant to Conn. Gen. Stat. §19a-639a and §19a-486, a public hearing regarding this application was held on March 29 and 30, 2016, jointly by OHCA and the OAG.

Attorney Redacted was designated as the hearing officer in this matter. The hearing was conducted in accordance with the provisions of the Uniform Administrative Procedures Act (Chapter

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54 of the Conn. Gen. Stat.) and Conn. Gen. Stat. §19a-639a(f). The public hearing record was closed on June 9, 2016.

In making her decision, Deputy Commissioner Brancifort reviewed the entire record in this matter.

To the extent the findings of fact actually represent conclusions of law, they should be so considered, and vice versa. *SAS Inst., Inc. v. S & H Computer Systems, Inc.*, 605 F. Supp. 816 (Md. Tenn. 1985).

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Findings of Fact

1. ECHN is a not-for-profit health care system that is the parent company of two acute care hospitals in Connecticut, Manchester Memorial Hospital ("MMH") located in Manchester and Rockville General Hospital ("RGH") located in Vernon (at times collectively referred to as the "Hospitals"). Ex. G, p. 24

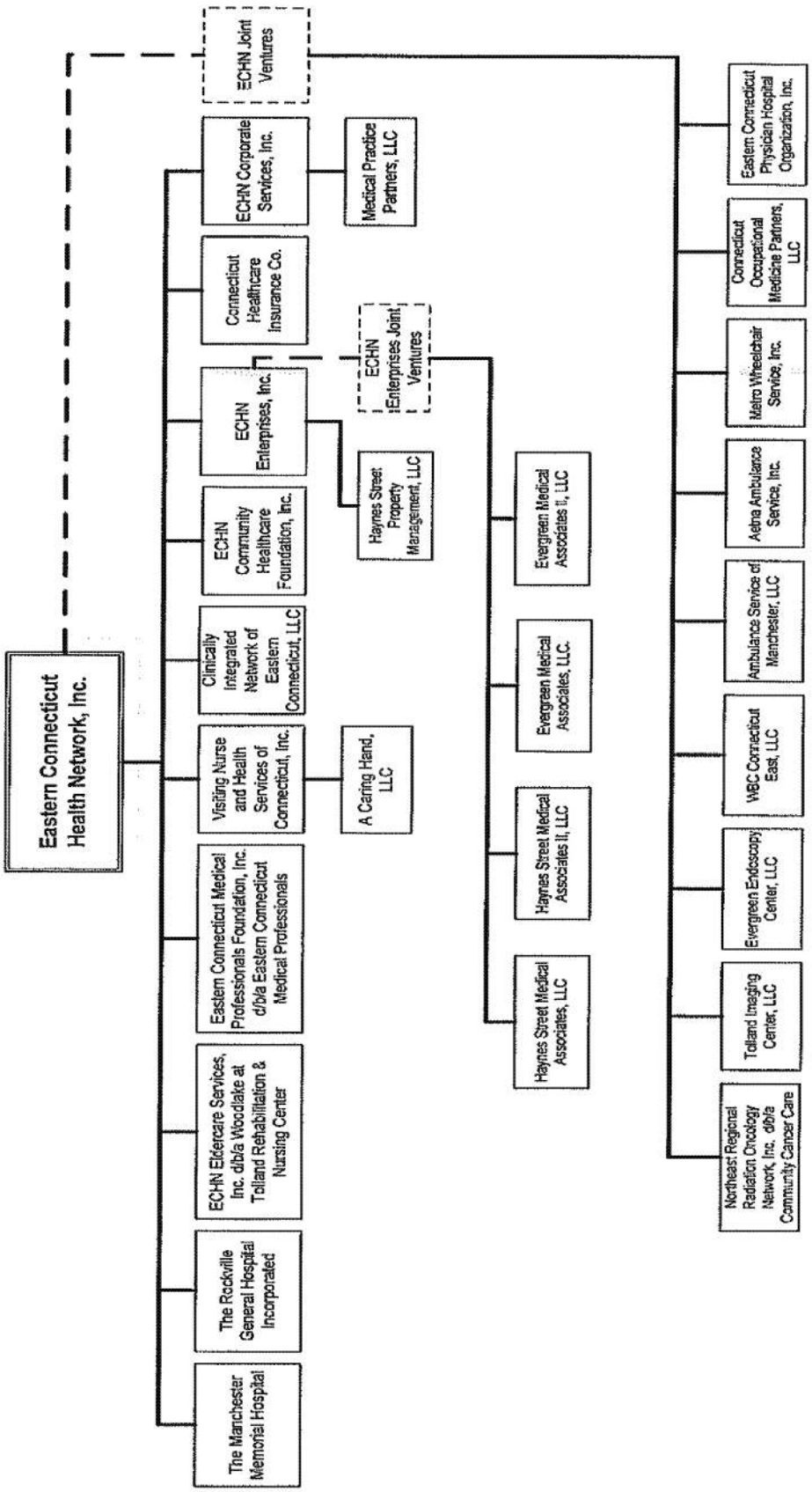
2. ECHN's care network consists of the following wholly owned entities:
   - MMH
   - RGH
   - ECHN ElderCare Services, Inc. ("Woodlake at Tolland")
   - Visiting Nurse and Health Services of Connecticut, Inc.
   - A Caring Hand, LLC
   - Clinically Integrated Network of Eastern Connecticut, LLC
   - Connecticut Healthcare Insurance Company
   - ECHN Corporate Services, Inc.
   - Medical Practice Partners, LLC
   - ECHN Enterprises, Inc.
   - Haynes Street Property Management, LLC
   - Eastern Connecticut Medical Professionals Foundation, Inc.
   - ECHN Community HealthCare Foundation, Inc.

   Ex. G, pp. 24-25

3. Additionally, ECHN or an ECHN affiliate has ownership interests in the following joint ventures: Evergreen Endoscopy Center, LLC, WBC Connecticut East, LLC, Aetna Ambulance Service, Inc., Metro Wheelchair Service, Inc., Ambulance Service of Manchester, LLC, Connecticut Occupational Medicine Partners, LLC, Eastern Connecticut Physician Hospital Organization, Inc., Northeast Regional Radiation Oncology Network, Inc., Tolland Imaging Center, LLC, Haynes Street Medical Associates, LLC, Haynes Street Medical Associates II, LLC, Evergreen Medical Associates, LLC, and Evergreen Medical Associates II, LLC (collectively, the "Joint Ventures"). Ex. G, p. 25

4. The chart on the following page depicts ECHN's current organizational structure. Ex. G, p. 1836

CONFIDENTIAL BUSINESS INFORMATION


Eastern Connecticut Health Network, Inc.
The Manchester Memorial Hospital
The Rockville General Hospital Incorporated
ECHN Eldercare Services, Inc. d/b/a Woodlake at Tolland Rehabilitation & Nursing Center
Eastern Connecticut Medical Professionals Foundation, Inc. d/b/a Eastern Connecticut Medical Professionals
Visiting Nurse and Health Services of Connecticut, Inc.
A Caring Hand, LLC
Clinically Integrated Network of Eastern Connecticut, LLC
ECHN Community Healthcare Foundation, Inc.
ECHN Enterprises, Inc.
Haynes Street Property Management, LLC
ECHN Enterprises Joint Ventures
Haynes Street Medical Associates, LLC
Haynes Street Medical Associates II, LLC
Evergreen Medical Associates, LLC.
Evergreen Medical Associates II, LLC
Connecticut Healthcare Insurance Co.
ECHN Corporate Services, Inc.
Medical Practice Partners, LLC
ECHN Joint Ventures
Northeast Regional Radiation Oncology Network, Inc. d/b/a Community Cancer Care
Tolland Imaging Center, LLC
Evergreen Endoscopy Center, LLC
W&C Connecticut East, LLC
Ambulance Service of Manchester, LLC
Aetna Ambulance Service, Inc.
Metro Wheelchair Service, Inc.
Connecticut Occupational Medicine Partners, LLC
Eastern Connecticut Physician Hospital Organization, Inc.
For Profit Entity

5. ECHN serves the following nineteen towns in eastern Connecticut: Andover, Bolton, Coventry, Ellington, Manchester, South Windsor, Tolland, Vernon, Willington, Ashford, Columbia, East Hartford, East Windsor, Glastonbury, Hebron, Mansfield, Somers, Stafford, and Union (the "Service Area"). Ex. G, p. 24

6. ECHN's financial condition has been strained since 2001, limiting its access to the capital required to improve infrastructure and recruit physicians. ECHN lost more than $9 million from operations over the last 15 years and its pension liability has grown from $9 million to $63 million over the same span. Ex. Z, Prefiled Testimony of [redacted], President and CEO, ECHN, p. 3341; Ex. BB, pp. 3955, 3957; Ex. G. pp. 25, 1921-23

7. ECHN has attempted to improve its financial situation through various initiatives, including hiring freezes, wage freezes, reductions in workforce, and a reduced workweek. This has included a reduction of 200 positions in recent years. Despite these measures, a large portion of ECHN's cash flow has been required to fund debt service and pension obligations, making capital investments difficult. Ex. G, p. 35; Tr., Testimony of [redacted] on 3/30/16, p. 21; Ex. BB, p. 3955

8. In 2011, ECHN began exploring whether potential affiliations with another health care system would enable ECHN to better serve the community. At the time, ECHN believed it had five years until its financial circumstances would become dire. Ex. G, p. 36; Tr., Testimony of [redacted] [redacted], M.D., Chairman of ECHN Board of Trustees, on 3/30/16, p. 15

9. In November of 2012, ECHN conducted a request for proposal ("RFP") process and a transaction committee was established by the ECHN Board of Trustees to evaluate the proposals ("Transaction Committee"). As a result of this RFP process, a regulatory approval process was initiated in June of 2014 for the acquisition of ECHN's assets by a joint venture to be formed by Yale New Haven Health System and Tenet Healthcare. However, Tenet Healthcare informed ECHN in December of 2014 that it was withdrawing from the process. Ex. G, pp. 38-39

10. In 2015, the Transaction Committee conducted a second RFP process. The Transaction Committee evaluated the three proposals received against selection criteria and requested further information from each respondent. The Transaction Committee then reviewed financial, quality and corporate compliance data for each respondent. Each proposal was evaluated for its ability to satisfy ECHN's financial needs and liabilities, any antitrust considerations, and state regulatory requirements for a hospital conversion. The Transaction Committee also made site visits to hospitals recently merged with or acquired by the respondents. Ex. G, pp. 39-42

11. In June of 2015, the Transaction Committee decided to negotiate solely with PMH. After reviewing the Letter of Intent and the draft Asset Purchase Agreement ("APA") negotiated with PMH, the Transaction Committee recommended that the ECHN Board of Trustees accept the proposal. On June 25, 2015, a unanimous vote of the ECHN Board of Trustees approved the Letter of Intent and APA, and on July 29, 2015 ECHN's Corporators approved the APA. Ex. G, pp. 42-43, 107-120, 122-214, 396

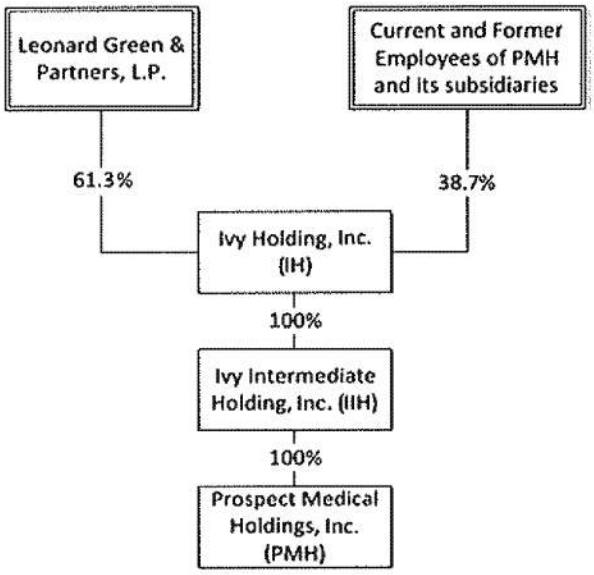
12. The Applicants are requesting approval of the proposed asset purchase (the "Asset Purchase") as a solution to ECHN's long-standing challenges that offers the Service Area continued access to its services and facilities. Ex. G, p. 26

13. PMH is a for-profit, privately owned national healthcare services company with its principal place of business in Los Angeles, California. PMH owns fourteen acute care and behavioral hospitals in California, New Jersey, Rhode Island and Texas. It also owns a network of specialty and primary care clinics in each of these regions. Ex. G, pp. 25, 27; Ex. Z, Prefiled Testimony of Von Crockett, Senior Vice President of Corporate Development, PMH, p. 3355

14. Through PMH's medical group segment, PMH also manages the provision of physician services in each of its markets through a network of approximately 8,900 physicians. The physician networks operate as independent practice associations ("IPAs") that contract with PMH-owned management service organizations ("MSOs"). The IPAs are comprised of both PMH-employed and independent community physicians and other allied health professionals. Ex. G, p. 25; Ex. K, p. 2159; Ex. N, p. 3231

15. PMH aligns its hospitals and physician networks under a model called Coordinated Regional Care ("CRC"). CRC provides for clinical integration of hospitals, physicians and community providers with health plans and other payers through value driven and risk-based reimbursement systems. PMH believes that the CRC model improves quality, efficiency and financial performance while providing its patients with quality, affordable healthcare. Ex. G, p. 26

16. The chart below shows PMH's ownership structure.



Ex. K, p. 2205

17. ECHN selected PMH as the proposed purchaser because its financial resources and access to capital are anticipated to maintain ECHN's assets as economically viable and vibrant parts of the healthcare system in Eastern Connecticut by permitting capital investments, better preparing MMH and RGH to participate in new value-based delivery models, offering enhanced practice options for physicians, strengthening its network of providers and allowing for other improvements in operations. Ex. Z, Prefiled Testimony of [redacted] p. 3333

18. In its audited financial statements for FY 2015, PMH reported total revenues of over $1.3 billion from its operations on a consolidated basis. As of fiscal year end 2015, PMH reported free cash flow of over $112 million and close to $75 million in cash from operations. The company also received credit upgrades by both Moody's and S&P in 2015, with Moody's rating PMH's bonds as B1 and S&P rating PMH's bonds as B. These ratings still stand as of May 3, 2016. Ex N, pp. 3245, 3249-59; Tr., Testimony of Steven Aleman, Chief Financial Officer, PMH, on 5/3/2016, p. 113

19. Under the APA, PMH will pay $105 million for substantially all the assets of ECHN, including both Hospitals (a) plus any excess of net working capital over $24 million or minus any net working capital under $24 million; (b) minus the value of certain ECHN liabilities assumed by PMH (including ECHN's unfunded pension obligations, captive insurer liability, capital leases and workers' compensation liability); (c) minus asbestos abatement liability of up to $1 million; and (d) in the event that ECHN is unable to assign and transfer its interest in any ECHN Joint Venture to PMH, minus a dollar amount to be fixed in advance for each ECHN Joint Venture. Ex. G, pp. 29, 145

20. Certain assets of ECHN will be excluded from the sale, including certain cash and cash equivalents of ECHN, all short-term and long-term investments other than ECHN's investments in the Joint Ventures, board-designated, restricted and trustee-held or escrowed funds, beneficial interests in charitable assets and accrued earnings on all of the foregoing. These assets will be transferred to a new, independent charitable entity (the "New Foundation") established by ECHN. The New Foundation will use the charitable assets for appropriate charitable health care purposes in the communities traditionally served by ECHN. Ex. G, pp. 29, 49, 312-13; Ex. BB, p. 3338

21. There is no financing contingency with respect to the transaction. PMH anticipates funding the transaction using its existing cash and also has access to a pre-approved $40 million revolving line of credit with Morgan Stanley. In order to draw on this line, PMH provides a 24 hour advance verbal notice to the lenders. Ex. G., p. 78; Ex. K, p. 2191

22. The transaction is estimated to require $28 million in cash from PMH at closing. PMH currently has in excess of $65 million in cash and is anticipated to have close to $100 million in cash on hand by the time the Asset Purchase closes, as a result of its growth in revenues that is generating between $10-15 million of free cash flow on a monthly basis. PMH currently has less cash than previously reported due to the recent acquisition of East Orange General Hospital in New Jersey. The revolving line of credit, which PMH recently drew down to $10 million to finance its purchase of East Orange General Hospital, is also expected to be restored

to $30 million by the time of closing. Ex. K, p. 2192; Ex. UU; Tr., Testimony of Steven Aleman, on 3/29/2016, p. 152-53

23. The proceeds from the Asset Purchase will be used first to settle all of ECHN's indebtedness not otherwise assumed by PMH, then to fund the indemnity reserve for payment of ECHN liabilities to PMH that may arise post-closing. Any funds remaining in the reserve after a specified period will be transferred as directed by the OAG. Ex. G, p. 30

24. Table 1 summarizes the net proceeds and flow of funds associated with the Asset Purchase as of March 31, 2016 compared to September 30, 2015, including ECHN's anticipated plan for payment of debt and pension obligations as well as payment of other liabilities. The amounts are subject to adjustment at the closing date ("Closing Date").

TABLE 1
APA PROJECTED NET PROCEEDS AND FLOW OF FUNDS

			Actual 9/30/2015	Actual 3/31/2016
ACQUISITION PRICE (EV)	A		105,000,000	105,000,000
ASSUMED ASSETS & LIABILITIES: Pension & Retiree Medical			(62,598,000)	(67,598,000)
Captive & Workers Comp.			(1,705,000)	(1,705,000)
Net Working Capital True-up			(9,107,000)	(8,275,000)
RGH Eating Disorder Loan			0	0
Seller's Reimbursable Costs			(424,000)	(424,000)
Capital Leases			(6,764,000)	(5,922,000)
Asbestos Abatement			(1,000,000)	(1,000,000)
TOTAL ACQ LIABILITIES	B		(81,598,000)	(84,924,000)
THRESHOLD on LIABILITIES	C		(77,000,000)	(77,000,000)
GUARANTEED NET PROCEEDS	D	A-C	28,000,000	28,000,000
CASH & INVESTMENTS (ECHN) *	E		58,454,000	54,968,000
TOTAL CASH for DEBT PAYOFF	F	D+E	86,454,000	82,968,000
LONG TERM DEBT	G		(78,420,000)	(75,896,000)
SURPLUS after DEBT DEFEASANCE	H	F-G	8,034,000	7,072,000
Post-Closing Pool "Wind Down" Funds			1,000,000	1,000,000
Excess Liabilities Assumed		B-C	(4,598,000)	(7,924,000)
Funds Remaining after PMH Reimbursed	K	H-I+J	2,436,000	(1,852,000)

Deduction to Capital Commitment**	L		0	1,852,000
Available for Indemnity Reserve	M	K+L	2,436,000	0
Legacy ECHN ***			2,229,000	2,139,000

* PMH is assuming a $5 million loan for the RGH Eating Disorder Unit without a price deduction. To the extent that cash is available beyond the $1 million for post-closing costs and $4.5 million for the indemnity reserve, ECHN can mitigate a deduction to the capital commitment up to $5 million.
** If line K is less than zero, then there was not sufficient ECHN cash left to make PMH whole on additional liabilities assumed, thus a dollar for dollar reduction to the $75 million capital commitment applies.
*** Estimated value of future settlements on funds due from Medicare and Medicaid less funds due to Medicare and Medicaid for prior years that are still pending final review. The amounts are net of various balance sheet accounts that will not be part of the acquisition.
Late File 8, dated Apr. 20, 2016; Ex. TT

25. After the closing of the proposed Asset Purchase, the assets of ECHN will be transferred to Prospect ECHN, Inc. or one or more of its affiliates ("New ECHN"). New ECHN will serve as the health system parent company and sole shareholder of the PMH affiliates that will hold the hospital licenses for MMH and RGH after the closing of the proposed Asset Purchase (the post-closing for-profit hospitals will be referred to individually as "New MMH" and "New RGH" and collectively as "New Hospitals"). Ex. G, p.1838; Late File 13, dated Apr. 20, 2016

26. For at least three years after the Closing Date, PMH will continue operating New MMH and New RGH in their current locations as acute care hospitals with emergency departments, will maintain an ownership interest in ECHN's current post-acute care continuum of care network and will require any wholly owned entity involved with such post-acute care continuum of care network to maintain appropriate service lines. Ex. G, pp. 32, 110

27. PMH has no plans to eliminate any currently offered services at MMH or RGH after the Closing Date. No service line or service location changes are currently planned in connection with the proposed Asset Purchase, although it is expected that the ECHN ambulatory network will be expanded and services configured to promote the most efficient delivery of coordinated care following the closing. Ex. K, p. 2189

28. Following the closing, New MMH and New RGH will each maintain an advisory board subordinate to PMH's Board of Directors and comprised of community representatives, physicians on the medical staffs of New MMH and New RGH, and the New Hospitals' CEO (the "Local Board"). The initial members of the Local Board will include at least five members of ECHN's Board of Trustees. PMH plans to appoint the same individuals to the Local Board of New MMH and the Local Board of New RGH and to have the boards meet concurrently to encourage interaction within the system. PMH will schedule regular standing meetings to update the Local Board. Ex. G, p. 30; Ex. K, p. 2165

29. The Local Board will serve as a resource for PMH with respect to investment of the $75 million commitment amount set forth in the APA (the "Commitment Amount"), assist with

maintenance and implementation of a strategic business plan for the New Hospitals, and assist with medical staff credentialing, quality assurance programs and accreditation at the New Hospitals. Ex. G, p. 30

30. During such periods that PMH operates the New Hospitals, it has agreed to maintain ECHN's commitment to quality, safety and patient satisfaction, including maintaining appropriate enrollment, certifications, and accreditations necessary to receive reimbursement under government payment programs. Ex. G, p. 181

31. PMH has had to significantly modify its own Quality Assurance and Performance Improvement ("QAPI") as a result of recent surveys of two of PMH's California hospitals, Los Angeles Community Hospital and Southern California Hospital, resulting in the California Department of Health imposing Immediate Jeopardy citations. Ex. Z, Prefiled Testimony of Von Crockett, pp. 3355-57; Ex. K, pp. 2684-2808, 2835-3020; Ex. Z, pp. 3402-77, 3479-3645

32. ECHN's representatives learned of the Immediate Jeopardy citations on February 1, 2016. In response, the ECHN Board of Trustees appointed a Quality Evaluation Team to investigate whether there were systemic problems suggesting PMH might be an unreliable buyer from a quality and patient safety perspective. The team members visited PMH's CharterCare hospitals in Rhode Island to review their quality program and met with quality personnel at various PMH hospitals, including California and Rhode Island. ECHN concluded that the compliance issues were isolated and that PMH demonstrated a strong commitment to remediate the problems. Based on this information, on March 23, 2016, the ECHN Board of Trustees confirmed its commitment to proceed with the transaction. Tr., Testimony of Redacted on 3/29/16, p. 101; Late File 1, dated Apr. 20, 2016; Ex. Z, Prefiled Testimony of Redacted, Vice Chair, ECHN Board of Trustees, p. 3352

33. On March 28, 2016, the parties entered into a letter pursuant to which PMH agreed to maintain certain ECHN quality programs for the first two years after the Closing Date and not modify them without approval of the Local Board ("Quality Assurance Commitment Letter"). The Quality Assurance Commitment Letter also requires that PMH maintain QAPI programs consistent with best practices and those currently implemented in PMH's Rhode Island facilities while also acknowledging that the Local Board shall oversee quality programs at the New Hospitals. Tr, Testimony of Redacted Senior Vice President of Mergers and Acquisitions, PMH, on 3/30/16, p. 80; Ex. EE

34. With respect to quality activities, ECHN currently functions as a high reliability organization ("HRO") committed to empowering all levels of employees to notify administrators of any patient care issues and fixing processes, leading to consistent delivery care and improved outcomes. PMH is supportive of ECHN's HRO status. Tr., Testimony of Von Crockett on 3/29/2016, p. 49; Tr., Testimony of Redacted, President, PMH, on 3/29/2016, pp. 68-69

35. Additionally, as a result of the Immediate Jeopardy citations, PMH has hired a corporate level Chief Quality Officer, Chief Clinical Officer, Chief Nursing Officer and an Associate Vice President of Regulatory and Patient Safety to assist in providing necessary resources to

implement all quality programs at its local hospitals and share best practices among the hospitals. Ex. Z, Prefiled Testimony of Von Crockett, pp. 3355-57

36. PMH is also establishing an Eastern region quality team and will hire a regional Director of Quality by the time of closing of the Asset Purchase. This regional team will serve as a resource for the New Hospitals, as well as PMH hospitals located in New Jersey, Rhode Island and Pennsylvania. When one of the New Hospitals has a question about a corporate practice or policy, the Eastern region quality team will have the ability to be on-site in order to assist the local team. Tr., Testimony of Redacted on 3/30/2016, pp. 144-47

37. Other PMH initiatives include retaining a national consulting firm and legal counsel to assist in preparedness and responses to Centers for Medicare & Medicaid Services ("CMS") surveys. Under PMH's draft QAPI program, a Hospital Quality & Patient Safety Committee will be developed at each of the New Hospitals, with oversight over subcommittees and workgroups that address the hospital's unique needs. These committees will report to a Regional Quality and Patient Safety Steering Council, which will report to the Corporate Quality and Patient Safety Steering Council. Tr., Testimony of Von Crockett on 3/29/15, pp. 93-94; Ex. Z, Prefiled Testimony of Von Crockett, pp. 3356-57; Ex. Z, pp. 3402-03; Late File 1, dated Apr. 20, 2016; Late File 10, dated Apr. 20, 2016

38. The APA commits PMH to expend the Commitment Amount on capital projects to upgrade the New Hospitals' facilities and services over the next five years. However, the APA also provides that the Commitment Amount is subject to a dollar-for-dollar reduction if ECHN has more than $77 million of liabilities on the Closing Date other than long-term debt and there is not enough available cash or money in the indemnity reserve established under Section 9.8 of the APA to cover the excess liabilities being assumed by PMH. Ex. G, pp. 146-47, 181, 199

39. PMH intends to fund its capital commitments through the operations of ECHN, PMH's existing cash at the time of expenditure or, if necessary, PMH's corporate level credit facility. Ex. G, p. 78

40. The APA provides that the Commitment Amount will be spent on (a) capital projects, including routine and non-routine capital expenditures for the improvement of facilities and/or the acquisition, development, expansion and improvement of hospital, ambulatory or other health care services; (b) de novo development, expansion or acquisition of a department, program, service or facility; (c) upgrades or renovations generally; (d) deferred maintenance items; and (e) recruitment of medical staff. Ex. G, pp. 181-82

41. The Commitment Amount has not been specifically apportioned to each hospital or its affiliates. Allocations of the Commitment Amount will be made by PMH after it receives input from the Local Board and medical staff. Ex. E, p. 78

42. After closing, PMH and the Local Board will develop a strategic capital plan. The capital projects in Table 2 below have been identified by ECHN management as priority capital projects. The projects will require PMH approval with input of the Local Board. Ex. G, pp. 31, 82

TABLE 2
CAPITAL PRIORITY PROJECTS IDENTIFIED BY ECHN (IN MILLIONS)

Description	Estimated Cost (In Millions)
1. Upgrades to emergency department for behavioral health patients (MMH)	$1.1
2. Electronic medical record system replacement (MMH & RGH)	$20
3. Upgrades to nursing units (RGH)	$6.6
4. Upgrades to nursing units (MMH)	$11
5. Vessel sealing systems (MMH & RGH)	$0.6
6. MRI replacement (MMH)	$1.6
7. SPECT scanner replacement (MMH)	$0.4
Total Estimated Cost	**$41.3**

Ex. E, p. 82; Ex. H, p. 2193

43. PMH has also provided a list of immediate estimated capital expenditures at the New Hospitals, as well as the Woodlake at Tolland nursing and rehabilitation facility, that it plans to address within 3 years of closing at a total estimated cost of approximately $11.8 million. Table 3 below shows the timeline for these expenditures, which are mainly comprised of deferred maintenance to the physical plants of these facilities.

TABLE 3
PRIORITY FACILITY CAPITAL NEEDS OF ECHN

Facility	Year 1	Year 2	Year 3	Total
Manchester Memorial Hospital	$3,455,000	$2,225,000	$2,020,000	$7,700,000
Rockville General Hospital	$727,000	$916,000	$1,370,000	$3,013,000
Woodlake at Tolland	$439,700	$137,000	$487,500	$1,064,200
Total estimated expenditures				**$11,770,200**

Late File 12, dated Apr. 20, 2016

44. In recent years, ECHN reported that it has spent very little on capital improvements other than required expenditures to repair or replace plant and equipment. Additionally, creditors have become reluctant to work with ECHN on large projects that would require financing until it is acquired. Ex. G, p. 83; Tr., Testimony of Redacted CFO, ECHN, on 3/29/2016, p. 161

45. After the Asset Purchase, capital will be available to ECHN for replacements and upgrades to systems and the infrastructures of ECHN's facilities; investments to improve the sharing of electronic medical records in order to improve the collection and documentation of information and to enhance the availability of information for critical treatment decisions for patients;

upgrades to medical equipment and technology to provide patients access to state-of-the-art technology for diagnosis, care and treatment; and program development to attract and retain physicians. Ex. G, p. 57

46. As of the closing, PMH or its affiliates will offer employment to substantially all ECHN employees who are in good standing, in positions and at salaries at least equal to those then being provided by ECHN and with benefits packages comparable to those offered to similarly-situated employees at other hospitals operated by PMH. Ex. G, pp. 31, 171

47. PMH will maintain and support financially ECHN's University of New England medical student and other health profession teaching programs, as well as ECHN's graduate medical education programs, while operating at a level not to exceed the Indirect Medical Education and Direct Graduate Medical Education caps that may be established by CMS. Ex. G, pp. 32, 181

48. In addition to continued support of its teaching programs, ECHN believes that PMH's CRC model will help overcome challenges in retaining and recruiting physicians that it has faced in recent years. PMH has developed significant experience in other markets regarding ways hospitals can attract more primary care providers and improve access to care. Recently, PMH succeeded in establishing an IPA in Rhode Island with 105 primary care practitioners and 270 specialist physicians. Of the 105 primary care practitioners participating in PMH's Rhode Island physician network at the end of 2015, only 18 were employed by the CharterCare System when PMH acquired its two hospitals in mid-2014. Ex. G, p. 75; Ex. K, p. 2177-78

49. In order to implement the CRC strategy, PMH has established an IPA entity in Connecticut (Prospect Provider Group CT-ECHN, LLC, or "PPGCTE") and a preferred provider network/health system risk taking entity, Prospect Health Services, CT, Inc., that will contract with payers on behalf of PPGCTE physicians. These two organizations, through management services agreements with PMH, will manage physician participation, risk contracting and care management activities for participating members. Ex. K, p. 2158

50. The goal of the CRC model is to reduce the overall cost of health care by increasing preventive care and early readmissions, reducing inpatient utilization and reducing emergency room visits. PMH will achieve these goals by developing a healthcare delivery network encompassing the entire continuum of patient care, including inpatient services, home health, clinics, independent physicians, nursing homes, ambulatory surgical centers, out-patient diagnostic services and other health related services. Ex. K, p. 2192; Ex. G, pp. 76, 107

51. PMH has demonstrated the efficacy of the CRC model in Southern California, Texas and Rhode Island. In these regions, PMH has improved clinical outcomes, increased quality scores, increased patient satisfaction, reduced readmission rates, reduced average lengths of stay, and reduced medical-cost ratios. For example, from 2012 to 2014 in California and Texas, where PMH participates in HMO contracts for seniors, PMH reduced hospital bed days per thousand from 1,260 to 720. Additionally, length of hospital stay for this population has been reduced from 5.1 to 3.9 days, admissions per thousand have dropped from 245 per thousand to 182 per thousand and hospital readmissions within thirty days has dropped from 19% to 13%. The

CRC model has also enabled PMH to attract more primary care providers and has improved access to care. Ex. G, pp. 73, 75-76

52. Subject to changes in legal requirements or governmental guidelines or policies, PMH will ensure that New MMH and New RGH maintain and adhere to ECHN's current policies regarding charity care, bad debt, indigent care, community volunteer services and community benefits or adopt other policies that are at least as favorable to the indigent and uninsured in the aggregate as ECHN's current policies. ECHN's policies are generally comparable to such policies at PMH's other hospitals. Ex. G, pp. 32, 75, 93, 181, 1912-19; Ex. K, p. 3233; Ex. Z, Prefiled Testimony of Redacted p. 3379

53. PMH will continue to provide financial support for community benefit and community building activities in the Manchester/Rockville area to the same degree as ECHN did in FY 2014. The spending by PMH for community building activities post-closing is projected to increase 1% each year through FY 2019, and the spending for both community benefit and community building activities post-closing assumes no change in the Medicaid population served or the complement of community benefit programs offered by New MMH and New RGH. Ex. G, pp. 96, 99.

54. Table 4 below describes the socioeconomic condition of the ECHN Service Area towns in comparison to the state of Connecticut as a whole and shows the areas most in need of such programs.

TABLE 4
SOCIOECONOMIC STATUS OF THE SERVICE AREA

	Town	Poverty Rate[1]	Median Household Income[1]	Unemployment Rate[2]	Median Age[1]
PSA	Andover	4.9%	$97,762	6.4%	43
	Bolton	2.1%	$87,885	6.0%	47
	Coventry	3.5%	$92,308	7.1%	43
	Ellington	2.7%	$84,934	6.0%	40
	Manchester	8.9%	$63,656	7.4%	37
	South Windsor	4.3%	$91,519	5.9%	42
	Tolland	3.7%	$103,358	5.5%	41
	Vernon	9.2%	$61,848	7.5%	41
	Willington	18.1%	$70,013	5.5%	35
SSA	Ashford	4.2%	$75,242	7.2%	38
	Columbia	3.8%	$92,973	6.4%	47
	East Hartford	15.3%	$48,438	9.8%	39
	East Windsor	5.0%	$71,310	7.4%	42
	Glastonbury	2.6%	$106,872	5.3%	43

Hebron	0.9%	$114,286	5.4%	42
Mansfield	17.9%	$67,615	7.2%	21
Somers	4.8%	$100,100	7.2%	42
Stafford	6.7%	$63,672	8.1%	40
Union	1.1%	$83,500	5.5%	42
State	10.0%	$69,519	7.8%	40

(1)2012

(2)2013

Ex. G, p. 63 (Source: Connecticut Economics Resource Center Town Profile Oct. 2014)

55. The Rockville section of Vernon, where RGH is located, has been designated as a Medically Underserved Population by the Health Resources and Services Administration, and the northwestern part of Mansfield has been designated as a Health Professional Shortage Area for Primary Medical Care. RGH, MMH and ECHN affiliates currently provide safety net services to this region. This proposal will support the availability of health care services to the vulnerable populations in the Service Area. Ex. G, p. 63

56. In 2013, MMH and RGH collaborated to conduct a Community Health Needs Assessment ("CHNA") which identified the current and future health care needs of the community. The four priority health needs identified were heart disease incidence, cancer incidence, diabetes incidence and arthritis incidence. An implementation plan was developed to respond to the identified health needs. Ex. G, pp. 70, 1781-87, 1789-95

57. PMH and its affiliates will support the priority needs identified by the CHNA with physician alignment and population health management strategies, enhanced through implementation of CRC, which focuses on the health of vulnerable populations. PMH has committed to implement and support the current CHNA through 2016 and to conduct another CHNA for the Service Area over the next two years and implement the recommendations of such study as deemed necessary and appropriate. Ex. G, pp. 70-71; Ex. Z, Prefiled Testimony, Von Crockett, p. 3362

58. PMH has stated that New MMH and New RGH will be in compliance with the following general community benefit standards for at least the first three years: (a) the New Hospitals shall provide public health programs to the community and generally promote the welfare of the community; (b) the New Hospitals shall have open medical staffs and not restrict the use of facilities to a particular group of physicians and surgeons to the exclusion of other qualified doctors; (c) the New Hospitals shall participate in the Medicare and Medicaid programs; and (d) the New Hospitals shall operate 24/7 emergency departments and provide emergency services to patients regardless of their ability to pay. Tr. Testimony of Redacted, President, PMH East, on 5/3/16, pp. 103-04

59. PMH and ECHN representatives have already met with leadership for Connecticut's Medicaid Program at the Department of Social Services ("DSS") and expressed their desire to work under a risk-based arrangement to provide care to Medicaid recipients. PMH is currently working with officials in Rhode Island to pilot a Medicaid risk-based program in that state. In addition, PMH will actively work with other providers in the community such as federally qualified health centers or community health centers to meet the needs of uninsured and underinsured individuals in the Service Area, including Medicaid recipients. Ex. G, pp. 74-75

60. The patient populations currently served by the Hospitals is not expected to change as a result of the Asset Purchase. PMH will accept all existing contracts with payers and will complete a change of ownership process with commercial payers, as well as Medicare and the Connecticut Medical Assistance Program (Medicaid). Table 5 below describes the current patient population/payer mix for MMH and RGH, as well as the projected mix for the New Hospitals. Ex. G, p. 85

TABLE 5

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PATIENT POPULATION/PAYER MIX

Manchester Memorial	Current FY 2015	Projected FY 2016	Year 1 FY 2017	Year 2 FY 2018	Year 3 FY 2019
Medicare (1)	41.39%	41.39%	41.39%	41.39%	41.39%
Medicaid (2)	17.24%	17.24%	17.24%	17.24%	17.24%
CHAMPUS or TriCare	0.43%	0.43%	0.43%	0.43%	0.43%
Total Government Payers	**59.06%**	**59.06%**	**59.06%**	**59.06%**	**59.06%**
Commercial Insurers (1)	38.05%	38.05%	38.05%	38.05%	38.05%
Uninsured	2.37%	2.37%	2.37%	2.37%	2.37%
Workers Compensation	0.52%	0.52%	0.52%	0.52%	0.52%
Total Non-Government Payers	**40.94%**	**40.94%**	**40.94%**	**40.94%**	**40.94%**
Total Payer Mix	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**
Rockville General	**Current FY 2015**	**Projected FY 2016**	**Year 1 FY 2017**	**Year 2 FY 2018**	**Year 3 FY 2019**
Medicare (1)	31.00%	31.00%	31.00%	31.00%	31.00%
Medicaid (2)	17.66%	17.66%	17.66%	17.66%	17.66%
CHAMPUS or TriCare	0.56%	0.56%	0.56%	0.56%	0.56%
Total Government Payers	**49.22%**	**49.22%**	**49.22%**	**49.22%**	**49.22%**
Commercial Insurers (1)	46.38%	46.38%	46.38%	46.38%	46.38%
Uninsured	3.50%	3.50%	3.50%	3.50%	3.50%
Workers Compensation	0.90%	0.90%	0.90%	0.90%	0.90%
Total Non-Government Payers	**50.78%**	**50.78%**	**50.78%**	**50.78%**	**50.78%**
Total Payer Mix	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

(1) Includes managed care activity
(2) Includes managed care activity and other medical assistance
Ex. G, p. 84-85

61. PMH's acquisitions of other health systems and hospitals have resulted in improved financial performance at many of the systems. Table 6 below illustrates the financial performance of some of PMH's hospitals after they were acquired by PMH.

TABLE 6
PMH'S RECENT ACQUISITIONS FINANCIAL PERFORMANCE (in Thousands)

Entity	EBITDA			Working Capital			Stockholder's Equity		
	Year prior to acquisition	FY 2014	FY 2015	Year prior to acquisition	FY 2014	FY 2015	Year prior to acquisition	FY 2014	FY 2015
Nix Health System (a)	$14,905	$18,411	$8,043	$5,937	$36,785	$35,449	$13,122	$20,468	$63,789
Roger Williams Medical Center (b)	$3,942	$1,582	$9,080	($1,860)	$1,114	$6,230	$37,184	$34,099	$38,256
Our Lady of Fatima Hospital(c)	($893)	$509	$6,485	$1,904	$2,040	$3,432	($57,150)	$27,513	$28,107

(a) Nix is a Health System based in Texas. Nix's Earnings Before Interest, Taxes, Depreciation and amortization (EBITDA) is based on reported trailing twelve months ended on 1/31/2011. Declines in EBITDA between 2014 and 2015 were due to the fluctuation in net reimbursement related to payments made to the Service Organization of San Antonio "SOSA". Funding to SOSA is voluntary but it is projected to average approximately $12M a year based on budgeted spending initiatives of the service organization. In 2014 the funding requirements were $5.7M (lower by approximately $6.3M) and in 2015 funding requirements returned to $12M. The remaining difference was comprised of lower volume at the facility as services were reconfigured and medical staff turnover. Working Capital of Nix prior to acquisition is as of 1/31/2011 and includes cash which was not part of assets acquired by Prospect.

(b) EBITDA for Roger Williams Medical Center ("RWMC"), located in Providence , Rhode Island, for year prior to acquisition is only for-8 months ending on May 31, 2014 and EBITDA for FY2014 is only for three months post acquisition for FYE 9/30/2014. Working capital is for prior to acquisition as of 5/31/2014 and includes cash which was not part of the assets acquired by PMH as prior to the acquisition RWMC was a non-profit organization. Therefore, net assets were used as a substitute for stockholder's equity.

(c) EBITDA for Our Lady of Fatima Hospital ("OLFH") in Rhode Island is for year prior to acquisition and is only for 8 months ending on May 31, 2014 and for FY2014 is only for three months post acquisition. Working capital prior to acquisition is as of 5/31/2014 and includes cash which was not part of the assets acquired by PMH as prior to the acquisition OLFH was a non-profit organization. Therefore, net assets were used as a subsitiute for stockholder's equity.
Late File 19, dated Apr. 20, 2016; Ex. QQ, dated May 9, 2016

62. Financial benefits associated with this proposal include: operational efficiencies and economies of scale, participation in PMH's purchasing power, supply chain benefits, employee benefits savings and streamlined revenue collection. PMH also makes available to its hospitals subject matter consultants who are employed by PMH, saving its hospitals the cost of hiring consultants in those areas. Ex. G, p. 57; Ex. Z, Prefiled Testimony of Redacted, p. 3379; Ex. Z, Prefiled Testimony of Von Crockett, pp. 3358-59; Ex. N, p. 3236

63. Tables 7 and 8 below represent MMH's projected revenues and expenses from operations with and without this proposal, projecting gains from operations for MMH with the CON at $11.6 million (before income taxes) by FY 2019, as opposed to $6.7 million without the CON.

TABLE 7
MMH PROJECTED REVENUES AND EXPENSES WITH CON

	FY 2017	FY 2018	FY 2019
Total Operating Revenue	$191,485,686	$196,943,847	$202,818,436
Total Operating Expenses	$181,570,103	$186,486,220	$191,183,170
Gain/Loss from Operations	**$9,915,583**	**$10,457,627**	**$11,635,266**
Provision for Income Taxes	**$4,254,950**	**$4,482,606**	**$5,030,134**
Gain/Loss from Operations	**$5,660,633**	**$5,975,021**	**$6,605,133**

Ex. K, p. 2314

TABLE 8
MMH PROJECTED REVENUES AND EXPENSES WITHOUT CON

	FY 2017	FY 2018	FY 2019
Total Operating Revenue	$189,022,494	$192,255,217	$195,904,378
Total Operating Expenses	$183,683,229	$186,432,862	$189,232,208
Gain/Loss from Operations*	**$5,339,265**	**$5,823,000**	**$6,672,170**

*Provision for income taxes doesn't apply to not-for-profit entities.

Ex. K, p. 2314

64. Tables 9 and 10 represents RGH's projected revenues and expenses from operations with and without this proposal, projecting gains from operations for RGH with the CON at $1.6 million (before income taxes) by FY 2019, as opposed to $114,525 without the CON.

TABLE 9
RGH PROJECTED REVENUES AND EXPENSES WITH CON

	FY 2017	FY 2018	FY 2019
Total Operating Revenue	$70,634,865	$72,732,353	$74,987,275
Total Operating Expenses	$69,632,163	$71,490,737	$73,368,375
Gain/Loss from Operations	**$1,002,702**	**$1,241,616**	**$1,618,900**
Provision for Income Taxes	**$419,357**	**$607,900**	**$766,359**
Gain/Loss from Operations	**$583,345**	**$633,715**	**$852,541**

Ex. K, p. 2316

TABLE 10
RGH PROJECTED REVENUES AND EXPENSES WITHOUT CON

	FY 2017	FY 2018	FY 2019
Total Operating Revenue	$69,583,227	$70,771,104	$72,116,415
Total Operating Expenses	$69,891,198	$70,937,011	$72,001,890
Gain/Loss from Operations*	**($307,971)**	**($165,907)**	**$114,525**

*Provision for income taxes doesn't apply to not-for-profit entities.
Ex. K, p. 2316

65. OHCA is currently in the process of establishing its policies and standards as regulations. Therefore, OHCA has not made any findings as to this proposal's relationship to any regulations not yet adopted by OHCA. Conn. Gen. Stat. §19a-639(a)(1)

66. The application is consistent with the overall goals of the Statewide Health Care Facilities and Services Plan. Conn. Gen. Stat. § 19a-639(a)(2)

67. The Applicants have established that there is a clear public need for the proposal. Conn. Gen. Stat. §19a-639(a)(3)

68. The Applicants have demonstrated that the proposal will improve the overall financial strength of the health care system and that it is financially feasible. Conn. Gen. Stat. §19a-639(a)(4)

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69. Subject to the conditions below, the Applicants have satisfactorily demonstrated that the proposal will maintain quality, accessibility and cost effectiveness of health care delivery in the region. Conn. Gen. Stat. §19a-639(a)(5)

70. Subject to the conditions below, the Applicants have shown that there would be no adverse change in the provision of health care services to the relevant populations and payer mix, including access to services by Medicaid recipients and indigent persons. Conn. Gen. Stat. §19a-639(a)(6)

71. The Applicants have satisfactorily identified the population to be affected by this proposal. Conn. Gen. Stat. §19a-639(a)(7)

72. The historical utilization of ECHN's services in the Service Area support this proposal. Conn. Gen. Stat. §19a-639(a)(8)

73. The Applicants have satisfactorily demonstrated that this proposal would not result in an unnecessary duplication of existing services in the area. Conn. Gen. Stat. §19a-639(a)(9)

74. Subject to the conditions below, the Applicants have demonstrated that there will be no reduction in access to services by Medicaid recipients or indigent persons. Conn. Gen. Stat. §19a-639(a)(10)

75. The Applicants have satisfactorily demonstrated that the proposal will not have a negative impact on the diversity of health care providers in the area. Conn. Gen. Stat. §19a-639(a)(11)

76. The Applicants have satisfactorily demonstrated that the proposal will not result in any consolidation that would affect health care costs or accessibility to care. Conn. Gen. Stat. §19a-639(a)(12)

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Discussion

CON applications are decided on a case-by-case basis and do not lend themselves to general applicability due to the uniqueness of the facts in each case. In rendering its decision, OHCA considered the factors set forth in Connecticut General Statutes § 19a-639(a) and 19a-486d. The Applicants bear the burden of proof in this matter by a preponderance of the evidence. *Jones v. Connecticut Medical Examining Board,* 309 Conn. 727 (2013).

ECHN is a not-for-profit health care system that is the parent company of two acute care hospitals in Connecticut, MMH located in Manchester and RGH located in Vernon. *FF1* ECHN's Service Area is comprised of the following nineteen towns in eastern Connecticut: Andover, Bolton, Coventry, Ellington, Manchester, South Windsor, Tolland, Vernon, Willington, Ashford, Columbia, East Hartford, East Windsor, Glastonbury, Hebron, Mansfield, Somers, Stafford, and Union. *FF5* PMH is a for-profit, privately owned national healthcare services company with its principal place of business in Los Angeles, California. PMH owns fourteen acute care and behavioral hospitals in California, New Jersey, Rhode Island and Texas. It also owns a network of specialty and primary care clinics in each of its regions. *FF13* ECHN's financial condition has been strained since 2001 and its mission impeded by various factors, including limited access to capital required to improve infrastructure and recruit physicians and mounting pension liabilities. *FF6* ECHN has attempted to improve its financial situation through various initiatives, including hiring freezes, wage freezes, reductions in workforce, and a reduced workweek. Despite these measures, a large portion of ECHN's cash flow has been required to fund debt service and pension obligations, making capital investments difficult. *FF7* As a result, the Applicants are requesting approval of the proposed Asset Purchase as a solution to ECHN's long-standing challenges while ensuring the Service Area continued access to ECHN's services and facilities. *FF12*

Under the APA, PMH has committed to spend a Commitment Amount of $75,000,000 towards capital projects over the next five years. However, the APA also provides that the Commitment Amount is subject to a dollar-for-dollar reduction if ECHN has more than $77 million of liabilities on the Closing Date other than long-term debt and there is not enough available cash or money in the indemnity reserve to cover the excess liabilities (for amounts over $77 million) being assumed by PMH. *FF38* The APA provides that the $75 million Commitment Amount will be spent on (a) capital projects, including routine and non-routine capital expenditures for the improvement of facilities and/or the acquisition, development, expansion and improvement of hospital, ambulatory or other health care services; (b) de novo development, expansion or acquisition of a department, program, service or facility; (c) upgrades or renovations generally; (d) deferred maintenance items; and (e) recruitment of medical staff. *FF40*

For at least three years after the Closing Date, PMH will continue operating New MMH and New RGH in their current locations as acute care hospitals with emergency departments, will maintain an ownership interest in ECHN's current post-acute care continuum of care network and will require any wholly owned entity involved with such post-acute care continuum of care network to maintain appropriate service lines. *FF26* PMH has no plans to eliminate any services at MMH or RGH. No service line or service location changes are currently planned in connection with the proposed transaction, although it is expected that the ECHN ambulatory network will be expanded and services configured to promote the most efficient delivery of coordinated care following the closing. *FF27*

Following closing, New MMH and New RGH will each maintain a Local Board, an advisory board made up of community representatives, physicians on the respective hospital's medical staff, and the CEO of the respective hospital, that will be subordinate to PMH. The initial members of the Local Board will include at least five members of ECHN's Board of Trustees. The Local Board will serve as a resource for PMH with respect to investment of the Commitment Amount, assist with maintenance and implementation of a strategic business plan for the New Hospitals, and assist with medical staff credentialing, quality assurance programs and accreditation at the New Hospitals. *FF29*

After closing, PMH and the Local Board will develop a strategic capital plan. The following capital projects have been identified by ECHN management as priority capital projects:

Description	**Estimated Cost (In Millions)**
1. Upgrades to emergency department for behavioral health patients (MMH)	$1.1
2. Electronic medical record system replacement (MMH & RGH)	$20
3. Upgrades to nursing units (RGH)	$6.6
4. Upgrades to nursing units (MMH)	$11
5. Vessel sealing systems (MMH & RGH)	$0.6
6. MRI replacement (MMH)	$1.6
7. SPECT scanner replacement (MMH)	$0.4
Total Estimated Cost	**$41.3**

The projects will require PMH approval with input of the Local Board. *FF42* After the Asset Purchase, capital will be available to ECHN for replacements and upgrades to systems and the infrastructures of ECHN's facilities; investments to improve the sharing of electronic medical records in order to improve the collection and documentation of information and to enhance the availability of information for critical treatment decisions for patients; upgrades to medical equipment and technology to provide patients access to state-of-the-art technology for diagnosis, care and treatment; and program development to attract and retain physicians. *FF45*

PMH intends to fund its capital commitments through the operations of ECHN, PMH's existing cash at the time of expenditure or, if necessary, PMH's corporate level credit facility. *FF39* The Commitment Amount has not been specifically apportioned to each hospital or its affiliates. Allocations of the commitment will be made by PMH after it receives input from the Local Board and medical staff. *FF41*

With respect to the quality of services offered by PMH, during the course of negotiations between ECHN and PMH, it became known that PMH had to significantly modify its QAPI as a result of surveys of PMH's Southern California Hospitals as well as the survey of Los Angeles Community Hospital that resulted in the California Department of Health imposing Immediate Jeopardy citations. *FF31* As a result of these citations, PMH has hired a corporate level Chief Quality Officer, Chief Clinical Officer, Chief Nursing Officer and an Associate Vice President of Regulatory and Patient Safety to assist in providing necessary resources to implement all quality programs at its local hospitals and share best practices among hospitals. *FF35* ECHN concluded that the compliance issues were isolated and that PMH demonstrated a strong commitment to remediate the problems. Based on this information, the ECHN Board of Trustees confirmed its commitment to proceed with the transaction and the parties entered into a Quality Assurance Commitment Letter pursuant to which PMH agreed to maintain certain quality programs of ECHN for the first two years after the Closing Date and not modify them without approval of the Local Board. The Quality Assurance Commitment Letter also requires that PMH maintain QAPI programs consistent with best practices and those currently implemented in PMH's Rhode Island facilities while also acknowledging that the Local Board shall oversee quality programs at the New Hospitals. *FF32-33*

PMH aligns its hospitals and physician networks under a model called CRC. CRC provides for clinical integration of hospitals, physicians and community providers with health plans and other payers through value driven and risk-based reimbursement systems. The CRC model is intended to improve quality, efficiency and financial performance while providing its patients with quality, affordable healthcare. *FF15* ECHN believes that PMH's CRC model will help overcome the challenges in retaining and recruiting physicians that it has faced in recent years. PMH has developed significant experience in other markets regarding ways hospitals can attract more primary care providers and improve access to care. Recently, PMH succeeded in establishing an IPA in Rhode Island with 105 primary care practitioners and 270 specialist physicians. Of the 105 primary care practitioners participating in PMH's Rhode Island physician network at the end of 2015, only 18 were employed by the CharterCare System when PMH acquired its two hospitals in mid-2014. *FF48* In order to implement the CRC strategy, PMH has established an IPA entity in Connecticut, PPGCTE, and a preferred provider network/health system risk taking entity, Prospect Health Services, CT, Inc., that will contract with payers on behalf of PPGCTE physicians. These two organizations, through management services agreements with PMH, will manage physician participation, risk contracting and care management activities for participating members. *FF49* The goal of the CRC model is to reduce the overall cost of health care by increasing preventive care and early readmissions, reducing inpatient utilization and reducing emergency room visits. PMH will achieve these goals by developing a healthcare delivery network encompassing the entire continuum of patient care, including inpatient services, home health, clinics, independent

physicians, nursing homes, ambulatory surgical centers, out-patient diagnostic services and other health related services. *FF50* PMH has demonstrated the efficacy of the CRC model in Southern California, Texas and Rhode Island. In these regions, PMH has improved clinical outcomes, increased quality scores, increased patient satisfaction, reduced readmission rates, reduced average lengths of stay, and reduced medical-cost ratios. For example, from 2012 to 2014 in California and Texas where PMH participates in HMO contracts for seniors, PMH reduced hospital bed days per thousand patients from 1,260 to 720. Additionally, length of hospital stay for this population has been reduced from 5.1 to 3.9 days, admissions per thousand have dropped from 245 per thousand to 182 per thousand and hospital readmissions within thirty days has dropped from 19% to 13%. The CRC model has also enabled PMH to attract more primary care providers and has improved access to care. *FF51* The CRC approach not only benefits the patient population through better care and outcomes, but also from a cost perspective. PMH expects its approach to population management services to harness the efficiencies of facilities to enhance care at lower costs. It is anticipated that these cost savings will be passed on to consumers. Consequently, the Applicants have demonstrated that PMH will continue to offer access to high quality services in the same manner that ECHN has been providing them.

In 2013, MMH and RGH collaborated to conduct a CHNA, which identified the current and future health care needs of the community. The four priority health needs identified were heart disease incidence, cancer incidence, diabetes incidence, and arthritis incidence. An implementation plan was developed to respond to the identified health needs. *FF56* PMH and its affiliates will support the priority needs identified by the CHNA with physician alignment and population health management strategies, enhanced through implementation of the CRC, which focuses on the health of vulnerable populations. PMH has committed to implement and support the current CHNA through 2016 and to conduct another CHNA for the Service Area over the next two years and implement the recommendations of such study as deemed necessary and appropriate. *FF57* PMH and ECHN representatives met with leadership for Connecticut's Medicaid Program at DSS and expressed their desire to work under a risk-based arrangement to provide care to Medicaid recipients. PMH is currently working with officials in Rhode Island to pilot a Medicaid risk-based program in that state. In addition, PMH will actively work with other providers in the community such as federally qualified health centers or community health centers to meet the needs of uninsured and underinsured individuals in the Service Area, including Medicaid recipients. *FF59* The patient populations currently served by the Hospitals is not expected to change as a result of the Asset Purchase. PMH will accept all existing contracts with payers and will complete a Change of Ownership process with commercial payers, as well as Medicare and the Connecticut Medical Assistance Program (Medicaid). *FF60* Based upon the aforementioned, the Applicants have satisfactorily identified a clear public need for the proposed Asset Purchase and demonstrated how the proposed Asset Purchase could satisfy the need.

PMH's acquisitions of other health systems and hospitals have resulted in improved financial performance at many of the systems. PMH will bring to ECHN its operational efficiencies and economies of scale that will help to reduce ECHN's expenses. ECHN will be able to participate in PMH's purchasing power, supply chain benefits, employee benefits savings and streamlined revenue collection. PMH also makes available to its hospitals subject matter consultants who are employed by PMH, saving its hospitals the cost of hiring consultants in those areas. *FF62* This proposal will lead to a stronger and more financially secure ECHN. As the financial strength of Connecticut's hospitals significantly contributes to the financial strength of the state's entire health care system, this proposal will improve the financial strength of the state of Connecticut's health care system.

In its audited financial statements for FY 2015, PMH reported total revenues of over $1.3 billion from its operations on a consolidated basis. As of fiscal year end 2015, PMH reported free cash flow of over $112 million. The company also received credit upgrades by both Moody's and S&P in 2015 with Moody's rating PMH's bonds as B1, while S&P rates PMH's bonds as B. *FF18* PMH's financial resources and access to capital are anticipated to maintain ECHN's assets as economically viable and vibrant parts of the healthcare system in Eastern Connecticut by permitting capital investments, better preparing MMH and RGH to participate in new value-based delivery models, offering enhanced practice options for physicians, strengthening its network of providers and allowing for other improvements in operations.

Based upon the aforementioned discussion of the evidence provided by the Applicants in this matter, the Applicants have satisfactorily demonstrated that PMH has made a commitment to provide health care to the uninsured and the underinsured; safeguard procedures are in place to avoid a conflict of interest in patient referral; and certificate of need authorization is justified in accordance with the principles and guidelines set forth in Connecticut General Statutes § 19a-639; those being, access to healthcare services, quality of the healthcare services, public need for the proposed project, and the financial feasibility of the proposed project.

Order

Based upon the foregoing Findings of Fact and Discussion, the Applicants' request for the sale of substantially all of the assets of ECHN and its controlled affiliates to PMH or one or more affiliates of PMH is hereby **Approved** under Conn. Gen. Stat. §§ 19a-486 and 19a-639 subject to the enumerated conditions (the "Conditions") set forth below

Unless expressly provided otherwise, all Conditions of this Order shall, to the extent applicable, be binding on the Applicants, their affiliates, successors and assigns, regardless of whether New ECHN remains the parent company and sole shareholder of the New MMH and New RGH. OHCA and any successor agency shall have the right to enforce the Conditions by all means and remedies available to it under law and equity, including, but not limited to, Conn. Gen. Stat. § 19a-486g and the right to impose and collect a civil penalty under Conn. Gen. Stat. § 19a-653 against any person or health care facility or institution that fails to file required data or information within the prescribed time periods set forth in this Order. All references to days in these Conditions shall mean calendar days.

1. Within twenty (20) days following the Closing Date of the Asset Purchase authorized by this Order, Applicants shall submit schedules to OHCA setting forth each of MMH's and RGH's inpatient bed allocation and the location and hours of operation for all outpatient services, by department, as of the Decision Date and publish this same information on the applicable websites of each Hospital. OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Conn. Gen. Stat. §§ 19a-486d(a), 19a-613(b), 19a-639(a)(8) & (11); FF 18, 26- 27*

2. Within twenty (20) days following the Closing Date of the Asset Purchase authorized by this Order, Applicants shall identify and provide the Certificates of Incorporation for the PMH affiliated entities that shall directly own, operate and hold the hospital licenses of the New MMH and New RGH, respectively, post-closing. These entities shall be duly organized and validly existing under the laws of Connecticut and New ECHN shall be their parent company and sole shareholder as proposed in the CON application. OHCA is imposing this Condition to verify that safeguard procedures are in place to avoid a conflict of interest in patient referral. *Legal and Factual Basis: Conn. Gen. Stat. §§ 19a-486d(a), 19a-613(b), 19a-639(a)(8) & (11); FF 18, 26- 27*

3. Applicants shall notify OHCA in writing of the Closing Date of the Asset Purchase authorized by this Order within twenty (20) days of such closing and shall supply final execution copies of all agreements related to same, including but not limited to:

    a. the APA, including any and all schedules and exhibits; and

    b. Bylaws or similar governance documents for New ECHN, as well as for New MMH and New RGH.

    The Applicants may redact from the APA any information that is exempt from disclosure under Conn. Gen. Stat. § 1-210. If the Applicants redact materials in accordance with the

previous sentence, the Applicants shall provide a list to OHCA, which identifies in general terms the nature of the redacted material and why it is claimed to be exempt for public record purposes.

OHCA is imposing this Condition to verify that safeguard procedures are in place to avoid a conflict of interest in patient referral. *Legal and Factual Basis: Conn. Gen. Stat. §§ 19a-486d(a) & 19a-613(b); FF 12*

4. Within one hundred and eighty (180) days following the Closing Date, PMH shall submit a plan (the "Health Needs Plan") for continuing to support and implement ECHN's 2016 CHNA and for conducting the New Hospitals' next comprehensive study of community health needs in the Service Area (the "Community Health Needs Study" or "Study"). The Health Needs Plan shall describe in detail at least the following:

   (i) the data that will be collected and analyzed to systematically assess health status indicators of the Service Area;
   (ii) the identity of key community stakeholders and health organizations, unaffiliated with PMH, including without limitation, representatives of medically underserved populations, that will be enlisted to participate in the Study and the manner and extent of such participation by stakeholders in both the development of health priorities and planned implementation;
   (iii) the qualifications of consultants experienced in performing community health needs assessments who will be retained by PMH to ensure that the priority health needs of the community are accurately determined;
   (iv) the frequency with which the Study will be repeated;
   (v) the manner in which results of the Study and the implementation strategy to address the priority health needs identified therein (the "Implementation Strategy") will be distributed to the community; and
   (vi) the manner in which the Study will complement the population health management objectives of PMH and the New Hospitals.

   OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Conn. Gen. Stat. §§ 19a-486d(a), 19a-613(b), 19a-639(a)(3) & (7); FF 56-57*

5. Within three (3) years following the Closing Date, PMH shall participate with New ECHN and the New Hospitals, and the key community stakeholders and health organizations identified pursuant to Condition 4, in conducting a Community Health Needs Study and shall provide a copy of such Study and its Implementation Strategy to OHCA within thirty (30) days of completion. PMH and the participants shall utilize Healthy Connecticut State Health Improvement Plan data and priorities as the starting point for the Study (available at http://www.ct.gov/dph/lib/dph/state_health_planning/ship/hct2020/hct2020_state_hlth_impv_032514.pdf), as well as any applicable community

health improvement plan issued by any local health department in the Service Area.[1] The Implementation Strategy shall also adopt the evidence-based interventions identified in the Centers for Disease Control 6/18 initiative (available at http://www.cdc.gov/sixeighteen) to the extent the health priorities identified in the Study correlate to the health conditions identified by the CDC and provide information on how any patient outcomes related to the Implementation Strategy will be measured and reported to the community. PMH shall publish the Community Health Needs Study and the Implementation Strategy on the website pages of New MMH and New RGH. Until such time as the Community Health Needs Study and Implementation Strategy are submitted to OHCA, PMH shall continue to support and implement ECHN's current CHNA for MMH and RGH. OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Stat. §§ 19a-486d(a) 19a-613(b), 19a-639(a)(3) & (7); FF 56-57*

6. Within one hundred and eighty (180) days following the Closing Date, PMH shall submit a plan demonstrating how health care services will be provided by the New Hospitals for the first three years following the Asset Purchase, including any consolidation, reduction, or elimination of existing services or introduction of new services (the "Services Plan"). The Services Plan will be provided in a format mutually agreed upon by OHCA and the Applicants. OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Conn. Stat. §§ 19a-486(a), 19a-613(b), 19a-639(a)(5),(6) (7),(8),(9),(11) & (12); FF 18, 26-27*

7. Until such time as the Services Plan is submitted, PMH shall provide OHCA with notice of any reallocation of inpatient beds and relocation of outpatient services for the New MMH or New RGH specific to those services that existed at each of the Hospitals as of the Decision Date. Such notice shall be provided within ten (10) days of any such reallocation or relocation and published on the website pages of the New Hospitals. OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Stat. §§ 19a-486(a), 19a-613(b), 19a-639(a)(5),(6) (7),(8),(9),(11) & (12); FF 18, 26-27*

8. Within one hundred and eighty (180) days following the Closing Date and thereafter on the same semi-annual schedule as set forth in Conditions 9 and 10 below until the capital commitment is satisfied, PMH shall submit to OHCA a report on the capital investments ("Capital Investment Report") it has made in the New MMH, New RGH and their affiliates from the $75 million Commitment Amount. The Capital Investment Report shall include the following in a format to be agreed upon:

    a. A list of the capital expenditures that have been made in the prior one hundred and eighty (180) days with descriptions of each associated project; and

[1] Other tools and resources which the Applicants are encouraged to consider include County Health Rankings and CDC Community Health Improvement Navigator in order to assist with the Study process in terms of an understanding of social, behavioral, and environmental conditions that affect health, identifying priorities, and the use of evidence-based interventions.

b. An explanation of why each expenditure was made and a timeframe for the roll out of the associated capital project (including estimated beginning, ending and startup/operation dates); and

c. The dates and amounts of withdrawals from each of the New Hospitals' operating account and/or any other sources of funding used to fulfill the Capital Commitment.

The reports shall be signed by PMH ECHN's Chief Financial Officer. OHCA is imposing this Condition to ensure continued access to health care services for the patient population and to verify the continued financial feasibility of the project. *Legal and Factual Basis: Stat. §§ 19a-486d(a), 19a-613(b), 19a-639(a)(3),(4) & (5); FF 38-45*

9. For three (3) years following the Closing Date, PMH shall file the following information with OHCA on a semi-annual basis for New ECHN, New MMH and New RGH, respectively:

a. The cost saving totals achieved in the following Operating Expense Categories for New ECHN, New MMH and New RGH: Salaries and Wages, Fringe Benefits, Contractual Labor Fees, Medical Supplies and Pharmaceutical Costs, Depreciation and Amortization, Interest Expense, Malpractice Expense, Utilities, Business Expenses and Other Operating Expenses. The categories shall be consistent with the major operating expense categories (Categories A, B, C, D, E, G, H, I, J, and K) which are in use at the time of reporting in the OHCA Hospital Reporting System ("HRS") Report 175 or successor report. The semi-annual submission shall also contain narratives describing:

1. the major cost savings achieved for each expense category for the semi-annual period; and

2. the effect of these cost savings on the clinical quality of care.

b. A consolidated Balance Sheet, Statement of Operations, and Statement of Cash Flows for New ECHN, New MMH and New RGH. The format shall be consistent with that which is in use at the time of reporting in OHCA's HRS Reports 100/150, 300/350 or successor reports.

For purposes of this Order, semi-annual periods are October 1-March 31 and April 1 – September 30. The required information is due no later than two (2) months after the end of each semi-annual period. Due dates are May 31st and November 30th, beginning November 30, 2016. OHCA is imposing this Condition to ensure continued access to health care services for the patient population and to verify the continued financial feasibility of the project. *Legal and Factual Basis: Stat. §§ 19a-486d(a), 19a-613(b), 19a-639(a)(4) & (5); FF 51, 60-63*

10. For three (3) years following the Closing Date, PMH shall submit to OHCA a financial measurement report. This report shall be submitted on a semi-annual basis and show current month and year-to-date data and comparable prior year period data for New ECHN, New MMH and New RGH, respectively. The required information is due no later than two (2)

months after the end of each semi-annual period. Due dates are May 31st and November 30th, beginning November 30, 2016. The following financial measurements/indicators should be addressed in the report:

Financial Measurement/Indicators

A. Operating Performance
1. Operating Margin
2. Non-Operating Margin
3. Total Margin
B. Liquidity
1. Current Ratio
2. Days Cash on Hand
3. Days in Net Accounts Receivables
4. Average Payment Period
C. Leverage and Capital Structure
1. Long-term Debt to Equity
2. Long-term Debt to Capitalization
3. Unrestricted Cash to Debt
4. Times Interest Earned Ratio
5. Debt Service Coverage Ratio
6. Equity Financing Ratio
D. Additional Statistics
1. Income from Operations
2. Revenue Over/(Under) Expense
3. Cash from Operations
4. Cash and Cash Equivalents
5. Net Working Capital
6. Free Cash Flow (and the elements used in the calculation)
7. Unrestricted Assets/Retained Earnings
8. Bad Debt as % of Gross Revenue
9. Credit Ratings (S&P, FITCH or Moody's)

CONFIDENTIAL BUSINESS INFORMATION

OHCA is imposing this Condition to ensure continued access to health care services for the patient population and to verify the continued financial feasibility of the project. *Legal and Factual Basis: Stat. §§ 19a-486d(a), 19a-613(b), 19a-639(a)(4) & (5); FF 51, 60-63*

11. PMH shall ensure that New MMH and New RGH maintain and adhere to ECHN's current policies regarding charity care, indigent care and community volunteer services after the Closing Date, or adopt other policies that are at least as generous and benevolent to the community as ECHN's current policies, consistent with state and federal law. These policies shall be posted on the website pages of the New MMH and New RGH, respectively, and as additionally required by applicable law. OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Stat. §§ 19a-486d(a), 19a-613(b), 19a-639(a)(5),(6) & (11); FF 52-55, 59*

12. For three (3) years following the Closing Date, PMH shall provide written notice to OHCA of any modification, amendment or revision to the charity care, indigent care and community volunteer services of New MMH and New RGH within thirty (30) days of such change. The notice of these changes shall be accompanied by copies of any revised policies and the notice and revised policies shall be posted on the website pages of the New Hospitals simultaneously with their submission to OHCA. OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Stat. §§ 19a-486d(a), 19a-613(b), 19a-639(a)(5),(6) & (11); FF 52-55, 59*

13. PMH shall maintain community benefit programs and community building activities for New MMH and New RGH for three (3) years after the Closing Date consistent with the MMH and RGH most recent Schedule H of IRS Form 990 or shall provide such other community benefit programs and community building activities that are at least as generous and benevolent to the community as ECHN's current programs, and PMH shall apply a 1% increase per year for the next three (3) years toward community building activities in terms of dollars spent.

    In determining the New MMH and New RGH participation and investment in both community benefits and community building activities, PMH shall address the health needs identified by the applicable CHNA or Study in effect at the time and the population health management objectives, including social determinants of health, contained in the related Implementation Strategy.

    a. On an annual basis, the Applicants shall identify the amounts and uses related to community benefits and community building and shall discuss how such investments and support are being applied toward the health needs identified in the CHNA or Study and population health management objectives. Such reporting shall be filed within thirty days of the anniversary date of the closing for three years and shall be posted on the applicable Hospital website. OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Stat. §§ 19a-486d(a), 19a-613(b), 19a-639(a)(5),(6) & (11); FF 52-55, 59*

14. New MMH and New RGH agree to comply with the following general community benefit standards for at least the first three years: (a) the New Hospitals shall provide public health programs to the community and generally promote the welfare of the community; (b) the New

Hospitals shall have open medical staffs and not restrict the use of facilities to a particular group of physicians and surgeons to the exclusion of other qualified doctors; (c) the New Hospitals shall participate in the Medicare and Medicaid programs; and (d) the New Hospitals shall operate 24/7 emergency departments and provide emergency services to patients regardless of their ability to pay. OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Stat. §§ 19a-486d(a), 19a-613(b), 19a-639(a)(5),(6) & (11); Tr., Testimony of* Redacted*, President. PMH East on 5/3/16, pp. 103-04*

15. New MMH and New RGH shall work toward making culturally and linguistically appropriate services available and integrated throughout their hospital operations. Specifically, New MMH and New RGH shall take reasonable steps to provide meaningful access to each individual with limited English proficiency eligible to be served or likely to be encountered in its health programs and activities, in accordance with the implementing regulations of Section 1557 of the Patient Protection and Affordable Care Act. Additionally, New MMH and New RGH shall provide appropriate insurance navigator services for patients and, where appropriate, English as a second language and cultural competency training for employees. In complying with this Condition, New MMH and New RGH shall be guided by the National Standards for Culturally and Linguistically Appropriate Services in Health and Health Care published by the U.S. Department of Health and Human Services' Office of Minority Health. For three (3) years following the Closing Date, PMH shall submit a written report on its activities directed at meeting this Condition. Such reporting shall be filed within thirty days of the anniversary date of the closing for three years and shall be posted on the applicable Hospital website. OHCA is imposing this Condition so as to ensure continued access to health care services for the patient population. *Legal and Factual Basis: 45 C.F.R. §92.201; Stat. §§ 19a-486d(a), 19a-613(b), 19a-639(a)(5),(6) & (11); FF 52-55, 59*

16. Within sixty (60) days after the Closing Date, the Applicants shall contract with an Independent Monitor who has experience in hospital administration and regulation, including maintaining quality control in an HRO. The Independent Monitor shall be retained at the sole expense of PMH, at a cost which shall not exceed $300,000 in the aggregate. Representatives of OHCA and the Facility Licensing and Investigations ("FLIS") section of the Department of Public Health ("DPH") will approve the Independent Monitor's appointment. The Independent Monitor shall be engaged for a minimum period of two (2) years following the Closing Date, which may be extended for another year at OHCA's and/or FLIS's discretion. The Independent Monitor will be responsible for monitoring the Applicants' compliance with the Conditions set forth in this Order. PMH shall provide the Independent Monitor with appropriate access to New Hospitals and their applicable records in order to enable the Independent Monitor to fulfill its functions hereunder. OHCA is imposing this Condition to ensure continued access to health care services for the patient population and to verify and monitor compliance with the Conditions set forth herein. *Legal and Factual Basis: Conn. Gen. §§ Stat. 19a-486(a), 19a-613(b), 19a-639(a)(1),(2),(4),(5),(6),(7),(11) & (12); FF 26-27, 30-45, 52-57, 59*

17. The Independent Monitor will report to both OHCA and FLIS. The Independent Monitor shall conduct on-site visits of New Hospitals on no less than a semi-annual basis to assess PMH's modified QAPI program, each facility's efforts to remain an HRO, and compliance with the Quality Assurance Commitment Letter. The Independent Monitor shall furnish a written

report of his or her assessment to OHCA and FLIS within thirty (30) days of the completion of each on-site review. PMH will have the opportunity to review and provide written responses to the report. As OHCA deems necessary, the Independent Monitor shall meet with OHCA and FLIS personnel to discuss the written report and will perform additional periodic reviews and reviews of other PMH affiliated sites of service. OHCA is imposing this Condition to ensure continued access to health care services for the patient population and to verify and monitor compliance with the Conditions set forth herein. *Legal and Factual Basis: Conn. Gen. §§ Stat. 19a-486(a), 19a-613(b), 19a-639(a)(1),(2),(4),(5),(6),(7),(11) & (12); FF 26-27, 30-45, 52-57, 59*

18. If, at any time within three (3) years following the Closing Date, the New Hospitals' Local Board agrees with PMH to change any of the Seller Quality Programs described in the Quality Assurance Commitment Letter other than to make any changes necessary to address (i) an immediate issue of patient safety; (ii) changes in federal, state, and local laws; or (iii) as mandated or recommended in guidance by a governmental agency, PMH shall notify OHCA and the Health Systems Branch in writing within thirty (30) days of any such change going into effect. If the Independent Monitor disagrees with the change, OHCA may require that a request for modification be submitted and approved as required by C.G.S. §4-181a to make the change. OHCA is imposing this Condition to ensure continued access to health care services for the patient population and to verify and monitor compliance with the Conditions set forth herein. *Legal and Factual Basis: Stat. §§ 19a-486d, 19a-613(b), 19a-639(a)(1),(2),(5) & (6); FF 30-37*

19. For three (3) years following the Closing Date, PMH shall hold a joint meeting of the Board of Directors of each of New MMH and New RGH and the Local Board of New MMH and New RGH ("Joint Board Meetings") at least twice annually with one occurring in Manchester and the other occurring in Vernon. Such Joint Board Meetings shall be followed by a meeting to which the public is invited in advance and at which the public is informed of the New Hospitals' activities and afforded an opportunity to ask questions and make comments. OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Stat. §§ 19a-486d, 19a-613(b), 19a-639(a)(2),(3),(5),(7),(8),(11) & (12); FF 28-30*

20. For three (3) years following the Closing Date, PMH shall allow for two (2) community representatives to serve as voting members of the New MMH and New RGH Local Board with rights and obligations consistent with other voting members under the Local Board Bylaws. The community representatives shall be selected in consultation with the Mayors of Manchester and Vernon in order to ensure the appointment of two unbiased persons who will fairly represent the interests of the communities served by MMH and RGH, respectively. OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Stat. §§ 19a-486d, 19a-613(b), 19a-639(a)(2),(3),(5),(7),(8),(11) & (12); FF 28-30*

21. PMH, New ECHN, New MMH and New RGH shall abide by all requirements of licensure that may be imposed by DPH's Health Systems Branch ("HSB") in any Pre-Licensing Consent Order or similar agreement that HSB may enter into with these parties. OHCA is imposing this Condition to ensure that quality health care services are provided to the patient

population. *Legal and Factual Basis: Stat. §§ 19a-486d, 19a-490, 19a-493, 19a-639(a)(1),(2),(5) & (6); FF 30-37*

All of the foregoing constitutes the final order of the Office of Health Care Access in this matter.

By Order of the
Department of Public Health
Office of Health Care Access

June 10, 2016
Date

Janet M. Brancifort, MPH, RRT
Deputy Commissioner

CONFIDENTIAL BUSINESS INFORMATION

STATE OF CONNECTICUT
DEPARTMENT OF PUBLIC HEALTH

Raul Pino, M.D., M.P.H.
Commissioner

Dannel P. Malloy
Governor

Nancy Wyman
Lt. Governor

Office of Health Care Access

Final Decision

Applicants: Greater Waterbury Health Network, Inc.
[redacted]
Waterbury, CT 06708

Prospect Medical Holdings, Inc.
[redacted]
Los Angeles, CA 90025

Docket Number: 15-32017-486

Project Title: Transfer of assets of Greater Waterbury Health Network, Inc. to Prospect Medical Holdings, Inc.

Procedural History: On July 16, 2015, the Applicants filed with the Office of Health Care Access ("OHCA") and the Office of the Attorney General ("OAG") the Certificate of Need ("CON") Determination Letter proposing the transfer of assets of Greater Waterbury Health Network, Inc. and affiliates ("GWHN") to Prospect Medical Holdings, Inc. ("PMH"). The Applicants filed the application for the proposal on October 28, 2015. On March 4, 2016, OHCA and the OAG deemed the application complete.

On April 8, 2016, OHCA and the OAG notified the Applicants of the date, time and place of the public hearing. A notice to the public announcing the hearing was published in the *Republican American*. Thereafter, pursuant to Conn. Gen. Stat. §19a-639a and §19a-486, a public hearing regarding this application was held on May 3, 2016, jointly by OHCA and the OAG.

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[redacted]
Hartford, Connecticut 06134-0308
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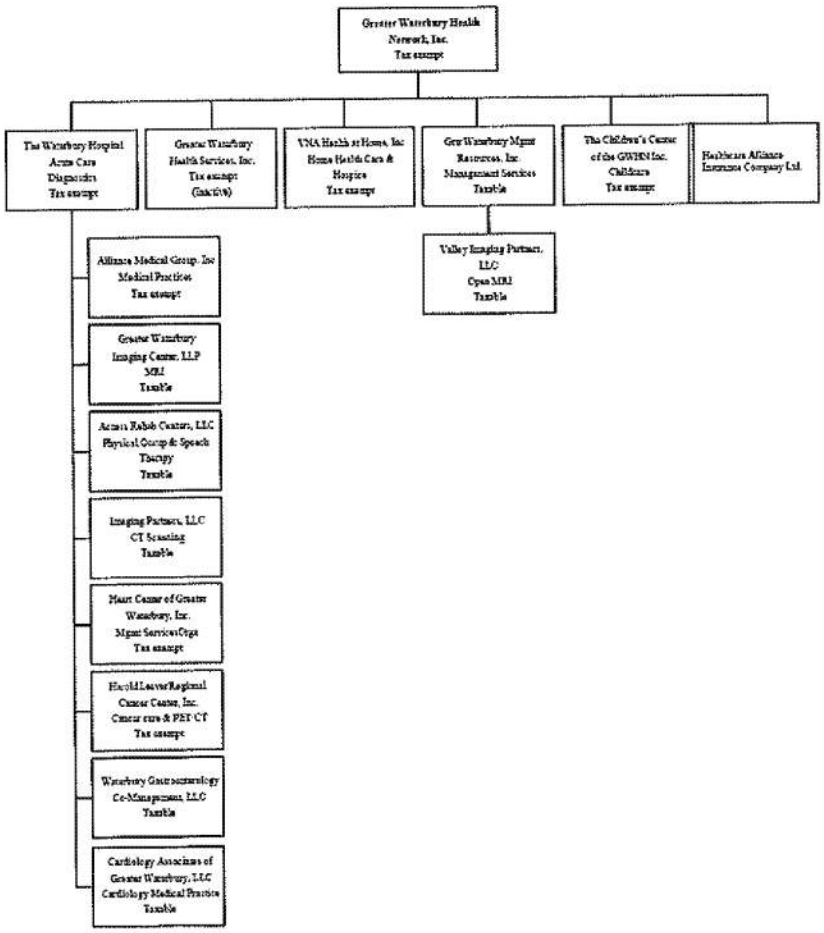
Affirmative Action/Equal Opportunity Employer

Attorney [redacted] was designated as the hearing officer in this matter. The hearing was conducted in accordance with the provisions of the Uniform Administrative Procedures Act (Chapter 54 of the Conn. Gen. Stat.) and Conn. Gen. Stat. §19a-639a(f). The public hearing record was closed on July 11, 2016. Deputy Commissioner Brancifort reviewed the entire record in this matter, including the public comments received by OHCA after the issuance of the Proposed Final Decision.

To the extent the findings of fact actually represent conclusions of law, they should be so considered, and vice versa. *SAS Inst., Inc. v. S & H Computer Systems, Inc.*, 605 F. Supp. 816 (Md. Tenn. 1985).

Findings of Fact

1. GWHN is a non-stock, 501(c)(3) corporation that is the parent company to The Waterbury Hospital ("Hospital"), an acute care teaching hospital with 357 licensed beds plus 36 bassinets located in Waterbury, Connecticut. GWHN also holds interests in other entities, joint ventures, and affiliates. The chart below describes GWHN's current organizational structure:



Ex. E, p. 13

2. In addition to the Hospital, which is wholly owned by GWHN, GWHN is also an equity holder in the following entities: Healthcare Alliance Insurance Company, Ltd. ("HAIC," of which GWHN is a 50% owner), Greater Waterbury Health Services, Inc. ("GWHS," which is wholly-owned by GWHN), VNA Health at Home, Inc. (wholly-owned by GWHN), Greater Waterbury Management Resources, Inc. (wholly-owned by GWHN;

this company also has a 49% ownership in Valley Imaging, LLC), and Children's Center of Greater Waterbury Health Network, Inc. ("CCGWHN," which is wholly-owned by GWHN). Ex. E, pp. 15-16

3. The Hospital has ownership interests in the following entities: Alliance Medical Group, Inc. (wholly-owned by the Hospital), Greater Waterbury Imaging Center Limited Partnership (64% owned by the Hospital), Access Rehab Centers LLC (65% owned by the Hospital), Imaging Partners, LLC (85% owned by the Hospital), Waterbury Gastroenterological Co-Management Company, LLC (the Hospital is the sole Class H Member and has certain management rights), and Cardiology Associates of Greater Waterbury, LLC (wholly-owned by the Hospital). Ex. E, pp. 15-17

4. Additionally, the Hospital is a corporate member of two not-for-profit joint ventures with Saint Mary's Hospital ("SMH"): the Harold Leever Regional Cancer Center, Inc. and the Heart Center of Greater Waterbury, Inc. Ex. E, p. 17

5. The Hospital is GWHN's primary asset. It is a "safety net" hospital, treating a large number of Medicare, Medicaid and uninsured patients. Discharges for these three payers represent approximately 80% of the total patient days and 75.6% of emergency room outpatient visits. Ex. E, pp. 13, 15-16

6. The Hospital serves the following towns: Beacon Falls, Bethlehem, Cheshire, Middlebury, Morris, Naugatuck, Oakville, Oxford, Plantsville, Plymouth, Prospect, Seymour, Southbury, Southington, Terryville, Thomaston, Torrington, Waterbury, Watertown, Wolcott, and Woodbury (the "Service Area"). Ex. E, p. 51

7. The Hospital has experienced consecutive years of losses due to poor economic conditions in the Service Area, declining government and commercial reimbursement, the increasing complexity of health care treatment, and national health care reform. Additionally the recession in 2008 led to GWHN defaulting on its bond covenants in 2009. In 2010, a consulting firm, Kaufman Hall, identified over $50 million in capital improvements required over five years to keep the Hospital operational. Ex. E, pp. 22-24, 333-434; Ex. R, Prefiled Testimony of Redacted Chairman of the Board, GWHN, p. 1509

8. In 2010, the Executive Committee of the GWHN Board of Directors (the "Board") recommended that the Hospital seek a capital partner and a task force was formed (the "Task Force"). Ex. E, p. 24

9. In 2011, the GWHN Board voted to authorize the negotiation of an agreement with LHP Hospital Group ("LHP") and SMH, but LHP ultimately terminated the proposed venture, citing the costs of building a replacement hospital and issues related to the Ethical and Religious Directives for Catholic Health Care Services. Ex. E, pp. 24-25

10. On September 4, 2012, the Board authorized the Task Force to pursue other opportunities, ultimately leading to the submission of proposals by Vanguard Health Systems, Inc. ("Vanguard") and PMH. PMH proposed an asset purchase transaction, while Vanguard proposed both an asset purchase transaction and a joint venture arrangement. Preferring a joint venture, GWHN pursued a relationship with Vanguard, and a Conversion Application and a CON Application were submitted. The OAG and OHCA issued decisions placing a number of conditions on the transaction, and Tenet Health Corporation (which had acquired Vanguard) withdrew the application. Ex. E, pp. 25-26, 29-30, 88-119

11. In early 2015, the Task Force requested that Cain Brothers, an investment advisory firm, look for new prospective partners. PMH was one of two candidates to indicate interest and, despite GWHN's declining financial performance, agreed to a deal similar to the proposed Tenet transaction. The Task Force approved PMH's proposed letter of intent and the Board authorized its execution, which occurred on May 1, 2015. After conducting due diligence, the Board adopted resolutions approving the transaction and the filing of the CON, as well as recommending to the various members of GWHN that they approve the transaction. On October 2, 2015, the GWHN members approved the transaction and authorized the Board to take all action to consummate the transaction. Ex. E, pp. 31-33, 88-119

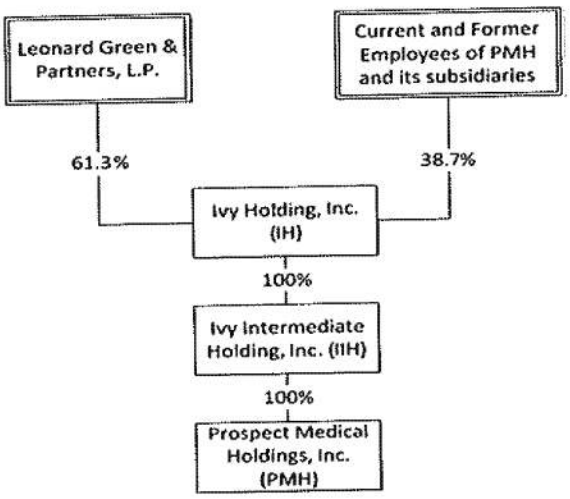
12. The Applicants are requesting approval of the proposed asset purchase (the "Asset Purchase") as a solution to GWHN's long-standing challenges that offers the Service Area continued access to its services and facilities. Ex. R, Prefiled Testimony of Redacted p. 1510

13. PMH is a for-profit, privately owned national healthcare services company with its principal place of business in Los Angeles, California. PMH owns fourteen acute care and behavioral hospitals in California, New Jersey, Rhode Island and Texas. It also owns a network of specialty and primary care clinics in each of these regions. Ex. E, pp. 18, 171-72

14. Through PMH's medical group segment, PMH also manages the provision of physician services in each of its markets through a network of approximately 8,900 physicians. The physician networks operate as independent practice associations ("IPAs") that contract with PMH-owned management service organizations ("MSOs"). The IPAs are comprised of both PMH-employed and independent community physicians. Ex. E, p. 18; Ex. R, Prefiled Testimony of Redacted President, PMH, pp. 1605, 1607-08; Testimony of Redacted Redacted on 5/3/2016, pp. 37-38

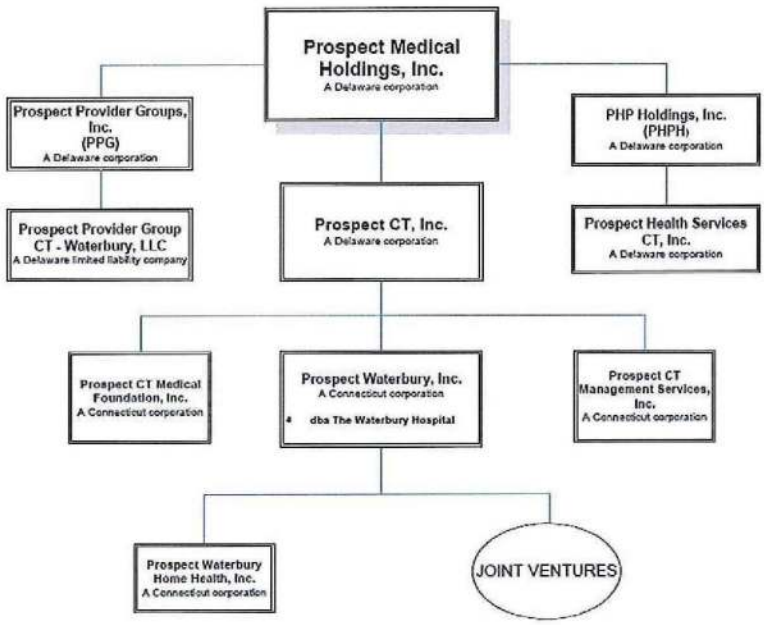
15. PMH aligns its hospitals and physicians under a model called Coordinated Regional Care ("CRC"). CRC provides for clinical integration of hospitals, physicians and community providers with health plans and other payers through value driven and risk-based reimbursement systems. PMH believes that the CRC model improves quality, efficiency and financial performance while providing its patients with quality, affordable healthcare. Ex. E, pp. 89

16. The chart below shows PMH's current ownership structure:



Ex. H, p. 1413

17. The chart below shows PMH's proposed organizational structure below the holding company level after the proposed transaction:



Ex. E, p. 68

18. GWHN selected PMH as the proposed purchaser because its financial resources and access to capital are anticipated to maintain GWHN's assets as economically viable and vibrant parts of the healthcare system in the Service Area by permitting capital investments, better preparing the Hospital to participate in new value-based delivery models, offering enhanced practice options for physicians, strengthening its network of providers and allowing for other improvements in operations. Ex. R, Prefiled Testimony of Redacted, p. 1606; of Ex. R, Prefiled Testimony of Redacted, President & CEO, GWHN, pp. 1516-20; Ex. R, Prefiled Testimony of Von Crockett, Senior Vice President of Corporate Development, PMH, pp. 1537-39

19. In its audited financial statements for FY 2015, PMH reported total revenues of over $1.3 billion from its operations on a consolidated basis. As of fiscal year end 2015, PMH reported free cash flow of over $112 million and close to $75 million in cash from operations. The company also received credit upgrades by both Moody's and S&P in 2015, with Moody's rating PMH's bonds as B1 and S&P rating PMH's bonds as B. These ratings still stand as of May 3, 2016. Ex. R, Prefiled Testimony of Steven Aleman, Chief Financial Officer, PMH, p. 1620; Testimony of Steven Aleman, Tr. on 5/3/2016, p. 113; Docket#15-32016-486, Ex. N, pp. 3245, 3249-59; Ex. K, pp. 1445-46

20. Under the proposed Asset Purchase Agreement ("APA"), PMH will pay a total purchase price of approximately $43.3 million for the assets of GWHN, which includes a purchase price of $31.8 million plus a net working capital adjustment of $18.3 million, as of April 30, 2016, minus capital lease obligations in excess of $6.5 million, unfunded pension liabilities, asbestos abatement liability, the amounts of certain GWHN liabilities assumed by PMH, and for the value of any joint venture interest that GWHN is unable to assign or transfer. Ex. E, pp. 12, 20, 71, 147; Ex. F, p.1419; Late File 3, pp. 1848-49

21. PMH will commit to spend within seven years no less than $55 million, less (a) the amount not to exceed $3.5 million of capital lease obligations assumed by PMH at Closing in excess of $3 million, (b) the cash shortfall at closing (defined in the APA as the "Negative Amount"), (c) the Purchase Price Adjustment Shortfall, provided that the aggregate of the amounts in (b) and (c) are not to exceed $5.0 million in aggregate, and (d) unpaid indemnification losses of PMH (defined in the APA as the "Unpaid Losses") of up to $4.5 million, (the "Commitment Amount"). (Revised APA draft dated June 10, 2016, pages 1861and 1977).

22. There is no financing contingency with respect to this transaction. PMH anticipates funding this acquisition using its existing cash. PMH also has access to a preapproved $40 million revolving line of credit with Morgan Stanley and, as shown below, PMH has provided data showing that its debt leverage ratio is lower than other for-profit hospital systems.

Industry Debt Leverage Ratio Comparison	
Entity	**Ratio**
Prospect	2.71X
Hospital Corporation of America	3.7X
Community Health Systems	5.4X
Tenet	6.3X

Ex. R, Prefiled Testimony of Steven Aleman, p. 1621; Ex. E, p. 69, Ex, K, p.1445; Docket#15-32016-486, Ex. K, p. 2191

23. Closing the transaction is estimated to require only $27 million in cash from PMH. By the closing date (the "Closing" or "Closing Date"), PMH anticipates it will have close to $100 million in cash on hand as a result of its growth in revenues, which are generating $10-15 million of free cash flow on a monthly basis. The $40 million revolving line of credit, which PMH recently drew down to $10 million to finance its purchase of East Orange General Hospital in New Jersey, is also expected to be restored to $30 million by the Closing. Ex. F, p. 1419; Late File 3, p. 1849; Testimony of Steven Aleman, Tr. on 3/29/16, pp. 151-53

24. The following GWHN assets will be excluded from the transaction:

- All cash and cash equivalents;
- All short-term and long-term investments other than GWHN's investments in the joint ventures;
- Board-designated, restricted, and trustee-held or escrowed funds (such as funded depreciation, debt service reserves, working capital trust assets, and assets and investments restricted as to use), beneficial interests in charitable trusts, and accrued earnings on all of the foregoing;
- Prepaid expenses not assumed by PMH;
- All insurance proceeds arising in connection with the operation of the assets or the facilities for periods prior to Closing to the extent that all damage to the assets has been repaired;
- All amounts due or to become due to GWHN from the Medicare, Medicaid or other payor programs in respect of cost report periods ended on or prior to Closing; and
- Interests in and assets of GWHS, CCGWHN and HAIC.

Ex. E, pp. 19, 142

25. GWHN's debt and pension obligations will also be addressed as a result of the transaction. At the time of the Closing and as permitted thereafter, the purchase price (less adjustments) together with GWHN's cash, investments and debt service reserve funds (but excluding charitable funds) will be used to satisfy GWHN's obligations. GWHN's unfunded pension liabilities with respect to its multi-employer defined benefit health plan are estimated to be at least $27 million and, with respect to its cash balance plan, are approximately $12 million. Ex. F, pp. 76, 1419; Prefiled Testimony, Steven Aleman, p. 1620

26. Table 1 summarizes the net proceeds and flow of funds associated with the Asset Purchase as of April 30, 2016 compared to September 30, 2015, including GWHN's anticipated plan for payment of debt and pension obligations as well as payment of other liabilities. The amounts are subject to adjustment at Closing.

TABLE 1
APA PROJECTED NET PROCEEDS AND FLOW OF FUNDS

Proceeds Calculation	As of 9/30/2015	As of 4/30/2016*
Proceeds		
Enterprise Value	$31,800,000	$25,000,000
Working Capital Adjustment	$4,601,512	$18,258,911
Total Gross Proceeds	**$36,401,512**	**$43,258,911**

PM Assumed Liabilities		
Asbestos Abatement	($2,896,529)	($2,898,529)
Nurses Pension	($27,000,000)	($27,000,000)
Hospital Cash Balance Plan	($11,613,917)	($12,363,507)
Total Assumed Liabilities	**($41,512,446)**	**($42,262,036)**
Net Proceeds	**($5,110,934)**	**($996,875)**
Unrestricted Cash	$35,767,106	$35,174,646
Total Unrestricted Cash and Net Proceeds	**$30,656,172**	**$36,171,521**
Cash Needs at Closing		
Estimated Transaction Costs	($1,450,000)	($1,450,000)
Bank Debt	($24,094,638)	($23,783,297)
Debt Swap	($1,512,596)	($1,851,544)
Total Cash Needs at Closing	**($27,057,234)**	**($27,084,841)**
Net Cash Post Closing Liabilities & Expenses	**$3,598,937**	**$9,086,680**

*All figures are current through April 30, 2016, with the exception of the Children's Center, which is current through March 31, 2016.
Ex. E. pp 1419 and Ex. AA, Late File 3.

27. After Closing, the assets of GWHN will be transferred to Prospect Connecticut, Inc. ("New GWHN") or one or more of its affiliates. New GWHN will serve as the health system parent company and sole shareholder of Prospect Waterbury, Inc., which will hold the Hospital's license after Closing (the post-closing hospital will be referred to as "New Hospital"). Ex. E, p. 21

28. The Commitment Amount will be funded through GWHN's operating income, and any shortfall will be funded by PMH's existing cash or through PMH's corporate level credit facility. Ex. E, p. 69

29. The Commitment Amount will be dedicated to continued improvement in quality and safety, expansion of services, new services, physician and service integration, and improvements in access to service. Ex. E, p. 57

30. PMH does not currently plan to change any service lines or locations as a result of the Asset Purchase. Ex. E, p. 48

31. There is currently no capital plan related to the transaction. After Closing, PMH, in consultation with the Local Board (defined in paragraph 38 below), will develop a strategic capital plan with respect to the New Hospital and associated affiliates and joint ventures. Ex. E, p.70; Ex. R., p. 1641

32. The capital projects in Table 2 below have been identified by GWHN management as priority capital projects to be addressed within the first three years after Closing. Ex. E, p. 72

TABLE 2
CAPITAL PRIORITY PROJECTS IDENTIFIED BY GWHN

Description	Estimated Cost (In Millions)	Estimated Timeframe (In Months)
Facility – Main Campus		
Expansion of ED/Development of urgent care*	$3.75	24-36
Upgrade OB/Women's health	$2.0	6-18
Upgrade outpatient surgery**	$2.0	6-18
Equipment		
Replace interventional radiology equipment	$1.7	12-18
Upgrade surgical/anesthesia equipment	$1.5	12-18
Outpatient Centers (Southbury, Naugatuck and Waterbury)* **	N/A	N/A
Physician Recruitment	N/A	N/A
Information Technology		
Continue IT Plan	N/A	N/A
Implement outpatient/physician practice strategy	N/A	N/A
Patient Safety****	$3.24	12-36
Total Estimated Cost	**$14.2**	

No dollars have yet been assigned to outpatient centers, physician recruitment and information technology.

* The Hospital's emergency department was built to accommodate 35,000 patients annually, while actual utilization is about 50,000, resulting in lengthy patient wait times and higher than average "Left Without Being Seen" rates. Additionally, hallways are consistently used as patient rooms. Expanding the emergency department will improve access to care, decrease LWOS, and improve patient privacy. Ex. Ex. H, pp. 1416-17

** There is no separate area for outpatient surgery. Accordingly, patients are currently being redirected to outpatient surgery centers in the community. Ex. H, p. 1417

*** The Hospital currently provides several health care services in Southbury, Naugatuck, and Waterbury. PMH intends to co-locate services by developing outpatient centers in each of these towns, creating a central environment with adequate parking and convenient access for patients. Ex. H, p. 1417

**** Immediate capital needs required over the first two to three years following Closing are: monitors in the ER ($600,000), ER architects/plan ($200,000), nuclear med ($450,000), fetal monitors ($145,000), EKG ($550,000), defibrillators ($240,000), two Jackson tables ($200,000), nurse call/ED ($220,000), bed replacements ($360,000), med cart replacements ($150,000), and beginning anesthesia update ($120,000). Ex. R, p. 1640

33. Because of GWHN's poor financial condition, the projects identified in Table 2 cannot be accomplished without this transaction. Ex. R., Prefiled Testimony of Redacted p. 1510; Testimony of Redacted, Tr. on 5/3/2016, p. 30; Ex. R, Prefiled Testimony, Redacted Vice President of Mergers and Acquisitions, PMH, pp. 1626-27

34. With the proposed Asset Purchase, the parties expect that PMH will provide sufficient capital to meet deferred, current and future capital needs for the Hospital's physical plant to ensure state of the art health care delivery services through an upgrade of facilities, equipment and technology. With PMH's access to capital, New Hospital will have the financial resources to purchase new technology, upgrade its facilities, attract skilled providers, and upgrade electronic health records, in addition to investing in service line development, physician alignment and recruitment and development of increasing ambulatory access. Ex. R, Prefiled Testimony, Redacted p. 1627

35. Table 3 below represents GWHN's projected incremental operating revenues, earnings before interest, taxes, depreciation and amortization (EBITDA) and gain/losses from operations and provisions for income taxes with this proposal.

TABLE 3
GWHN PROJECTED INCREMENTAL OPERATING REVENUE, EBITDA, INCOME FROM OPERATIONS, AND PROVISION FOR INCOME TAXES WITH THE PROPOSAL

	FY 2016	FY 2017	FY 2018
Operating Revenue	$324,151	$3,702,750	$6,827,192
Earnings Before Interest, Taxes, Depreciation & Amortization (EBITDA)	$1,408,798	$3,620,294	$4,425,395
Gain/Loss from Operations	$962,989	$1,868,015	$2,256,121
Provision for Income Taxes	$785,217	$2,172,366	$2,050,340

Ex. E, p.1167

36. PMH has restored the financial position of other health systems by applying its data-driven operating strategies, leveraging its corporate capabilities and investing in system growth. Ex. R, Prefiled Testimony, Redacted p. 1627

37. Table 4 below illustrates the financial performance of the Texas and Rhode Island hospitals after they were acquired by PMH:

TABLE 4
PMH'S RECENT ACQUISITIONS FINANCIAL PERFORMANCE (in Thousands)

Entity	EBITDA			Working Capital			Stockholder's Equity		
	Year prior to acquisition	FY 2014	FY 2015	Year prior to acquisition	FY 2014	FY 2015	Year prior to acquisition	FY 2014	FY 2015
Nix Health System (a)	$14,905	$18,411	$8,043	$5,937	$36,785	$35,449	$13,122	$20,468	$63,789
Roger Williams Medical Center (b)	$3,942	$1,582	$9,080	($1,860)	$1,114	$6,230	$37,184	$34,099	$38,256
Our Lady of Fatima Hospital(c)	($893)	$509	$6,485	$1,904	$2,040	$3,432	($57,150)	$27,513	$28,107

(a) Nix is a Health System based in Texas. Nix's Earnings Before Interest, Taxes, Depreciation and amortization (EBITDA) is based on reported trailing twelve months ended on 1/31/2011. Declines in EBITDA between 2014 and 2015 were due to the fluctuation in net reimbursement related to payments made to the Service Organization of San Antonio "SOSA". Funding to SOSA is voluntary but it is projected to average approximately $12M a year based on budgeted spending initiatives of the service organization. In 2014 the funding requirements were $5.7M (lower by approximately $6.3M) and in 2015 funding requirements returned to $12M. The remaining difference was comprised of lower volume at the facility as services were reconfigured and medical staff turnover. Working Capital of Nix prior to acquisition is as of 1/31/2011 and includes cash which was not part of assets acquired by PMH.

(b) EBITDA for Roger Williams Medical Center ("RWMC"), located in Providence , Rhode Island, for year prior to acquisition is only for 8 months ending on May 31, 2014 and EBITDA for FY2014 is only for three months post acquisition for FYE 9/30/2014. Working capital is for prior to acquisition as of 5/31/2014 and includes cash which was not part of the assets acquired by PMH as prior to the acquisition RWMC was a non-profit organization. Therefore, net assets were used as a substitute for stockholder's equity.

(c) EBITDA for Our Lady of Fatima Hospital ("OLFH") in Rhode Island is for year prior to acquisition and is only for 8 months ending on May 31, 2014 and for FY2014 is only for three months post acquisition. Working capital prior to acquisition is as of 5/31/2014 and includes cash which was not part of the assets acquired by PMH as prior to the acquisition OLFH was a non-profit organization. Therefore, net assets were used as a substitute for stockholder's equity.

Docket#15-32016-486, Late File 19, dated Apr. 20, 2016; Docket#15-32016-486, Ex. QQ, dated May 9, 2016

38. After Closing, the New Hospital will be governed by a board of directors controlled by PMH (the "New Hospital Board"). The New Hospital Board will have oversight and ultimate authority over the affairs of the New Hospital and the purchased assets. The New Hospital Board will be composed of executives of PMH and local employed executives of GWHN. There are currently no actual or proposed bylaws for the New Hospital Board. Ex. E, p. 20; Ex. H, p. 1422

39. The New Hospital Board will be advised by a local advisory board, anticipated to be comprised of five current members of the GWHN Board, five physicians, and the CEO of the New Hospital (the "Local Board"). The Local Board will serve as a resource for PMH with respect to development and review of strategic plans, assist with maintenance and implementation of a strategic business plan for the New Hospital, and assist with medical staff credentialing, quality assurance programs and accreditation at the New Hospital. There are currently no actual or proposed Bylaws for the Local Board. Ex. E, pp. 20-21, 190; Ex. H, pp. 1422-23

40. As of the Closing Date, PMH or an affiliate will offer employment to substantially all GWHN employees who are in good standing, in positions and at salaries at least equal to those then being provided by GWHN and with benefits packages comparable to those offered to similarly-situated employees at other hospitals operated by PMH. Ex. E, pp. 86, 90, 176

41. PMH plans to establish a strong physician network by recruiting high quality physicians to GWHN's medical staff. PMH has developed significant experience in other markets regarding methods of attracting more primary care providers and improving access to care. Recently, PMH succeeded in establishing an IPA in Rhode Island with 105 primary care practitioners and 270 specialist physicians. Of the 105 primary care practitioners participating in PMH's Rhode Island physician network at the end of 2015, only 18 were employed by the CharterCare System when PMH acquired its two hospitals (RWMC and OLFH) in mid-2014. Ex. E, p. 89; Docket#15-32016-486, Ex. G, p. 75; Ex. K, p. 2177-78

42. In order to implement the CRC strategy, PMH has established an IPA entity in Connecticut (Prospect Provider Group CT-Waterbury, LLC, or "PPGCTW") and a preferred provider network/health system risk taking entity, Prospect Health Services CT, Inc., that will contract with payers on behalf of PPGCTW physicians. These two organizations, through management services agreements with PMH, will manage physician participation, risk contracting and care management activities for participating members. Ex. E, p. 87; Ex. H, p. 1430; Ex. R, Prefiled Testimony of Redacted p. 1605; Testimony of Redacted Tr. on 5/3/2016, pp. 37-38

43. The goal of the CRC model is to reduce the overall cost of health care by increasing preventive care and reducing readmissions, inpatient utilization and emergency room visits. PMH will achieve these goals by developing a healthcare delivery network encompassing the entire continuum of patient care, including inpatient services, home health, clinics, independent physicians, nursing homes, ambulatory surgical centers, out-patient diagnostic services and other health related services. Ex. E, pp. 62, 89; Ex. R, Prefiled Testimony of Redacted pp. 1607, 1609, 1611-12

44. PMH has demonstrated the efficacy of the CRC model in Southern California, Texas and Rhode Island. In these regions, PMH has improved clinical outcomes, increased quality scores, increased patient satisfaction, reduced readmission rates, reduced average lengths of stay, and reduced medical-cost ratios. For example, from 2012 to 2014 in California and Texas, where PMH participates in HMO contracts for seniors, PMH reduced hospital bed days per thousand patients from 1,260 to 720. Additionally, length of hospital stay for this population has been reduced from 5.1 to 3.9 days, admissions per thousand have dropped from 245 per thousand to 182 per thousand and hospital readmissions within thirty days has dropped from 19% to 13%. The CRC model has also enabled PMH to attract more primary care providers and has improved access to care. Ex. E, p. 65-66; Ex. R, Prefiled Testimony of Redacted pp. 1608, 1610, 1615

45. PMH has agreed to adhere to GWHN's charity care policies for at least the first five years after Closing. For the first five years, PMH has also agreed to participate in the Medicare and Medicaid programs and accept all Medicare and Medicaid patients, provide public health programs of educational benefit to the community, and to generally promote public health, wellness, and welfare to the community by operating the New Hospital with quality standards consistent with other hospitals owned by PMH. Ex. E, pp. 61-63, 81, 1226-28; Ex. H, p. 1437; Testimony of Von Crockett, Tr. on 5/3/2016, p. 98; Tr., Testimony of Redacted Redacted President, PMH East on 5/3/16, pp. 103-04

46. PMH will continue to provide financial support for community benefit and community building activities in the Waterbury area to the same degree as GWHN did in FY 2014. The spending by PMH for community building activities post-closing is projected to increase 1% each year through FY 2019, and the spending for both community benefit and community building activities post-closing assumes no change in the Medicaid population served or the complement of community benefit programs offered by the New Hospital. Ex. E, pp. 83-84; Testimony of Redacted, Tr. on 5/3/2016, p. 104

47. Table 5 below describes the socioeconomic condition of the Service Area towns in comparison to the state of Connecticut as a whole and shows the areas most in need of such programs.

TABLE 5
SOCIOECONOMIC STATUS OF THE SERVICE AREA

Data				
Town	Poverty Rate	Medium Household Income	Unemployment Rate	Medium Age
Primary Service Area				
Beacon Falls	3.8%	$ 79,207	7.0%	39
Bethlehem	4.4%	$ 80,884	5.8%	50
Cheshire	2.8%	$ 110,587	6.2%	41
Middlebury	2.6%	$ 97,996	5.9%	45
Naugatuck	8.6%	$ 62,574	9.4%	39
Prospect	3.2%	$ 95,325	6.7%	44
Southbury	6.4%	$ 67,195	6.6%	50
Thomaston	2.7%	$ 67,426	7.8%	43
Waterbury	21.9%	$ 40,867	12.5%	35
Watertown	3.4%	$ 80,899	7.7%	44
Wolcott	3.4%	$ 80,655	7.8%	44
Woodbury	4.6%	$ 80,167	5.9%	48
Secondary Service Area				
Harwinton	4.6%	$ 89,429	6.1%	47
Morris	5.6%	$ 89,688	6.4%	45
Oxford	4.5%	$ 107,308	6.0%	43
Plymouth	6.7%	$ 73,603	8.9%	41
Seymour	6.8%	$ 73,099	7.7%	42

Southington	3.6%	$ 78,668	6.4%	44
Torrington	11.2%	$ 50,548	8.5%	43
State	**10.0%**	**$ 69,519**	**7.8%**	**40**

Ex. E, p. 54

48. Central Waterbury is designated as a Medically Underserved Area and a Health Professionals Shortage Area. The Hospital currently provides safety net services in this area. The Applicants anticipate that the proposed Asset Purchase will support the availability of health care services to vulnerable populations in the Service Area. Ex. E, p. 54

49. In 2013, the Hospital conducted a Community Health Needs Assessment ("CHNA"), which identified current and future health care needs of the community. The priority areas identified for the greater Waterbury community were access to care, mental health/substance abuse, overweight/obesity, and smoking/tobacco use. An implementation plan was developed to respond to the identified health needs, which PMH has agreed to support. Additionally, the Hospital has traditionally taken a lead role in developing the CHNA, and PMH has agreed to maintain GWHN's current level of involvement in developing and implementing the CHNA for five years from Closing. Ex. E, pp. 60, 62, 1075-1129, 1130-49; Ex. H, p. 1439; Testimony of Von Crockett, Tr. on 5/3/2016, pp. 90-91

50. PMH has also stated that the New Hospital will be in compliance with the following general community benefit standards for at least the first three years after the Closing: (a) the New Hospital will have an open medical staff and not restrict the use of facilities to a particular group of physicians and surgeons to the exclusion of other qualified doctors and (b) the New Hospital will operate a 24/7 emergency department and provide emergency services to patients regardless of their ability to pay. Testimony of Redacted, Tr. on 5/3/16, pp. 103-04

51. PMH and GWHN representatives have already met with leadership for Connecticut's Medicaid Program at the Department of Social Services ("DSS") and expressed their desire to work under a risk-based arrangement to provide care to Medicaid recipients. PMH is currently working with officials in Rhode Island to pilot a Medicaid risk-based program in that state. In addition, PMH will actively work with other providers in the community such as federally qualified health centers or community health centers to meet the needs of uninsured and underinsured individuals in the Service Area, including Medicaid recipients. Ex. E, pp. 63-65

52. The patient population currently served by the Hospital is not expected to change as a result of the Asset Purchase. PMH will accept all existing contracts with payers and will complete a change of ownership process with commercial payers, as well as Medicare and the Connecticut Medical Assistance Program (Medicaid). Table 6 below describes the current and projected patient population and payer mix for the Hospital with respect to discharges.

TABLE 6
PATIENT POPULATION/PAYER MIX

Hospital	YTD 8/31/15	Projected 2015	Projected FY 2016	Project FY 2017	Projected FY 2018
Medicare	5,002	5,457	5,312	5,312	5,312
Medicaid	3,021	3,296	3,196	3,196	3,196
CHAMPUS or TriCare	18	19	18	18	18
Total Government Payers	8,041	8,771	8,526	8,526	8,526
Commercial Insurers	2,527	2,757	2,681	2,681	2,681
Self-Pay	113	123	64	64	64
Workers Compensation	61	67	73	73	73
Total Non-Government Payers	2,701	2,947	2,818	2,818	2,818
Total Payer Mix	**10,742**	**11,718**	**11,344**	**11,344**	**11,344**

Ex. E, pp. 74, 76

53. Financial benefits associated with this proposal include: operational efficiencies and economies of scale, the New Hospital's participation in PMH's purchasing power, supply chain benefits, employee benefits savings and streamlined revenue collection. PMH also makes available to its hospitals subject matter consultants who are employed by PMH, saving its hospitals the cost of hiring consultants in those areas. Ex. R, Prefiled Testimony of Von Crockett, p. 1535; Docket#15-32016-486, Ex. N., p. 3236

54. PMH has agreed to maintain GWHN's quality program for at least two years following the transaction. Ex. T, p. 1826; Ex. R., Prefiled Testimony of Von Crockett, p. 1533

55. PMH has had to significantly modify its own Quality Assurance and Performance Improvement ("QAPI") as a result of recent surveys of two PMH hospitals in California, Los Angeles Community Hospital and Southern California Hospital, resulting in the California Department of Health imposing Immediate Jeopardy citations. Ex. K, p. 1459-61; Ex. R, Prefiled Testimony of Von Crockett, pp. 1530-33

CONFIDENTIAL BUSINESS INFORMATION

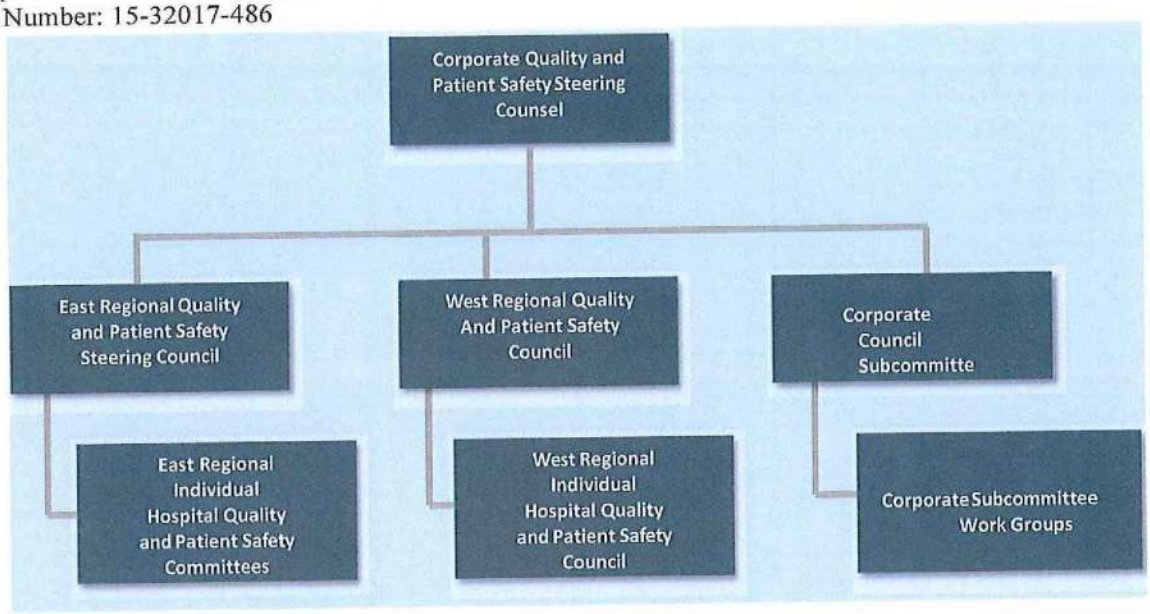
56. GWHN representatives learned of the Immediate Jeopardy citations on February 11, 2016. In response, the GWHN Board appointed a task force to review the citations and corrective actions taken and to recommend whether or not to proceed with the transaction. The task force reviewed the deficiencies and corrective action plans, conducted interviews, and made site visits to PMH-owned hospitals in both California and Rhode Island. The task force determined that PMH was committed to quality and proposed that GWHN obtain certain assurances from PMH and move forward with the transaction. Ex. R, pp. 1635-36; Testimony, Redacted, Director of Performance Improvement, GWHN, Tr. on 5/3/2016, pp. 25-31

57. Accordingly, on April 27, 2016 the parties entered into a Quality Assurance Commitment Letter pursuant to which PMH agreed to maintain certain GWHN quality programs for the first two years after the Closing Date and to not modify them without approval of the Local Board. The Quality Assurance Commitment Letter also requires that PMH maintain QAPI programs consistent with best practices and those currently implemented in PMH's Rhode Island facilities while also acknowledging that the Local Board shall oversee quality programs at the New Hospital. Ex. T, p. 1826

58. Based on the information learned and protections gained, the task force recommended, and the Board confirmed, GWHN's commitment to proceed with the transaction. Ex. R, pp. 1635-36; Testimony, Redacted, Tr. on 5/3/2016, pp. 30-31

59. Additionally, as a result of the Immediate Jeopardy citations, PMH has hired a corporate level Chief Quality Officer, Chief Clinical Officer, Chief Nursing Officer and an Associate Vice President of Regulatory and Patient Safety to assist in providing necessary resources to implement all quality programs at its local hospitals and share best practices among the hospitals. Ex. K, p. 1459; Ex. R, Prefiled Testimony of Von Crockett, pp. 1530-32

60. Other PMH initiatives include retaining a national consulting firm and legal counsel to assist in preparedness and responses to Centers for Medicare and Medicaid Services ("CMS") surveys. Under PMH's draft QAPI program, a Hospital Quality & Patient Safety Committee will be developed at the New Hospital, with oversight over subcommittees and workgroups that address the New Hospital's unique needs. These committees will report to a Regional Quality and Patient Safety Steering Council, which will report to the Corporate Quality and Patient Safety Steering Council, as described below:



Testimony of Redacted Chief Quality Officer, PMH, pp. 57-59; Ex. R, pp. 1692, 1696; Docket#15-32016-486, Tr., Testimony of Von Crockett on 3/29/15, pp. 93-94; Docket#15-32016-486, Ex. Z, Prefiled Testimony of Von Crockett, pp. 3356-57; Docket#15-32016-486, Ex. Z, pp. 3402-03; Docket#15-32016-486, Late File 1, dated Apr. 20, 2016; Docket#15-32016-486, Late File 10, dated Apr. 20, 2016

61. OHCA is currently in the process of establishing its policies and standards as regulations. Therefore, OHCA has not made any findings as to this proposal's relationship to any regulations not yet adopted by OHCA. Conn. Gen. Stat. § 19a-639(a)(1)

62. The application is consistent with the overall goals of the Statewide Health Care Facilities and Services Plan. Conn. Gen. Stat. § 19a-639(a)(2)

63. The Applicants have established that there is a clear public need for the proposal. Conn. Gen. Stat. §19a-639(a)(3)

64. The Applicants have demonstrated that the proposal will improve the overall financial strength of the health care system and that it is financially feasible. Conn. Gen. Stat. §19a-639(a)(4)

65. Subject to the conditions below, the Applicants have satisfactorily demonstrated that the proposal will maintain quality, accessibility and cost effectiveness of health care delivery in the region. Conn. Gen. Stat. §19a-639(a)(5)

66. Subject to the conditions below, the Applicants have shown that there would be no adverse change in the provision of health care services to the relevant populations and payer mix, including access to services by Medicaid recipients and indigent persons. Conn. Gen. Stat. §19a-639(a)(6)

67. The Applicants have satisfactorily identified the population to be affected by this proposal. Conn. Gen. Stat. §19a-639(a)(7)

68. The historical utilization of GWHN's services in the Service Area support this proposal. Conn. Gen. Stat. §19a-639(a)(8)

69. The Applicants have satisfactorily demonstrated that this proposal would not result in an unnecessary duplication of existing services in the area. Conn. Gen. Stat. §19a-639(a)(9)

70. Subject to the conditions below, the Applicants have demonstrated that there will be no reduction in access to services by Medicaid recipients or indigent persons. Conn. Gen. Stat. §19a-639(a)(10)

71. The Applicants have satisfactorily demonstrated that the proposal will not have a negative impact on the diversity of health care providers in the area. Conn. Gen. Stat. §19a-639(a)(11)

72. The Applicants have satisfactorily demonstrated that the proposal will not result in any consolidation that would affect health care costs or accessibility to care. Conn. Gen. Stat. §19a-639(a)(12)

Discussion

CON applications are decided on a case-by-case basis and do not lend themselves to general applicability due to the uniqueness of the facts in each case. In rendering its decision, OHCA considered the factors set forth in Connecticut General Statutes § 19a-639(a) and 19a-486d. The Applicants bear the burden of proof in this matter by a preponderance of the evidence. *Jones v. Connecticut Medical Examining Board,* 309 Conn. 727 (2013).

GWHN is a non-stock, 501(c)(3) corporation that is the parent company to The Waterbury Hospital ("Hospital"), an acute care teaching hospital with 357 licensed beds plus 36 bassinets located in Waterbury, Connecticut. GWHN also holds interests in other entities, joint ventures, and affiliates. *FF1* GWHN serves the following towns: Beacon Falls, Bethlehem, Cheshire, Middlebury, Morris, Naugatuck, Oakville, Oxford, Plantsville, Plymouth, Prospect, Seymour, Southbury, Southington, Terryville, Thomaston, Torrington, Waterbury, Watertown, Wolcott, and Woodbury. *FF6* PMH is a for-profit, privately owned national healthcare services company with its principal place of business in Los Angeles, California. PMH owns fourteen acute care and behavioral hospitals in California, New Jersey, Rhode Island and Texas. It also owns a network of specialty and primary care clinics in each of these regions. *FF13* The Hospital has experienced consecutive years of losses due to poor economic conditions in the Service Area, declining government and commercial reimbursement, the increasing complexity of health care treatment, and national health care reform. Additionally the recession in 2008 led to GWHN defaulting on its bond covenants in 2009. In 2010, a consulting firm, Kaufman Hall, identified over $50 million in capital improvements required over five years to keep the Hospital operational. *FF7* The Applicants are requesting approval of the proposed asset purchase (the "Asset Purchase") as a solution to GWHN's long-standing challenges that offers the Service Area continued access to its services and facilities. *FF12*

Under the proposed Asset Purchase Agreement ("APA"), PMH will pay a total purchase price of approximately $43.3 million for the assets of GWHN, which includes a purchase price of $31.8 million plus a net working capital adjustment of $18.3 million, as of April 30, 2016, minus capital lease obligations in excess of $6.5 million, unfunded pension liabilities, asbestos abatement liability, the amounts of certain GWHN liabilities assumed by PMH, and for the value of any joint venture interest that GWHN is unable to assign or transfer. *FF20* PMH will commit to spend within seven years no less than $55 million, less (a) the amount not to exceed $3.5 million of capital lease obligations assumed by PMH at Closing in excess of $3 million, (b) the cash shortfall at closing (defined in the APA as the "Negative Amount"), (c) the Purchase Price Adjustment Shortfall, provided that the aggregate of the amounts in (b) and (c) are not to exceed $5.0 million in aggregate, and (d) unpaid indemnification losses of PMH (defined in the APA as the "Unpaid Losses") of up to $4.5 million, (the "Commitment Amount"). *FF21* GWHN's debt and pension obligations will also be addressed as a result of the transaction. At the time of the Closing and as permitted thereafter, the purchase price (less adjustments) together with GWHN's cash, investments and debt service reserve funds (but excluding charitable funds) will be used to satisfy GWHN's obligations. GWHN's unfunded pension liabilities with respect to its multi-

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employer defined benefit health plan are estimated to be at least $27 million and, with respect to its cash balance plan, are approximately $12 million. *FF25*

With the proposed Asset Purchase, the parties expect that PMH will provide sufficient capital to meet deferred, current and future capital needs for the Hospital's physical plant to ensure state of the art health care delivery services through an upgrade of facilities, equipment and technology. With PMH's access to capital, the post-closing New Hospital will have the financial resources to purchase new technology, upgrade its facilities, attract skilled providers, and upgrade electronic health records, in addition to investing in service line development, physician alignment and recruitment and development of increasing ambulatory access. *FF34* On the Closing Date, the assets of GWHN will be transferred to Prospect Connecticut, Inc. ("New GWHN") or one or more of its affiliates. New GWHN will serve as the health system parent company and sole shareholder of Prospect Waterbury, Inc., which will hold the Hospital's license after Closing (the post-closing hospital will be referred to as "New Hospital"). *FF27*

Following Closing, the New Hospital will be governed by a board of directors controlled by PMH (the "New Hospital Board"). The New Hospital Board will have oversight and ultimate authority over the affairs of the New Hospital and the purchased assets. The New Hospital Board will be composed of executives of PMH and local employed executives of GWHN. *FF38* The New Hospital Board will be advised by a local advisory board, anticipated to be comprised of five current members of the GWHN Board, five physicians, and the CEO of the New Hospital (the "Local Board"). The Local Board will serve as a resource for PMH with respect to development and review of strategic plans, assist with maintenance and implementation of a strategic business plan for the New Hospital, and assist with medical staff credentialing, quality assurance programs and accreditation at the New Hospital. *FF39*

The capital projects in the table below have been identified by GWHN management as priority capital projects to be addressed within the first three years after Closing. *FF32*

CAPITAL PRIORITY PROJECTS IDENTIFIED BY GWHN

Description	Estimated Cost (In Millions)	Estimated Timeframe (In Months)
Facility – Main Campus		
Expansion of ED/Development of urgent care*	$3.75	24-36
Upgrade OB/Women's health	$2.0	6-18
Upgrade outpatient surgery**	$2.0	6-18
Equipment		
Replace interventional radiology equipment	$1.7	12-18
Upgrade surgical/anesthesia equipment	$1.5	12-18
Outpatient Centers (Southbury, Naugatuck and Waterbury)* **	N/A	N/A
Physician Recruitment	N/A	N/A
Information Technology		
Continue IT Plan	N/A	N/A

Implement outpatient/physician practice strategy	N/A	N/A
Patient Safety****	$3.24	12-36
Total Estimated Cost	**$14.2**	

PMH plans to establish a strong physician network by recruiting high quality physicians to GWHN's medical staff. PMH has developed significant experience in other markets regarding methods of attracting more primary care providers and improving access to care. Recently, PMH succeeded in establishing an IPA in Rhode Island with 105 primary care practitioners and 270 specialist physicians. Of the 105 primary care practitioners participating in PMH's Rhode Island physician network at the end of 2015, only 18 were employed by the CharterCare System when PMH acquired its two hospitals (RWMC and OLFH) in mid-2014. *FF41*

With respect to its quality of health care services, PMH has had to significantly modify its Quality Assurance and Performance Improvement ("QAPI") as a result of recent surveys of two PMH hospitals in California, Los Angeles Community Hospital and Southern California Hospital, resulting in the California Department of Health imposing Immediate Jeopardy citations. *FF55* GWHN representatives learned of the Immediate Jeopardy citations on February 11, 2016. In response, the GWHN Board appointed a task force to review the citations and corrective actions taken and to recommend whether or not to proceed with the transaction. The task force reviewed the deficiencies and corrective action plans, conducted interviews, and made site visits to PMH-owned hospitals in both California and Rhode Island. The task force determined that PMH was committed to quality and proposed that GWHN obtain certain assurances from PMH and move forward with the transaction. *FF56* Accordingly, on April 27, 2016 the parties entered into a Quality Assurance Commitment Letter pursuant to which PMH agreed to maintain certain GWHN quality programs for the first two years after the Closing and to not modify them without approval of the Local Board. The Quality Assurance Commitment Letter also requires that PMH maintain QAPI programs consistent with best practices and those currently implemented in PMH's Rhode Island facilities while also acknowledging that the Local Board shall oversee quality programs at the New Hospital. *FF57*

PMH aligns its hospitals and physicians under a model called Coordinated Regional Care ("CRC"). CRC provides for clinical integration of hospitals, physicians and community providers with health plans and other payers through value driven and risk-based reimbursement systems. PMH believes that the CRC model improves quality, efficiency and financial performance while providing its patients with quality, affordable healthcare. *FF15* The goal of the CRC model is to reduce the overall cost of health care by increasing preventive care and reducing readmissions, inpatient utilization and emergency room visits. PMH will achieve these goals by developing a healthcare delivery network encompassing the entire continuum of patient care, including inpatient services, home health, clinics, independent physicians, nursing homes, ambulatory surgical centers, out-patient diagnostic services and other health related services. *FF43* PMH has demonstrated the efficacy of the CRC model in Southern California, Texas and Rhode Island. In these regions, PMH has improved clinical outcomes, increased quality scores, increased patient satisfaction, reduced readmission rates, reduced average lengths of stay, and reduced medical-cost ratios. For example, from 2012 to 2014 in California and Texas, where

PMH participates in HMO contracts for seniors, PMH reduced hospital bed days per thousand patients from 1,260 to 720. Additionally, length of hospital stay for this population has been reduced from 5.1 to 3.9 days, admissions per thousand have dropped from 245 per thousand to 182 per thousand and hospital readmissions within thirty days has dropped from 19% to 13%. The CRC model has also enabled PMH to attract more primary care providers and has improved access to care. *FF44*

In addition to addressing any quality issues, PMH has also agreed to adhere to GWHN's charity care policies for at least the first five years after Closing. For the first five years, PMH has also agreed to participate in the Medicare and Medicaid programs and accept all Medicare and Medicaid patients, provide public health programs of educational benefit to the community, and to generally promote public health, wellness, and welfare to the community by operating the New Hospital with quality standards consistent with other hospitals owned by PMH. *FF45* PMH will continue to provide financial support for community benefit and community building activities in the Waterbury area to the same degree as GWHN did in FY 2014. The spending by PMH for community building activities post-closing is projected to increase 1% each year through FY 2019, and the spending for both community benefit and community building activities post-closing assumes no change in the Medicaid population served or the complement of community benefit programs offered by the New Hospital. *FF46*

In 2013, the Hospital conducted a Community Health Needs Assessment ("CHNA"), which identified current and future health care needs of the community. The priority areas identified for the greater Waterbury community were access to care, mental health/substance abuse, overweight/obesity, and smoking/tobacco use. An implementation plan was developed to respond to the identified health needs, which PMH has agreed to support. Additionally, the Hospital has traditionally taken a lead role in developing the CHNA, and PMH has agreed to maintain GWHN's current level of involvement in developing and implementing the CHNA for five years from the Closing. *FF49* PMH has also stated that the New Hospital will be in compliance with the following general community benefit standards for at least the first three years after the Closing: (a) the New Hospital will have an open medical staff and not restrict the use of facilities to a particular group of physicians and surgeons to the exclusion of other qualified doctors and (b) the New Hospital will operate a 24/7 emergency department and provide emergency services to patients regardless of their ability to pay. *FF50* PMH and GWHN representatives have already met with leadership for Connecticut's Medicaid Program at the Department of Social Services ("DSS") and expressed their desire to work under a risk-based arrangement to provide care to Medicaid recipients. PMH is currently working with officials in Rhode Island to pilot a Medicaid risk-based program in that state. In addition, PMH will actively work with other providers in the community such as federally qualified health centers or community health centers to meet the needs of uninsured and underinsured individuals in the Service Area, including Medicaid recipients. *FF51*

Financial benefits associated with this proposal include: operational efficiencies and economies of scale, the New Hospital's participation in PMH's purchasing power, supply chain benefits, employee benefits savings and streamlined revenue collection. PMH also makes available to its

hospitals subject matter consultants who are employed by PMH, saving its hospitals the cost of hiring consultants in those areas. *FF53*

In its audited financial statements for FY 2015, PMH reported total revenues of over $1.3 billion from its operations on a consolidated basis. As of fiscal year end 2015, PMH reported free cash flow of over $112 million and close to $75 million in cash from operations. The company also received credit upgrades by both Moody's and S&P in 2015, with Moody's rating PMH's bonds as B1 and S&P rating PMH's bonds as B. These ratings still stand as of May 3, 2016. *FF19*

Based upon the aforementioned discussion of the evidence provided by the Applicants in this matter, the Applicants have satisfactorily demonstrated that PMH has made a commitment to provide health care to the uninsured and the underinsured; safeguard procedures are in place to avoid a conflict of interest in patient referral; and certificate of need authorization is justified in accordance with the principles and guidelines set forth in Connecticut General Statutes § 19a-639; those being, access to healthcare services, quality of the healthcare services, public need for the proposed project, and the financial feasibility of the proposed project.

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Order

Based upon the foregoing Findings of Fact and Discussion, the Applicants' request for the sale of the assets of GWHN and its controlled affiliates to PMH or one or more affiliates of PMH is hereby **Approved** under Conn. Gen. Stat. §§ 19a-486 and 19a-639 subject to the enumerated conditions (the "Conditions") set forth below.

Unless expressly provided otherwise, all Conditions of this Order shall, to the extent applicable, be binding on the Applicants, their affiliates, successors and assigns, regardless of whether New GWHN remains the parent company and sole shareholder of the New Hospital. OHCA and any successor agency shall have the right to enforce the Conditions by all means and remedies available to it under law and equity, including, but not limited to, Conn. Gen. Stat. § 19a-486g and the right to impose and collect a civil penalty under Conn. Gen. Stat. § 19a-653 against any person or health care facility or institution that fails to file required data or information within the prescribed time periods set forth in this Order. All references to days in these Conditions shall mean calendar days.

1. Within twenty (20) days following the Closing of the Asset Purchase authorized by this Order, Applicants shall submit a schedule to OHCA setting forth Waterbury Hospital's inpatient bed allocation and the location and hours of operation for all outpatient services, by department, as of the Decision Date and publish this same information on the website of the Hospital. OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Conn. Gen. Stat. §§ 19a-486d(a), 19a-613(b), 19a-639(a)(8) & (11); FF 18, 30*

2. Within twenty (20) days following the Closing of the Asset Purchase authorized by this Order, Applicants shall identify and provide the Certificate of Incorporation for the PMH affiliated entity that shall directly own, operate and hold the hospital license of the New Hospital post-closing. This entity shall be duly organized and validly existing under the laws of Connecticut and New GWHN shall be its parent company and sole shareholder as proposed in the CON application. OHCA is imposing this Condition to verify that safeguard procedures are in place to avoid a conflict of interest in patient referral. *Legal and Factual Basis: Conn. Gen. Stat. §§ 19a-486d(a), 19a-613(b), 19a-639(a)(8) & (11); FF 27*

3. Applicants shall notify OHCA in writing of the Closing of the Asset Purchase authorized by this Order within twenty (20) days of such closing and shall supply final execution copies of all agreements related to same, including but not limited to:

    a. the APA, including any and all schedules and exhibits; and

    b. Bylaws or similar governance documents for New GWHN, as well as for the New Hospital.

The Applicants may redact from the APA any information that is exempt from disclosure under Conn. Gen. Stat. § 1-210. If the Applicants redact materials in accordance with the previous sentence, the Applicants shall provide a list to OHCA which identifies in general terms the nature of the redacted material and why it is claimed to be exempt for public record purposes.

OHCA is imposing this Condition to verify that safeguard procedures are in place to avoid a conflict of interest in patient referral. *Legal and Factual Basis: Conn. Gen. Stat. §§ 19a-486d(a) & 19a-613(b); FF 20, 21, 38, 39*

4. Within one hundred and eighty (180) days following the Closing Date, PMH shall submit a plan (the "Health Needs Plan") for continuing to support and implement GWHN's 2016 CHNA and for conducting the New Hospital's next comprehensive study of community health needs in the Service Area (the "Community Health Needs Study" or "Study"). The Health Needs Plan shall describe in detail at least the following:

   (i) the data that will be collected and analyzed to systematically assess health status indicators of the Service Area;
   (ii) the identity of key community stakeholders and health organizations, unaffiliated with PMH, including without limitation, representatives of medically underserved populations, that will be enlisted to participate in the Study and the manner and extent of such participation by stakeholders in both the development of health priorities and planned implementation;
   (iii) the qualifications of consultants experienced in performing community health needs assessments who will be retained by PMH to ensure that the priority health needs of the community are accurately determined;
   (iv) the frequency with which the Study will be repeated;
   (v) the manner in which results of the Study and the implementation strategy to address the priority health needs identified therein (the "Implementation Strategy") will be distributed to the community; and
   (vi) the manner in which the Study will complement the population health management objectives of PMH and the New Hospital.

   OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Conn. Gen. Stat. §§ 19a-486d(a), 19a-613(b), 19a-639(a)(3) & (7); FF 49*

5. Within three (3) years following the Closing, PMH shall participate with New GWHN and the New Hospital, and the key community stakeholders and health organizations identified pursuant to Condition 4, in conducting a Community Health Needs Study and shall provide a copy of such Study and its Implementation Strategy to OHCA within thirty (30) days of completion. PMH and the participants shall utilize Healthy Connecticut State Health Improvement Plan data and priorities as the starting point for the Study (available at http://www.ct.gov/dph/lib/dph/state_health_planning/ship/hct2020/hct2020_state_hlth_impv_032514.pdf), as well as any applicable community health improvement plan issued by any local health department in the Service Area.[1] The Implementation Strategy shall also adopt the evidence-based interventions identified in the Centers for Disease Control 6/18 initiative (available at http://www.cdc.gov/sixeighteen) to the extent the health priorities identified in the Study correlate to the health conditions identified by the CDC and provide information on how any patient outcomes related to the Implementation Strategy will be measured and reported to the community. PMH shall publish the Community Health Needs Study and the Implementation Strategy on New Hospital's website. Until such time as the Community Health Needs Study and Implementation Strategy are submitted to OHCA, PMH shall continue to support and implement GWHN's current CHNA for the Hospital. OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Stat. §§ 19a-486d(a) 19a-613(b), 19a-639(a)(3) & (7); FF 49*

6. Within one hundred and eighty (180) days following the Closing Date, PMH shall submit a plan demonstrating how health care services will be provided by the New Hospital for the first three years following the Asset Purchase, including any consolidation, reduction, or elimination of existing services or introduction of new services (the "Services Plan"). The Services Plan will be provided in a format mutually agreed upon by OHCA and the Applicants. OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Conn. Stat. §§ 19a-486d(a), 19a-613(b), 19a-639(a)(5),(6) (7),(8),(9),(11) & (12); FF 18, 30, 34, 43, 46*

7. Until such time as the Services Plan is submitted, PMH shall provide OHCA with notice of any reallocation of inpatient beds and relocation of outpatient services for the New Hospital specific to those services that existed at the Hospital as of the Decision Date. Such notice shall be provided within ten (10) days of any such reallocation or relocation and published on the website of the New Hospital. OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Stat. §§ 19a-486d(a), 19a-613(b), 19a-639(a)(5),(6) (7),(8),(9),(11) & (12); FF 18, 30*

[1] Other tools and resources which the Applicants are encouraged to consider include County Health Rankings and CDC Community Health Improvement Navigator in order to assist with the Study process in terms of enhancing the understanding of social, behavioral, and environmental conditions that affect health, identifying priorities, and using evidence-based interventions.

8. Within one hundred and eighty (180) days following the Closing Date and thereafter on the same semi-annual schedule as set forth in Conditions 9 and 10 below until the capital commitment is satisfied, PMH shall submit to OHCA a report on the capital investments ("Capital Investment Report") it has made in the New Hospital and its affiliates from the Commitment Amount. The Capital Investment Report shall include the following in a format to be agreed upon:

    a. A list of the capital expenditures that have been made in the prior one hundred and eighty (180) days with descriptions of each associated project;

    b. An explanation of why each expenditure was made and a timeframe for the roll out of the associated capital project (including estimated beginning, ending and startup/operation dates); and

    c. The dates and amounts of withdrawals from the New Hospital's operating account and/or any other sources of funding used to fulfill the Capital Commitment.

    The reports shall be signed by the New GWHN's Chief Financial Officer. OHCA is imposing this Condition to ensure continued access to health care services for the patient population and to verify the continued financial feasibility of the project. *Legal and Factual Basis: Stat. §§ 19a-486d(a), 19a-613(b), 19a-639(a)(3),(4) & (5); FF 29, 31-34*

9. For three (3) years following the Closing Date, PMH shall file the following information with OHCA on a semi-annual basis for New GWHN and the New Hospital, respectively:

    a. The cost saving totals achieved in the following Operating Expense Categories for New GWHN and New Hospital: Salaries and Wages, Fringe Benefits, Contractual Labor Fees, Medical Supplies and Pharmaceutical Costs, Depreciation and Amortization, Interest Expense, Malpractice Expense, Utilities, Business Expenses and Other Operating Expenses. The categories shall be consistent with the major operating expense categories (Categories A, B, C, D, E, G, H, I, J, and K) which are in use at the time of reporting in the OHCA Hospital Reporting System ("HRS") Report 175 or successor report. The semi-annual submission shall also contain narratives describing:

        1. the major cost savings achieved for each expense category for the semi-annual period; and

        2. the effect of these cost savings on the clinical quality of care.

    b. A consolidated Balance Sheet, Statement of Operations, and Statement of Cash Flows for New GWHN and New Hospital. The format shall be consistent with that which is in use at the time of reporting in OHCA's HRS Reports 100/150, 300/350 or successor reports.

For purposes of this Order, semi-annual periods are October 1-March 31 and April 1 – September 30. The required information is due no later than two (2) months after the end of each semi-annual period. Due dates are May 31st and November 30th, beginning November 30, 2016. OHCA is imposing this Condition to ensure continued access to health care services for the patient population and to verify the continued financial feasibility of the project. *Legal and Factual Basis: Stat. §§ 19a-486d(a), 19a-613(b), 19a-639(a)(4) & (5); FF 29, 31-34*

10. For three (3) years following the Closing Date, PMH shall submit to OHCA a financial measurement report. This report shall be submitted on a semi-annual basis and show current month and year-to-date data and comparable prior year period data for New GWHN and New Hospital, respectively. The required information is due no later than two (2) months after the end of each semi-annual period. Due dates are May 31st and November 30th, beginning November 30, 2016. The following financial measurements/indicators should be addressed in the report:

Financial Measurement/Indicators

A. Operating Performance
1. Operating Margin
2. Non-Operating Margin
3. Total Margin
B. Liquidity
1. Current Ratio
2. Days Cash on Hand
3. Days in Net Accounts Receivables
4. Average Payment Period
C. Leverage and Capital Structure
1. Long-term Debt to Equity
2. Long-term Debt to Capitalization
3. Unrestricted Cash to Debt
4. Times Interest Earned Ratio
5. Debt Service Coverage Ratio
6. Equity Financing Ratio
D. Additional Statistics
1. Income from Operations
2. Revenue Over/(Under) Expense

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3. Cash from Operations
4. Cash and Cash Equivalents
5. Net Working Capital
6. Free Cash Flow (and the elements used in the calculation)
7. Unrestricted Assets/Retained Earnings
8. Bad Debt as % of Gross Revenue
9. Credit Ratings (S&P, FITCH or Moody's)

OHCA is imposing this Condition to ensure continued access to health care services for the patient population and to verify the continued financial feasibility of the project. *Legal and Factual Basis: Stat. §§ 19a-486d(a), 19a-613(b), 19a-639(a)(4) & (5); FF 18, 36*

11. PMH shall ensure that the New Hospital maintains and adheres to GWHN's current policies regarding charity care, indigent care and community volunteer services after the Closing Date, or adopt other policies that are at least as generous and benevolent to the community as GWHN's current policies consistent with state and federal law. These policies shall be posted on the website of the New Hospital and as additionally required by applicable law. OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Stat. §§ 19a-486d(a), 19a-613(b), 19a-639(a)(5),(6) & (11); FF 45, 46*

12. For three (3) years following the Closing Date, PMH shall provide written notice to OHCA of any modification, amendment or revision to the charity care, indigent care and community volunteer services of the New Hospital within thirty (30) days of such change. The notice of these changes shall be accompanied by copies of any revised policies and the notice and revised policies shall be posted on the website of the New Hospital simultaneously with its submission to OHCA. OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Stat. §§ 19a-486d(a), 19a-613(b), 19a-639(a)(5),(6) & (11); FF 45, 46*

13. PMH shall maintain community benefit programs and community building activities for the New Hospital for three (3) years after the Closing Date consistent with the Hospital's most recent Schedule H of IRS Form 990 or shall provide such other community benefit programs and community building activities that are at least as generous and benevolent to the community as GWHN's current programs, and PMH shall apply a 1% increase per year for the next three (3) years toward community building activities in terms of dollars spent.

In determining the New Hospital's participation and investment in both community benefits and community building activities, PMH shall address the health needs identified by the applicable CHNA or Study in effect at the time and the population health management objectives, including social determinants of health, contained in the related Implementation Strategy.

a. On an annual basis, the Applicants shall identify the amounts and uses related to community benefits and community building and shall discuss how such investments and support are being applied toward the health needs identified in the CHNA or Study and population health management objectives. Such reporting shall be filed within thirty days of the anniversary date of the Closing for three years and shall be posted on New Hospital's website. OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Stat. §§ 19a-486d(a), 19a-613(b), 19a-639(a)(5),(6) & (11); FF 46*

14. The New Hospital agrees to comply with the following general community benefit standards for at least the first three years following the Closing: (a) the New Hospital shall provide public health programs to the community and generally promote the welfare of the community; (b) the New Hospital shall have an open medical staff and not restrict the use of facilities to a particular group of physicians and surgeons to the exclusion of other qualified doctors; (c) the New Hospital shall participate in the Medicare and Medicaid programs; and (d) the New Hospital shall operate a 24/7 emergency department and provide emergency services to patients regardless of their ability to pay. OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Stat. §§ 19a-486d(a), 19a-613(b), 19a-639(a)(5),(6) & (11); FF 45, 50*

15. The New Hospital shall work toward making culturally and linguistically appropriate services available and integrated throughout its hospital operations. Specifically, the New Hospital shall take reasonable steps to provide meaningful access to each individual with limited English proficiency eligible to be served or likely to be encountered in its health programs and activities, in accordance with the implementing regulations of Section 1557 of the Patient Protection and Affordable Care Act. Additionally, the New Hospital shall provide appropriate insurance navigator services for patients and, where appropriate, English as a second language and cultural competency training for employees. In complying with this Condition, the New Hospital shall be guided by the National Standards for Culturally and Linguistically Appropriate Services in Health and Health Care published by the U.S. Department of Health and Human Services' Office of Minority Health. For three (3) years following the Closing, PMH shall submit a written report on its activities directed at meeting this Condition. Such reporting shall be filed within thirty days of the anniversary date of the Closing for three years and shall be posted on the New Hospital's website. OHCA is imposing this Condition so as to ensure continued access to health care services for the patient population. *Legal and Factual Basis: 45 C.F.R. §92.201; Stat. §§ 19a-486d(a), 19a-613(b), 19a-639(a)(5),(6) & (11); FF 45-50*

16. Within sixty (60) days after the Closing Date, the Applicants shall contract with an Independent Monitor who has experience in hospital administration and regulation, including maintaining quality control in an HRO. The Independent Monitor shall be retained at the sole expense of PMH, at a cost which shall not exceed $300,000 in the aggregate. Representatives of OHCA and the Facility Licensing and Investigations ("FLIS") section of the Department of Public Health ("DPH") will approve the Independent Monitor's appointment. The Independent Monitor shall be engaged for a minimum period of two (2) years following the Closing, which may be extended for another year at OHCA's and/or FLIS's discretion. The Independent Monitor will be responsible for monitoring the Applicants' compliance with the Conditions set forth in this Order. PMH shall provide the Independent Monitor with appropriate access to the New Hospital and its applicable records in order to enable the Independent Monitor to fulfill its functions hereunder. OHCA is imposing this Condition to ensure continued access to health care services for the patient population and to verify and monitor compliance with the Conditions set forth herein. *Legal and Factual Basis: Conn. Gen. §§ Stat. 19a-486d(a), 19a-613(b), 19a-639(a)(1),(2),(4),(5),(6),(7),(11) & (12); FF 18, 34, 45-50, 57*

17. The Independent Monitor will report to both OHCA and FLIS. The Independent Monitor shall conduct on-site visits of the New Hospital on no less than a semi-annual basis to assess PMH's modified QAPI program and compliance with the Quality Assurance Commitment Letter. The Independent Monitor shall furnish a written report of his or her assessment to OHCA and FLIS within thirty (30) days of the completion of each on-site review. PMH will have the opportunity to review and provide written responses to the report. As OHCA deems necessary, the Independent Monitor shall meet with OHCA and FLIS personnel to discuss the written report and will perform additional periodic reviews and reviews of other PMH affiliated sites of service. OHCA is imposing this Condition to ensure continued access to health care services for the patient population and to verify and monitor compliance with the Conditions set forth herein. *Legal and Factual Basis: Conn. Gen. §§ Stat. 19a-486d(a), 19a-613(b), 19a-639(a)(1),(2),(4),(5),(6),(7),(11) & (12); FF 18, 34, 45-50, 57*

18. If at any time within three (3) years following the Closing Date, the New Hospital's Local Board agrees with PMH to change any of GWHN's Post Closing Quality Practices described in the Quality Assurance Commitment Letter other than to make any changes necessary to address (i) an immediate issue of patient safety; (ii) changes in federal, state, and local laws; or (iii) as mandated or recommended in guidance by a governmental agency, PMH shall notify OHCA and FLIS in writing within thirty (30) days of any such change going into effect. If the Independent Monitor disagrees with the change, OHCA may require that a request for modification be submitted and approved as required by C.G.S. §4-18la to make the change. OHCA is imposing this Condition to ensure continued access to health care services for the patient population and to verify and monitor compliance with the Conditions set forth herein. *Legal and Factual Basis: Stat. §§ 19a-486d, 19a-613(b), 19a-639(a)(1),(2),(5) & (6); FF 57*

19. For three (3) years following the Closing Date, PMH shall hold a meeting of the New Hospital Board and the Local Board ("Joint Board Meetings") at least twice annually. Such Joint Board Meetings shall be followed by a meeting to which the public is invited in advance and at which the public is informed of the New Hospital's activities and afforded an opportunity to ask questions and make comments. OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Stat. §§ 19a-486d, 19a-613(b), 19a-639(a)(2),(3),(5),(7),(8),(11) & (12); FF 38, 39*

20. For three (3) years following the Closing Date, PMH shall allow for one (1) community representative to serve as a voting member of the Local Board with rights and obligations consistent with other voting members under the Local Board Bylaws. The community representative shall be selected in consultation with the Mayor of Waterbury in order to ensure the appointment of an unbiased person who will fairly represent the interests of the community served by the Hospital. OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Stat. §§ 19a-486d, 19a-613(b), 19a-639(a)(2),(3),(5),(7),(8),(11) & (12); FF 38, 39*

21. PMH, New GWHN and the New Hospital shall abide by all requirements of licensure that may be imposed by FLIS in any Pre-Licensing Consent Order or similar agreement that FLIS may enter with these parties. OHCA is imposing this Condition to ensure that quality health care services are provided to the patient population. *Legal and Factual Basis: Stat. §§ 19a-486d, 19a-490, 19a-493, 19a-639(a)(1),(2),(5) & (6); FF 54, 57*

All of the foregoing constitutes the final order of the Office of Health Care Access in this matter.

By Order of the
Department of Public Health
Office of Health Care Access

July 15, 2016
Date

Janet M. Brancifort
Janet M. Brancifort, MPH, RRT
Deputy Commissioner

STATE OF RHODE ISLAND
OFFICE OF ATTORNEY GENERAL

June 1, 2021

DECISION

Re: 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 Office of Attorney General has considered the above-referenced application pursuant to the Hospital Conversions Act, R.I. Gen. Laws Section 23-17.14-1 *et seq*. In accordance with the reasons outlined herein, the application is **APPROVED WITH CONDITIONS**.

I. INTRODUCTION

The Office of Attorney General ("Attorney General") issues this Decision pursuant to its statutory obligation to review any proposed conversion as defined by the Hospital Conversions Act ("HCA"), R.I. Gen. Laws Section 23-17.14-1, *et seq*.

This proposed conversion involves a for-profit corporation. Therefore, the Attorney General is required to review the conversion subject to the following section of the Act:

> Any approval of a conversion involving a for-profit corporation as an acquiror shall be subject to any conditions as determined by the attorney general, provided those conditions relate to the purposes of this chapter. The conditions may include, but not be limited to, the acquiror's adherence to a minimum investment to protect the assets, financial health, and well-being of the new hospital and for community benefit.

R.I. Gen. Laws § 23-17.14-28(c).

The review conducted by the Attorney General in order to arrive at this Decision required an investigation into the current owners of a national company, Prospect Medical Holdings, Inc.

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(hereinafter, "Prospect" or "PMH").[1] PMH owns hospitals and physician services in five states, including two hospitals and related healthcare services here in Rhode Island. The Rhode Island hospitals owned by PMH are Roger Williams Medical Center ("RWMC") and Our Lady of Fatima ("OLF") (collectively referred to herein as the "Rhode Island Hospitals" or "Hospitals").[2]

Our investigation revealed a company whose principals and investors have issued millions of dollars in dividends from a business responsible for the safety-net hospitals and services they own, which has translated into debt held by the entire system, such that liabilities now exceed assets by over $1 billion. In an ever-changing healthcare market, this debt-to-asset ratio raises a concern for the Attorney General that the national company that owns these Rhode Island Hospitals can become unstable, disrupting and even threatening Rhode Island's third largest hospital system. In other words, PMH is a system that is at risk of developing a lack of financial ability to respond to the volatility of the healthcare market, putting every hospital in its system including our Rhode Island Hospitals at risk of reduction in services, sale, or closure.

The Attorney General must respond to this risk by protecting the Rhode Island Hospitals. With this Decision the Attorney General is requiring the current owners address the financial uncertainty facing RWMC and OLF by imposing Conditions that include the creation of three escrow accounts[3] that total $80 million, and will exist for the sole benefit of these Rhode Island Hospitals. The precise Conditions placed on these funds create a backstop, allowing the funds to

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[1] The reference to Prospect and PMH throughout this decision refers to Prospect Medical Holdings, Inc., Ivy Holdings Inc. ("Ivy"), and Ivy Intermediate Holdings, Inc. ("IIH"), although almost all actions are taken by Prospect Medical Holdings, as Ivy and IIH operate only as holding companies for Prospect Medical Holdings. As such, Ivy and IIH have no operations other than taking required corporate actions, and no financial activities outside of loaning funds to Prospect Medical Holdings. *See* Response to Initial Application Question 16; Supplemental Response S-24.

[2] PMH also owns a number of non-hospital healthcare entities in Rhode Island.

[3] This financial commitment is initially in the form of escrow accounts created by Prospect and Leonard Green. Prospect's escrows will be converted to letters of credit by August 15, 2021. Leonard Green will make reasonable commercial efforts to also convert its escrows to letters of credit by that same date.

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be accessed in the event PMH fails to comply with its ongoing obligation under this Decision to meet the Rhode Island Hospitals' operating expenses and capital needs, or in the event of insolvency, and then only subject to the approval of the Attorney General. In other words, these are not funds on which PMH itself can draw for the ongoing operation of these Hospitals. Instead, the funds will serve as security for the Rhode Island Hospitals—protection from the financial risk Prospect's owners have introduced into the system to which the Hospitals belong. Such funds shall be entirely out of the reach of Prospect's owners and creditors, and will be protected in the event of insolvency. The Attorney General considers this condition absolutely necessary to ensure the ongoing operation of the Hospitals and their ability to serve the health care needs of Rhode Islanders.

The fact that PMH adhered to conditions placed upon it here in Rhode Island—conditions that permitted its purchase of the Rhode Island Hospitals in 2014—does not change the fact that the decisions made by PMH and its owners at the national level now require this response. The 2014 purchase of the Rhode Island Hospitals by PMH was subject to the regulatory approval of both the Attorney General and the Rhode Island Department of Health ("DOH"), pursuant to the HCA and specifically Section 23-17.14-28. The approval of PMH's purchase was therefore subject to conditions that required PMH to make specified investments in the Rhode Island Hospitals. The Attorney General monitored PMH to assure the mandated financial conditions were satisfied. The financial conditions imposed by the regulators, compliance of which was confirmed by the Attorney General, have protected the Rhode Island Hospitals from underfunding and, specifically, the loss of assets experienced by other hospitals in the PMH system. Again, the fact that Rhode Island's regulatory oversight has succeeded in providing some degree of protection to our local Hospitals does not eliminate the need for the protective Conditions included in this Decision.

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Discrete and identifiable decisions made by PMH's owners led to its current financial condition. Details of the Transacting Parties'[4] financial decisions and resulting circumstances are described in the reports prepared by financial experts on behalf of the Attorney General and DOH, the Carris and PYA Reports, respectively.[5] These are among the materials upon which this Decision relies. Specific financial details are also discussed below in the context of relevant statutory criteria. However, these comprehensive Reports and the Attorney General's consideration of criteria as well as the Conditions to which this Approval with Conditions is subject are best understood in the context of the Transacting Parties' overall financial condition and the most significant decisions that contributed to that condition.

The Transacting Parties provided the audited financial statements (sometimes referred to as "AFS") of PMH for fiscal years ending September 30, 2015, through September 30, 2020. In 2017, Prospect's assets exceeded its liabilities by approximately $67 million. PYA Report 12. As of their most recent, Fiscal Year 2020, audited financial statement, PMH had total assets of $2,042,389,000 and total liabilities of $3,102,004,000—the latter exceeding the former by over $1 billion.[6] *Id; see* Table 1, *infra*. In Fiscal Year 2018,[7] PMH borrowed money and thereby assumed

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[4] "Transacting Parties" is defined in Section II below.

[5] The expert report filed by Redacted, CPA, ("Redacted Report") is attached to this Decision as Appendix C. The expert report filed by PYA, P.C. is attached to this Decision as Appendix D.

[6] Consideration of the effects of COVID-19 on PMH's financial condition is highly relevant. As noted by the Report of Attorney General's financial expert Redacted:

> For the year ended 9/30/20, PMH recognized approximately $117 million in Pandemic relief grant income. While PMH reported comprehensive loss of approximately $90 million for FY 2020, the loss would have been over $200 million without this programmatic support.

Redacted Report 10.

Overall, based on PMH's audited financial statements, its financial condition was improved in the short term, not worsened, by the pandemic. *See* PYA Report 19.

[7] PMH FY2018 & 2019 AFS. CIIH16-000942-001003.

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$1.12 billion in debt obligations. PYA Report at 15. Also in 2018, the PMH Board of Directors authorized $457 million of these borrowed funds to be distributed as dividends ("2018 Dividend"). *Id*. This type of transaction where money is borrowed to pay shareholders is called a leveraged dividend recapitalization. The primary beneficiaries of the dividend were Leonard Green, David Topper, and Sam Lee. In the immediate term, the 2018 Dividend was equal to approximately 60 days of operating expenses, leaving PMH cash and cash equivalents equal to approximately 1 day of operating expenses. *Id*. As noted in the Redacted Report, "the 2018 [leveraged dividend recapitalization] transaction substantially weakened the balance sheet of PMH, benefitting the shareholders while providing minimal or no funds to any of the local operating entities." Redacted Report 2-3.

In 2019, PMH increased its liabilities by selling certain of its hospital real estate assets in California, Connecticut, and Pennsylvania, and then leasing them back.[8] *Id.* at 9. Proceeds from this "sale/lease-back" transaction were used to pay debt assumed in 2018. PYA Report 15. Also in 2019, PMH entered into a promissory note (the "TRS" note) and received approximately $113 million. *Id.* at 11. According to the terms of that note, if it matured without being paid or renegotiated, the Rhode Island Hospitals would have been subject to a sale/lease-back.[9] *Id.*

Since 2019, PMH has assumed additional debt that is significant to the review by and Decision of the Attorney General. Specifically, PMH received approximately $276 million in federal funds under the CARES Act as advances on Medicare reimbursement, which will be recouped by the federal government from Medicare reimbursements due to the hospitals under the

[8] PMH FY2018 & 2019 AFS. CIIH16-000942-001003.

[9] The Conditions place upon this Approval have eliminated sale of the Rhode Island Hospitals as a means of satisfying this Note for at least the next five (5) years. In any event, such a transaction would constitute a conversion and could not proceed unless approved by the Attorney General. *See* R.I. Gen. Laws § 23-17.14-4(6).

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Centers for Medicare and Medicaid Services ("CMS"), under CMS's Accelerated and Advance Payment Program or Medicare Advance Payment Program (the "MAAP Program"). *Id.* at 16. $27.5 million of these "MAAP" funds are due to be recouped from the Rhode Island Hospitals. *Id.* at 9.

Both financial experts who evaluated the Proposed Transaction[10] for the State of Rhode Island, Redacted for the Attorney General and PYA for DOH, discuss PMH's financial decisions dating back to 2018 as relevant to Prospect's current financial status. PYA concludes: "These patterns in operational performance and recapitalization are relevant because PMH has somewhat limited ability, in the form of current liquidity especially after recoupment of MAAP funds, to weather additional or continued financial challenges. *Id.* at 16, *see also* Redacted Report 11-12.

This Decision is also based on a review of decisions by the relevant boards of directors, in light of the multiple board-specific criteria set forth in the HCA. The Attorney General notes a theme of transparency in these criteria. That is, the HCA criteria direct a probing of conversion-related decisions that should provide the opportunity to test assumptions and expectations that will ultimately come to roost on the involved Rhode Island Hospitals. Here, the Transacting Parties employed no objective criteria, no outside or independent consultants, and no discernible analyses in the process of deciding upon the transaction we review. These decisions by the Transacting Parties are concerning to the Attorney General and further support conditions which will protect the Rhode Island Hospitals going forward.

Finally, and again in accord with the Attorney General's statutory duties under the HCA, the character, competence, commitment, and standing in the community of the Transacting Parties

[10] "Proposed Transaction" is defined in Section II below.

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was reviewed. For this purpose, the Attorney General took into account the matters discussed above as well as reports from people 'on the ground' at these hospitals. The Transacting Parties financial decisions and choices remain a decisive factor, revealing as they do a focus on wealth that puts at risk the well-being of institutions and people who communities in five states rely upon for care, often (as is the case with healthcare) at the time of greatest need. These 'character' criteria likewise informed the Conditions which the Attorney General imposes in this Decision.

Approval of a transaction that permits a 60% owner to exit a system of safety-net hospitals, when that system includes two key healthcare institutions in our State, gives this Attorney General great pause when that owner has realized hundreds of millions of dollars and would leave behind a system that is highly leveraged, that is, where liabilities greatly exceed assets. However, to permit that owner to remain would, in effect, maintain the status quo and would in no way protect these Rhode Island Hospitals in the long term nor "[a]ssure the viability of a safe, accessible and affordable healthcare system that is available to all of the citizens of the state." R.I. Gen. Laws §23-17.14-3(1). And it is that purpose the Attorney General is directed to pursue. Therefore, the Attorney General has concluded that the transaction can proceed only if the following Conditions are met – conditions imposed to assure financially secure, continually operating, and better governed healthcare institutions here in Rhode Island, subject to effective monitoring to the full extent of the Attorney General's statutory authority.

For reasons set forth more fully herein, the Attorney General is issuing a DECISION TO APPROVE WITH CONDITIONS, which Conditions include (but are not limited to) requirements that Prospect and Leonard Green: (1) immediately set aside $80 million in either escrow or letter of credit for the sole benefit of the Rhode Island Hospitals, payable at closing, which funds can only be accessed if PMH fails to comply with Conditions requiring payment of operating losses

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and capital expenditures, or in the event of insolvency; (2) pay all operating losses over the next five (5) years; (3) invest $72 million in capital expenditures through the end of fiscal year 2026 based on the schedule set forth in the Conditions below (at a minimum of $10 million each year); (4) forego any management fees; (5) amend the TRS Note to extend its maturity date and remove the sale/leaseback option for the Rhode Island Hospitals during such an extension, and thereafter only with the approval of the Attorney General; (6) assume payment of the MAAP and PACE liabilities of the Rhode Island Hospitals; (7) maintain essential health services throughout the PCC System; (8) take actions to reform Board practices and constitute the local Board with community members; and (9) provide monitoring and reporting to the Attorney General to ensure oversight and compliance with all Conditions.

II. BACKGROUND

A review under the Hospital Conversions Act begins with the filing of an initial application with the Attorney General and DOH. The parties filed their initial application ("Initial Application") with the Attorney General on December 13, 2019 (resubmitted on February 4, 2020). The parties (collectively, "Transacting Parties") to the Initial Application are identified below:

- **Chamber Inc.** ("Chamber") is a Delaware corporation. Chamber is a newly formed entity that will become the parent of IIH after the close of the Proposed Transaction. The two shareholders of Chamber will be Samuel Lee ("Lee") and David Topper, through his family trust, ("Topper").

- **Ivy Holdings Inc.** ("Ivy") is a Delaware corporation and the current parent of IIH and will remain the parent of IIH after the close of the Proposed Transaction. Ivy current shareholders are Green Equity Investors V, L.P. Green Equity Investor Side V, L.P. (together, "Leonard Green"), Lee, Topper, and less than 10% minority shareholders.

- **Ivy Intermediate Holding Inc.** ("IIH") is a Delaware corporation and the current parent of PMH and will remain the parent of PMH after the close of the Proposed Transaction.

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care entities and manages the provision of health care service for managed care enrollees through its network of specialists and primary care physicians.

- **Prospect East Holdings, Inc.** ("Prospect East") a Delaware corporation which is a wholly-owned subsidiary of PMH. Prospect East holds PMH's interest in Prospect CharterCARE, LLC.

- **Prospect East Hospital Advisory Services, LLC** ("Prospect Advisory"), a Delaware limited liability company, which is a wholly-owned subsidiary of PMH. Prospect Advisory oversees and assists in the management of the day-to-day operations of Prospect CharterCARE, LLC.

- **Prospect CharterCARE, LLC**, ("PCC or Prospect CharterCARE") a Rhode Island limited liability company, which will own the entities that own and operate and hold licensure for the hospitals, RWMC and OLF. Prospect CharterCARE, LLC is currently owned 85% by Prospect East and 15% by CharterCARE Community Board ("CCCB"), however, a buy-out of CCCB's interest by PCC is contemplated as more fully described below.

- **Prospect CharterCARE RWMC, LLC** ("RWMC"), is a Rhode Island limited liability company, which owns and hold the licensure for Roger Williams Medical Center. RWMC is wholly-owned by Prospect CharterCARE, LLC. RWMC is a 220-bed acute care, community hospital located in Providence, Rhode Island.

- **Prospect CharterCARE SJHSRI, LLC** ("OLF") is a Rhode Island limited liability company, which owns and holds the licensure for Our Lady of Fatima Hospital. Fatima is wholly-owned by Prospect CharterCARE, LLC. Fatima is a 278-bed acute care, community hospital located in North Providence, Rhode Island.

See Response to Initial Application Question 1, Tab 6 and Appendix A (Organizational Charts pre- and post-transaction).

In its simplest form, the structure of the transaction outlined in the Initial Application (the "Proposed Transaction") is a buy-out of Leonard Green and the minority shareholders (approximately 60% the company) by Lee and Topper (the current approximately 40% owner) for a total of $11,940,992.00 for their shares. *See* Appendices A & B.

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III. REVIEW CRITERIA

The Attorney General has the statutory duty and authority under the Hospital Conversions Act, R.I. Gen. Laws § 23-17.14-1, *et seq.* to:

- Review a conversion as defined by the HCA and as proposed by the Transacting Parties; and
- Issue a Decision that shall
- Approve, Disapprove, or Approve with Conditions.

The application of this statutory duty and authority in the context of this for-profit conversion directs a review pursuant to an established process, *see id.* § 23-17.14-28(c), and § 23-17.14-3, and a development of Conditions that relate to the purpose of the HCA, *see id.* § 23-17.14-28(c), as discussed below.

The HCA states that "[a]ny approval of a conversion involving a for-profit corporation as an acquiror shall be subject to any conditions as determined by the attorney general, provided those conditions relate to the purpose of this chapter." *Id.* § 23-17.14-28(c). The statute also says that these conditions "may include, but not be limited to, the acquiror's adherence to a minimum investment to protect the assets, financial health, and well-being of the new hospital and for community benefit." *Id.*

The conversion currently under review involves a "for-profit corporation as an acquiror," namely, Chamber Inc. Hospital Conversion Application 1, *see id.* § 23-17.14-4(2) ("'Acquiror' means the person or persons which gain(s) an ownership or control in the new hospital as a result of a conversion . . . ."). According to Section 23-17.14-28(c), this conversion is therefore "subject to any conditions as determined by the attorney general, provided those conditions relate to the purpose of this chapter." The purpose of the HCA is, *inter alia*, to:

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> (1) Assure the viability of a safe, accessible and affordable healthcare system that is available to all of the citizens of the state;
>
> (2) To establish a process to review whether for-profit hospitals will maintain, enhance, or disrupt the delivery of healthcare in the state and to monitor hospital performance to assure that standards for community benefits continue to be met;
>
> (3) To establish a review process and criteria for review of hospital conversions . . . .

Id. § 23-17.14-3.

This purpose has, as required by Section 23-17.14-28(c), guided the Attorney General's review of the Proposed Transaction. To ensure that the conditions the Attorney General imposes on its approval of this conversion "relate to the purpose of [the HCA]," the Attorney General has reviewed the entire record using the criteria found in the HCA that pertain to for-profit hospitals. These criteria are located at R.I. Gen. Laws Section 23-17.14-7(c), specifically its subsections (3)–(9), (11)–(18), (20)–(25), and (27)–(30).[11] They are:

> (3) Whether the board established appropriate criteria in deciding to pursue a conversion in relation to carrying out its mission and purposes;
>
> (4) Whether the board formulated and issued appropriate requests for proposals in pursuing a conversion;
>
> (5) Whether the board considered the proposed conversion as the only alternative or as the best alternative in carrying out its mission and purposes;
>
> (6) Whether any conflict of interest exists concerning the proposed conversion relative to members of the board, officers, directors, senior management, experts or consultants engaged in connection with the proposed conversion including, but not limited to, attorneys, accountants, investment bankers, actuaries, health care experts, or industry analysts;
>
> (7) Whether individuals described in subdivision (c)(6) were provided with contracts or consulting agreements or arrangements which included pecuniary

[11] Subsections (1), (2), (10), (19), and (26) regard charitable assets and other concerns related to non-profits. Because all Transacting Parties are for-profit entities and do not maintain charitable assets, these conditions were not applicable to the Attorney General's review. These criteria are included in Section 7 to apply in the event a for-profit entity purchases a non-profit hospital, which is not the case here.

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rewards based in whole, or in part on the contingency of the completion of the conversion;

(8) Whether the board exercised due care in engaging consultants with the appropriate level of independence, education, and experience in similar conversions;

(9) Whether the board exercised due care in accepting assumptions and conclusions provided by consultants engaged to assist in the proposed conversion;

…

(11) Whether the board exposed an inappropriate amount of assets by accepting in exchange for the proposed conversion future or contingent value based upon success of the new hospital;

(12) Whether officers, directors, board members or senior management will receive future contracts in existing, new, or affiliated hospital or foundations;

(13) Whether any members of the board will retain any authority in the new hospital;

(14) Whether the board accepted fair consideration and value for any management contracts made part of the proposed conversion;

(15) Whether individual officers, directors, board members or senior management engaged legal counsel to consider their individual rights or duties in acting in their capacity as a fiduciary in connection with the proposed conversion;

(16) Whether the proposed conversion results in an abandonment of the original purposes of the existing hospital or whether a resulting entity will depart from the traditional purposes and mission of the existing hospital such that a cy pres proceeding would be necessary;

(17) Whether the proposed conversion contemplates the appropriate and reasonable fair market value;

(18) Whether the proposed conversion was based upon appropriate valuation methods including, but not limited to, market approach, third party report or fairness opinion;

…

(20) Whether the conversion is proper under applicable state tax code provisions;

(21) Whether the proposed conversion jeopardizes the tax status of the existing hospital;

(22) Whether the individuals who represented the existing hospital in negotiations avoided conflicts of interest;

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(23) Whether officers, board members, directors, or senior management deliberately acted or failed to act in a manner that impacted negatively on the value or purchase price;

(24) Whether the formula used in determining the value of the existing hospital was appropriate and reasonable which may include, but not be limited to factors such as: the multiple factor applied to the "EBITDA" – earnings before interest, taxes, depreciation, and amortization; the time period of the evaluation; price/earnings multiples; the projected efficiency differences between the existing hospital and the new hospital; and the historic value of any tax exemptions granted to the existing hospital;

(25) Whether the proposed conversion appropriately provides for the disposition of proceeds of the conversion that may include, but not be limited to:

(i) Whether an existing entity or a new entity will receive the proceeds;

(ii) Whether appropriate tax status implications of the entity receiving the proceeds have been considered;

(iii) Whether the mission statement and program agenda will be or should be closely related with the purposes of the mission of the existing hospital;

(iv) Whether any conflicts of interest arise in the proposed handling of the conversion's proceeds;

(v) Whether the bylaws and articles of incorporation have been prepared for the new entity;

(vi) Whether the board of any new or continuing entity will be independent from the new hospital;

(vii) Whether the method for selecting board members, staff, and consultants is appropriate;

(viii) Whether the board will comprise an appropriate number of individuals with experience in pertinent areas such as foundations, health care, business, labor, community programs, financial management, legal, accounting, grant making, and public members representing diverse ethnic populations and the interests of the affected community; and

(ix) Whether the size of the board and proposed length of board terms are sufficient;

…

(27) Whether a right of first refusal to repurchase the assets has been retained;

(28) Whether the character, commitment, competence and standing in the community, or any other communities served by the transacting parties are satisfactory;

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(29) Whether a control premium is an appropriate component of the proposed conversion; and

(30) Whether the value of assets factored in the conversion is based on past performance or future potential performance.

An application of these criteria to this conversion was also necessary to the Attorney General's identification of those facts in the record material to the Attorney General's statutory mandate to "subject [this conversion] to any conditions [that] . . . relate to the purpose of this chapter." *Id.* § 23-17.14-28(c). That is to say, the identified criteria provided the Attorney General the requisite lens with which to view the record, assuring that all the Conditions imposed herein relate to the HCA's purpose, as required by Section 23-17.14-28(c).

The Attorney General's authority under the HCA includes the authority to "adopt rules and regulations to accomplish the purpose of this chapter." R.I. Gen. Laws § 23-17.14-32. This authority is relevant to the Attorney General's construction of the HCA provisions discussed above and elsewhere in this Decision. The construction of various HCA provisions is also provided with an awareness that Rhode Island law "accord[s] great deference to an agency's interpretation of its rules and regulations and its governing statutes, provided that the agency's construction is neither clearly erroneous nor unauthorized." *Endoscopy Assocs., Inc. v. R.I. Dep't of Health*, 183 A.3d 528, 533 (R.I. 2018).[12]

IV. RECORD

The record the Attorney General reviewed and considered in rendering this Decision includes the Transacting Parties' Initial Application; supplemental responses and information

[12] As the seat of the Office of Health Care Advocate, the Attorney General also has the power "[t]o take all necessary and appropriate action . . . to secure and insure compliance with the provisions of title[] 23," which includes the HCA. *Id.* § 42-9.1-2(a)(5).

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provided thereto; and relevant, publicly available information. Also included in the record are the statements under oath taken by the Attorney General and DOH of the following individuals:

Prospect CharterCARE

1. [redacted] CEO of Prospect CharterCARE
2. [redacted], CFO of Prospect CharterCARE
3. [redacted], Vice President of Finance Operations, Prospect CharterCARE
4. [redacted] RN, Chief Nursing Officer - OLF
5. [redacted], DNP, RN, CENP, NEA-BC, Chief Nursing Officer - RWMC
6. [redacted] Prospect CharterCARE - former PCC Category A board member
7. [redacted] Esq., Prospect CharterCARE -former PCC Category A board member
8. [redacted] MD, Prospect CharterCARE former PCC Category A board member
9. [redacted], Prospect CharterCARE - former PCC Category A board member

Prospect Medical Holdings[13]

10. Samuel Lee, CEO of Prospect Medical Holdings
11. David Topper, Senior Vice President, Prospect Medical Holdings
12. Mark Johnson, CFO of Prospect Medical Holdings
13. George Pillari, Senior Vice President of Integration and Operations of Prospect Medical Holdings

Leonard Green

14. Alyse Wagner, Partner, Leonard Green
15. John Baumer, Partner, Leonard Green

United Nurses & Allied Professionals ("UNAP")

16. Redacted General Counsel, UNAP

The record, moreover, includes comments submitted during the public informational meeting required by the HCA. *See* R.I. Gen. Laws § 23-17.14-7(b)(3)(iv). A public notice was published regarding this informational meeting, as well as a solicitation of written comments

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regarding the Proposed Transaction. The Attorney General and DOH jointly held this meeting, virtually via Zoom, on December 10, 2020, from 5 p.m. to 7 p.m.[14] At the beginning of the session, the Transacting Parties were provided an opportunity to give a presentation regarding the Proposed Transaction; afterwards, public comment was taken. Over the course of the meeting, 17 speakers provided public comment.

V. PROCEDURAL HISTORY

Hospital conversions involving RWMC and OLF have been approved by the Attorney General twice before. In 2009, RWMC and OLF (St. Joseph Health System of Rhode Island at the time) affiliated through the creation of CharterCARE Health Partners ("CCHP"). See Attorney General HCA Decision dated October 28, 2009 ("2009 Decision"). Both hospitals were suffering losses at the time, and the purpose of the affiliation was to stem those losses through efficiencies in a combined system. *Id.* at 15-16. The affiliation was approved, with conditions, by Attorney General Patrick Lynch in 2009. *Id.*

Despite the efficiencies achieved through the CCHP affiliation, the system was still struggling with significant operating losses, aging plants, and capital needs. *See* Attorney General HCA Decision dated May 16, 2014 at 7 ("2014 Decision"). In 2011, CCHP began looking for a partner. *Id.* at 9. Ultimately, CCHP selected PMH and contemplated a joint venture whereby PMH owned 85% and CCHP owned 15% of the newly-formed joint venture, called Prospect CharterCARE. *Id.* at 3. The governing structure of the new entity was split equally—50% of the PCC board is appointed by PMH's ownership interest and 50% is appointed by CCHP's ownership interest. *Id.* Importantly, this transaction contemplated a $50 million long-term

[14]The meeting took place virtually because, at the time, CDC Guidelines did not allow for in-person meetings, on account of the COVID-19 pandemic.

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capital commitment[15] to be funded directly by PMH and an annual $10 million routine commitment by PCC. *Id.* at 21. The joint venture was approved, with conditions, by Attorney General Peter F. Kilmartin in 2014. *Id.*

Prospect CharterCARE operates two hospitals in Rhode Island, RWMC and OLF. Prospect CharterCARE also operates a number of other non-hospital healthcare facilities in Rhode Island. Prospect, the ultimate parent company to the 85% owner of PCC, operates 17 hospitals in 5 states, as well as many non-hospital healthcare facilities. Prospect was formed in 1996 and started with hospitals in California. Since 2014, Prospect has expanded outside of California to Rhode Island, Connecticut, Pennsylvania, Texas, and New Jersey.[16]

In the years following the 2014 transaction, the Attorney General monitored compliance with the conditions by Prospect, CCHP, and the CharterCARE Foundation through an independent monitor, Affiliated Monitors Inc. ("AMI"). Overall, AMI found that Prospect was compliant. *See* AMI First Report on Compliance by Prospect CharterCARE, CharterCARE Community Board, and CharterCARE Foundation with Conditions of Certification Pertaining to the Acquisition of Roger Williams Medical Center, St. Joseph Health Services of Rhode Island, Our Lady of Fatima Hospital and Other Entities dated December 20, 2018 ("AMI First Report"); AMI Second Interim Report on Compliance by Prospect CharterCARE, CharterCARE Community Board, and CharterCARE Foundation with Conditions of Certification Pertaining to the Acquisition of Roger Williams Medical Center, St. Joseph Health Services of Rhode Island, Our Lady of Fatima Hospital and Other Entities dated March 20, 2020 ("AMI Second Report"); AMI Final Report on Compli-

[15] This amount was later increased to approximately $62 million after the sale of Elmhurst Rehab & Healthcare Center and some of smaller properties. A more complete explanation of this matter is provided in AMI's Final Report on Compliance dated December 23, 2020.

[16] Prospect has since closed the hospitals in Texas and is in the process of selling the New Jersey hospital.

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ance by Prospect CharterCARE, CharterCARE Community Board, and CharterCARE Foundation with Conditions of Certification Pertaining to the Acquisition of Roger Williams Medical Center, St. Joseph Health Services of Rhode Island, Our Lady of Fatima Hospital and Other Entities dated December 23, 2020 ("AMI Final Report"). However, it was often difficult to timely receive information, and AMI noted "the entity did not seem to be focused on collecting and organizing the information necessary to demonstrate its compliance with the conditions set forth in the HCA Decision until pressed by the Attorney General." *See* AMI Second Report at 26. Late last year, AMI concluded its monitoring of Prospect's financial commitments and found that overall Prospect had spent $63,815,932.22 on long-term capital expenditures and PCC had spent $51,398,707.77 during the four-year monitoring period for routine expenses. *See* AMI Final Report at 35.

However, through this review, the Attorney General discovered that RWMC and OLF subsequently entered into Property Assessed Clean Energy ("PACE")[17] financing agreements totaling approximately $60 million. The financing attaches to the respective property as a tax lien—essentially an encumbrance on the property. The PACE financing funds completed in-flight and new projects. [redacted]. Ison SUO 110:18-111:6, March 15, 2021. This is problematic, as loans taken out by PMH remain as liens on the Rhode Island Hospitals, a matter addressed by the Conditions imposed by this Decision.

Another issue that emerged in the first years after the 2014 transaction was the St. Joseph Health System's pension liability. This pension liability was a looming concern for CCHP when it pursued a partner in 2011. *See* 2014 Decision at 9. In 2017, the severely underfunded St. Joseph's

[17] The PACE program provides financing for clean and renewable energy improvements.

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pension went into receivership. *See St. Joseph Health Services of Rhode Island, Inc. v. St. Josephs Health Services of Rhode Island Retirement Plan, as amended,* PC-2017-3865 (R.I Super. Ct 2017). While the pension was not assumed by Prospect as part of the PCC joint venture, litigation ensued with a number of claims—including fraud and misrepresentation—asserted against PMH, Leonard Green, and others regarding the handling of the pension. Ultimately, a settlement was reached, after years of contentious litigation. PMH agreed to a payment of $27,250,000 with no admission of liability.

In the fall of 2019, the Attorney General was notified of the Proposed Transaction, which is described as a buy-out of the private equity investor, Leonard Green & Partners ("Leonard Green"). Initial Application Response to Question 1. The ultimate parent company, Ivy Holdings Inc., would undergo a change of ownership. Ivy is a holding company that owns PMH. Approximately 60% of Ivy is currently owned by Leonard Green and most of the remaining, approximately 40%, is currently owned by the CEO of PMH, Sam Lee, and another its executives, David Topper. The Proposed Transaction consists of Lee and Topper creating a new entity, Chamber Inc., that will take full control of Ivy, PMH, and, by extension, RWMC and OLF. In other words, Lee and Topper will come to own 100% of Ivy and PMH by buying out Leonard Green's share for approximately $12 million. *Id.*

Leonard Green initially invested in PMH in 2010 in a "going private" transaction by purchasing a majority of PMH's then-publicly traded shares for approximately $150 million and assuming PMH's liabilities (although Leonard Green never paid those liabilities). *See* Supplemental Response S5-3; *see also* Baumer SUO I 102:5-11, February 9, 2021. Since then, Leonard Green has held a majority of the board seats on Prospect and Ivy—[redacted]. *See* Wagner SUO I 26:25-27:5; 28:2-4, February 8,

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2021; Baumer SUO I 35:19-36:14. The impetus for the Proposed Transaction is that the Leonard Green wants to divest its investment in Prospect. *See* Wagner I 88:10–25; *id.* at 89:25–90:10. This investment has had a significant return: in 2018 alone, Prospect shareholders received $457 million in dividends, most of which went to Leonard Green. Baumer SUO I at 93:7–17.

An Initial Application was submitted by the Transacting Parties on December 13, 2019 and resubmitted on February 4, 2020. On March 4, 2020, the Attorney General informed the Transacting Parties that there were deficiencies to the Initial Application and requested additional information. On March 25, 2020, the Attorney General received a letter addressing the deficiencies within the Initial Application. Thereafter, on April 8, 2020, the Attorney General and DOH issued the Transacting Parties a notice of completeness letter, starting the 120-day review process. During the review, 7 sets of Supplemental Questions consisting of 279 questions were sent to and responded to by the Transacting Parties.

Three months into the initial 120-days, it became clear to both the Attorney General and DOH that this review would not be complete—healthcare was changing as a result of the COVID-19 global pandemic, the parties had delayed providing relevant information, and there were still many unanswered questions related to the purchase price and other impacts of the Proposed Transaction. *See* Joint Attorney General & DOH Letter to Transacting Parties dated July 3, 2020. On July 3, 2020, the Attorney General and DOH notified the Transacting Parties that the decision deadline would be extended by 90 days. *Id.* As the months unfolded, it became clear to the Attorney General and DOH that they would need additional time to complete a thorough review of the Proposed Transaction, so they notified the Transacting Parties on October 20, 2020 that the decision deadline would be extended to January 29, 2021. *See* Joint Attorney General & DOH Letter to Transacting Parties dated October 20, 2020. On January 18, 2021, the Attorney General

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and DOH again informed the Transacting Parties that the deadline would need to be extended and no new date was provided. *See* Joint Attorney General & DOH Letter to Transacting Parties dated January 18, 2021. This extra time was necessary to complete a thorough and robust review of the Proposed Transaction.

VI. DISCUSSION

As outlined above, the review criteria contained in the Hospital Conversions Act applicable to the Proposed Transaction are found at R.I. Gen. Laws Section 23-17.14-7(c). For organizational purposes we have addressed them grouped by topic below.

A. FINANCIAL CRITERIA

The following section discusses the financial criteria and conditions applicable to the HCA conversion under review.

The first group of these concern the value of the proposed transaction, *see* R.I Gen. Laws § 23-17.14-7 (c)(17), (18), (24); the second group consider the Transacting Parties' financial decisions and how those decisions affected both the Proposed Transaction's value, *see id.* § 23-17.14-7 (c)(23), as well as the Attorney General's decision to impose financial Conditions on its approval of the Proposed Transaction, *see id.* § 23-17.14-28(c). As with the other criteria discussed in this Decision, the Attorney General addresses these criteria and conditions upon consideration of the entire record before it.

1. Value of the Transaction

As it reviewed the Proposed Transaction, the Attorney General considered whether its value is one that is fair and that has been reasonably derived. In particular, R.I Gen. Laws Sections 23-17.14-7 (c)(17), (18), and (24) ask the Attorney General to consider the following:

> (17) Whether the proposed conversion contemplates the appropriate and reasonable fair market value;

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> (18) Whether the proposed conversion was based upon appropriate valuation methods including, but not limited to, market approach, third-party report, or fairness opinion;
>
> (24) Whether the formula used in determining the value of the existing hospital was appropriate and reasonable . . . .

The Attorney General considers these criteria to set an expectation that the value of a proposed conversion will be capable of objective review by a regulator through examination of valuation methods, outside opinions, and valuation formulas. It is important to note at the outset that no objective valuation methods were used by the Transacting Parties. *See* Response to Initial Application Question 23.

The Proposed Transaction contemplates Lee and Topper (through his family trust) buying out Leonard Green's current ~60% stake in PMH's holding company, Ivy Holdings Inc., as well as that of various minority shareholders'. Response to Initial Application Questions 1–2; Redacted Report 1–2; PYA Report 22. Lee and Topper plan to pay Leonard Green and the other shareholders a total of $11,940,992.00 for their shares.[18] Response to Initial Application Question 1. But rather than use their own money to facilitate the transaction, Lee and Topper anticipate taking the $11.9 million out of PMH to secure the buyout. Redacted Report 1–2. In addition to the cash consideration, Leonard Green will benefit from the Proposed Transaction by being relieved of its responsibility for PMH's approximately $3.1 billion in current liabilities. PYA Report 18.

The valuation of the Proposed Transaction's concerns the Attorney General for many reasons, the first of which is the source of its $11.9 million capital cost. The Transacting Parties' testimony on this point evinced a willingness to conflate PMH's assets with the individual assets

[18] Pursuant to Condition 1, "$10,000,000 payable to Leonard Green pursuant to the Merger Agreement shall be contributed by Leonard Green to the funding of the Escrow Accounts set forth in Condition 6."

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of Lee and Topper. The protection and treatment of assets of a safety-net hospital system should be viewed differently from an individual's own wealth.[19] [redacted]." Topper SUO 158:14–15, Dec. 16, 2020. [redacted]." Lee SUO I 124:6–7, Feb. 25, 2021. From Leonard Green's perspective, [redacted] Baumer SUO I 126:25–14. [redacted] Wagner SUO I 171:2–9, Feb. 8, 2021. Such testimony reveals a troubling perspective held by the Transacting Parties and Leonard Green, namely, that no difference exists between the money belonging to a company that operates over a dozen safety-net hospitals and the money located in the personal bank accounts and investment vehicles of Lee and Topper.

Moving to "[w]hether the proposed conversion contemplates the appropriate and reasonable fair market value," R.I Gen. Laws § 23-17.14-7 (c)(17), the Attorney General notes that the $11.9 million price for approximately 60% of PMH is a startingly low sum for a company owning 17 hospitals in 5 states—especially considering that Leonard Green's portion of these shares sold for approximately $150 million in 2010. *See* Baumer SUO I 101:15-102:11. If credited, this marks a 92% loss in PMH's value in just over a decade, and indicates that PMH is now worth, in total, around just $20 million. Redacted Report 2. Such a precipitous drop is at least in part a function of the debt burden Leonard Green and Lee participated in placing on PMH in 2018 to pay a $457 million dividend benefiting themselves and other shareholders. *See* Lee SUO I 120:11–19. But

[19] Noteworthy is the fact that neither Lee nor Topper consider the company's $3 billion in liabilities as their individual obligation.

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even with PMH's significant debt, there are indications that the company is worth more than its principals acknowledge; in November 2019, the chief executive at another healthcare company, Prime Healthcare Services ("Prime"), offered $50 million for PMH. *See, e.g.*, Howard Fine, *Prospect Fights Hostile Offer*, L.A. Bus. J., Dec. 6, 2019, https://labusinessjournal.com/news/2019/dec/06/prospect-fights-hostile-offer/. [redacted] Lee SUO I 118:2-13.

Aside from comments regarding Prime's offer, the Transacting Parties have provided the Attorney General nothing to substantiate the $11.9 million capital cost. Response to Initial Application Question 23 ("[N]o reports were prepared in connection with the negotiations and ultimate execution of the transaction agreement."); *see* Redacted Report 2 ("[W]e have no way of determining if the $12 million acquisition price is fair and reasonable."). They failed to subject the sale to the valuation methods mentioned Section 23-17.14-7 (c)(18), i.e., a "market approach, third-party report, or fairness opinion." *See* Lee SUO I 120:2–6 [redacted] According to Sam Lee's testimony, [redacted] Lee SUO I 118:2–13.

Rather than by the methods statutorily recognized in Section 23-17.14-7 (c)(18), $11.9 million was a number arrived at via [redacted] Pillari SUO 51:12–16; 56:23–57:1; March 22, 2021; Baumer SUO I 119:7–15. [redacted] *See* Wagner SUO I 127:6–129:7. [redacted]

[redacted] *Id.* And Wagner believes [redacted] *Id.* Leonard Green also looked to [redacted] Baumer SUO I 109:5–17. [redacted] Again, this [redacted] falls far short of the independent and objective methods contemplated by the Hospital Conversions Act.

Given the foregoing, the Attorney General determines that the HCA criteria concerning valuation have not been met. No objective measures of valuation were employed to arrive at the sale price for 60% of the company. Any claim that the Proposed Transaction "contemplates the appropriate and reasonable fair market value" of PMH is belied by [redacted] Moreover, executives at both PMH and Leonard Green indicated that neither a "market approach, third-party report, [n]or [a] fairness opinion" were undertaken to substantiate the proposed value of PMH. The Transacting Parties' insistence on evasion and mystification in response to inquiries into valuation—Baumer's testimony, for example, [redacted]," Baumer SUO 109:9–17—means the Attorney General cannot say that the Transacting Parties used "appropriate valuation methods" or that "the formula used in determining the value of [PMH] was appropriate and reasonable."

2. Further Predicates for Financial Conditions

Other of the Transacting Parties' financial decisions are relevant to the Attorney General's HCA review when viewed through the lens of the following two applicable statutory sections:

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> Whether officers, board members, directors, or senior management deliberately acted or failed to act in a manner that impacted negatively on the value or purchase price.[20]
>
> ...
>
> Any approval of a conversion involving a for-profit corporation as an acquiror shall be subject to any conditions as determined by the attorney general, provided those conditions relate to the purposes of this chapter. The conditions may include, but not be limited to, the acquiror's adherence to a minimum investment to protect the assets, financial health, and well-being of the new hospital and for community benefit.

R.I. Gen. Laws § 23-17.14-7(c)(23); 23-17.14-28(c).

a. PMH's Relationship to the Rhode Island Hospitals

Founded in 1996, PMH currently owns 17 hospitals in 5 states. These include RWMC and OLF, both of which PMH purchased in mid-2014. PMH FY2020 AFS 15; *see generally* 2014 Decision. Although intermediate entities exist between PMH and the Rhode Island Hospitals, PMH is the company to whose financial fortunes the Rhode Island Hospitals are most tethered: PMH deploys its standard practice through which [redacted] Johnson SUO 94:11–95:1, [redacted] *id.*; the Rhode Island Hospitals' [redacted] Johnson SUO 35:18–36:12; [redacted] *see id.* at 95:5–22; Lee

[20] Both Lee and Baumer admitted as much under oath: When the Attorney General asked Lee [redacted] Lee SUO I 120:11–14. And he provided the following explanation: [redacted] Lee SUO I 120:16–19. In other words, [redacted] Lee SUO I 121:14–15. Mr. Baumer [redacted] Baumer SUO I 109:23–110:6. The $457-million, debt-financed shareholder dividend and this testimony regarding same is sufficient evidence to support the Attorney General's conclusion that PMH's board "deliberately acted or failed to act in a manner that impacted negatively on the value or purchase price." R.I. Gen. Laws § 23-17.14-7(c)(23). This criterion has not been satisfied.

SUO I 141:22–142:1. *See* Topper SUO 116:23–117:4; Redacted Report 3 ("PMH manages all cash flow and determines what items will be paid and when they will be paid."). Despite its dependence on PMH, PCC's CFO testified that he has no access to and has never seen PMH's financial statements. Ragosta SUO I 31:20–32:1 Dec. 14, 2020; *see also* DiStefano SUO 96:11–18, Nov. 9, 2020 ("I have never seen a financial statement from [PMH], at least not maybe since 2014.").

This difference PMH has had to make up between the Rhode Island Hospitals' revenue and expenses has not been insignificant: Between Fiscal Year 2015 and Fiscal Year 2019, the cumulative loss experienced by RWMC was $16.6 million. Redacted Report 5. That number for OLF was $8.7 million. *Id.* at 3. RWMC and OLF's local parent company, PCC, has run even further in the red, having lost a cumulative $88.2 million from Fiscal Year 2015 to Fiscal Year 2020. *Id.* at 6. These deficits are why auditors for RWMC, OLF, and PCC have repeatedly stated that they are "financially dependent on [their] parent company." *Id.* 4, 5–7 ("[PCC]" is not substantially viable without support from PMH."); *see* PCC FY2020 AFS ("As of September 30, 2020, the Company had a receivable of approximately $32 million due from PMH and its subsidiaries . . . and the Company is dependent on this receivable settling in order to maintain its current liquidity."). The average annual amount that PMH has contributed to the Rhode Island Hospitals over and above what the Rhode Island Hospitals themselves earned in revenue is $14.7 million.[21] There seem to be no signs that this need will soon abate: PCC's vice president of finance operations, Daniel Ison, testified [redacted] Ison SUO 175:20–176:22.

[21] This total number includes a management fee with a yearly average of $6,977,000. *See* PCC FY2015-2020 AFS. The Attorney General has made it a Condition of this transaction that the management fee be discontinued, which is consistent with the stated plans of the Transacting Parties.

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Whether PMH will continue to subsidize PCC and its Rhode Island Hospitals is a major concern. Topper's testimony on this point was less than reassuring: [redacted] In his words, [redacted] Topper SUO 95:4-16; 103:10-18, 104:22-105:10; 140:25-141:8. Asked, [redacted] Topper answered, [redacted] 103:10-15.[22]

Prospect has made such "hard choices" with respect to other hospital systems it owns. In 2019 and 2020 PMH shuttered Nix Health System in Texas. PMH is currently trying to sell its East Orange General Hospital in New Jersey because [redacted] Topper SUO 104:12–105:10.

The Attorney General asked Topper about his financial commitment to PMH's Rhode Island hospitals in particular. [redacted] Topper SUO 141:5–7. The Attorney General is concerned that the continued financial struggles at PMH's Rhode Island Hospitals—described above and documented in the expert reports—will soon cause PMH to view them as no longer "an investment that is worthwhile." *See* Johnson SUO 146:2–7 Feb. 11, 2021 [redacted] Lee SUO I 83:15–18 [redacted]; Topper SUO 135:15–17 [redacted]

[22] As with other financial conclusions reached by Lee and Topper, most notably the purchase price of ~60% of the company's shares, no objective analyses or benchmarks appear to be relied upon to define the [redacted]

[redacted] The Attorney General is also concerned that without long-term financial planning—PMH's CFO [redacted] Johnson SUO 142:15–143:8—PMH will be left without a turnaround strategy if and when the light starts (or continues) flickering in Rhode Island.

PYA wonders too that "if PCC operations do not improve to a point where they are contributing to the profitability and/or growth of PMH, it remains unclear whether the new board of IH and PMH would continue funding those portfolio investments." PYA Report 19. Of further concern is a situation where the only thing keeping crucial Rhode Island healthcare facilities from being underfunded or closing is Lee and Topper's undefined view of "the numbers." *See* Lee SUO I 132:18–133:8 [redacted] Quinlan SUO 120:22–24, Jan. 7, 2020 (stating that the PCC board of directors had no role in making sure PMH provided the Rhode Island Hospitals with adequate resources).

The relevant financial statements do make clear, however, that PMH has tried to improve "the numbers" at the Rhode Island Hospitals. One of the most effective initiatives in this regard has regrettably been to cut costs by way of reducing the Rhode Island Hospitals' respective workforces: In Fiscal Year 2018, RWMC had 997.86 full-time equivalents, which dropped to 935.21 by the end of Fiscal Year 2019. Change in Effective Control Application of Prospect et al. ("CEC Application") App. A I. During the same time period, the number of full-time equivalents at OLF fell from 990.26 to 926.02. *Id.* App. A II. Eliminating these jobs saved RWMC and OLF 3% and 8% on their respective wage and salary expenditures. *See* PMH FY2018-2019 AFS.

Despite these force reductions, and as mentioned above, [redacted] Ison SUO 175:20-176:11.

PMH has also saved money by failing to cover annual depreciation of the Rhode Island Hospitals' capital: For example, from Fiscal Year 2017 through Fiscal Year 2020, PCC only replaced approximately 66% of the annual depreciated value of its assets. PYA Report 10. *Contra* Lee SUO II 20:18-23, March 9, 2021 (stating that PCC has replaced 100% of depreciated capital). The ideal amount of capital investment is typically closer to 100%. PYA Report 10; *see also* Lee SUO II 20:4–11. [redacted] Johnson SUO 100:13–101:20. The amounts PCC has expended on charity care—0.15% and 0.3% of its operating expenses in Fiscal Year 2019 and Fiscal Year 2020, respectively—is also below some industry standards. PYA Report 10, 14.

b. Overview of PMH's Finances

Money problems have not been limited to PMH's subsidiaries; PMH itself has and continues to struggle financially. *See, e.g.*, PYA Report 19 (explaining that "PMH has reported limited liquidity and a highly leveraged position in recent fiscal years"); Redacted Report 11-12.[23] During the 6-year period from Fiscal Year 2015 to Fiscal Year 2020, the company took a cumulative comprehensive loss of $603 million, and has seen its long-term debt increase from $451 million in Fiscal Year 2015 to almost $1.6 billion in Fiscal Year 2020. *See* Redacted Report 7–9 ("Growth has been primarily funded through debt and the sale-leaseback of certain properties to MPT."). By the end of Fiscal Year 2020, PMH's assets exceeded its liabilities by more than $1

[23] This assessment is not shared by Leonard Green partner Wagner. *See* Wagner SUO I 149:19–21 (claiming that PMH "continues to do . . . very well").

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billion. *Id.* at 8; *see* PYA Report 13 (showing share of liabilities to total assets growing from Fiscal Year 2017 to Fiscal Year 2020).

The company's debt has not been cheap: PMH has had to make approximately $478 million in interest payments from Fiscal Year 2015 through Fiscal Year 2020. *See* Moody's Investor Service, *Rating Action: Moody's places ratings of Prospect Medical Holdings on review for downgrade*, Feb. 12, 2019, https://www.moodys.com/research/Moodys-places-ratings-of-Prospect-Medical-Holdings-on-review-for--PR_395207 (noting that, "[a]t [PMH's] current leverage levels," tens of millions of dollars of California Quality Assurance Fee ("QAF") reimbursement payments "must be used to repay term loan borrowings. As a result, even when QAF payments are received, they will not be a source of ongoing liquidity for the company."). What is more, the company's ballooning debt has not always translated into enough liquidity to pay its bills: In 2019, PMH needed a $41-million capital contribution from Leonard Green, Lee, and Topper. PYA Report 15; *see* Redacted Report 11 ("[PMH] cannot continue to have significant operating losses and fund necessary capital projects and expect to survive long-term."). The accumulated debt has, as discussed below, turned PMH into a highly leveraged concern. *See* Redacted Report 8, 11 ("[PMH's] rapid growth and increase in debt have strained the company's balance sheet. . . . PMH is a highly leveraged company that continues to have large annual losses."); *see also* Moody's Investors Service, *Rating Action: Moody's downgrades Prospect Medical Holdings, Inc.'s CFR to B3; outlook changed to* negative, Mar. 28, 2019, https://www.moodys.com/research/Moodys-downgrades-Prospect-Medical-Holdings-Incs-CFR-to-B3-outlook--PR_397518 (citing PMH's "very high financial leverage, shareholder-friendly financial policies, and a history of failing to meet projections" as reasons for downgrading the company's creditworthiness).

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A considerable portion of the approximately $3.1 billion in liabilities currently on PMH's books is the result of three transactions PMH entered into with Medical Properties Trust, Inc. ("MPT") in 2019. Redacted Report 9. In the first of these, PMH sold its hospitals in Connecticut, Pennsylvania, and all but one of its hospitals in California to MPT for approximately $1.4 billion. *Id.* MPT then leased these hospitals back to PMH. *Id.* PMH, according to its agreement with MPT, will pay rent for at least the next 15 years in order to continue operating in facilities it owned until recently. *Id.* In the second transaction, PMH took out a ~$51 million mortgage on one of its California hospitals; this mortgage is at a 7.5% interest rate per annum and matures in 2034. *Id.* And in the third transaction, PMH signed a promissory note in exchange for $113 million from MPT, referred to herein as the "TRS Note." *Id.* Interest on the note is 7.5% per annum and subject to an annual escalation clause. *Id.* PMH must pay back the full note amount by July 2022. *Id.* Alternatively, and subject to approval by the Attorney General and DOH pursuant to the HCA, PMH could discharge the note by selling to and leasing back the Rhode Island Hospitals from MPT. *Id.* [redacted] *See, e.g.*, Liebman SUO 178:16–18; 179:7–11; 214:24–215:1, Oct. 29, 2020. In their statements under oath, [redacted] *See, e.g.*, Johnson SUO 78:3–10; 79:13–20; Lee SUO I 183:5–9 [redacted]

The Attorney General has addressed this threat to the Rhode Island Hospitals' real estate by prohibiting it from being pledged or used as collateral unless approved by the Attorney General. *See* Conditions 9 and 17. Such prohibition stems from the recognition that the Rhode Island Hospitals' real property, each and together, constitutes a significant proportion of the assets of

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PCC—a finding based upon the fact that the Hospital properties constitute a significant proportion of PCC's real property; that they each and together house and support a significant proportion of the services provided by PCC; and that a significant proportion of PCC's employees work at the Hospitals. The assets of PCC do not include the cash generated by PCC, which is swept up daily to Prospect, making the Rhode Island Hospitals' real property a greater proportion of PCC's assets than it otherwise would be.

In addition to the indebtedness created by the TRS Note, PMH in 2020—when it was no longer subject to the conditions of the 2014 Decision—obtained a $42 million Property Assisted Clean Energy ("PACE") loan to pay for improvements to RWMC. Redacted Report 10. The loan has a 5.75% annual interest rate and is secured by a lien on RWMC itself. *Id.*; PYA Report 11. An $18 million PACE loan with the same rate of interest was taken out in early 2021. Redacted Report 10. This money is for improvements to, and is secured by, a lien on, OLF. Redacted Report 10, PYA Report 11.

PMH recently tapped another temporary source of cash by applying for and receiving money from the federal government pursuant to the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") and the Paycheck Protection Program and Health Care Enhancement Act ("PPPHCE Act"). Redacted Report 10–11. PMH-owned hospitals, including those in Rhode Island, also received relief money from their respective state governments. *Id.* In total, PMH and its affiliates have received approximately $459 million in COVID-19 relief from the federal government. *See* PYA Report 16. Approximately $183 million of this money is a grant to PMH and will not need to be paid back. *Id.* PMH will, however, have to find a way to return approximately $276 million of this government aid over the next 17 months, pursuant to the

MAAP Program. Redacted Report 10-11, PYA Report 16. PCC itself is due to return $27.5 million of the $276 million total. PYA Report 9.

Like the TRS Note, the debts attached to the Rhode Island Hospitals by the PACE and MAAP borrowing are the subject of Conditions imposed pursuant to this Approval with Conditions. In order to ensure the MAAP liability does not remain with the Rhode Island Hospitals in the event of a sale or insolvency, the Conditions require PMH to fund a $27 million escrowto be used if PMH does not make these payments, so that this obligation is never left on the Rhode Island Hospitals. The Financial Conditions further require PMH to assume all payments for the PACE debt while it owns the Hospitals, an obligation also protected by millions of dollars in cash escrow.

c. Leonard Green's Role in PMH

The financial performance of the Rhode Island Hospitals and PMH sketched above has occurred while both have been under the ultimate control of Leonard Green, the company with the largest share of PMH stock and the majority of PMH board seats, *see, e.g.*, Wagner SUO I 37:13–21, and the one which is seeking an exit in this conversion. [redacted] *E.g.*, Wagner SUO I 55:12–57:11. Leonard Green typically uses these funds to buy stakes, some majority others minority, in various companies. Baumer SUO I 96:20–97:24. [redacted] Baumer SUO I 49:10–11; 91:8–12; Wagner SUO I 56:4–6; 97:16–98:23; *see also* Wagner SUO I 35:21–23 [redacted]

A large portion of that return on investment is expected [redacted] *See* Wagner SUO I 88:3–6; 94:15–95:21. The latter method for extracting a return on Leonard Green's investments—used in the case of PMH—is known as a dividend recapitalization. [redacted] Report 2-3; Wagner SUO I 25:7–23, 83:24–84:13; *see* Lee SUO I 66:11–14 [redacted] Leonard Green also makes money by [redacted] *E.g.,* Wagner SUO I 131:6–16; 134:7–135:7.

[redacted] Baumer SUO I 88:20–24. [redacted] *See Id.* at 101:15–102:11. [redacted] *id.* at 107:17–108:2; Supplemental Response S-46 ("[T]he [Leonard Green] entities purchased shares at the [] time it became a private equity investor."). Except for the approximately $25 million it contributed in 2019 as part of an $41-million capital contribution to PMH, which was returned to Leonard Green in under a year, Leonard Green has never put any of its own money into PMH. Supplemental Response S-46 [redacted] Wagner SUO I 139:21–42; 176:8–12.

But it has taken money out: As mentioned above, in 2012, while under the control of Leonard Green, PMH paid Leonard Green and other PMH shareholders (primarily Lee and Topper) a $188-million dividend from the proceeds of bonds that PMH issued. *See* PMH FY2013 AFS at 50. And in 2018, PMH paid Leonard Green and PMH shareholders (again, primarily Lee

and Topper) a total of $457 million in dividends. Redacted Report 8. These funds, like those in 2012, came from placing debt on the company, and were paid [redacted] *See, e.g.*, DiStefano SUO 98:3–24; Doyle SUO 124:3–129:14. The absence of oversight by board members is concerning to the Attorney General and, in accord with the criteria contained within the Hospital Conversions Act, is addressed with Conditions that require proper training for board members and install proper board by-laws.

The scale and timing of the 2018 Dividend is especially troubling: When it was paid, the $457 million represented approximately 60 days of PMH's operating expenses. PYA Report 15; Lee SUO II 101:9–16. And it came at a time when PMH had only 1 day's worth of cash on hand. Redacted Report 8; *cf.* Lee SUO II 72:15–73:18 [redacted] Fiscal Year 2018, moreover, was the year that PMH had a net loss of over $240 million and in which its total liabilities exceeded its total assets by over $620 million. PYA Report 12. That year the company reported approximately $260 million in unfunded pension obligations in the national system. PMH FY2018 AFS. Despite these realities, [redacted]. Lee SUO II 97:10–12, March 9, 2021.

2018 was also the year, as mentioned above, when a significant number of employees at the Rhode Island Hospitals were terminated. Ragosta SUO II 32:12–33:9, March 19, 2021. [redacted] During this period, and also mentioned above, PMH's capital investments were not keeping up with depreciation at the Rhode Island Hospitals. Notwithstanding these struggles, Wagner testified [redacted] Wagner SUO I 144:1-

145:2; *see also* Supplemental Response S2-10 ("The Company's senior management determined that the Company had sufficient surplus and that the making of the dividend was in the [C]ompany's best interest."); Lee SUO I 135:10–136:14 [redacted]

PMH's CEO Sam Lee personally received approximately [redacted] of this 2018 dividend, Lee SUO 137:2–4; Topper (via his family trust) took home between [redacted] Topper SUO 150:21–23. These numbers likely account for why this dividend was [redacted] Baumer SUO I 141:12–15; Lee SUO I 136:9–11 [redacted] All told, from 2012 to 2020, Leonard Green, Lee, and Topper have together paid themselves over half a billion dollars in cash from debt that went onto PMH's books—this while the company took the aforementioned $603 million cumulative comprehensive loss from Fiscal Year 2015 to Fiscal Year 2020. *See* Wagner SUO I 140:16–21 [redacted] The disconnect between investor returns and financial performance contradicts, among other of the Transacting Parties' representations, PMH's CFO Mark Johnson's testimony that "[t]here are really not" major difference between PMH's business model and that of non-profit hospitals. Johnson SUO 22:9–12.

The reason provided under oath for paying these huge dividends is almost as alarming as their size and timing: the dividends were taken because, in Leonard Green's estimation, [redacted] Wagner SUO I 83:24-85:7; *see* Redacted Report 7-8. Instead of using what Wagner called PMH's "extra earnings" to further pay down existing debt, invest in its facilities, or contribute to a rainy-day fund, she and Leonard Green saw them as a nuisance that was [redacted] Wagner SUO I 84:14–24

[redacted] Wagner testified, [redacted] Wagner SUO I 85:1–15. Baumer [redacted] Baumer SUO I139:23–140:3. Lee testified that if PMH [redacted]

Regarding this rationale, the Attorney General notes as an initial matter that adding debt to a company in order to simultaneously avoid taxes and enrich private investors is particularly concerning given that the company in question, PMH, owns safety-net hospitals, whose main source of income are government (i.e., Medicare and Medicaid) payments. *See* Johnson SUO 112:16–19 [redacted] As Baumer himself stated, [redacted] Baumer SUO I 158 13–18; *see* Ragosta SUO II 51:12–20 [redacted] And as previously stated, PMH and its subsidiaries received hundreds of millions of dollars in financial aid from federal and state governments in 2020, [redacted] *See* Johnson SUO 50:3–11; Lee SUO II 82:1–6 [redacted]

In the bigger picture, high earnings and low debt strike the Attorney General as a goal for most companies, especially for hospital companies, whose margins tend to be low even in the best of times, and where keeping a financial cushion can mean the difference between the ability to maintain and having to shutter public-health pillars, particularly in unforeseen downturns.[24] *See*

[24] PYA lists some of the "many risks faced by the healthcare provider industry, including but not limited to, public policy and regulatory changes, macro-economic shifts, payer reimbursement changes, impacts of public health

Wagner SUO I 166:8–9 [redacted] Moody's Investors Service, Mar. 28, 2019, *supra* ("Moody's believes that hospital industry-wide challenges to growth and margin expansion, including weak patient volume trends and increasing cost pressures, will constrain organic earnings and cash flow growth going forward."). As PYA wrote in its report, PMH currently "has somewhat limited ability, in the form of current liquidity especially after recoupment of [funds advanced to PMH by the federal government during the COVID-19 pandemic], to weather additional or continued financial challenges." PYA Report 16; *see also* Redacted Report 7 ("COVID-19 adversely affected [PMH's] operations in FY 2020"). "That, in turn," said PYA, "is a risk to the ongoing financial viability of PCC as a PMH subsidiary." *Id.*; Redacted Report 11 ("While pandemic relief from governmental entities has provided PMH with some short-term liquidity, that liquidity will evaporate as governmental funds are repaid and accounts payable becomes normalized.").

Adding to the Attorney General's concern is the Transacting Parties' own characterizations of PMH's financial condition, both historically and currently. *See, e.g.*, Lee SUO I 143:23–144:2, 144:16–18 [redacted] Johnson SUO 33:18–21 [redacted] Topper SUO 89:13–14 [redacted] *Contra* Lee SUO II 106:7–11 [redacted] The Transacting Parties sometimes contradictory representations about the condition of PMH have hurt their credibility in the Attorney General's assessment of the transaction.

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emergencies and natural disasters, skilled labor availability, supply chain continuity, [and] regulatory compliance investigations." PYA Report 18.

Besides the dividends it took, Leonard Green also made money from PMH by charging it [redacted] from Fiscal Year 2010 through Fiscal Year 2018.[25] Supplemental Response S5-4. Leonard Green partners and PMH executives testified that [redacted]. *See* Wagner SUO I 135:19–136:8. In fact, Baumer, the Leonard Green partner most involved with PMH, testified that he spends [redacted] Baumer SUO I 35:21–2. All told, Leonard Green made [redacted] initial investment in PMH. Baumer SUO I 93:7–17; Wagner SUO I 98:24–99:15; *see* Wagner SUO I 106:25–107:1 [redacted]

d. PMH's Financial Stability

PMH's "financial health . . . is of vital importance to [PCC] and its subsidiaries and affiliates." Redacted Report 7. Which is why it is concerning that in March 2019, Moody's Investors Service downgraded its assessment of PMH's creditworthiness by giving the company a B3 rating. Moody's Investors Service, Mar. 28, 2019, *supra.* This rating indicates the company's degree of financial instability is such that lending it money would be "considered speculative and . . . subject to high credit risk." Moody's Investors Service, *What is a credit rating?*, https://ratings.moodys.io/ratings. Moody's cited PMH's "very high financial leverage, shareholder-friendly financial policies, and a history of failing to meet projections" as reasons for downgrading the company's creditworthiness. Moody's Investors Service, Mar. 28, 2019, *supra*;

[25] Two separate management fees are discussed in this Decision and should be distinguished. Leonard Green charged [redacted]. In addition, PMH 'charged' a management fee to PCC which was reflected in the Audited Financial Statements as part of operating expenses. PMH has agreed, and the Attorney General in Condition 11 has required, that upon the buy-out of the 15% CCCB ownership, no management fees will be assessed.

see Wagner SUO I 165:11–22 [redacted]

In July 2019, after PMH had announced its deal with MPT, Moody's commented that "the sale-leaseback transaction does not address the company's continuing operating challenges and lease-adjusted leverage will likely remain high." Moody's Investors Service, *Announcement: Moody's: Prospect Medical's sale-leaseback improves liquidity, however operating challenges remain*, Jul. 16 2019, https://www.moodys.com/research/Moodys-Prospect-Medicals-sale-lease-back-improves-liquidity-however-operating-challenges--PR_405116. The Service went on to say that there was "no immediate impact on Prospect Medical's B3 Corporate Family Rating or its negative rating outlook." *Id*. The Attorney General notes that it was around this time that, by Leonard Green's lights, [redacted] Wagner SUO I 88:7-25.

Various ratios are used by Moody's and others to gauge a company's financial health. *See* Moody's Investors Service, Mar. 28, 2019, *supra*. The following sections record the values of two ratios calculated by the Attorney General's financial expert—measures of PMH's solvency and liquidity, respectively. Each section then compares the values for PMH with those of publicly traded hospital companies.[26] PYA provided similar comparisons, to similar effect, in its report. PYA Report 14. Again, the Attorney General notes a contradiction between financial reality as depicted in PMH's financial statements and how it is represented in testimony by PMH, including by PMH's CFO, who testified that when compared to other participants in the industry, PMH's financial position [redacted] Johnson SUO 86:5–13; Lee SUO II 27:17–20 [redacted]

[26] [redacted] Wagner SUO 127:23–129:7.

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i. Solvency

The debt-to-equity ratio measures a company's solvency, that is, the company's ability to meet its debt and other financial obligations for the foreseeable future. The lower the value of this ratio, the more solvent the company. A negative debt-to-equity ratio means a company's liabilities outnumber its assets.

The following chart ("Table 1") plots PMH's debt-to-equity ratios from Fiscal Year 2015 through Fiscal Year 2020, which are based on PMH's audited financial statements and calculated by the Attorney General's financial expert. Also plotted are the median debt-to-equity ratios of publicly traded, for-profit hospital companies (*i.e.*, those assigned Standard Industrial Classification 806 by the federal government) for Fiscal Year 2015 through Fiscal Year 2019.[27]

[27] Source: https://www.readyratios.com/sec/industry/806/. The Attorney General recognizes that the for-profit, hospital companies used as comparators are not all of similar size to Prospect; however, as companies in the same industry, the comparisons are useful.

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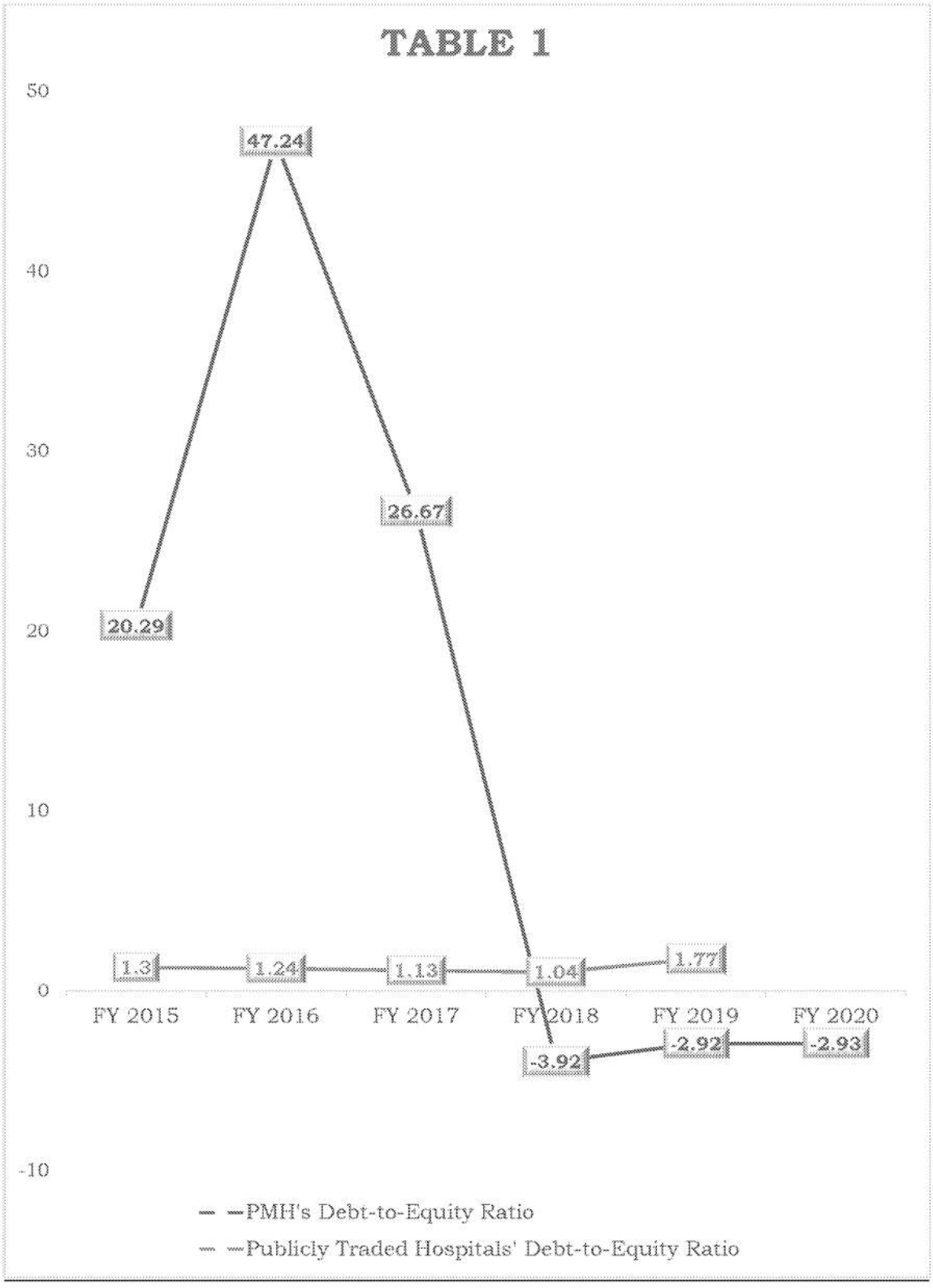

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Table 1 shows that PMH had a debt-to-equity value well over 1.0 for Fiscal Years 2015, 2016, and 2017, after which the ratio became negative for the rest of the period. Redacted Report 8 ("The debt-to-equity ratio has been negative for the past three years because of large losses and the $500 million in dividend payments."). The Attorney General takes particular note of the fact that the plunge in this ratio's value coincided with the $457-million dividend taken in Fiscal Year 2018. *Accord* Redacted Report 2–3 ("[T]he 2018 transaction substantially weakened the balance sheet of PMH, benefitting the shareholders while providing minimal or no funds to any of the local operating entities."). Moody's Investors Service, Mar. 28, 2019, *supra* ("Since completing a debt-funded sponsor dividend in early-2018, Prospect's leverage has increased significantly."). These values and their trend line indicate that PMH's ability to meet its medium- and long-term debt obligations are becoming more uncertain with each passing year. *See* PYA Report 17 ("PMH is in a highly leveraged position."). Table 1 also shows that PMH's debt-to-equity ratios do not compare favorably with those of its publicly traded, for-profit peers, which have hovered between 1.0 and 2.0, and never dipped below 0.0.

ii. Liquidity

Another metric used to gauge a company's financial health is the quick ratio. *See* Redacted Report 8. This ratio measures a company's liquidity, that is, its ability to cover short-term financial obligations such as payroll, vendor invoices, and outstanding or impending interest payments. Higher values of the quick ratio indicate a company able to meet its short-term obligations; lower values mean the opposite.

A quick ratio of 1.0, for example, means that a company has a dollar of liquid assets for every dollar in current liabilities. A ratio less than 1.0 indicates that a company has less than a dollar available to pay every dollar in short-term obligations. A ratio of 0.5 would mean a company

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has only 50 cents to cover every $1 in short-term obligations. In essence, the lower the value of this ratio, the more likely it is that a company will be unable to pay its bills. This could force the company to make up for the shortfall by selling illiquid assets at a steep discount or seeking protection in bankruptcy.

The following chart ("Table 2") plots PMH's quick ratios from Fiscal Year 2015 through Fiscal Year 2020, which are based on PMH's audited financial statements and calculated by the Attorney General's financial expert. Also plotted are the median quick ratios of publicly traded, for-profit hospital companies (i.e., those assigned Standard Industrial Classification 806 by the federal government) for Fiscal Year 2015 through Fiscal Year 2019.[28]

[28] Source: https://www.readyratios.com/sec/industry/806/.

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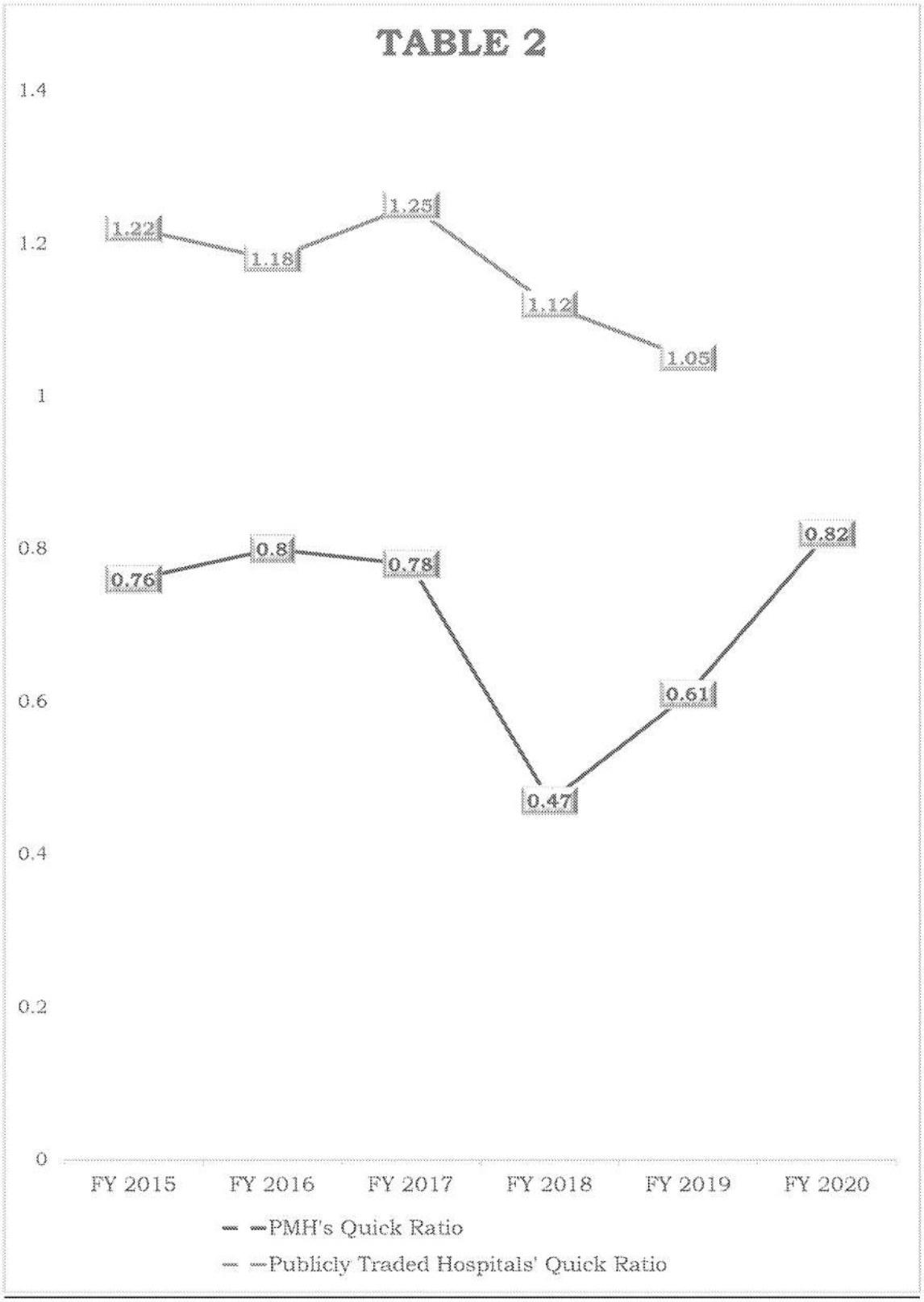

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As Table 2 shows, PMH's quick ratio was under 1.0 at the end of every Fiscal Year from 2015 to 2020, meaning that the company had less than $1 to cover every $1 in short-term financial obligations. *See* Redacted Report 11 (expressing concern about liquidity crisis at PMH "within 18 to 24 months"). *Contra* Wagner SUO I 149:23–105:1 [redacted] Like the value of its debt-to-equity ratio, PMH's quick ratio dipped significantly in Fiscal Year 2018, the year of the $457-million dividend, and the year when Wagner testified [redacted] Wagner SUO I144:11–145:2. This despite Wagner's acknowledgment that [redacted] *Id.* at 80:8–10. Although these dividends were issued three years ago, with two of the same owners remaining after the transaction, concerns remain and the Conditions imposed by the Attorney General are necessary.

The drop in the value of PMH's quick ratio illustrates the cash shortfall that precipitated the $41 million capital contribution made to PMH by its shareholders in Fiscal Year 2019. *See* Wagner SUO I 146:14–22 [redacted] Moody's Investors Service, Mar. 28, 2019, *supra* ("Prospect exited its first quarter ending December 31, 2018 without any unrestricted cash and $20 million of availability on its ABL facility (unrated), thereby limiting financial flexibility. In response to this, Prospect's sponsor and certain members of management provided the company with a $41 million cash infusion on January 25, 2019."). PYA's report suggests that PMH's operational performance, assets to serve as collateral, and soon the absence of Leonard Green as a financial partner leaves unclear PMH's ability to access capital going forward to help paper over future liquidity crises.

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See PYA Report 17. The Attorney General sees this as creating a circumstance where PMH will not be able to find operational cash when it is needed. *See* Redacted Report 9 ("PMH has sold substantially all its real property . . . . There is very little left to leverage to provide liquidity.") Moody's Investors Service, Mar. 28, 2019, *supra* (referring to PMH's "cash flow cycle" as "typically volatile").

The uptick in the value of PMH's quick ratio for Fiscal Year 2020 is due in large part to the federal government's COVID-19 relief money that flooded in last year to buoy PMH's balance sheets. Redacted Report 10-11 ("Most of the increase [in PMH's cash on hand] appears to be from these government programs."); *see* Baumer SUO I 128:22–129:2 [redacted] As discussed previously, much of this relief money will be recovered by the federal government via reduced Medicare reimbursement rates. Redacted Report 11 ("While pandemic relief from governmental entities has provided PMH with some short-term liquidity, that liquidity will evaporate as governmental funds are repaid and accounts payable becomes normalized."). And, PYA says, if "delays in economic recovery continues, such delays could have negative impacts on PMH's and PCC's liquidity and ability to meet obligations to third parties." PYA Report 19.

Table 2 above also shows that PMH's ratio lagged the median ratio of publicly traded hospital companies, which remained over 1.0 from Fiscal Year 2015 to Fiscal Year 2019. This indicates that PMH was at a relatively higher risk of running out of cash or other liquid assets to meet its short-term financial obligations than its publicly traded counterparts.

* * *

As evidenced above, PMH has a history of prioritizing shareholder returns over stable balance sheets. *Accord* Redacted Report 11 ("My overall conclusion is that PMH is a highly leveraged

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company that continues to have large annual losses. . . . [T]he current owners issued $500 million in dividends which benefitted the shareholders and weakened the financial position of PMH."). The company's commitment to realizing short-term, debt-financed dividends has likely been, in part, the product of Leonard Green's desire to make back its initial investment plus a return before selling the company, all in just a few years. As opposed to the wellbeing of Rhode Islanders, [redacted] Wagner SUO I 95:8–9. PMH will hopefully adopt a steadier, less-leveraged, longer-term business plan once Leonard Green exits.

But hope is not enough when it comes to ensuring the continued viability and development of critical Rhode Island healthcare services, particularly when the keys to the company will be handed over to two men who have supported and implemented many of the decisions that kept PMH walking a financial tightrope for years. *See* Baumer SUO I 78:15–18 [redacted] Wagner SUO I 57:12–18 (same); *see also* Wagner SUO I 19:9–13 [redacted] Topper SUO 34:16–19 [redacted] Topper SUO 167:2–4 [redacted]

In order to protect RWMC and OLF from PMH's practice of operating with substantial leverage, little liquidity, and sizable interest payments, the Attorney General has decided to impose long-term, bankruptcy-shielded monetary conditions that ensure "the acquiror's adherence to a minimum investment to protect the assets, financial health, and well-being of the new hospital and for community benefit." § 23-17.14-28(c); *accord* Redacted Report 11-12 (suggesting imposition of

financial conditions with similar characteristics). These conditions will secure a future where PMH continues to help its Rhode Island Hospitals meet their operating and non-operating expenses. The conditions also require that PMH increase its capital investment in the Rhode Island Hospitals, both to make up for deferred capital expenditures and to prevent further deferments.

The Conditions mandate that funds necessary for the PCC system be secured up front by $80 million in either cash escrows or irrevocable standby letters of credit. *See* Redacted Report 12 (recommending that financial conditions "be pre-funded or otherwise protected in the event of a restructuring by PMH"). There are two primary reasons for this requirement: The first is to guarantee that operations at the Rhode Island Hospitals will be protected if PMH's financial position tips into an "Insolvency Event," as that term is defined in the Conditions below. The second reason for the escrows/letters of credit—as well as a reason for requiring that PMH pay all future costs of the PACE loans—is to dissuade PMH management from treating its Rhode Island Hospitals like it has those in other states: as assets available for encumbrance by PMH in order to forestall a liquidity crunch or insolvency crisis brought on by a business model that has prioritized returns on investment over the needs of safety-net hospitals.

Rhode Islanders can ill afford their healthcare infrastructure serving as a private bank for private investors. The financial conditions the Attorney General imposes here are necessary to protect the State and its citizens from the fallout of such previous practices and from the practices themselves going forward.

B. BOARDS OF DIRECTORS

Numerous provisions of R.I. Gen. Laws Section 23-17.14-7(c) involve a review of the actions of the board of directors of the existing hospital, the acquiree.[29] Applying these criteria to

[29] *See e.g.*, Hospital Conversions Act, R. I. Gen. Laws §§ 23-17.14-7(c) (3), (4), (5), (8), (9), (10), (11), (13), (14), (15), and (23).

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the instant review, the Attorney General reviewed the actions of the boards of directors with respect to their decision to pursue this the Proposed Transaction, the board's use of consultants, and the structure of the board post-conversion. In addition, the Attorney General makes observations of the functioning of both the PMH and the local boards that pertain to Section 23-17.14-28(c) and the purpose of Chapter 23-17.14. Where board-specific criteria direct consideration of a criterion "in relation to carrying out its mission and purposes," the Attorney General includes in his consideration the mission and purpose of Prospect CharterCARE which, of course, PMH as the owner of those hospitals is likewise obligated to advance.

1. Board Decision to Pursue a Conversion[30]

The first criteria of the Hospital Conversions Act guiding the review of the actions of the board of directors in pursuing a conversion is found at R.I. Gen. Laws Section 23-17.14-7(c)(3):

> Whether the board established appropriate criteria in deciding to pursue a conversion in relation to carrying out its mission and purposes.

Here, the board of directors did not establish any criteria in the context of pursuing the conversion. *See* Response to Initial Application Question 7. This absence of articulated criteria interferes with the Attorney General's ability to conduct a meaningful evaluation of the bases for the transaction, such as any goals or plans associated with it, including whether such bases are "appropriate." This vacuum also undercuts the ability to consider the reasons for the transaction in relation to the mission and purpose of either the PMH board or the Rhode Island Hospitals. Thus, the board's decision not to establish such criteria is concerning.

Notwithstanding the absence of established criteria, the Transacting Parties offered an explanation for the transaction in the context of their Initial Application. The transaction is

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[30] For purposes of this section, the reference to "board of directors" means the board of Prospect Medical Holdings, Inc. and Ivy Holdings, Inc.

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described as a buy-out of the private equity investors Leonard Green—essentially an in-house transaction—such that criteria in the traditional sense were not applied. *See* Response to Initial Application Question 1. Unlike the traditional third-party transaction, Leonard Green as seller is familiar with the buyers, particularly Lee, who had been operating the company for the entirety of Leonard Green's investment in Prospect. Leonard Green representatives on the Prospect board testified that, overall, [redacted] *See* Baumer SUO I 164:14-23; Wagner SUO I 70: 6-25. Additionally, while not "criteria" in the traditional sense, Leonard Green did require certain terms to be made part of the Merger Agreement in order to effectuate the buy-out because [redacted] *See* Baumer SUO I 118:16-24 (referencing Section 6.09 of the Merger Agreement, a requirement that no dividends be paid for two (2) years or until Prospect fulfilled a $50 million mandated pension payment (in addition to a $70 million pension payment that was made initially *see* Section 4.07)); *see also* Supplemental Response S2-5.

As this applicable section of the HCA directs consideration of whether the decision to pursue a conversion relates to the "mission and purpose," the Attorney General evaluated the decision on those terms, as well. The entity closest to the delivery of health care in Rhode Island and owned by the Transacting Parties is PCC. Its purpose is stated as follows:

> The purposes of the Company are: (i) to provide and promote the growth of health care services in the greater Providence, Rhode Island metropolitan service area (including charitable care and community health services); (ii) to provide efficient and cost-effective rendering of health care services for the benefit of health care consumers in the greater Providence, Rhode Island metropolitan service area; (iii) to provide quality medical care at competitive charges; (iv) to provide consumers of health care choice in providers of care; (v) to own, manage, operate, lease or take any other action in connection with operating the Hospitals and other health care related services and businesses; (vi) to acquire (through asset acquisition, stock acquisition, lease or otherwise) and develop other property, both real and personal, in connection with providing health care related services, include, without limitation, general acute care hospitals, specialty care hospitals, diagnostic imaging

> centers, ambulatory surgery centers, nursing homes, clinics, home health care agencies, psychiatric facilities and other health care providers; (vii) to deploy ambulatory locations of care; (viii) to recruit and integrate physicians; (ix) to institute safety and quality improvement initiatives; and (x) generally to engage in such other business activities and to do any and all other acts and things that the Board of Directors deems necessary, appropriate or advisable from time to time in furtherance of the purposes of the Company as set forth in this Section 3.1.

Amended & Restated Limited Liability Company of Prospect CharterCARE, LLC dated June 20, 2014 ("LLC Agreement") Section 3.1.

It is concerning that, as described by the Transacting Parties, the Proposed Transaction was not contemplated "in relation to" these purposes. It is notable to the Attorney General that the purpose for which PCC is organized is closely aligned with the purpose of the Hospital Conversion Act found at § 23-17.14-3(1)—"Assure the viability of a safe, accessible and affordable healthcare system that is available to all the citizens of the State"—to which the Attorney General is directed in § 23-17.14-28(c).

The criterion found at R.I. Gen. Laws Section 23-17.14-7(c)(4) states: "Whether the board formulated and issued appropriate requests for proposals in pursuing a conversion." There were no requests for proposals—appropriate or otherwise—formulated by the board, again precluding a full review of factors relevant to the decision to pursue the Proposed Transaction. As this was an in-house buy-out of majority stockholders where the sellers comprise 60% of the board, what the Transacting Parties took into account when negotiating the purchase price may be considered "requests for proposals." In that regard, the Transacting Parties described the following factors:

1. The enterprise value of PMH;
2. The equity value of PMH;
3. The dividend recapitalization transaction which occurred in fiscal year 2018;[31]
4. Future obligations of PMH; and
5. Future capital needs of PMH.

[31] The dividend recapitalization was a board-approved dividend payment of $458 million that was made by Prospect to its shareholders in February 2018.

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See Initial Application, Tab 23.

While in the context of the Proposed Transaction the above factors were outlined in the Transacting Parties' responses to requests and referenced in testimony, [redacted] *See* Baumer I 110:24-111:6; Lee I 120:12-19. In other words, there is no independent objective evidence based on which the Attorney General can evaluate the factors the Transacting Parties say they considered.

Section R.I. Gen. Laws § 23-17.14-7(c)(5) states: "Whether the board considered the proposed conversion as the only alternative or as the best alternative in carrying out its mission and purposes." Here, the board considered no alternatives to the Proposed Transaction. In fact, when another offer came in from Prime, [redacted] Lee SUO I 118:2-12. Nor is there any evidence that, in deciding to consider only this form of Conversion, the parties accounted for "mission and purpose."

The criterion at R.I. Gen. Laws § 23-17.14-7(c)(11) states: "Whether the board exposed an inappropriate amount of assets by accepting in exchange for the proposed conversion future or contingent value based upon success of the new hospital." The Merger Agreement does not include consideration that is based upon future or contingent value based upon success of Prospect or the Rhode Island Hospitals. In fact, Prospect has been funding losses at the Rhode Island Hospitals since the joint venture in 2014. PYA Report 7. Through testimony, Prospect management [redacted] *See* Johnson SUO 147:9-12 [redacted] Pillari SUO 102:1-6, March 22, 2021 [redacted] With respect to the future security (and thus the future value) of the Rhode Island Hospitals, the post-conversion 33% owner David Topper testified [redacted]

[redacted] The current and post-conversion owner Lee testified that he [redacted] Lee SUO II 41:2-11. While it may seem at first reassuring that the prospective new owners are prepared to commit their own wealth to the Rhode Island Hospitals, [redacted] However, this is consistent with the evaluation of the Attorney General's financial expert Redacted, who notes in his report that he anticipates a liquidity crisis for Prospect within 18 to 24 months. Redacted Report 11.

To the extent it is the purpose of these criteria to allow meaningful and objective regulatory review of transfers of interest in Rhode Island hospitals, the Attorney General finds that purpose frustrated by the lack of independent, professional, and appropriate criteria; appropriate requests for proposal; and consideration of alternatives in relation to the Proposed Transaction.

2. Board Use of Consultants[32]

Two criteria in the Hospital Conversions Act deal with a board's use of consultants. *See* R.I. Gen. Laws §§ 23-17.14-7(c)(8) and (9). These read as follows:

> (8) Whether the board exercised due care in engaging consultants with the appropriate level of independence, education, and experience in similar conversions; and
>
> (9) Whether the board exercised due care in accepting assumptions and conclusions provided by consultants engaged to assist in the proposed conversion.

[32] For purposes of this section, the reference to "board of directors" means the boards of Prospect Medical Holdings, Inc. and Ivy Holdings, Inc.

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The Transacting Parties offered a limited rationale for the process they followed in arriving at the transaction. Specifically, the parties said they are sophisticated and did not need outside assistance for valuation. *See* Initial Application, Tab 23.[33] However, no consultants, other than corporate and outside counsel, were engaged by the board related to the proposed conversion. *See id.* at Responses to Question 8; Question 9. This is concerning to the Attorney General. These criteria direct consideration not simply of whether or not consultants were used by the Transacting Parties in evaluating the Proposed Transaction. The statute directs an evaluation of whether consultants were independent of the parties, brought sufficient training and experience to their review, whether the transacting parties accepted assumptions and conclusions of these qualified and independent reviewers, and, overall, whether due care was exercised by the Board with respect to each of these factors. As is evident from the precise language of these criteria, in a transaction involving a for-profit entity, the ability to see objective and reviewable bases for the conversion is key to the regulator's Decision. Arguably, objectivity is even more important where, as here, the parties are engaged in an in-house transaction without even market forces to pressure a transaction of value to the overall company.

Here, there was no independent eye on this transaction, leaving no basis to conclude that Prospect exercised due care in engaging consultants. R.I. Gen. Laws § 23-17.14-7(c)(8).

3. Remaining Board Criteria

Additional criteria in the Hospital Conversions Act deal with the structure of the board post-conversion. *See* 23-17.14-7(c)(25)(vi)–(ix).[34] These read as follows:

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[33] Aside from the manner by which the Transacting Parties arrived at the valuation, concerns about the resulting valuation itself are addressed in Section A above.

[34] Another consideration is whether the new entity has bylaws and articles of incorporation. *Id.* § 23-17.14-7(c)(25)(i). Here, both have. The new corporate entity that will purchase Leonard Green and the minority owners' shares is Chamber. Chamber is a Delaware corporation incorporated on September 17, 2019. CEC Application Tab 26. Chamber was created for the purposes of effecting the Proposed Transaction. Initial Application 1. Chamber's bylaws were provided by the Transacting Parties and essentially mirror Ivy's bylaws. CEC Application Tab 26.

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(vi) whether the board of any new or continuing entity will be independent from the new hospital;

(vii) Whether the method for selecting board members, staff, and consultants is appropriate;

(viii) Whether the board will comprise an appropriate number of individuals with experience in pertinent areas such as foundations, health care, business, labor, community programs, financial management, legal, accounting, grant making, and public members representing diverse ethnic populations and the interests of the affected community; and

(ix) Whether the size of the board and proposed length of board terms are sufficient.

As is evident, with respect to a transaction involving a for-profit purchase of a Rhode Island hospital or hospital system, the legislature points the Attorney General to consideration of the process by which a board is composed and the skills and diversity of the people who populate the board.

The criterion at R.I. Gen. Laws § 23-17.14-7(c)(14) provides: "Whether the board accepted fair consideration and value for any management contracts made part of the proposed conversion." The Attorney General evaluated the two management service agreements Prospect has assumed to date since it purchased the Rhode Island Hospitals and does not find a basis to conclude the management services were provided for "fair consideration and value."

As part of Leonard Green's investment in Prospect in 2010, a ten-year Management Services Agreement ("LG Management Agreement") was entered into between Prospect and Leonard Green. *See* C-CIIH-007669-007675. The Transacting Parties asserted that this type of fee "is a standard private equity fee intended to compensate Leonard Green for its time and resources spent working with PMH." *See* Supplemental Response S3-11. The fee is no longer being collected and "[f]ollowing the closing of the Proposed Transaction, this fee will be eliminated and not

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replaced with anything equivalent from any other party." *Id.* It appears from the testimony that nothing is needed to replace those services, as Prospect used the services infrequently, if at all. *Id.* The conclusion of this arrangement raises the question as to the value of the services paid for given they were rarely used and are not being replaced.

The other management agreement that was considered during this review is the Management Services Agreement that operates between Prospect CharterCARE and Prospect Advisory. *See* 2014 Decision at 15 f. 39 (citing Initial Application Exhibit 18). As part of the 2014 Prospect CharterCARE joint venture, Prospect East, as the managing member of Prospect CharterCARE, LLC, delegated its day-to-day management of the Rhode Island Hospitals to Prospect Advisory under the Management Services Agreement ("PCC Management Agreement"), which provides for a number of services, including assistance with operational activities. *Id.* Under the PCC Management Agreement, Prospect Advisory works with senior leadership team members of Prospect CharterCARE, LLC to run the day-to-day operations of the Rhode Island Hospitals. This type of agreement is unique to Prospect CharterCARE because of the joint venture; Prospect does not have these types of agreements with its other hospital subsidiaries. As discussed below, the parties contemplate that the Prospect CharterCARE joint venture will be dissolved, and Prospect will gain 100% ownership in Prospect CharterCARE. Prospect plans to eliminate the PCC Management Agreement once the St. Joseph's pension settlement is approved. *See* Supplemental Response S7-9. As is already contemplated by the Transacting Parties, the Attorney General will require that the Management Services Agreement be terminated as a condition of approval. The Attorney General will also require that no accrued management fees be assessed against, or collected from, PCC.

4. Other Board Issues

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Throughout the Attorney General's review of the Proposed Transaction, there were a number of other board related issues and concerns that surfaced as to both the Prospect and Ivy boards of directors, as well as the Prospect CharterCARE board of directors. Given the recurring attention in the Hospital Conversions Act to the conduct, composition, and professionalism of boards of directors of for-profit acquirors, the Attorney General includes these observations in this Decision in fulfillment of his duties under the Act.

a. Duty of a Healthcare Board

Throughout this review, the Attorney General has focused on the duty of a healthcare board, especially in the face of the Prospect and Ivy boards permitting new debt in order to issue large dividends, leading, as it has, to a significantly untenable debt-to-asset ratio and financial risk, in a sector that not only employs thousands of Rhode Islanders but on which we often must rely for care at our most vulnerable moments. As discussed above, by passing the Hospital Conversions Act, the legislature accounted for and balanced the risks associated with for-profit ownership of hospitals and hospital systems by requiring the Attorney General to "protect the assets, financial health, and well-being of the new hospital …" R.I. Gen. Laws § 23-17.14-2(c).

Towards that end, and specifically with respect to the functioning of the boards of directors, the Attorney General has addressed elsewhere in this Decision the extent to which the Transacting Parties exhibit a conflict between a drive to maximize their own income and the duty to protect safe, viable, accessible healthcare. Here, it was concerning that a board member did not differentiate between the duties associated with membership on a healthcare board from any other board, [redacted] *See* Baumer SUO I 41:10-15. Also concerning is that another board

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member testified [redacted] *See* Wagner SUO I 35:21-25; 36-1.

b. Additional Concerns: Prospect CharterCARE Board

Under the terms of the 2014 transaction, it was contemplated that the governing board of Prospect CharterCARE, LLC would be a 50/50 board (the "PCC Board") with half of its members selected by and through Prospect East's ownership (Category B members) and the other half of the members selected by and through CCCB's ownership (Category A members). *See* 2014 Decision at 36. The PCC Board was intended to be the organized governing body responsible for the management and control of the operations of the Rhode Island Hospitals, and governed by the terms of the LLC Agreement. *Id.* The LLC Agreement specifically charges the PCC board with "overall oversight and ultimate authority over the affairs of the Company and the Company Subsidiaries," and defines 24 actions that require approval of the PCC Board. *See* LLC Agreement Section 12.1.; Section 8.3. Included in those 24 actions are "[d]evelopment and approval of a strategic plan for the Company" and "[a]pproving the annual operating and capital budgets of the Company." *Id.* at Section 8.3(b) & (c).

Throughout the review, the Attorney General discovered that the PCC board members were not observing best practices expected of the governing body. Board members did not seem to have a basic working knowledge of the financials of the Prospect CharterCARE. One Category A board member was not aware of Prospect sweeping the cash of PCC daily, *see* [redacted] or the structure of the PCC board. Another board member was not aware of Category A and Category B members, *see* [redacted] At least two of the four Category A board members had never seen or were not familiar with the LLC Agreement. *See* [redacted]

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Additionally, and of particular concern, [redacted] *See* DiStefano SUO 138:17–140:6; Doyle SUO 67:16-68:5. Through testimony, it was reported that [redacted] *See* Ison SUO 51:16-24, 52:7-15. [redacted] *See* Doyle SUO 83:4-84:3. It appears to the Attorney General that the PCC board was simply putting a "rubber stamp" on the actions of Prospect. This is especially concerning when half the PCC board was comprised of representatives (by voting rights) of CCCB. Finally, a long-time member of the PCC board was being compensated under a consulting agreement with Prospect beginning in 2018, a clear and direct conflict of interest. *See* C-CIIH-008520.

It was also concerning that the PCC board was not provided with information regarding the Proposed Transaction until months after the Merger Agreement was signed, when the Transacting Parties were preparing to re-file the HCA Initial Application in February 2020 and needed signed Conflict of Interest Statements from the PCC board members. *See* Supplemental Response S-4; *see* also [redacted] While the PCC board would not have a vote as to whether its parent company entered into a transaction, in order to perform their mandated functions, members of the PCC board should, at a minimum, have been provided with a presentation and an opportunity to inquire into the reason for the departure of the 60% private equity owner.

During the pendency of the HCA review, in July 2020, the Liquidating Receiver of CCCB removed and replaced the existing Category A board members. *See* C-CIIH-007827-007828. That

change prompted a dispute between Prospect and CCCB that resulted in suspension of meetings of the PCC board after June 2020 (except for a special meeting to approve a settlement related to the St. Joseph pension plan litigation). It is highly concerning that the governing body with obligations to oversee two Rhode Island safety-net hospitals was not meeting during the COVID-19 pandemic.

Thereafter, in December 2020, Prospect entered into a Settlement Agreement to resolve all litigation related to the pension (hereinafter referred to as "Pension Settlement"). *See* Case No. 1:18-cv-00328-WES/PC-2017-3856. As part of the Pension Settlement, the LLC Agreement was amended to remove the requirement that the actions listed in Section 8.3 of the LCC Agreement require the approval of the Category A board members. *See* Pension Settlement ¶15. There was also an agreement that the newly appointed Category A board members would not attend any PCC board meeting during the pendency of the proceedings for the settlement agreement. *Id.* at ¶ 19 Agreement. Both of these provisions are concerning to the Attorney General. Certainly, the Attorney General appreciates the complex and contentious litigation that resulted from the St. Joseph pension plan and the enormous amount of time and effort all parties put into a resolution to the matter. To address his concerns, the Attorney General imposes Conditions requiring the LLC Agreement to be amended to require a majority vote of the board members, which will continue to have 40-49% community representation, for all matters in Section 8.3 after the proceedings are complete. Additionally, since approval of the settlement and subsequent buy-out is expected to occur after this Decision, any and all changes to terms of the settlement must be reported to and approved by the Attorney General.

Once Prospect becomes the 100% owner of Prospect CharterCARE, it will have the authority to nominate both Category A and Category B members and/or further amend the LLC

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Agreement to remove the Category A members altogether. While Prospect has stated they intend to maintain the Category A members post buy-out, there is currently no requirement to do so. The Attorney General continues to recognize the importance of maintaining local representation on the PCC board, especially with an out-of-state parent, but the board members must be fully engaged and honor their fiduciary duties. Therefore, appropriate conditions will be put in place to ensure the continuance of a locally represented board with meaningful representation that lacks any conflicts of interest and has the tools it needs to fulfill its fiduciary duties.

C. CHARACTER, COMMITMENT, COMPETENCE AND STANDING IN THE COMMUNITY

R.I. Gen. Laws Section 23-17.14-7(c)(28) asks "Whether the character, commitment, competence and standing in the community, or any other communities served by the transacting parties are satisfactory. Section 7(c)(28) is an important and encompassing portion of the Hospital Conversions Act review criteria. Here, the relevant parties under review are Prospect, as well as Lee and Topper, who will become the sole owners of Prospect as a result of the Proposed Transaction. The character, commitment, competence, and standing in the community of Prospect, Lee, and Topper raise serious concerns that must be addressed in a manner to ensure the continued viability of the hospitals.

1. Important Community Asset

Before discussing the character, commitment, competence, and standing in the community of Prospect, Lee, and Topper, the Attorney General wants to recognize the importance of RWMC and OLF in the landscape of Rhode Island healthcare. Both hospitals provide vital services to their surrounding communities. RWMC, an academic medical center, has the state's only bone marrow transplant program and dedicated behavioral health emergency department. Both hospitals serve

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crucial populations, including psychiatric, cancer, and geriatric patients, to name a few. Throughout this review, the Attorney General has seen the dedicated services of the frontline workers that make it possible for these facilities to run and provide care to Rhode Islanders. And it would be neither fair nor accurate to ignore the fact that many of these improvements have occurred under Prospect's ownership. Capital investments in RWMC and OLF since 2014 have revived aging physical plants, expanded services, and attracted new physicians. *See* AMI Final Report at 35. Even this year, RWMC opened "Rhode Island's first completely dedicated emergency room unit to treat mental health, drug and alcohol medical emergencies"—certainly an essential need in the state.[35]

2. Character, Commitment, Competence, and Community Standing as Evidenced by Quality, Employee Relations, Regulatory Failures, and Closed Hospitals

In Rhode Island, the Center for Medicare & Medicaid Services ("CMS") mediocre star ratings of these hospitals have not improved since 2014 (both were rated at a 3 in 2014).[36] In fact, OLF's star rating has decreased and is most recently at a 2.[37] RWMC and OLF are in the bottom half of the state's hospitals overall based on CMS ratings.[38] The Rhode Island Hospitals have been penalized by CMS since 2014 by a reduction in Medicare payments under a program that measures

[35]https://www.chartercare.org/news/roger-williams-medical-center-opens-behavioral-health-and-substance-use-emergency-treatment-unit/.

[36] Henry Powderly, *CMS updates hospital star ratings, more than 500 earn top marks*, Healthcare IT News, July 23, 2015, https://www.healthcareitnews.com/news/cms-updates-hospital-start-ratings-more-500-earn-top-marks (search "Roger Williams Medical Center" and "Our Lady of Fatima"); https://www.medicare.gov/care-compare/details/hospital/410004?city=Providence&state=RI ("Roger Williams Medical Center" as of April 23, 2021).

[37] https://www.medicare.gov/care-compare/details/hospital/410005?city=Providence&state=RI ("Our Lady of Fatima" as of April 23, 2021).

[38]https://www.medicare.gov/care-compare/results?searchType=Hospital&page=1&city=Providence&state=RI&radius=25&sort=closest (comparing all Rhode Island Hospitals as of April 23, 2021).

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rates of infections, blood clots, and other preventable complications that occur at hospitals.[39] The Attorney General received a 2017 consulting report that outlines findings of inspection of the equipment in operating rooms at OLF and identifies priority items to address as well as an action plan. *See* C-CIIH-008262-008316. Litigation ensued when Prospect refused to provide an internal report associated with this issue. *See NLRB v. Prospect CharterCARE*, No. 19-2289 (1st Cir. 2019).

We heard from hospital employees that supply shelves are often empty, the equipment and supplies are "substandard," and old equipment is left unreplaced. *See* Public Meeting, testimony of [Redacted] 89:13-90:18, Dec. 10, 2020; *see also* testimony of [Redacted] 79:2-22; 79:23-80:5 (noting assault of employees by behavioral health patients due to lack of security guards and larger turnover rate of employees). In March 2020, there was a COVID outbreak in the geriatric psychiatric unit at OLF that infected 19 of the 21 patients. *Id.* at 92:9-13. Unfortunately, 6 later died. *Id.* While the Attorney General appreciates that hospitals across the State and nation were grappling with preparedness for the pandemic early on, these numbers are startling. PCC management has vigorously disputed these criticisms and asserts that the quality of care provided at these hospitals is high. *See* Milo SUO 95:14-23, October 27, 2020; Leahey SUO 64:18-66:7, 143:16-146:15; 147:14-148:8, October 26, 2020.

These concerns are not limited to Rhode Island. Prospect was under a Certificate of Need settlement agreement with the Connecticut Department of Public Health ("DPH") related to its acquisitions of three Connecticut hospitals in 2016.[40] Despite meeting all conditions of the

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[39] Jordan Rau, *Look Up Your Hospital; Is It Being Penalized by Medicare?* KHN, Feb. 18, 2021, https://khn.org/news/hospital-penalties/ (search "Rhode Island" for penalties from 2015-2021).

[40]https://portal.ct.gov/OHS/Health-Systems-Planning/Certificate-of-Need/Hospital-Mergers-Acquisitions-and-Compliance (Waterbury, Docket No. 15-32017-486; Manchester Memorial Hospital & Rockville General Hospital, Docket No. 15-32016-486.

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settlement agreement, DPH extended that consent order for 18 months due to clinical and quality concerns.[41] We are informed that the consent order is due to expire in May 2021.

Another consideration here is the relationship among Prospect, the Rhode Island nurses, and other essential front-line workers.[42] United Nurses and Allied Professionals ("UNAP"), representing roughly 600 employees at OLF, raised concerns about Prospect and registered objections to the Proposed Transaction throughout the entirety of the Attorney General's review. As mentioned above, the Attorney General heard from union leadership about lack of appropriate and quality medical equipment, staffing shortages, and morale issues. *See* Callaci SUO 86:12-88:21 (identifying inadequate staffing, inadequate equipment, and lack of trust of Prospect as the three major concerns that UNAP has with the operations of OLF). Since Prospect's acquisition of PCC, roughly 400 ancillary employees formed a union because they were "unhappy with the pressure that comes with inadequate staffing," among other things. *Id*. at 91:9-22. According to Redacted, counsel for United Nurses and Allied Professionals which represents staff at Prospect hospitals, roughly 50 to 70 employees at Prospect Rhode Island Home Health and Hospice are voting on whether to organize a union because they are unhappy with Prospect as an employer. *Id*. at 29:5-23. The Attorney General is concerned that labor relations at these two safety net hospitals appear to be fraught. Hopefully, with the resolution of the St. Joseph's pension case,

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https://www.courant.com/news/connecticut/hc-news-waterbury-manchester-rockville-hospitals-scrutiny-20191210-ina3iijrzzdj3atlwi2lokyqhq-story.html.

[41] Josh Kovner, *Oversight of for-profit owner of Waterbury, Manchester, Rockville hospital continued for 18 months after suicide, string of medical errors,* Hartford Courant, Dec. 10, 2019,
At the time of writing of this decision, a final report on compliance has not been completed.

[42] The Attorney General notes that a number of physicians have given statements at the Public Meeting and Health Services Council meetings and none have raised concerns about Prospect's ownership. In fact, many have praised Prospect. With that said, several (though by no means all) of those physicians were recruited under Prospect's ownership or have formed relationships with Lee, Topper and other Prospect executives, which has not been the experience for the nurses and other frontline workers.

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as well as the departure of the private equity owner, the new owners can work on repairing and stabilizing this relationship in the future.

In recent years, Prospect made plans to sell, and later closed, some of its other hospitals. *See* CIIH16-000976. In 2019, Prospect decided to close the Nix Hospital System ("Nix") in Texas (selling some of its assets to real-estate investors) and sell the East Orange General Hospital ("EOGH") in New Jersey, as both were "going concern" businesses. *Id*. The sale of EOGH is currently pending. The Attorney General understands that Prospect's business model of acquiring distressed hospitals with a plan to make them profitable cannot always be successful, but Prospect did not close or sell a hospital during the course of the first twenty years it had been in this business. The recent pattern is concerning. *See* 2014 Decision p. 45.

Further, it cannot go without saying that other conduct discussed herein (*see supra*, Sections A. Board of Directors) weigh heavily against the character, commitment, competence, and standing in the community of these parties. The dysfunctional board, the conflicts, and the failure of the Transacting Parties to meaningfully vet the Proposed Transaction all must be considered and not ignored.

3. Financial Decisions and Priorities of the Transacting Parties

It is significant that the Hospital Conversions Act includes character, competence, commitment, and community standing among the criteria used to review a transaction involving a for-profit acquiror. Clearly the legislature contemplated that, notwithstanding the fact that for-profit companies are permitted to purchase hospitals in Rhode Island, they must be judged not merely based on their ability to meet their own goal of making a profit; both DOH and the Attorney General are directed to consider for-profit acquirors based on higher and more universal measures.

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Before addressing the Transacting Parties larger financial decisions, it must be noted that that, while Prospect has made the capital investments required under the 2014 Decision, it has nonetheless failed to keep up with depreciation at the PCC hospitals. *See* PYA Report 10. These equipment concerns [redacted] *See* C-CIIH-013996.

The Transacting Parties have left a hospital system described in the PYA Report as in a financial condition that "absent governmental assistance associated with the COVID-19 public health emergency, could raise questions regarding the ongoing financial viability of PMH to support its subsidiaries, including PCC." PYA Report 12. They have also realized over half a billion dollars in dividends that is now carried on the PMH books as debt. *See* Section A, and references therein. Given their course of conduct, it should come as no surprise that the two post-closing owners [redacted] Topper SUO 140:25-141:8; Lee SUO II 41:2-11.

E. <u>Tax Implications of the Proposed Transaction</u>

There are three criteria in the Hospitals Conversions Act that deal with the tax implications of the Proposed Transaction. [43] These criteria have historically been viewed through the lens of a non-profit corporation converting to a for-profit corporation. For instance, considering "[w]hether the conversion is proper under applicable state tax code provisions" (and "[w]hether the proposed conversion jeopardizes the tax status of the existing hospital") hinges on a non-profit losing its status, which has important tax and other implications. Likewise, "[w]hether appropriate tax status implications of the entity received the proceeds of have been considered" is applicable to a for-profit entity receiving proceeds from a non-profit, which may be charitable or otherwise restricted.

[43] *See* R.I. Gen. Laws §§ 23-17.14-7(c)(20), (21) and (25)(ii).

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As the Transacting Parties are already for-profit corporations and for-profit limited liability companies, these criteria were not applicable to the Attorney General's review.

G. MISCELLANEOUS

There are several additional HCA criteria the Attorney General considers applicable to this conversion and that do not fit neatly into the above categories. Those criteria are discussed below. Also discussed below are the HCA's monitoring requirements.

1. Right of First Refusal

The HCA requires the Attorney General to consider "[w]hether a right of first refusal to repurchase the assets has been retained." R.I Gen. Laws § 23-17.14-7 (c)(27). The Proposed Transaction does not include a right of first refusal, nor is one necessary.

2. Control Premium

The HCA includes a criterion asking "[w]hether a control premium is an appropriate component of the proposed conversion." R.I Gen. Laws § 23-17.14-7 (c)(27). The Transacting Parties did not indicate that the buyer will be paying a control premium for Leonard Green's shares. The Attorney General finds that a control premium would be inappropriate in any case, given the already-significant amount of control Lee exercises over PMH and its subsidiaries. *See, e.g.*, Lee I SUO 47:9-20; 172-3-173:20 (describing his responsibilities as CEO of PMH); Baumer SUO I 22:23–25:18; 30:10–20; 35:17–36:14 [redacted]

3. Monitoring

The HCA mandates that "[f]or a period of five (5) years following the effective date of the conversion . . . [t]he department of health and the department of attorney general shall monitor,

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assess, and evaluate the acquiror's compliance with all of the conditions of approval, as well as annually review the impact of the conversion on healthcare costs and services within the communities served." R.I. Gen. Laws § 23-17.14-28(d).

The HCA also compels the acquiror—here, Chamber, Inc.— to "pay for the costs" of such "monitoring, evaluation, and assessment in an amount to be determined by the attorney general or the director as they deem appropriate." *Id.* The money to pay these costs is to be "placed in escrow during the term of the monitoring period." *Id.*

The Attorney General has conditioned its approval of this conversion on a requirement that Chamber, Inc. enter all agreements with the Attorney General necessary to fulfill its statutory duty to fund the Attorney General's post-conversion monitoring, evaluation, and assessment. Because the Attorney General expects to choose an entity to begin undertaking these functions soon following the issuance of this Decision, the Attorney General will prompt Chamber, Inc. to enter the required agreements forthwith.

V. CONCLUSION

The overall financial risk created by the financial condition of the Rhode Island Hospitals' parent company, PMH, threatens to overwhelm the benefits the Hospitals have realized under PMH's ownership, which is especially concerning because RWMC and OLF are both valued community assets. The financial choices of the Transacting Parties and the condition in which those choices have left the company that owns these Rhode Island healthcare institutions is at odds with the future security of these local hospitals, and the Attorney General does not hesitate to conclude that significant financial conditions are required as a "minimum investment to protect the assets, financial health, and well-being of the new hospital and for community benefit." R.I. Gen. Laws § 23-17.14-28(c).

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Wherefore, based upon the information provided above in this Decision, the Proposed Transaction is **APPROVED WITH CONDITIONS.** These conditions are outlined below.

VI. CONDITIONS

All of the following Conditions are directly related to the proposed conversion and the purposes of the Hospital Conversions Act. The Attorney General's APPROVAL WITH CONDITIONS is contingent upon the satisfaction of the Conditions. The Proposed Transaction shall not take place until CERTAIN CONDITIONS have been satisfied. The Attorney General shall enforce compliance with these Conditions pursuant to the Hospital Conversions Act, including R.I. Gen. Laws Section 23-17.14-30.

DEFINITIONS

The following definitions shall apply to the terms used in these Conditions[44]:

(1) "Agent/Trustee" as that term is used in these Conditions shall mean a third party, selected by the Attorney General, who, in the event that any escrow or letter of credit funds are delivered to the Agent/Trustee pursuant to Conditions 6.5 or 6.6, respectively: (a) shall act as a fiduciary for the Rhode Island Hospitals and other PCC providers included in these Conditions, (b) who shall hold the funds from the Escrow Accounts and/or Letters of Credit, as applicable, in trust for the Rhode Island Hospitals and other PCC providers included in these Conditions, and (c) shall have duties and powers specific to the holding and distribution of funds delivered to the Agent/Trustee pursuant to Conditions 6.5 and 6.6 as set forth in the Trustee Agreement. The Agent/Trustee may be replaced at any time at the direction of, or with the approval of, the Attorney General.

(2) "Agent/Trustee Agreement" as that term is used in these Conditions shall mean the document that sets forth the Agent/Trustee's powers and duties specific to the holding and distribution of any funds delivered to the Agent/Trustee pursuant to Condition 6. The Agent/Trustee Agreement and any amendments or modifications thereto shall be subject to the approval of the Attorney General. The Agent/Trustee Agreement shall be approved by the Attorney General no more than sixty (60) days after the closing.

(3) "CAPEX" shall mean routine and strategic capital investments recognized by GAAP that are limited to the following, unless otherwise approved by the Attorney

[44] Terms not defined below shall be defined in accordance with the Decision.

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General: new equipment, equipment replacement, facility renovation, new facilities, construction in progress, medical office space, implementation of new services, information systems and licenses, physician practice acquisitions up to but no greater than $5 million during the Conditions and Monitoring Period, and shall include commitments incurred pursuant to capital financing leases.

(4) "Community Director" shall be defined as an individual who resides or works within the Prospect CharterCARE Service Area and has the appropriate skill sets to serve on a hospital board of directors. *See* R.I. Gen. Laws § 23-17.14-7(25)(viii).

(5) "Conditions" shall mean Conditions 1-34 and all subparts as set forth herein.

(6) "Conditions and Monitoring Period" shall begin upon issuance of the Decision and extend through September 30, 2026 of Fiscal Year 2026 and such time thereafter up to reversion of funds pursuant to Condition 6.

(7) "Essential Health Care Services" to be provided by PCC and its subsidiaries shall mean the following:

a) A 24-hour emergency department;
b) Medical/Surgical Services and Intensive/Coronary Care Unit;
c) Acute Dialysis Services;
d) Inpatient and Outpatient Rehabilitation Services, including Sub-acute;
e) Ambulatory Care Services;
f) Emergency Services, including emergency behavioral health services;
g) Inpatient and Outpatient Psychiatric/Mental Health/Addiction Medicine Services;
h) Diagnostic Imaging and Interventional/Radiology Services, including diagnostic Cardiac Catheterization;
i) Laboratory/Pathology;
j) Inpatient and Outpatient Cancer Services including Blood and Marrow Transplantation/ Surgical and Radiation Oncology;
k) Sleep Lab;
l) Wound Care/Hyperbaric Services;
m) Homecare/Hospice services; and,
n) Any other primary care service, as defined by R.I. Gen. Laws § 23-17.14-18 and under Rhode Island Department of Health regulations related to said statute, not listed herein.

(8) An "Insolvency Event" shall occur if Prospect or any of its subsidiaries and/or affiliates shall: (a) file a voluntary bankruptcy petition, (b) be the subject of an involuntary bankruptcy petition that is not dismissed within forty-five days of its filing, (c) suffer, request or acquiesce in the appointment of a receiver, guardian, conservator, trustee, custodian, liquidator or other similar official over such entity or substantially all of the property or assets of such entity that is not reversed or

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vacated within forty-five days of such appointment, or (d) make an assignment for the benefit of creditors, or (e) seek or be the subject of any case seeking relief under any federal, state or other statute, law or regulation relating to the creditor/debtor relationship other than as is described in clauses (a) to (d) above (each, a "Proceeding"); provided, however, that it shall not be an Insolvency Event hereunder if the aggregate revenues of the entity or entities subject to the Proceeding (each, an "Affected Entity") do not exceed 5% of the consolidated revenues of Prospect and all of its consolidated subsidiaries for any of the preceding three fiscal years; and provided further, that the preceding proviso shall not be applicable if, as a direct or indirect result of the Proceeding, Prospect or any of its other subsidiaries or affiliates either (i) lose access to cash in the ordinary course of business in an amount greater than the revenues of the Affected Entity or Entities, or (ii) suffer a material disruption to their operations in the ordinary course of business, in each case, for a period greater than seven (7) days.

(9) "Leonard Green" shall mean Green Equity Investors V, L.P. ("GEI V"), Green Equity Investors Side V, L.P. ("GEI Side V"), and Ivy LGP Co-Invest LLC ("LGP Co-Invest").

(10) "MAAP Obligations" shall mean PCC's obligations under the **CMS Accelerated and Advance Payment** Program or Medicare **Advance Payment** Program, including all recoupments, fines, penalties and any other related costs and expenses.

(11) "PCC" or "Prospect CharterCARE" shall mean, collectively, Prospect CharterCARE, LLC and its subsidiaries in existence as of as of the date of the Decision; provided that neither Prospect CharterCARE Elmhurst, LCC nor Prospect CharterCARE Ancillary Services, LLC, shall be included in the definition of PCC or Prospect CharterCARE.

I. TRANSACTION

1. The transaction shall be implemented as outlined in the Initial Application, including all Exhibits and Supplemental Responses and as modified and/or amended consistent with these conditions, provided that $10,000,000 payable to Leonard Green pursuant to the Merger Agreement shall be contributed by Leonard Green to the funding of the Escrows set forth in Condition 6.

2. For the duration of the Conditions and Monitoring Period, upon any change in what was represented by the Transacting Parties in the Initial Application, Merger Agreement, or any supplemental responses describing post-closing actions of the Transacting Parties in connection with the approval of this transaction, notice shall be provided to the Attorney General no fewer than thirty (30) days prior to the implementation of any such change.

3. For the duration of the Conditions and Monitoring Period:

   (a) Provide notice to the Attorney General identifying any post-closing contracts, material amendments to existing contracts, or termination of contracts, among any

of the Transacting Parties and any of the current officers, directors, board members, members, or senior management of Prospect CharterCARE and its subsidiaries, no fewer than thirty (30) days prior to the implementation of any such change; and

(b) Provide notice to the Attorney General identifying any post-closing contracts, material amendments to existing contracts, or termination of contracts, among any of the Transacting Parties and any of the current officers, directors, board members, members, or senior management of Prospect Medical Holdings, except for changes to employment contracts, compensation or distribution agreements, no fewer than thirty (30) days prior to the implementation of any such change.

4. Prospect shall pay all costs and expenses due from the Transacting Parties pursuant to the Reimbursement Agreement dated January 28, 2020 in full prior to the closing of the Proposed Transaction.

II. FINANCIAL CONDITIONS

5. **Financial Commitment:** Leonard Green, solely with respect to Condition 5.1, and Prospect shall provide the following support (collectively, the "Financial Commitment") to PCC:

5.1 Provide for the Escrows and/or Letters of Credit as set forth in Condition 6.

5.2 Ensure payment of all of PCC's operating expenses and pay the difference between PCC's total net revenue and total operating expenses (net operating loss) on an ongoing basis.

5.3 Beginning in Fiscal Year 2020 through the end of Fiscal Year 2026, spend not less than $72.0 million on CAPEX for the Rhode Island Hospitals only, unless otherwise approved by the Attorney General, which shall be spent according to the following schedule:

(a) For the period covering Fiscal Year 2020 and the first three quarters of fiscal year 2021, not less than $12.0 million; and

(b) For the period between October 1, 2021 and September 30, 2026, not less than $60 million shall be spent as follows:

i. not less than $10.0 million during each fiscal year;
ii. not less than $24 million in CAPEX shall be spent by September 30, 2023; and
iii. not less than $48 million in CAPEX shall be spent by September 30, 2025.

5.4 No more than $27 million of PACE financing may be applied against the minimum CAPEX requirement.

6. Escrow/Letters of Credit: Prospect, its parent entities and/or principal shareholders shall fund the following escrow accounts (collectively the "Escrows") and provide the following irrevocable standby letters of credit (the "Letters of Credit"):

6.1 Interim Escrows. Pursuant to one or more escrow agreements acceptable to the Attorney General, Prospect, its parent entities and/or principal shareholders and Leonard Green shall, prior to Closing of the Proposed Transaction, fund three (3) escrow accounts as follows (collectively the "Interim Escrows"):

(a) The amount of $12,000,000, of which Prospect shall fund $4,000,000 and Leonard Green shall fund $8,000,000 ("the Global Conditions Escrow");

(b) The amount of $41,000,000 (the "CAPEX Escrow"), of which Prospect shall fund $14,200,000 and Leonard Green shall fund $26,800,000;

(c) The amount of $27,000,000, funded entirely by Prospect ("MAAP Escrow");

(d) The Interim Escrows shall comply with, among other things, the terms set forth in Condition 6.5;

(e) All funds that Leonard Green is required to provide for the Interim Escrows shall be paid directly by Leonard Green; and

(f) The Interim Escrows shall remain in place until replaced as set forth in Conditions 6.2 and 6.3, and the Attorney General shall provide written instructions to the escrow agent for the Interim Escrows to release the funds in the Interim Escrows for the purpose of providing the Letters of Credit and/or Escrows required by Conditions 6.2 and 6.3.

(g) In the event a draw or a reduction is required from the Interim Escrows, such draw or reduction shall take place in accordance with the provisions of Conditions 6.4 or 6.5 as applicable.

6.2 Prospect Letters of Credit. Prospect, its parent entities and/or principal shareholders shall, on or before August 15, 2021, provide three (3) irrevocable standby letters of credit (collectively the "Prospect Letters of Credit"), in accordance with and subject to Condition 6.6, as follows:

(a) A $4,000,000 letter of credit that shall not expire until the Attorney General has determined that Prospect has complied with all Conditions through September 30, 2026 ("Prospect Global Conditions LOC").

(b) A $14,200,000 letter of credit (the "Prospect CAPEX LOC") that shall be reduced in accordance with the CAPEX Escrow/LOC Reduction Schedule set forth in Condition 6.4.

(c) A $27,000,000 letter of credit (the "MAAP LOC") that shall not expire until the Attorney General has determined that all of PCC's MAAP Obligations have been satisfied in full. The MAAP LOC shall, among other things, secure Prospect's guaranty of PCC's MAAP Obligations (see Condition 9). The MAAP LOC shall be reduced quarterly, only upon the written determination of the Attorney General, by the amount of the PCC's MAAP obligations that have been satisfied in the preceding quarter.

6.3 Leonard Green Obligations. Leonard Green shall, on or before August 15, 2021, either fund Escrows or provide irrevocable standby Letters of Credit, in accordance with and subject to Conditions 6.5 and 6.6, provided that Leonard Green shall use reasonable commercial efforts to obtain the Letters of Credit as set forth in this Condition 6.3.

(a) Provide an Escrow or a Letter of Credit in the amount of $8,000,000 that shall not expire until the Attorney General has determined that Prospect has complied with all Conditions through September 30, 2026 ("LG Global Conditions Escrow/LOC").

(b) Provide an Escrow or a Letter of Credit in the amount of $26,800,000 (the "LG CAPEX Escrow/LOC") that that shall be reduced in accordance with the CAPEX Escrow/LOC Reduction Schedule set forth in Condition 6.4.

6.4 "CAPEX Escrow/LOC Reduction Schedule" shall mean the following reductions in the Prospect CAPEX LOC and the LG CAPEX Escrow/LOC (collectively the "CAPEX Funds") based on the following conditions:

(a) An $8 million reduction in the CAPEX Funds, with 40% of the reduction returning to Prospect and 60% of the reduction returning to Leonard Green, on the later to occur of September 30, 2021, or the date upon which all of the following conditions have been satisfied: (a) the Attorney General has determined in writing, based upon documentation provided by Prospect no later than July 30, 2021, that Prospect has spent not less than $12.0 million in CAPEX for the Rhode Island Hospitals between October 1, 2019, and June 30, 2021, (provided that none of the foregoing CAPEX payments shall be included in the calculation of the minimum CAPEX requirement set forth in Condition 5.3(b)); (b) Prospect has provided Letters of Credit in accordance with Condition 6.2; and (c) Leonard Green has provided Escrows or Letters of Credit in accordance with Condition 6.3.

(b) A $6.0 million reduction in the CAPEX Funds upon the written determination by the Attorney General that Prospect has complied with all Conditions through September 30, 2022, with the reduction prorated between Prospect and Leonard Green based on the Reduction Percentages.

(c) A $7.0 million reduction in the CAPEX Funds upon the written determination by the Attorney General that Prospect has complied with all Conditions through

September 30, 2023, with the reduction prorated between Prospect and Leonard Green based on the Reduction Percentages.

(d) A $7.0 million reduction in the CAPEX Funds upon the written determination by the Attorney General that Prospect has complied with all Conditions through September 30, 2024, with the reduction prorated between Prospect and Leonard Green based on the Reduction Percentages.

(e) A $7.0 million reduction in the CAPEX Funds upon the written determination by the Attorney General that Prospect has complied with all Conditions through September 30, 2025, with the reduction prorated between Prospect and Leonard Green based on the Reduction Percentages.

(f) A $6.0 million reduction in the CAPEX Funds upon the written determination by the Attorney General that Prospect has complied with all Conditions through September 30, 2026, with the reduction prorated between Prospect and Leonard Green based on the Reduction Percentages.

(g) If Prospect fails to comply with a mandated condition in a given fiscal year, the scheduled reduction for that fiscal year shall not occur until the Attorney General has determined in writing that Prospect has remedied the failure.

(h) The term "Reduction Percentages" shall mean 66.67% to the LG CAPEX Escrow/LOC and 33.3% to the Prospect CAPEX LOC.

6.5 The following terms, among others, shall apply to the Escrows:

(a) The Escrows shall not be funded by PCC's revenue, funded by a loan secured by PCC's assets, or collateralized by PCC's assets;

(b) The funds in the Escrows shall, at the written direction of the Attorney General, be distributed to the Agent/Trustee, if, as determined by the Attorney General (i) Prospect fails to comply with its obligations under II. Financial Conditions (Conditions 5-11) or Condition 22 (Continuity of Services), and/or (ii) an Insolvency Event occurs;

(c) The Attorney General shall provide written instructions, in accordance with these Conditions, to the escrow agent regarding the distribution of funds from the Escrows;

(d) The Escrows shall not be reflected as a liability of PCC or the Hospitals on their financials;

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(e) The Escrows, with the exception of the Interim Escrows set forth in Condition 6.1, shall be (i) with an entity that conducts business in the State of Rhode Island, (ii) be subject to Rhode Island law, and (iii) be subject to an agreement that provides, among other things, for disputes to be resolved in the courts of Rhode Island;

(f) The agreements governing the Escrows shall be approved by the Attorney General; and

(g) The escrow agent shall be approved by the Attorney General.

6.6 The following terms, among others, shall apply to the Letters of Credit:

(a) The Letters of Credit shall not be funded by PCC's revenue, funded by a loan secured by PCC's assets, or collateralized by PCC's assets;

(b) The Letters of Credit shall list the Agent/Trustee as the beneficiary;

(c) The Letters of Credit shall be irrevocable standby letters of credit in a form acceptable to the Attorney General;

(d) The Letters of Credit may be drawn upon by the Agent/Trustee, at the written direction of the Attorney General, if, as determined by the Attorney General: (i) Prospect fails to comply with its obligations under II. Financial Conditions (Conditions 5-11) or Condition 22 (Continuity of Services) and/or (ii) an Insolvency Event occurs;

(e) The Attorney General shall provide written instructions, in accordance with these Conditions, to the financial institution issuing the Letters of Credit regarding the reduction in the Letters of Credit;

(f) The Letters of Credit shall not be reflected as a liability of PCC or the Hospitals on their financials;

(g) The Letters of Credit shall be (i) with an entity that conducts business in the State of Rhode Island, (ii) be subject to Rhode Island law, and (iii) be subject to an agreement that provides, among other things, for disputes to be resolved in the courts of Rhode Island;

(h) The agreements governing the Letters of Credit shall be approved by the Attorney General; and

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(i) The Letters of Credit shall be issued by one or more financial institutions approved by the Attorney General.

6.7 Reduction determinations with respect to the CAPEX Escrows and the Letters of Credit, as applicable, will be made by the Attorney General within thirty (30) days after documentation provided by Prospect to support a reduction is deemed complete by the Attorney General, such completeness determination not to be unreasonably withheld.

6.8 (a) If the Attorney General determines in writing, as provided in Condition 6.7, that Prospect has failed to comply with any of the required Conditions at any time in a given fiscal year, the Attorney General shall provide Prospect with written notice specifying in reasonable detail the Condition(s) that the Attorney General has determined has not been satisfied and the reasons therefor, and Prospect shall have thirty business days to cure any and all deficiencies with respect to such specified Condition(s). If Prospect has cured any and all deficiencies with respect to such Condition(s) within thirty (30) days of such written notice, the Attorney General shall make the scheduled reduction determination as provided in Condition 6.7.

(b) The Attorney General shall notify Prospect ten (10) days prior to any draw of the Escrows or Letters of Credit pursuant to Conditions 6.5(b) or 6.6(d), respectively, such notification to specify in reasonable detail the Condition(s) that the Attorney General has determined has not been satisfied and the reasons therefor, unless exigent circumstances exist, including but not limited to significant service disruptions or imminent closure of either of the Rhode Island Hospitals which require an immediate draw, in which case the Attorney General shall so inform Prospect, and may proceed with the draw within two (2) business days.

6.9 Prospect and Leonard Green shall pay all fees and costs associated with the Escrows and Letters of Credit.

6.10 Agent/Trustee Agreement. Any of the funds from the Escrows and/or the Letters of Credit that are delivered to the Agent/Trustee shall be governed by the Agent/Trustee Agreement. Prospect and Leonard Green shall execute the Agent/Trustee Agreement within five (5) business days of its approval by the Attorney General.

7. Operating Covenants

7.1 PCC shall ensure all payroll, including salaries, retirement contributions and benefits, payroll taxes, property taxes, sales taxes, hospital taxes and fees and workers compensation is paid on a timely basis. In the event that any such payments are delinquent by more than 15 days, PMH shall provide funding in an amount equal to the delinquency and cure the delinquency within thirty (30) days upon notification of the delinquency.

7.2 PCC shall ensure its vendors are paid on a timely basis. In the event accounts payable days outstanding is greater than 90 days, PMH shall provide funding to PCC so that accounts payable are less than 90 days at the next quarterly measurement.

8. **PACE Obligation**: Prospect shall guarantee the satisfaction of, and pay, all obligations owed by the Rhode Island Hospitals for PACE financing, including all debt service payments, fines, penalties and any other PACE related costs and expenses during the period of Prospect's ownership of Prospect CharterCARE and the Rhode Island Hospitals, and shall enter into an agreement prior to closing of the Proposed Transaction to meet this obligation.

9. **MAAP Obligation**

9.1 Prospect shall guarantee the satisfaction of, and pay, all MAAP Obligations of the provider organizations within PCC, including the Rhode Island Hospitals and shall enter into an agreement prior to closing of the Proposed Transaction to meet this obligation.

9.2 Prospect shall use its best efforts to obtain favorable terms for the repayment of all of the MAAP Obligations of all the provider organizations within PCC, including the Rhode Island Hospitals, and provide the Attorney General with the terms of any such agreement.

10. **TRS Note and MPT Amendments:** Prospect shall extend the maturity of the TRS Note[45] to five (5) years from April 30, 2021, and none of the PCC assets shall be used to satisfy the TRS Note during said five (5) year period, including through a sale/lease-back of said assets. Thereafter, any transfer of the PCC assets, including through a sale/lease-back, shall not occur unless and until approved by the Attorney General pursuant to the Hospital Conversion Act, R.I. Gen. Laws § 23-17.14-1 *et seq*. Prospect shall amend the TRS Note to reflect these Conditions and execute it prior to the closing of the Proposed Transaction.

11. **Management Fees:** Upon consummation of the contemplated buy-out of the 15% CCCB ownership in Prospect CharterCARE as approved by the courts or September 30, 2021, whichever is sooner, the Prospect CharterCARE Management Services Agreement shall be terminated and no management fees shall be assessed to or collected from PCC, including prior accrued management fees. During the Conditions and Monitoring Period, no management fees or other similar charges and assessments of any type pertaining to Prospect's central office functions shall be levied against Prospect CharterCARE or the Rhode Island Hospitals.

III. MONITORING AND NOTICE

12. Prospect shall comply with all necessary agreements for payment of reasonable costs associated with the expert(s) to assist the Attorney General with monitoring and enforcing compliance with the Conditions pursuant to R.I. Gen. Laws § 23-17.14-28(d)(3) and for payment of the fees of the Agent/Trustee during the Conditions and Monitoring Period. Escrow accounts shall be established and funded pursuant to these agreements prior to the closing of the Proposed Transaction.

13. Not later than the fiftieth (50th) day after the end of each fiscal quarter, Prospect shall provide the Monitor and the Attorney General with quarterly financial statements, quarterly

[45] The TRS Note is defined herein on pp. 5 and 32.

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balance sheet, quarterly statement of operations and quarterly statement of cash flows (including accounts payable and any amounts due to or due from affiliates), for Prospect Medical Holdings and Prospect CharterCARE and any other evidence documenting compliance with II. Financial Conditions (Conditions 5-11) and Condition 22 for the preceding quarter, which documents shall be certified as accurate by Prospect's Chief Financial Officer, and the PCC board minutes (Condition 29).

14. Not later than February 15th of each year, Prospect shall furnish the Monitor and the Attorney General with the audited annual financial statements of Prospect Medical Holding and Prospect CharterCARE, including but not limited to: (a) documentation of compliance with II. Financial Conditions (Conditions 5-11) and Conditions 16-29 for the preceding fiscal year, including any and all supporting documents for expenditures, including but not limited to general ledgers, current contracts, invoices, receipts, and (b) providing a projected capital budget for PCC for the next three (3) years.

15. During the Conditions and Monitoring Period, Prospect shall provide the Attorney General with evidence of a board vote of the Boards of Prospect and PCC, each accepting the audited financial statements of both Prospect and PCC.

16. **MPT, TRS Merger Agreement, PACE, MAAP, and Insolvency Event Notice:** During the Conditions and Monitoring Period, provide the Attorney General with:

16.1 notice of any proposed change to the documents related to the MPT Transaction[46] to the extent the changes concern, will by their terms apply to, or will materially impact any Rhode Island entities, no fewer than thirty (30) days prior to the implementation of any such change;

16.2 notice of any activity concerning the TRS Note, including but not limited to, repayment, refinancing, default and/or waiver, no fewer than thirty (30) days prior to the implementation of any such change;

16.3 copies of any and all notices provided to or received by a party under the Merger Agreement;

16.4 notice of any proposed change to the documents related to the obligations owed by the Rhode Island Hospitals for PACE financing, no fewer than thirty (30) days prior to the implementation of any such change;

16.5 notice of any proposed change to the documents related to the MAAP obligations of the provider organizations within PCC, including the Rhode Island Hospitals, no fewer than thirty (30) days prior to the implementation of any such change; and

16.6 notice of any and all Insolvency Event(s) of Prospect and/or any of its subsidiaries. For purposes of this Condition, the exclusion of Proceedings for Affected Entities whose

[46] The MPT Transaction is defined herein on p. 32.

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aggregate revenues do not exceed 5% of the consolidated revenues of Prospect and all of its consolidated subsidiaries for any of the preceding three fiscal years, shall not apply.

17. During the Conditions and Monitoring Period provide sixty (60) days' written advance notice to the Attorney General of any terminations or material amendments to the internal agreements between the Rhode Island entities and Prospect and its affiliates (e.g., Management Agreement).

18. During the Conditions and Monitoring Period provide sixty (60) days' written advance notice to the Attorney General of any and all new proposed organizational agreements between the Rhode Island entities and Prospect and its affiliates.

19. During the Conditions and Monitoring Period, real or personal property, including any lines of service, owned by PCC with a value in excess of $100,000 shall not be sold, transferred or encumbered without prior notice of at least sixty (60) days and approval by the Attorney General. This condition shall not be construed to limit the authority of the Attorney General under R.I. Gen. Laws § 23-17.14-1, *et seq*.

20. Prospect shall provide any and all notifications related to the Settlement Agreement in Case # 1:18-cv-00328-WES/PC-2017-3856, including but not limited to, all court approvals and implementation of the contemplated buy-out of the 15% CCCB ownership in Prospect CharterCARE.

21. During the Conditions and Monitoring Period, Prospect and Prospect CharterCARE shall provide:

    (a) Any and all notices of investigation, violations, adverse findings, determinations and actions including fines and penalties, or complaints from the Office of Inspector General, Securities and Exchange Commission, Internal Revenue Service, Centers for Medicare and Medicaid Services, United States Department of Justice, any state attorney general, the Rhode Island Department of Health, Rhode Island Medicaid, any other Rhode Island regulatory body, or any hospital accreditation organizations, as well as any and all documents related to the resolution of any notices or complaints;

    (b) Any and all notices or complaints received from the state of Rhode Island or a Rhode Island municipality for violations, or potential violations, of state tax law, including but not limited to, any notice for delinquency in payments of taxes; and

    (c) All notices, complaints, or other documents shall be provided to the Attorney General within fifteen (15) days of receipt by Prospect and/or Prospect CharterCARE.

IV. BENEFITS, GOVERNANCE AND CONTINUITY OF SERVICES

22. During the Conditions and Monitoring Period, Prospect and PCC shall keep the Rhode Island Hospitals open and operational and maintain and continue to provide at each Hospital and all non-hospital settings the full complement of Essential Health Care Services. PCC shall continue to provide access to quality healthcare services and maintain good standing status with all state and federal licensing and regulatory requirements and shall meet all accreditation standards. There shall be no suspension, termination, or material reduction of Essential Health Care Services currently provided by PCC without the prior approval by the Rhode Island Department of Health.

23. During the Conditions and Monitoring Period, PMH shall guarantee funding of the PCC 401K retirement plan(s) matching contributions in accordance with the methodology in place as of the most recent plan year. Nothing herein shall impair the right of any union now existing, or to be formed at any of the PCC entities in the future, to negotiate changes to existing collective bargaining agreements and/or to enter new collective bargaining agreement provisions with respect to 401K retirement plan(s).

24. For the six (6) months following the issuance of the Decision, Prospect shall make no changes to benefits currently provided under PCC's current plans, including vacation, sick leave, holiday, health insurance, life insurance, and continued COBRA coverage, at current levels. Thereafter and during the Conditions and Monitoring Period, Prospect shall continue to provide benefits, including vacation, sick leave, holiday, health insurance, life insurance, and continued COBRA coverage. Nothing herein shall impair the right of any union now existing, or to be formed at any of the PCC entities in the future, to negotiate changes to existing collective bargaining agreements and/or to enter new collective bargaining agreement provisions with respect to benefits.

25. During the Conditions and Monitoring Period Prospect and/or Prospect CharterCARE shall provide written notice to the Attorney General (i) within ten (10) days upon the adoption of any resolution or plan to implement a reduction in workforce, layoff, furlough, or other restructuring of the workforce that will lower the number of employed FTEs by thirty (30) or more in the course of a fiscal year at PCC, or by ten (10) or more clinical staff (physicians and/or nurses) at either of the Rhode Island Hospitals; and (ii) again no fewer than thirty (30) days prior to the implementation date thereof.

26. During the Conditions and Monitoring Period, Prospect CharterCARE shall continue to provide charity care consistent with its current charity care policy and consistent with all applicable laws and Rhode Island Department of Health Regulations 216-RICR-40-10-23, and provide the Attorney General with supporting documentation evidencing its charitable and uncompensated care expenditures.

27. Prospect and Chamber shall notify the Attorney General of the initial board members prior to closing of the Proposed Transaction and, during the Conditions and Monitoring Period, shall notify the Attorney General of any change in the boards within thirty (30) days of such change.

28. Within thirty (30) days of Prospect's buyout of the 15% CCCB ownership in Prospect CharterCARE, the corporate document that functions as bylaws for Prospect CharterCARE shall be amended to require approval of the majority of all board members, for all matters that were previously listed in Section 8.3 of the Prospect CharterCARE LLC Agreement, dated June 20, 2014.

29. Following Prospect's buyout of the 15 % CCCB ownership in Prospect CharterCARE, and through completion of the Conditions and Monitoring Period, the board shall include Samuel Lee, a licensed and practicing physician, and consist of 40-49% Community Directors. All of the Community Directors shall: (1) be independent of and not employed by or affiliated with Prospect or its affiliates; and (2) not be an elected official or an individual that is subject to the Code of Ethics. The corporate document that functions as the bylaws shall be amended to reflect this Condition within thirty (30) days of Prospect's buyout of the 15% CCCB ownership in Prospect CharterCARE. Prospect shall produce all PCC board minutes to the Attorney General with the quarterly reporting set forth in Condition 13.

30. Prospect CharterCARE shall notify the Attorney General of the initial board members within thirty (30) days of the implementation of Condition 29 and, during the Conditions and Monitoring Period, shall notify the Attorney General of any change in board members board within thirty (30) days of such change.

31. During the Conditions and Monitoring Period, all board members of Prospect, Chamber, and Prospect CharterCARE shall be required to complete fiduciary training on an annual basis and provide certification of completion to the Attorney General.

32. During the Conditions and Monitoring Period, all board members of Chamber, Prospect and Prospect CharterCARE shall file annual conflict of interest statements on a form provided by the Attorney General no later than May 31 of each year. Additionally, any newly appointed board member must file a conflict of interest statement within thirty (30) days of appointment.

33. Prospect, Prospect CharterCARE, and any and all subsidiaries shall provide, within a reasonable time, any and all information requested by the Attorney General and/or the Attorney General's monitor(s) to confirm compliance with all Conditions stated herein.

34. If Prospect and PCC seek a determination by the Attorney General that any information submitted pursuant to the above Conditions should be deemed confidential and/or proprietary under R.I. Gen. Laws § 23-17.14-32, they shall submit such information clearly labeled "Request for Confidentiality" and shall including the legal citation and/or explanation for the reason that the information should be deemed confidential.

Peter F. Neronha
Attorney General

Miriam Weizenbaum
Chief, Civil Division

Redacted SAAG
Health Care Advocate

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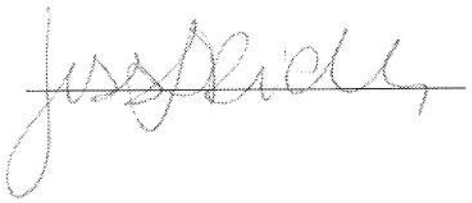
NOTICE OF APPELLATE RIGHTS

Under the Hospital Conversions Act, this Decision constitutes a final order of the Office of Attorney General. Pursuant to R.I. Gen. Laws Section 23-17.14-34, any transacting party aggrieved by a final order of the Attorney General under this chapter may seek judicial review in the superior court in accordance with Section 42-35-15.

CERTIFICATION

I hereby certify that on this 1st day of June 2021, a true copy of this Decision was sent via electronic and first-class mail to counsel for the Transacting Parties.



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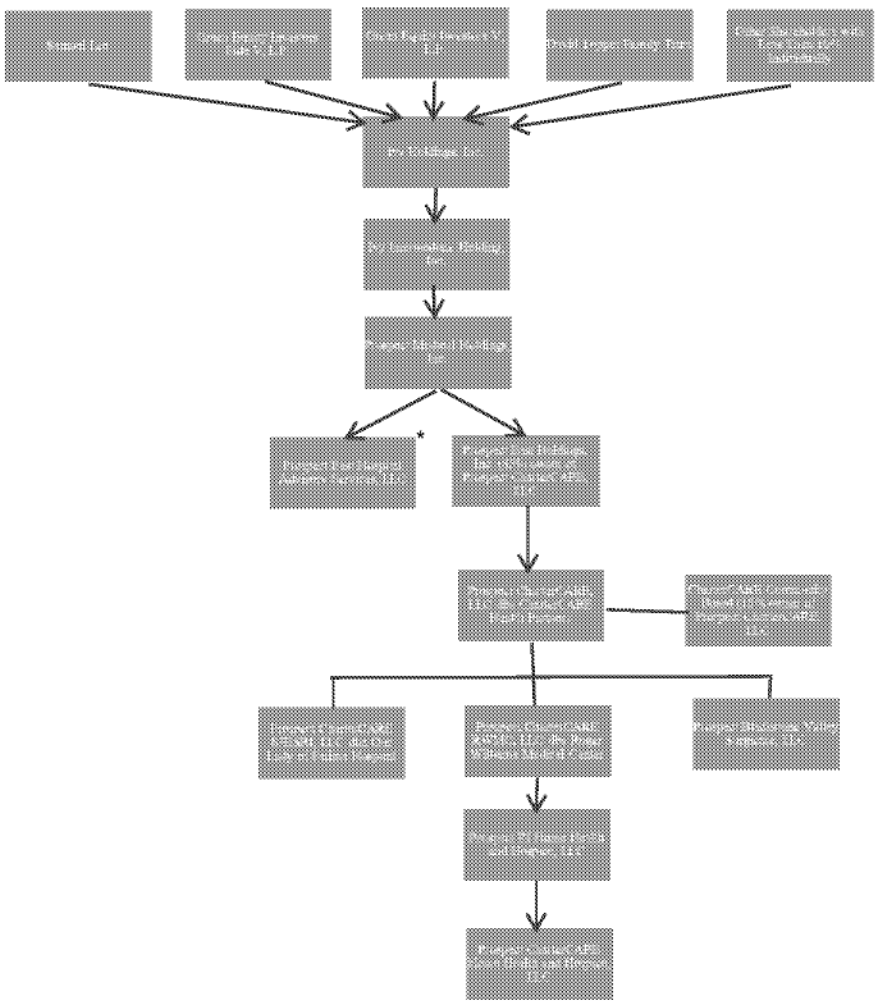
Appendix A: Organizational Chart Prior to Conversion

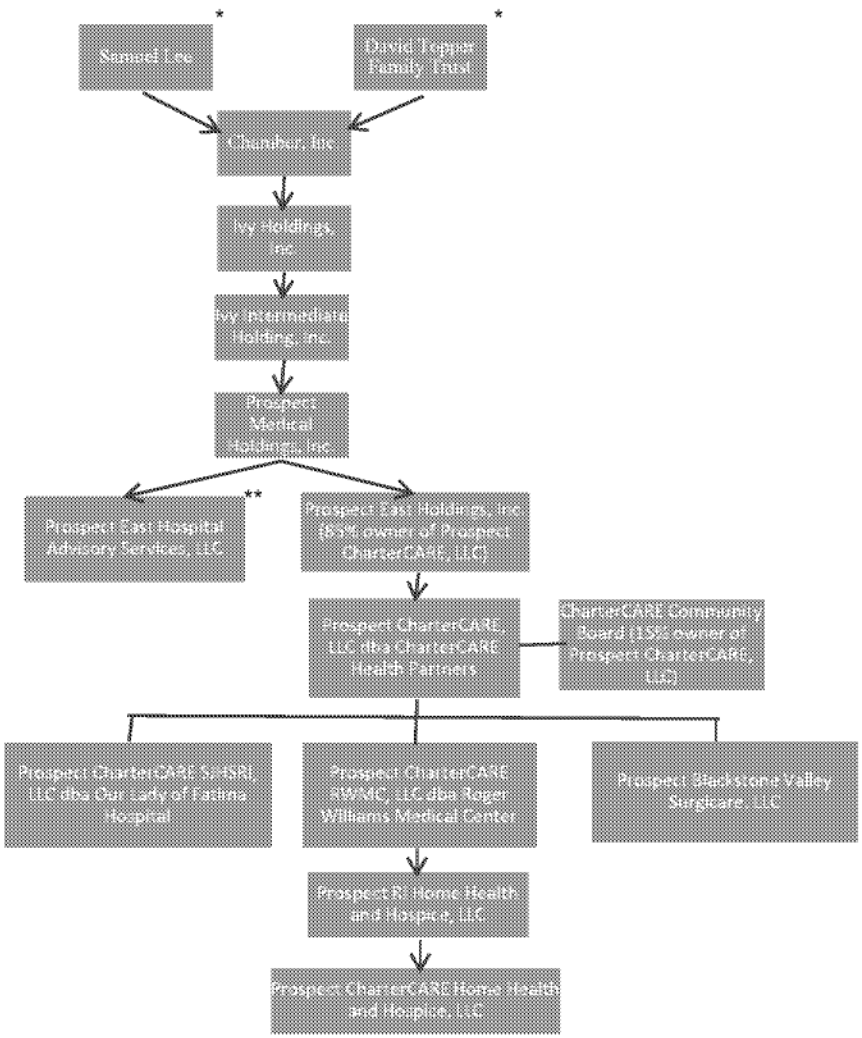
Organizational Chart
Pre-Transaction Structure



*Prospect East Hospital Advisory Services, LLC serves as manager to Prospect CharterCARE, LLC

Appendix B: Organizational Chart After Conversion

Organizational Structure
Post Transaction Structure



*Post transaction change involves ownership of Ivy Holdings, Inc., which will be solely owned by Chamber Inc., owned by Samuel Lee and David Topper through his Family Trust, with ownership interest of 66.67% and 33.33%, respectively.

**Prospect East Hospital Advisory Services, LLC serves as manager to Prospect CharterCARE, LLC

Appendix C: Expert Report of [redacted], CPA

CONFIDENTIAL

[redacted] *CPA*
[redacted]
[redacted]
[redacted]

[redacted]
Rhode Island Department of Attorney General
Health Care Advocate
150 South Main Street
Providence, RI 02903

Dear Ms. [redacted]

In accordance with our retainer agreement dated May 13, 2020, I was engaged by your office to provide financial advisory services in your review of the Chamber/Ivy application under the Hospital Conversion Act.

I have reviewed the documentation provided by the transacting parties, including the statements under oath of the key participants. I reviewed the financial statements and other information provided only in the context of the proposed transaction and this report should not be used by any of the parties for any other purpose. Additionally, this report is not an audit of Prospect Medical Holdings, Inc. (PMH) or any of its subsidiaries or affiliates. The attached Exhibits are an integral part of this document.

Transaction:

As described by the transacting parties, the proposed transaction is to effectuate a buyout of the private equity investors (Leonard Green) and other minor shareholders of PMH resulting in the original co-founders (Lee and Topper) as sole shareholders of PMH. There is no change in corporate ownership proposed for any of the Rhode Island entities. In other words, the change in control is at the ultimate parent level (Chamber & Ivy Holdings).

If approved, Prospect CharterCare SJHSRI, LLC and Prospect Charter Care RWMC, LLC will continue to be owned by Prospect CharterCare, LLC. As of September 30, 2020, Prospect CharterCare, LLC was owned 85% by Prospect East Holdings, Inc. (Prospect East), a wholly owned subsidiary of PMH and 15% by CharterCare Community Board (CCCB). Subsequent to September 30, 2020, PMH entered into a settlement agreement, part of which, when effective, will result in Prospect East purchasing CCCB's 15% ownership interest. This settlement agreement is outside the scope of my report, but the amount of the settlement is included in the FY 2020 audited financial statements.

The agreed upon purchase price is approximately $12 million and is to be accounted for as a share buyback directly from PMH.

The parties have stipulated that the purchase price was the result of negotiations between the transacting parties taking into account the following factors:

1. The enterprise value of PMH
2. The equity value of PMH
3. The dividend recapitalization transaction which occurred in FY 2018
4. Future obligations of PMH, and
5. Future capital needs of PMH

Further, the parties have stipulated that they are sophisticated investors in the healthcare industry and did not require the assistance of external consultants. As such, no reports or valuation analyses were provided for our review.

They also stated PMH will not incur any additional debt nor distribute any dividends to the acquiror as a result of this transaction.

Analysis:

I will get into greater detail later in this report when I discuss the financial statements of PMH and the Rhode Island entities, but a couple of items should be highlighted here. First, we have no way of determining if the $12 million acquisition price is fair and reasonable. [redacted] To put it into context, if 60% of the company is worth $12 million, then 100% of the company is worth $20 million. That is for a company whose FY 2020 audited financial statements report over $2.7 billion in net revenues and over $2.0 billion in total assets.

For $12 million, the acquirors (Lee & Topper) will own 100% of PMH including the $2.0 billion in assets as well as assuming all of PMH's debt and other liabilities (approximately $3.1 billion at 9/30/20), including all MPT obligations. While the debt will remain with PMH, neither Lee nor Topper are personally guaranteeing any of the existing debt or liabilities of PMH. All Lee and Topper have at risk are the amounts currently invested in PMH. No other personal assets are being pledged or collateralized.

Secondly, the $12 million purchase price is to be accounted for as a share buy-back. While no additional debt or dividend is contemplated, the cash is still coming from the company and not the co-founders. This will further weaken the balance sheet (less cash on hand) and reduce the current ratio of PMH. This may potentially benefit the co-founders, since company rather than personal funds are being used, at the expense of the subsidiary hospitals.

Finally, the transacting parties acknowledge that the leveraged dividend recapitalization transaction in fiscal 2018 was a factor in determining the purchase price. An argument could be made that this change of control exit strategy began in 2018 with this $456 million leveraged dividend recapitalization. As I will discuss further, the 2018 transaction substantially weakened

the balance sheet of PMH, benefitting the shareholders while providing minimal or no funds to any of the local operating entities.

By definition, a dividend recapitalization is a type of leveraged recapitalization that involves the issuing of new debt that is later used to pay a special dividend to shareholders. This reduces a company's equity financing in relation to its debt financing. The source of the dividends distributed as a result of dividend recapitalization is newly incurred debt, not the company's earnings. The recapitalization directly impacts the company's capital structure since its leverage increases.

Financial Statement Review:

During the course of my review, I had access to all documents provided by the transacting parties. This report focuses primarily on the financial statements provided as well as interviews under oath of senior management (both PMH and local) and the local board members.

Rhode Island Entities:

Prospect CharterCare SJHSRI, LLC

The transacting parties provided audited financial statements for Prospect CharterCare SJHSRI, LLC (SJHSRI)for the fiscal years ended September 30, 2015, 2016, 2017, 2018, 2019 and 2020. As can be seen in Exhibit 1, Comparative Statement of Operations, net revenue was basically flat during the five-year period, FY 2015 through FY 2019 ranging from a low of $141.2 million to a high of $144.9 million. Total operating expenses for the same period varied slightly more than revenues from a low of $140.5 million to a high of $148.8 million. Net income ranged from a high of $1.8 million to a loss of $6.1 million. The cumulative loss over the five-year period was $8.7 million.

For FY 2020, net revenue decreased $21.3 million (14.8%) from FY 2019. This decrease in net revenue was offset by $18 million in pandemic relief funds. Operating expenses increased $9.3 million from FY 2019. The increase includes the legal settlement of $22.3 million discussed above. The overall net loss for FY 2020 was $11 million. Without the legal settlement, SJHSRI would have had net income of $ $11.2 million in FY 2020.

The comparative Balance Sheet for the six years is shown in Exhibit 2. There are a few significant items to point out on the balance sheet. First, little or no cash is shown on the local entities [redacted] PMH manages all cash flow and determines what items will be paid and when they will be paid. Second, Property, Plant and Equipment (PPE), net is essentially flat over the six-year period. That means acquisitions or additions to PPE effectively equal the amount of deprecation on an annual basis. It does not

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appear that any major new capital projects have occurred at SJHSRI since the original transaction in 2014.

In FY 2015 through FY 2019, a due to affiliated companies (meaning funds were due back to PMH or other PMH affiliates) was reported on the SJHSRI balance sheets ranging from a low of $744,000 to a high of $5.7 million. The FY 2020 audited financial statements report a due from affiliates of $21.6 million. This represents a one-year change of $26.8 million from FY 2019, meaning PMH or its other affiliates transferred $26.8 million from SJHSRI to fund other operations. The primary driver of this change were the pandemic relief funds which were received by SJHSRI [redacted] At 9/30/20, SJHSRI reports a total refund liability for various pandemic funds of $10.2 million. Of the total, $2.3 million is in current liabilities (due within 12 months and $7.9 million is in long-term liabilities (due after 12 months). [redacted]

I will discuss this further in the Covid -19 section of this report.

Subsequent to 9/30/20, SJHSRI entered into an agreement with a third party that specializes in property assessed clean energy financing (PACE) to finance qualifying renovations. This will be discussed later in this report.

Finally, in the auditor's opinion of the annual financial statements for FY 2015 through 2019, they emphasize that "*the Company is financially dependent on its parent companies which have agreed to provide the financial support necessary for the operations of the Company. The accompanying financial statements do not reflect any adjustments or disclosures that would be required should the parent companies discontinue their financial support*".

In FY 2020, the liquidity footnote addresses the $21.6 million due from affiliates and states, *"the Company is dependent on this receivable settling in order to maintain its current liquidity"*.

Unlike a not-for-profit hospital which might have an endowment or other fundraising methodology to fund losses, SJHSRI is totally dependent on its parent and other affiliates and is not substantially viable without support from Prospect CharterCare, LLC and ultimately PMH.

Prospect CharterCare RWMC, LLC

The transacting parties provided audited financial statements for Prospect CharterCare RWMC, LLC (RWMC) for the fiscal years ended September 30, 2015, 2017, 2018, 2019 and 2020. They did not provide audited financial statements for FY 2016. The lack of these financial statements has no material impact on my overall analysis. As can be seen in Exhibit 3, Comparative Statement of Operations, net revenue increased from $171.1 million in FY 2015 to $183.3 million in FY 2019. Total operating expenses were $167.6 million in FY 2015 and $181.6

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million in FY 2019. Net income ranged from a high of $3.9 million to a loss of $12.0 million. The cumulative loss through FY 2019 was $16.6 million.

For FY 2020, net revenue decreased $13.4 million (7.3%) from FY 2019. This decrease in net revenue was offset by $16.7 million in pandemic relief funds. Operating expenses decreased $1.7 million from FY 2019. Overall net income for FY 2020 was $7.5 million, resulting in cumulative net losses of $9.1 million through the end of FY 2020.

The comparative Balance Sheet for FY 2015 through FY 2020 (excluding FY 2016) is shown in Exhibit 4. As with Prospect CharterCare SJHSRI, little or no cash is reported on the balance sheet since cash [redacted] Property, Plant and Equipment (PPE), net increases from $25.5 million in FY 2015 to $35.2 million in FY 2020. [redacted]

In FY 2015 through FY 2019, a due to affiliated companies was reported on the RWMC balance sheets ranging from a low of $5.1 million to a high of $25.8 million. The FY 2020 audited financial statements report a due from affiliates of $31.3 million. This represents a one-year change of $57.1 million from FY 2019, meaning PMH or its other affiliates transferred $57.1 million from RWMC to fund other operations. Approximately $35 million of this change results from pandemic relief funds which were received by RWMC [redacted] In addition to the $18 million in pandemic relief grants, at 9/30/20, RWMC reports a total refund liability for various pandemic funds of $16.8 million ($3.8 current, $13.0 long-term). [redacted]

I will discuss this further in the Covid -19 section of this report.

During FY2020, RWMC entered into an agreement with a third party that specializes in property assessed clean energy financing (PACE) to finance approximately $42 million qualifying renovations. This will be discussed later in this report.

The same auditor's opinion applies to RWMC's FY 2015 – FY 2019 (excluding FY 2016) annual financial statements, where they emphasize that *"the Company is financially dependent on its parent companies which have agreed to provide the financial support necessary for the operations of the Company. The accompanying financial statements do not reflect any adjustments or disclosures that would be required should the parent companies discontinue their financial support"*.

In FY 2020, the liquidity footnote addresses the $31.3 million due from affiliates and states, *"the Company is dependent on this receivable settling in order to maintain its current liquidity"*.

Once again, unlike a not-for-profit hospital which might have an endowment or other fundraising methodology to fund losses, RWMC is totally dependent on its parent and other affiliates and is not substantially viable without support from Prospect CharterCare, LLC and ultimately PMH

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Prospect CharterCare, LLC

The transacting parties provided audited financial statements for Prospect CharterCare, LLC (PCC) for the fiscal years ended September 30, 2015, 2016, 2017, 2018, 2019 and 2020. Prospect CharterCare, LLC is the parent company of Prospect CharterCare SJHSRI, LLC and Prospect CharterCare RWMC, LLC. It also includes other health care entities (such as physician group practices) under the CharterCare umbrella. As can be seen in Exhibit 5, Comparative Statement of Operations, net revenue increased from $318.3 million in FY 2015 to $356.7 in FY 2019. As further discussed in the Covid 19 section of this report, net revenue decreased $34.5 million (9.7%) in FY2020 to $322.2 million. Total operating expenses for the same period varied slightly more than revenues from a low of $319.1 million to a high of $372.7 million. Net losses ranged from $.6 million $36.2 million. The cumulative loss over the six-year period was $88.2 million.

For FY 2020, the decrease in net revenues is offset by $36.1 million in pandemic relief grants. Additionally, operating expenses include the $22.2 million in legal settlement discussed earlier. If the legal settlement is excluded, PCC has net income of $7.6 million instead of the reported loss of $14.6 million.

The comparative Balance Sheet for the six years is shown in Exhibit 6. [redacted] For FY 2015 through FY 2019, PCC reported a significant due to affiliated companies. This ranged from a low of $16.7 million to a high of $28 during the five-year period. These were amounts due to PMH and/or other affiliates primarily for funding operating losses, capital equipment purchases and acquisitions of physician group practices.

At 9/30/20, there is a $32.5 million due from affiliates which primarily relates to Covid -19 funds received by the Rhode Island hospitals from various governmental entities. This represents a one-year change of $49.2 million from FY 2019, meaning PMH or its other affiliates transferred $49.2 million from PCC to fund other operations. The primary driver of this change were the pandemic relief funds which were received by PCC [redacted] At 9/30/20, in addition to the $36.1 million in pandemic relief grant, PCC reports a total refund liability for various pandemic funds of $27.5 million ($6.2 current, $21.3 long-term). [redacted]

I will discuss this further in the Covid -19 section of this report.

The same auditor's opinion applies to Prospect CharterCare's FY 2015 – FY2019 annual financial statements, where they emphasize that *"the Company is financially dependent on its parent company which has agreed to provide the financial support necessary for the operations*

of the Company. The accompanying financial statements do not reflect any adjustments or disclosures that would be required should the parent company discontinue their financial support".

Similarly, in FY 2020, the liquidity footnote addresses the $21.6 million due from affiliates and states, *"the Company is dependent on this receivable settling in order to maintain its current liquidity".*

In other words, Prospect CharterCare, LLC is not substantially viable without support from PMH.

Obviously, the continued financial health of PMH is of vital importance to Prospect CharterCare and its subsidiaries and affiliates. [redacted] While the functions of the local board were beyond the scope of this report, most properly functioning boards should be concerned about the viability of on-going operations as well as how to fund any shortfalls and necessary capital improvements. This lack of basic financial oversight should be addressed.

The last few sections of this report have detailed why the financial health of PMH is of vital importance to Prospect CharterCare and its subsidiaries and affiliates. Exhibit 7 shows that Prospect CharterCare is important to PMH. PMH's assets and net revenues have grown substantially since the original transaction in 2014. Even after all the growth and acquisitions of the past few years, Prospect CharterCare still accounts for 11.79% of PMH's net revenue and 7.84% of PMH's total assets in FY 2020.

PMH Financials:

The transacting parties provided audited financial statements for Prospect Medical Holdings, Inc. for the fiscal years ended September 30, 2015, 2016, 2017, 2018, 2019 and 2020. Exhibit 8 details the Comparative Statement of Operations for FY 2015 through FY 2020.

Total net revenues increased from $1.3 billion in FY 2015 to $2.73 billion in FY 2020 (a 207% increase). PMH has added hospitals and related entities in a number of states during that time. Also, as outlined later in this report, COVID-19 adversely affected operations in FY2020. This added growth has increased the top line (revenues) but has not made the company more profitable. In fact, operating income has decreased from $108.3 million in FY 2015 to $ 15.6 million in FY 2020 (an 86% decrease).

Growth has been primarily funded through debt and the sale-leaseback of certain properties to MPT.

Not all of the acquisitions were successful, as the loss from discontinued operations (net of taxes) has totaled $206 million for the six-year period FY 2015 to FY 2020.

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This results in PMH's annual comprehensive gain or loss going from a gain of $34 million (2.6% of net revenue) in FY 2015 to a loss of $90 million (- 3.3% of net revenue) in FY 2020. The cumulative comprehensive loss for the six-year period was $603 million.

The comparative Balance Sheet for the six years is shown in Exhibit 9. The rapid growth and increase in debt have strained the company's balance sheet.

Long-term debt (excluding capital leases) has increased from $451 million in FY 2015 to almost $1.6 billion in FY 2020. Not all the additional debt went to fund operations or acquisitions. As previously noted, PMH executed a leveraged dividend recapitalization in February 2018. At that time, PMH closed a $1.12 billion debt financing, paid off their existing debt and issued a $457 million dividend to the shareholders. The primary beneficiaries of the dividend were Leonard Green (and its partners and investors), Lee and Topper. PMH issued an additional dividend of $44 million in FY 2019. As a consequence, $500 million is no longer available to any of the existing operating entities.

[redacted]

Between the $500 million in dividends and $603 million in comprehensive losses, PMH had a $1.06 billion deficit in stockholder equity. Put another way, liabilities exceed assets by more than $1 billion at the end of FY 2020.

Exhibit 10 details some key ratios for PMH for FY2015 through FY2020. Days cash on hand was approximately 20 days in FY 2015. It dropped into single digits for FY2016 through FY2019 with a low of 1 day cash on hand at the end of FY 2018 (the year of the large dividend). For FY 2020, days cash on hand increases to almost 52 days. However, as I discuss in the COVID-19 section of this report, that increase is primarily due to increase funding of COVID relief programs. Much of that cash will need to be paid back.

The current ratio currently exceeds 1.0 so PMH has marginal liquidity. PMH also had an available line of credit of approximately $211 million as of 9/30/20 which could be used to fund operations. The quick ratio is below 1.0 for all six years. Liquidity is discussed further in the COVID-19 section of this report.

The debt-to-equity ratio has been negative for the past three years because of large losses and the $500 million in dividend payments.

If the transaction is approved and Leonard Green exits its investment in PMH, that will remove an additional capital source for new equity. However, since its original investment in 2010, Green has not infused any substantial equity into PMH. Keeping them in the ownership structure is no guarantee that they will add equity, if needed.

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MPT Transaction:

On August 23, 2019, PMH closed a series of transactions with affiliates of Medical Properties Trust, Inc. (MPT), a publicly traded Real Estate Investment Trust (REIT). The footnotes to PMH's audited financial statements provide a detailed summary of the transactions. To summarize, there were three separate transactions between PMH and MPT.

The first transaction involved the sale to MPT of all PMH's hospital buildings in California (excluding Foothill Regional Medical Center (Foothill)), Connecticut and Pennsylvania for a purchase price of approximately $1.4 billion. The initial lease term is 15 years with three potential extensions for a total of another 15 years. The specific master lease, rent, options to purchase, cross guarantees and escalation clauses are detailed in the financial statements. The important point is these PMH facilities are now owned by MPT.

Under the second transaction, MPT provided PMH with a mortgage of approximately $51 million on the Foothill property. The mortgage has an interest rate of 7.5% per annum and matures in August 2034.

In the third transaction, PMH entered into a promissory note (the "TRS" note), under which MPT advanced PMH approximately $113 million. Interest on this note is 7.5% per annum and is subject to an annual escalation clause. The maturity date of this note is the earlier of July 2022 or, if it occurs, a sale-leaseback of the properties in Rhode Island. At 9/30/20, the balance due under the TRS note was approximately $105.5 million.

All three transactions are cross-collateralized and cross defaulted among the parties (but no personal guarantees of Green, Lee or Topper) and the assets included therein. The applicant has stipulated and the footnotes to the financials state that neither the hospital operating entities nor the real properties in Rhode Island are included in the cross-collateral or cross default agreements.

Two key takeaways from the MPT transaction are:

1. PMH has sold substantially all its real property except for Foothill and the Rhode Island properties. There is very little left to leverage to provide liquidity.

2. It is possible that another change of control may be sought prior to July 2022, to satisfy the TRS note using the Rhode Island properties in a sale-leaseback arrangement.

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PACE Financing:

Property assessed clean energy (PACE) programs allow a property owner to finance the up-front cost of energy or other eligible improvements on a property and then pay the costs back over time through a voluntary assessment. A unique characteristic of PACE assessments is that the assessment is attached to the property rather than an individual or company.

As noted in the PCC audited financial statements, in May 2020, PCC entered into an agreement with a third party that specializes in (PACE) financing to finance approximately $42 million for qualifying renovations for the property located at RWMC.

The full amount was deposited into an escrow account managed by a third-party administrator. The annual interest rate is 5.75% and the financing has a maturity date of April 30, 2045. Payments are collected through property tax bills as a non-ad valorem assessment. Payments begin in July 2020. As of 9/30/20, PCC recorded a liability of approximately $27 million and had approximately $15 million left to spend on qualifying renovations.

In January 2021, PCC entered into a similar PACE arrangement for qualifying renovations at SJHSRI for approximately $18 million. The annual interest rate is 5.75% and has a maturity date of July 31, 2046.

It is unclear how, if at all, these PACE arrangements effect any potential sale-leaseback of the Rhode Island properties under the TRS note mentioned above.

FY 2020 and COVID-19:

PMH:

The operations of PMH, similar to all other healthcare entities, were adversely affected by the spread and impact of COVID-19. According to PMH management, a number of steps were taken to mitigate the impact. Additionally, the federal and various state governments instituted legislation to assist healthcare entities with the financial ramifications.

The two primary sources of relief for healthcare institutions were the Coronavirus Aid, Relief and Economic Security Act (the CARES Act) and Paycheck Protection Program and Health Care Enhancement Act (the PPPHCE Act). The details of the two acts are beyond the scope of this report. However, PMH took advantage of both CARES and PPPHCE, as well as some state programs funding during FY2020.

For the year ended 9/30/20, PMH recognized approximately $117 million in Pandemic relief grant income. While PMH reported a comprehensive loss of approximately $90 million for FY 2020, the loss would have been over $200 million without this programmatic support.

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Additionally, funding from these programs helped stabilize the balance sheet, at least temporarily. At 9/30/20, PMH reported cash on hand of approximately $387 million. While approximately $120 million appears to relate to extending accounts payable, most of the increase appears to be from these government programs. Ultimately, approximately $276 million will need to be repaid so the cash cushion is not permanent.

PCC:

The operating results of PCC were also adversely impacted by COVID-19. Similar to PMH, PCC took steps to minimize the impact and also took advantage of CARES, PPPHCE and state programs.

For the year ended 9/30/20, PCC recognized approximately $36 million ($18 @ SJHSRI, $16.7 @RWMC and $1.3 other) in Pandemic relief grant income. PCC also reports liabilities approximately $27.5 million ($10.2 at SJHSRI, $16.8 at RWMC and $.5 other) under these various programs. $6.2 million is due during FY2021 and $21.3 million is classified as long-term (greater than 12 months). [redacted]

Conclusion:

My overall conclusion is that PMH is a highly leveraged company that continues to have large annual losses. Liabilities exceed assets by over $1 billion and the cumulative losses exceed $600 million for the six-year period under review. Additionally, the current owners issued over $500 million in dividends since PMH purchased the Rhode Island entities which benefitted the shareholders and weakened the financial position of PMH.

While pandemic relief from governmental entities has provided PMH with some short-term liquidity, that liquidity will evaporate as governmental funds are repaid and accounts payable becomes normalized.

If the transaction is approved, Leonard Green with be out and will not be available for additional equity contributions. Even if they remained in PMH, Green has been a net drain on Company assets. [redacted] Management seems to be relying on debt and the $200 million line of credit to fund the Company. This is mentioned in the footnotes to the FY 2020 audited financial statements and was reiterated by certain members of management during their interviews. However, there is no guarantee that lending institutions will leave that facility in place if losses continue to mount and there is no profitability forecasted.

While I do not believe that PMH faces a liquidity crisis in the next twelve months, I believe it will come sooner rather than later, probably within 18 to 24 months. They cannot continue to have significant operating losses and fund necessary capital projects and expect to survive long-term. The situation is complicated by the TRS note which is due in July 2022 and the fact that

most of the real property has already been sold to MPT. Unless PMH improves their operating results, they will eventually need an equity infusion or some type of debt restructuring.

In the meantime, if you approve the transaction, your office will need to impose certain conditions to ensure the continued operations of PCC, RWMC and SJHSRI. While any conditions are beyond the scope of my report, at a minimum, I would recommend continued funding of operations, capital improvements, repayment of pandemic relief funds and maintenance of all required service levels to maintain these safety-net facilities. I would also recommend that at least some of these required amounts be pre-funded or otherwise protected in the event of a restructuring by PMH.

Respectfully submitted:

Redacted CPA

April 26, 2021

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EXHIBITS

Exhibit 1

Comparative Statement of Operations - 2015 to 2020

Prospect CharterCare SJHSRI, LLC

(in thousands)

	Y/E 9/30 2020	Y/E 9/30 2019	Y/E 9/30 2018	Y/E 9/30 2017	Y/E 9/30 2016	Y/E 9/30 2015
Revenues:						
Net patient service revenue	126,316	147,297	147,129	144,498	144,754	144,741
Provision for bad debt	(7,000)	(6,813)	(6,096)	(5,819)	(6,913)	(7,897)
	119,316	140,484	141,033	138,679	137,841	136,844
Other non patient hospital revenue	2,677	2,781	3,870	4,161	3,406	5,045
Net revenue	121,993	143,265	144,903	142,840	141,247	141,889
Operating expenses:						
Salaries, wages & benefits	69,584	75,334	81,487	80,979	82,417	80,984
Supplies	16,098	19,200	19,662	19,948	20,707	19,302
Taxes & licenses	10,060	10,037	9,840	9,355	9,544	8,466
Purchased services	12,258	12,015	9,980	7,476	7,260	6,478
Depreciation & amortization	2,834	7,188	7,846	7,248	6,784	5,826
Professional fees	6,309	6,512	5,124	4,075	4,849	4,089
Legal settlement	22,250	-	-	-	-	-
Other	1,662	1,258	5,374	3,957	4,369	3,191
Insurance	1,438	1,508	1,668	2,142	3,287	1,851
Management fees	2,488	2,954	2,994	2,981	2,915	2,973
Utilities	2,052	2,125	1,957	1,862	2,227	2,786
Lease & rental	1,526	1,544	1,536	1,577	1,957	2,277
Research grant expense	-	-	-	-	-	-
Repairs & maintenance	537	671	1,261	1,247	783	1,260
Registry	860	293	46	89	222	1,071
Total operating expenses	149,956	140,639	148,775	142,936	147,321	140,554
Pandemic relief grant income	18,049	-	-	-	-	-
Income from unconsolidated investments	-	13	-	61	64	-
Operating income (loss)	(9,914)	2,639	(3,872)	(35)	(6,010)	1,335
Other expense (income):						
Interest expense	742	863	876	995	55	65
Goodwill impairment	-	-	-	-	-	-
Other expense (income), net	350	-	-	(98)	-	-
Net income (loss) from continuing operations	(11,006)	1,776	(4,748)	(932)	(6,065)	1,270
(Loss) income from discontinued operations	-	-	-	-	-	-
Net income (loss)	(11,006)	1,776	(4,748)	(932)	(6,065)	1,270

Source: Audited Financial Statements

Exhibit 2

Comparative Balance Sheets - 2015 to 2020

Prospect CharterCare SJHSRI, LLC

(in thousands)

	Y/E 9/30 2020	Y/E 9/30 2019	Y/E 9/30 2018	Y/E 9/30 2017	Y/E 9/30 2016	Y/E 9/30 2015
Assets:						
Current assets						
Cash & equivalents	177	-	-	-	-	11
Restricted cash	42	13	166	659	462	308
Patient A/R, net	14,347	20,929	20,224	17,309	16,331	16,396
Other receivables	1,644	451	554	969	821	1,198
Due from government payers	836	499	894	439	350	565
Third party settlements	-	-	-	-	-	-
Due from affiliates	31,609	-	-	-	-	-
Inventories	2,196	1,996	1,889	1,751	1,971	1,853
Prepaids and other current assets	626	655	496	922	1,073	503
Current assets held for sale	-	-	-	-	-	-
Total current assets	41,477	24,543	24,223	22,139	20,998	20,834
PP&E, net	23,871	23,726	24,064	23,152	24,763	25,796
Goodwill	-	-	-	-	-	-
Intangible assets, net	-	-	517	1,235	1,953	2,671
Insurance receivable	-	-	-	-	-	-
Equity method investments	-	-	-	-	-	-
Other assets	748	614	881	576	583	645
Total assets	66,096	48,883	49,685	47,102	48,297	49,946
Liabilities and Members' Equity						
Current liabilities:						
Accrued medical claims	-	-	488	673	-	-
A/P and other accrued liabilities	32,593	12,032	11,438	9,299	8,847	8,316
Accrued salaries, wages & benefits	6,436	4,642	4,852	4,483	4,276	4,994
Third party settlements	-	-	-	-	-	-
Deferred revenue	187	170	681	971	-	-
Due to government payers	669	3	424	36	6	168
Refund liability, current portion	2,291	-	-	-	-	-
Due to affiliated companies, net	-	5,241	5,657	744	5,137	3,736
Current portion of capital leases	164	38	369	750	718	130
Current portion of sale leaseback	-	-	-	-	-	-
Current liabilities held for sale	-	-	-	-	-	-
Total current liabilities	42,340	22,128	23,909	16,956	18,984	17,402
Malpractice reserves		-	-	-	-	-
Capital leases, net of current portion	665	-	38	408	969	104
Asset retirement obligations	2,312	2,280	2,692	1,945	4,188	3,883
Refund liability, net of current portion	7,892	-	-	-	-	-
Sale leaseback, net of current portion	-	-	-	-	-	-
Deferred revenue, net of current portion	1,123	1,327	1,514	1,701	-	-
Other long term liabilities	4,633	5,001	5,771	4,983	2,115	451
Total liabilities	58,965	30,746	33,324	25,993	26,256	21,840
Members' Equity:						
Member contributions	28,535	28,535	28,535	28,535	28,535	28,535
Accumulated deficit	(21,404)	(10,398)	(12,174)	(7,426)	(6,494)	(429)
Total members' equity	7,131	18,137	16,361	21,109	22,041	28,106
Total Liabilities & members' equity	66,096	48,883	49,685	47,102	48,297	49,946

Source: Audited Financial Statements

Exhibit 3

Comparative Statement of Operations - 2015 to 2020

Prospect CharterCare RWMC, LLC

(in thousands)

	Y/E 9/30 2020	Y/E 9/30 2019	Y/E 9/30 2018	Y/E 9/30 2017	Y/E 9/30 2016	Y/E 9/30 2015
Revenues:						
Net patient service revenue	175,640	187,275	181,353	177,720		172,689
Provision for bad debt	(9,671)	(6,986)	(5,996)	(6,190)		(7,672)
	165,969	180,289	175,357	171,530		165,017
Other non patient hospital revenue	3,954	3,012	2,819	3,001		6,098
Net revenue	169,923	183,301	178,176	174,531		171,115
Operating expenses:						
Salaries, wages & benefits	82,968	84,126	86,715	83,968		82,577
Supplies	39,567	39,285	39,889	38,638		36,325
Taxes & licenses	12,789	12,636	12,151	11,347		9,471
Purchased services	15,728	14,726	12,714	13,629		12,984
Depreciation & amortization	6,509	7,867	7,124	6,168		4,857
Professional fees	7,971	8,040	5,422	6,728		4,140
Other	2,025	1,745	5,969	6,219		3,807
Insurance	1,275	1,821	1,869	2,799		1,670
Management fees	3,503	3,791	3,721	3,665		3,556
Utilities	2,343	2,586	2,400	1,792		2,813
Lease & rental	1,067	1,126	1,210	1,434		1,168
Research grant expense	2,263	2,626	2,503	120		2,738
Repairs & maintenance	1,194	858	1,254	978		1,121
Registry	687	406	720	623		387
Total operating expenses	179,889	181,639	183,661	178,108		167,614
Pandemic relief grant income	16,683	-	-	-		-
Income from unconsolidated investments	881	560	589	507		455
Operating income (loss)	7,598	2,222	(4,896)	(3,070)		3,956
Other expense (income):						
Interest expense	(222)	(183)	(340)	(217)		39
Goodwill impairment		-	7,452	-		-
Other expense (income), net	366	-	-	(89)		-
Net income (loss) from continuing operations	7,454	2,405	(12,008)	(2,764)		3,917
(Loss) income from discontinued operations	-	-	-	-		-
Net income (loss)	7,454	2,405	(12,008)	(2,764)		3,917

Source: Audited Financial Statements

Exhibit 4

Comparative Balance Sheets - 2015 to 2020

Prospect CharterCare RWMC, LLC

(in thousands)

	Y/E 9/30 2020	Y/E 9/30 2019	Y/E 9/30 2018	Y/E 9/30 2017	Y/E 9/30 2016	Y/E 9/30 2015
Assets:						
Current assets						
Cash & equivalents	579	-	-	299		140
Restricted cash	475	158	267	2,369		970
Patient A/R, net	18,969	25,276	22,400	21,506		19,244
Other receivables	1,554	1,121	2,171	9,303		5,093
Third party settlements	-	-	-	-		-
Due from government payers	1,319	792	402	580		306
Grant receivable	-	-	-	-		-
Due from affiliates	31,284	-	-	-		-
Inventories	4,035	3,657	3,332	3,750		4,266
Prepaids and other current assets	989	749	768	1,378		615
Current assets held for sale	-	-	-	-		-
Total current assets	59,194	31,753	29,340	39,185		30,634
PP&E, net	35,249	37,076	35,044	30,679		25,487
Goodwill	-	-	-	-		-
Intangible assets, net	-	-	653	1,561		3,377
Insurance receivable	-	-	-	-		-
Equity method investments	3,619	3,650	4,063	4,052		4,242
Other assets	793	584	872	601		1,033
Total assets	98,855	73,063	69,972	76,078		64,773
Liabilities and Members' Equity						
Current liabilities:						
Accrued medical claims	-	-	491	394		-
A/P and other accrued liabilities	13,803	14,122	17,154	13,946		14,635
Accrued salaries, wages & benefits	9,861	7,597	7,152	6,540		5,784
Third party settlements	-	-	-	-		-
Deferred revenue	-	-	-	-		-
Due to government payers	509	214	74	282		181
Refund liability, current portion	3,273	-	-	-		-
Due to affiliated companies, net	-	25,834	20,750	18,257		5,139
Current portion of capital leases	-	-	326	596		206
Current portion of sale leaseback	257	257	257	257		-
Current liabilities held for sale	-	-	-	-		-
Total current liabilities	28,203	48,024	46,204	40,372		25,945
Malpractice reserves	3,168	3,211	4,243	3,273		-
Capital leases, net of current portion	-	-	-	326		347
Asset retirement obligations	1,182	1,333	839	750		701
Refund liability, net of current portion	12,997	-	-	-		-
Sale leaseback, net of current portion	2,017	2,539	3,117	3,760		-
Deferred revenue, net of current portion	-	-	-	-		-
Other long term liabilities	26,175	297	315	335		759
Total liabilities	73,742	55,404	54,718	48,816		27,752
Members' Equity:						
Member contributions	34,241	34,241	34,241	34,241		34,241
Accumulated deficit	(9,128)	(16,582)	(18,987)	(6,979)		2,780
Total members' equity	25,113	17,659	15,254	27,262		37,021
Total Liabilities & members' equity	98,855	73,063	69,972	76,078		64,773

Source: Audited Financial Statements

Exhibit 5

Comparative Statement of Operations - 2015 to 2019

Prospect CharterCare, LLC

(in thousands)

	Y/E 9/30 2020	Y/E 9/30 2019	Y/E 9/30 2018	Y/E 9/30 2017	Y/E 9/30 2016	Y/E 9/30 2015
Revenues:						
Net patient service revenue	327,759	362,109	354,578	343,050	338,440	323,795
Provision for bad debt	(17,091)	(14,290)	(12,598)	(11,936)	(15,264)	(15,782)
	310,668	347,819	341,980	331,114	323,176	308,013
Other non patient hospital revenue	11,543	8,879	8,102	7,678	6,357	10,307
Net revenue	322,211	356,698	350,082	338,792	329,533	318,320
Operating expenses:						
Salaries, wages & benefits	182,085	189,268	196,794	186,382	189,529	174,949
Supplies	58,939	61,933	62,507	60,005	59,152	56,099
Taxes & licenses	23,257	22,911	22,309	25,581	20,459	18,014
Purchased services	30,900	29,817	24,125	21,542	19,629	18,132
Depreciation & amortization	8,924	15,048	15,096	13,843	12,376	10,775
Professional fees	16,003	16,545	10,988	10,535	11,774	8,203
Legal settlement	22,250	-	-	-	-	-
Other	4,027	3,461	11,287	7,277	9,750	7,348
Insurance	4,040	4,091	4,620	5,659	8,141	3,618
Management fees	6,532	7,395	7,298	7,033	6,888	6,717
Utilities	4,893	5,159	4,771	3,993	4,506	5,239
Lease & rental	5,206	5,185	5,438	4,792	3,615	3,423
Research grant expense	2,263	2,626	2,503	2,231	2,424	2,738
Repairs & maintenance	1,805	1,702	2,675	2,315	1,624	2,396
Registry	1,547	699	887	713	788	1,458
Total operating expenses	372,671	365,840	371,298	351,901	350,655	319,109
Pandemic relief grant income	36,069	-	-	-	-	-
Income from unconsolidated investments	881	560	589	605	512	455
Operating loss	(13,510)	(8,582)	(20,627)	(12,504)	(20,610)	(334)
Other expense (income):						
Interest expense	836	1,023	955	1,131	82	104
Goodwill impairment		-	14,228	-	-	-
Other expense (income), net	715	-	282	(98)	-	-
Net loss from continuing operations	(15,061)	(9,605)	(36,092)	(13,537)	(20,692)	(438)
(Loss) income from discontinued operations	420	(91)	(101)	9,411	(2,280)	(117)
Net loss	(14,641)	(9,696)	(36,193)	(4,126)	(22,972)	(555)

Source: Audited Financial Statements

Exhibit 6

Comparative Balance Sheets - 2015 to 2019

Prospect CharterCare, LLC

(in thousands)

	Y/E 9/30 2020	Y/E 9/30 2019	Y/E 9/30 2018	Y/E 9/30 2017	Y/E 9/30 2016	Y/E 9/30 2015
Assets:						
Current assets						
Cash & equivalents	1,820	-	-	-	4,091	13,288
Restricted cash	521	174	433	3,028	2,196	1,277
Patient A/R, net	36,314	42,713	46,976	42,427	38,511	36,935
Other receivables	4,893	2,895	3,306	12,295	8,883	6,143
Third party settlements	-	-	-	-	-	-
Due from government payers	6,281	5,531	5,533	5,143	785	871
Grant receivable	-	-	-	-	-	
Due from affiliates	32,458	-	-	-	-	-
Inventories	6,969	5,974	5,596	5,805	6,196	6,128
Prepaids and other current assets	4,954	3,812	2,188	3,286	3,372	2,163
Current assets held for sale	-	-	-	-	3,887	3,694
Total current assets	93,700	68,699	63,126	71,984	67,923	70,704
PP&E, net	60,265	60,918	59,780	53,850	55,592	52,725
Goodwill	415	-	-	5,822	3,774	3,432
Intangible assets, net	-	19	1,211	2,854	4,499	6,145
Insurance receivable	-	-	-	-	-	-
Equity method investments	3,644	3,675	4,088	4,357	4,611	4,347
Other assets	2,057	1,970	2,302	1,473	1,205	1,727
Total assets	160,081	134,681	130,507	140,340	137,604	139,280
Liabilities and Members' Equity						
Current liabilities:						
A/P and other accrued liabilities	30,512	33,382	35,593	26,881	26,297	22,379
Accrued salaries, wages & benefits	23,971	18,130	17,696	16,589	14,869	14,378
Third party settlements	-	-	-	-	-	-
Deferred revenue	1,376	170	170	170	-	-
Due to government payers	5,742	4,930	4,796	4,505	125	347
Refund liability, current portion	6,198	-	-	-	-	-
Due to affiliated companies, net	-	16,694	26,377	26,036	28,096	24,114
Current portion of capital leases	254	49	788	1,475	1,459	457
Current portion of LT debt	-	-	-	-	-	-
Other current liabilities	-	-	-	-	-	-
Current liabilities held for sale	-	-	-	-	7,205	3,759
Total current liabilities	68,053	73,345	85,427	69,676	77,921	65,434
Capital leases, net of current portion	932	43	92	895	2,012	338
Asset retirement obligations	2,982	3,123	2,823	2,438	4,943	4,583
Deferred revenue, net of current portion	-	1,484	2,279	2,891	-	-
Refund liability, net of current portion	21,347	-	-	-	-	-
Malpractice reserve	-	-	-	-	-	-
Long term debt, net of current portion	-	-	-	-	-	-
Other long term liabilities	35,686	10,964	12,674	10,673	5,451	1,255
Total liabilities	129,000	88,959	103,986	86,573	90,327	71,810
Members' Equity						
Member contributions	120,103	120,105	92,108	82,261	71,645	68,856
Accumulated deficit	(89,024)	(74,383)	(64,687)	(28,494)	(24,368)	(1,386)
Total members' equity	31,081	45,722	27,421	53,767	47,277	67,469
Total Liabilities & members' equity	160,081	134,681	130,507	140,340	137,604	139,280

Source: Audited Financial Statements

Exhibit 7

Prospect CharterCare, LLC as a percentage of PMH

(In thousands except for percentages)

	Y/E 9/30 2020	Y/E 9/30 2019	Y/E 9/30 2018	Y/E 9/30 2017	Y/E 9/30 2016	Y/E 9/30 2015
Net revenue:						
Prospect CharterCare, LLC	322,211	356,698	350,082	338,792	329,533	318,320
PMH	2,733,388	2,849,198	2,893,888	2,914,497	1,630,558	1,321,045
% of Total	11.79%	12.52%	12.10%	11.62%	20.21%	24.10%
Total Assets:						
Prospect CharterCare, LLC	160,081	134,681	130,507	140,340	137,604	139,280
PMH	2,042,389	1,866,367	1,818,533	1,862,400	1,439,632	775,618
% of Total	7.84%	7.22%	7.18%	7.54%	9.56%	17.96%

Exhibit 8

Comparative Statement of Operations - 2015 to 2020

Prospect Medical Holdings, Inc.

(in thousands)

	Y/E 9/30 2020	Y/E 9/30 2019	Y/E 9/30 2018	Y/E 9/30 2017	Y/E 9/30 2016	Y/E 9/30 2015
Revenues:						
Net hospital segment patient services revenue	2,339,379	2,487,156	2,576,844	2,538,695	1,273,038	1,021,038
Provision for bad debts	(102,251)	(98,306)	(100,026)	(91,203)	(41,427)	(42,042)
	2,237,128	2,388,850	2,476,818	2,447,492	1,231,611	978,996
Other non-patient hospital revenue	38,464	49,377	45,828	-	-	-
Net hospital segment revenues	2,275,592	2,438,227	2,522,646	2,447,492	1,231,611	978,996
Medical group revenues	372,646	353,954	334,408	391,120	369,730	333,238
Global risk management revenues	84,900	49,696	33,863	20,752	19,635	3,440
Corporate revenues	250	7,321	2,971	55,133	9,583	5,371
Total net revenues	2,733,388	2,849,198	2,893,888	2,914,497	1,630,558	1,321,045
Operating expenses:						
Hospital operating expenses	1,937,766	1,966,380	2,029,219	2,003,706	990,385	768,863
Medical group cost of revenues	242,314	259,631	267,376	274,639	248,063	224,028
Global risk management cost of revenues	52,851	33,444	20,430	10,396	17,661	3,119
General & administrative	493,486	501,586	486,543	454,576	270,988	188,956
Depreciation & amortization	110,285	92,011	85,051	104,348	47,106	34,128
Total operating expenses	2,836,702	2,853,052	2,888,619	2,847,665	1,574,203	1,219,094
Pandemic relief grant	117,148	-	-	-	-	-
Operating income (loss) from unconsolidated joint ventures	1,724	3,889	2,599	5,388	(931)	6,400
Operating income	15,558	2,035	7,868	72,220	55,424	108,351
Other expense:						
Interest expense	86,157	127,833	100,190	73,190	48,616	42,027
Loss on early extinguishment of debt	-	30,052	18,422	-	26,561	-
Adjustment to bargain purchase	-	-	-	(30,010)	-	319
Goodwill impairment	-	-	14,228	-	-	-
Other (income) expense, net	11,333	2,858	2,231	(1,861)	(315)	230
Total other expense, net	97,490	160,745	135,071	41,319	74,862	42,576
Income (loss) before income taxes	(81,932)	(158,710)	(127,203)	30,901	(19,438)	65,775
Income tax provision	(7,070)	16,455	62,786	554	(4,750)	31,279
Net income (loss) from continuing operations	(74,862)	(175,165)	(189,989)	30,347	(14,688)	34,496
Income (loss) from discontinued operations, net of taxes	(23,612)	(123,305)	(38,625)	4,772	(4,904)	(194)
Net income (loss) attributable to non-controlling interests	1,136	(734)	(4,449)	867	(3,435)	(337)
Net income (loss) to PMH	(99,610)	(297,736)	(244,165)	34,252	(16,157)	34,639
Other income (expense) net of tax:						
Pension	9,267	(45,796)	12,995	(3,646)	11,332	-
Securities unrealized gain	46	1,257	160	456	6	-
Total comprehensive (loss)	(90,297)	(342,275)	(231,010)	31,062	(4,819)	34,639

Source: Audited Financial Statements

Exhibit 9

Prospect Medical Holdings, Inc.

Comparative Balance Sheets - 2015 to 2020

	Y/E 9/30 2020	Y/E 9/30 2019	Y/E 9/30 2018	Y/E 9/30 2017	Y/E 9/30 2016	Y/E 9/30 2015
Assets:						
Current assets						
Cash & equivalents	386,824	52,091	7,694	27,109	29,587	65,899
Cash held in escrow	70	70,000	-	-	-	-
Restricted cash	1,828	1,485	1,742	30,761	6,117	4,585
Restricted investments	31,354	29,540	23,779	15,810	4,568	1,266
Patient A/R, net	288,764	306,587	317,412	358,914	262,497	135,529
Due from government payers	20,390	20,270	21,409	51,152	38,806	38,460
Other A/R, prepaids etc	108,343	118,000	117,026	191,190	99,228	24,690
Income tax receivable & deferred taxes	4,154	-	2,737	-	24,731	-
Inventories	36,742	34,229	32,624	36,967	25,590	12,113
Hospital fee program receivable	189,941	167,530	211,454	59,209	43,039	32,285
Current assets held for sale	18,015	37,277	60,993	-	10,494	7,169
Total current assets	1,086,425	837,009	796,867	771,112	544,657	322,028
PP&E, net	544,256	538,471	513,590	576,933	441,352	238,305
Deferred income taxes, net	-	823	1,975	104,323	25,294	11,865
Goodwill	274,487	302,377	301,988	310,695	341,488	159,821
Intangible assets, net	20,054	25,545	31,822	40,794	41,897	28,820
Other assets	107,731	118,022	56,922	58,343	42,560	9,901
Long term assets held for sale	9,436	44,120	115,369	-	2,384	4,978
Total assets	2,042,389	1,866,367	1,818,533	1,862,400	1,439,632	775,618
Liabilities and Stockholder Deficit						
Current liabilities:						
Accrued medical claims	76,457	72,508	62,887	55,485	52,761	53,531
A/P and other accrued liabilities	383,040	264,252	298,996	320,246	205,946	101,708
Accrued salaries, wages & benefits	225,125	179,997	167,705	144,287	108,795	56,694
Hospital fee program liability	70,660	24,362	65,966	1,968	18,684	15,622
Due to government payers	32,749	28,606	29,137	23,754	23,062	27,078
Refund liability, current portion	62,115	-	-	-	-	-
Income taxes payable	-	7,395	-	42,793	-	15,116
Revolving line of credit, net	-	70,000	207,645	113,061	55,000	20,000
Current portion of capital leases	6,285	10,238	12,933	11,315	6,894	2,900
Current portion of long term debt	19,138	18,983	18,429	12,506	6,951	135
Current portion of MPT liabilities	47,484	43,145	-	-	-	-
Other current liabilities	15,592	25,249	27,831	17,762	10,293	2,168
Current liabilities held for sale	12,748	33,939	42,224	-	2,630	1,972
Total current liabilities	956,393	778,674	933,753	743,180	490,956	296,318
Long term debt net of current portion	190,201	187,367	1,098,941	625,719	613,005	415,466
Malpractice reserves	103,349	133,300	73,532	60,722	34,797	6,632
Refund liability, net of current portion	213,951	-	-	-	-	-
Capital leases, net of current portion	32,670	30,372	29,230	37,612	33,334	9,296
Deferred income taxes, net	-	-	-	-	-	-
Asset retirement obligations	6,970	5,602	6,179	6,022	5,056	4,583
Other long term liabilities	70,868	48,706	32,949	21,465	22,235	6,754
Pension obligations	231,941	302,572	254,121	300,364	209,658	-
MPT liabilities, net of current portion	1,295,556	1,358,040	-	-	-	-
Long term liabilities held for sale	5,105	11,904	12,777	-	782	129
Total liabilities	3,102,004	2,836,427	2,440,982	1,795,084	1,409,788	739,178
Stockholder deficit:						
Common stock & paid in capital	64,962	64,962	23,962	22,399	21,278	20,038
Accumulated deficit, net	(1,124,577)	(1,035,022)	(646,311)	44,917	8,566	16,402
Total stockholder (deficit) equity	(1,059,615)	(970,060)	(622,349)	67,316	29,844	36,440
Total liabilities & stockholder deficit	2,042,389	1,866,367	1,818,633	1,862,400	1,439,632	775,618

Source: Audited Financial Statements

Exhibit 10

Ratio Analysis

Prospect Medical Holdings, Inc.

	Y/E 9/30 2020	Y/E 9/30 2019	Y/E 9/30 2018	Y/E 9/30 2017	Y/E 9/30 2016	Y/E 9/30 2015
Days Cash on Hand	51.79	6.89	1.00	3.61	7.07	20.30
Current Ratio	1.136	1.075	0.853	1.038	1.109	1.087
Quick Ratio	0.820	0.612	0.473	0.777	0.797	0.763
Debt to Equity Ratio	-2.927	-2.924	-3.922	26.667	47.239	20.285

Appendix D: Expert Report of PYA, P.C.

Report on Proposed Hospital Conversion Application Regarding Prospect CharterCARE

April 6, 2021

Prepared for
Rhode Island Department of Health

VISION BEYOND the Numbers®

PYA BRIDGING BUSINESS & HEALTHCARE

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April 6, 2021

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Three Capitol Hill
Providence, RI 02908-5097

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") 2020

Dear Ms. [redacted]

As outlined in the Memorandum of Agreement dated December 14, 2020, PYA, P.C. ("PYA") was engaged by the Rhode Island Department of Health ("RIDOH") to provide consulting services concerning the proposed hospital conversion application as resubmitted February 19, 2020 ("Application"), and relating to a transaction ("Proposed Transaction") involving the Transacting Parties. RIDOH is authorized and directed to review the conversion application pursuant to the provision of Chapter 23-17.14 of the Rhode Island General Laws, as amended (the "Act" or "HCA"). We have prepared the following summary report ("Report") solely to assist RIDOH with its review of the Application. Our engagement was conducted in accordance with consulting standards established by the American Institute of Certified Public Accountants ("AICPA"). The terms of this engagement were established in advance and PYA's services to RIDOH are detailed in ***Appendix A***. We make no representation regarding the sufficiency of the procedures performed or analysis detailed herein either for the purpose for which this Report has been requested or for any other purpose. The results of our engagement are summarized in the following report.

The procedures used in preparation of this Report do not constitute an audit, examination, or review of any of the Transacting Parties' historical financial statements in accordance with auditing standards generally accepted in the United States of America. Furthermore,

the procedures used do not constitute an examination or compilation of prospective financial statements, nor did we apply agreed-upon procedures to such information, in accordance with attestation standards established by the AICPA. Additionally, the procedures used in our analysis do not address the effectiveness of internal controls over financial reporting under Section 404 of the Sarbanes Oxley Act, nor is PYA responsible for testing for, evaluating, or identifying any occurrences of fraud or other illegal acts, if any. In performing our analysis, PYA relied upon information provided by the Transacting Parties' legal counsel and we have not validated the accuracy or completeness of such information. Accordingly, we express no opinion, or any other form of assurance related to this information, including historical financial information and Transacting Parties' management representations. Had we performed additional procedures beyond those established in advance, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of RIDOH and is not intended to be, and should not be used by anyone other than the specified party. Accordingly, PYA assumes no liability for any unauthorized use of this Report.

This Report was prepared under the direction of RIDOH, containing PYA's objective observations regarding the financial information provided by the Transacting Parties for analysis. The content of this Report is meant to assist RIDOH as it assesses the Transacting Parties' Proposed Transaction pursuant to the Act. The decision whether to approve the Application resides solely with RIDOH, and our Report or other work products include observations but do not in any way constitute a recommendation whether to approve the Application. The information also does not constitute a valuation of the Proposed Transaction. Additional details regarding our analysis and observations are contained in our work papers. PYA has no responsibility to update our analysis or this Report for events and circumstances arising after the date of this Report. We appreciate the opportunity to assist RIDOH with this important matter.

Respectfully,

PYA, P.C.

PYA, P.C.

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ABBREVIATIONS

Entities

AMI	Affiliated Monitors, Inc.
CCCB	CharterCARE Community Board
CHS	Community Health Systems
GEI	Green Equity Investors V, LP and Green Equity Investors Side V, LP (private equity funds managed by LGP and investing in IH)
HC	HCA Healthcare
IH	Ivy Holdings, Inc.
LGP	Leonard Green & Partners, LP
MPT	Medical Properties Trust, Inc.
OLF	Prospect CharterCARE SJHSRI, LLC d/b/a Our Lady of Fatima Hospital
PCC	Prospect CharterCARE, LLC
PCCHHH	Prospect CharterCARE Home Health and Hospice, LLC
PEH	Prospect East Holdings, Inc.
PEHAS	Prospect East Hospital Advisory Services, LLC
PMH	Prospect Medical Holdings, Inc.
PRIHHH	Prospect RI Home Health and Hospice, LLC
RIAG	Rhode Island Attorney General
RIDOH	Rhode Island Department of Health
RWMC	Prospect CharterCARE RWMC, LLC d/b/a Roger Williams Medical Center
THC	Tenet Healthcare Corporation

Terms

ABL	Asset Based Loan
ACA	Affordable Care Act
Act or HCA	The Hospital Conversions Act
AFS	Audited Financial Statements
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
EBITDA	Earnings before interest, taxes, depreciation, and amortization
EMR	Electronic Medical Record
FY	Fiscal Year

FYE	Fiscal Year End
HHS	Department of Health and Human Services
Merger Agreement	Plan of Merger between Chamber Inc., Chamber Merger Sub, Inc., Ivy Holdings Inc., and GEI dated October 2, 2019
MOA	Memorandum of Agreement
MSA	Management Services Agreement
NPSR	Net Patient Services Revenue
NWC	Net Working Capital
PACE	Property Assessed Clean Energy
REIT	Real Estate Investment Trust
SUO	Statements Under Oath
TTM	Trailing Twelve Months

Individuals

Mr. Baumer	Mr. John Baumer, Senior Partner at LGP
Mr. Lee	Mr. Samuel Lee, Chief Executive Office of PMH, Chairman of the Board of IH and PMH, and stockholder in IH
Mr. Topper	Mr. David Topper, President of PMH and stockholder in IH
Ms. Wagner	Ms. Alyse Wagner, Partner at LGP

ENGAGEMENT OVERVIEW

PYA INTRODUCTION

For the past 38 years, PYA has provided clients objective accounting and healthcare consulting services. Ranked as the 16th largest healthcare management consulting firm in the United States by *Modern Healthcare*, a Top 15 largest auditor of the American Hospital Association's top U.S. multi-hospital systems according to Ames Research Group, and a Top 100 accounting firm by *Inside Public Accounting*, PYA has significant experience providing transaction advisory, due diligence, and regulatory support services related to healthcare transactions. As a national professional services firm with 33 Principals, our team of resources is more than 200 strong and continually growing. Our consultants have backgrounds and degrees in nursing, healthcare administration, public health, medicine, economics, finance, management, accounting, tax, and law. Several have extensive prior experience with other healthcare-related organizations, and have specialized training in strategic planning, financial analysis, and quality of earnings.

SCOPE OF WORK, LIMITING FACTORS, AND KEY INFORMATION RECEIVED AND ANALYZED

Per the MOA with RIDOH, PYA was engaged to provide consulting services to RIDOH related to RIDOH's review of the Application. The following listing presents a summary of the services provided by PYA in the course of our engagement:

- Conducted an initial meeting with RIDOH to confirm engagement scope and purpose;
- Analyzed relevant information provided by the Transacting Parties;
- Requested supplemental information from the Transacting Parties;
- Analyzed supplemental information provided by the Transacting Parties and Transacting Parties' representatives;
- Attended SUOs conducted by RIDOH and the Office of the RIAG, as applicable to the financially focused scope of work;
- Facilitated at least weekly meetings with RIDOH representatives to discuss engagement progress; and
- Prepared report documenting results of PYA's engagement.

A summary of our original scope of work is included in ***Appendix A.*** Additionally, a listing of relevant information received from the Transacting Parties and analyzed by PYA is also included in ***Appendix A.***

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PROPOSED TRANSACTION OVERVIEW

TRANSACTING PARTIES' REQUEST

The Application seeks approval for a change in ownership of RWMC's and OLF's ultimate parent organization, IH, in order to effectuate a buy-out of the private equity investors and other minority stockholders of IH. Specifically, the proposed change of ownership will be completed through the establishment of a newly formed entity, Chamber Inc. Chamber Inc. will become the parent of IH and be solely owned by Mr. Lee and Mr. Topper (through his Family Trust), both of whom are current stockholders of IH.

TRANSACTING PARTIES' CURRENT LEGAL STRUCTURE

PCC wholly owns RWMC, OLF, and Prospect Blackstone Valley Surgicare, LLC a licensed freestanding ambulatory surgery center. In addition, RWMC wholly owns PRIHHH, a home healthcare provider, which wholly owns PCCHHH a licensed home nursing care provider. All PCC entities are located in Rhode Island and are subject to the provisions of the Act. PCC is currently owned 85% by PEH and 15% by CCCB; however, associated with a settlement in December 2020, PEH is acquiring the remaining 15% interest in PCC from CCCB.

PEH and PEHAS are wholly owned by PMH. PMH is wholly owned by Ivy Intermediate Holding Inc., which is wholly owned by IH. IH is currently primarily owned by a combination of GEI, Mr. Lee, and Mr. Topper (through his Family Trust). Other PMH management own a small minority of shares. A copy of the current and proposed organization structures, as submitted in the Application, can be found in ***Appendices B and C***, respectively.

PROPOSED TRANSACTION SUMMARY

Per the Application, "The capital costs of the transaction are eleven million nine hundred forty thousand nine-hundred ninety-two dollars ($11,940,992.00). After the transaction, GEI and the other minority management shareholders will no longer retain any ownership in IH. The transaction funds will not come from or affect any of the [PCC] entities; instead, the transaction funds consist entirely of available PMH corporate cash."

The Application goes on to state, "Following the Transaction, all existing entities described above will remain as surviving corporations. There will be no change whatsoever to any of the existing entities that will in any way impact the operations or governance of the licensed facilities including RWMC and OLF. Specifically, PMH will continue to own PEH and PEHAS, PEH will continue to own PCC, and PCC will continue to own and operate RWMC and OLF."

PCC HOSPITAL ENTITY SUMMARY

The following is excerpted from the Application and provides an overview of the PCC hospital entities:

"[RWMC] is a licensed acute care hospital (license number HOSP00133) located in Providence, Rhode Island. RWMC provides a wide array of high quality and cost-effective services to its patients, including emergency department services, ambulatory care services, and inpatient and outpatient services including cancer care, elder care, and gastroenterology…. RWMC is an academic medical center affiliated with Boston University School of Medicine and is accredited by the Joint Commission."

"[OLF] is a licensed acute care hospital (license number HOSP00132) located in North Providence, Rhode Island. OLF provides a wide array of high quality and cost-effective services to its patients, including emergency department services, ambulatory care services, and inpatient and outpatient services including psychiatric, mental health and addiction medicine services."

Additional detail related to the transaction and Transacting Parties are disclosed in the publicly available Application.[1]

OBSERVATIONS SUMMARY

CONSIDERATIONS RELATED TO STATUTORY REVIEW CRITERIA

PYA began our analysis by gaining an understanding of the Act established by the state of Rhode Island. The purpose of the provisions of the Act includes assuring the viability of a safe, accessible, and affordable healthcare system; establishing a process to review whether for-profit hospitals will maintain, enhance or disrupt the delivery of healthcare in the state and to monitor hospital performance; and establish a review process and criteria for review of hospital conversions. RIDOH considers the following nine statutory criteria in their assessment when reviewing applications pursuant to the Act.

- *Whether the character, commitment, competence, and standing in the community, or any other communities served by the proposed transacting parties, are satisfactory*;
- *Whether sufficient safeguards are included to assure the affected community continued access to affordable care;*
- *Whether the transacting parties have provided clear and convincing evidence that the new hospital will provide health care and appropriate access with respect to traditionally underserved populations in the affected community;*
- *Whether procedures or safeguards are assured to insure that ownership interests will not be used as incentives for hospital employees or physicians to refer patients to the hospital;*

[1] https://drive.google.com/drive/folders/1JfBOMFAUGGropxncVEZh8GaBWbEFAWO3

- *Whether the transacting parties have made a commitment to assure the continuation of collective bargaining rights, if applicable, and retention of the workforce*;
- *Whether the transacting parties have appropriately accounted for employment needs at the facility and addressed workforce retraining needed as a consequence of any proposed restructuring*;
- *Whether the conversion demonstrates that the public interest will be served considering the essential medical services needed to provide safe and adequate treatment, appropriate access and balanced health care delivery to the residents of the state; and*
- *Whether the acquiror has demonstrated that it has satisfactorily met the terms and conditions of approval for any previous conversion pursuant to an application submitted under § 23-17.14-6.*

Related to the particulars of this specific Application and PYA's engagement scope (which is financially focused) as shown in ***Appendix A***, PYA identified the following specific criteria ("Applicable Criteria") as most relevant:

1. *Whether sufficient safeguards are included to assure the affected community continued access to affordable care;*
2. *Whether the transacting parties have provided clear and convincing evidence that the new hospital will provide health care and appropriate access with respect to traditionally underserved populations in the affected community;*
3. *Whether the transacting parties have appropriately accounted for employment needs at the facility and addressed workforce retraining needed as a consequence of any proposed restructuring; and*
4. *Whether the acquiror has demonstrated that it has satisfactorily met the terms and conditions of approval for any previous conversion pursuant to an application submitted under § 23-17.14-6.*

PYA analyzed the financially related documentation in context of these Applicable Criteria. This analysis, along with the interviews from various SUOs, forms the basis for our observations.

In summary, we observed that PCC, since the acquisition by PMH in 2014, has consistently been dependent upon PMH to fund operational shortfalls and capital investments. Additionally, we observed that PMH has reported limited liquidity and a highly leveraged position in recent fiscal years. Therefore, as a result of PCC's economic dependency on PMH, any element of the Proposed Transaction that may result in a deterioration in the ability of PMH to continue supporting PCC would impact the Applicable Criteria. Examples of economic impacts or limitations the Proposed Transaction may have on PMH, which in turn may affect PCC, include the following:

- **PMH's ability to access capital cost effectively;**

- **Direct and Indirect Financial Impact to PMH via:**
  - **reduction in PMH's equity and liquidity;**
  - **higher future costs borne by PMH due to replacement of services provided by an exiting owner; and/or**
  - **decreased PMH net income and/or cash flow.**

The remainder of this "Observations Summary" report section identifies the key financial characteristics of PCC and PMH, as well as the potential impacts of the Proposed Transaction on the financial condition of these entities. Additional detail to these key observations, and other analysis and work products, are contained in PYA's work papers.

KEY PCC FINANCIAL OBSERVATIONS

PCC has been dependent upon PMH to fund its operational shortfalls since its acquisition by PMH in 2014. In PCC's FY2019 AFS, the independent auditor's report included an Emphasis of Matter paragraph, stating that "[PCC] is financially dependent on its parent company which has agreed to provide the financial support necessary for the operations of [PCC]." This Emphasis of Matter did not appear in the FY2020 PCC AFS. PYA observed through our analysis of information provided by the Transacting Parties that the cash flows generated from PCC's stand-alone operations do not appear to be sufficient to fund both PCC's operational obligations and its necessary capital reinvestment.

Certain financial information from PCC's FY2017 through FY2020 financial statements are presented within the following tables. PCC's performance is not necessarily atypical to many hospital organizations in the country, particularly those which are members of an integrated system and/or serving populations with high concentrations of individuals covered by Medicare and Medicaid, and/or service areas with higher concentrations of populations without a third-party payer source.

Table 1

(Dollars in Thousands)	FY2017	FY2018	FY2019	FY2020
Income Statement				
Total Net Revenue	$ 338,792	$ 350,082	$ 356,698	$ 322,211
Total Operating Expenses	351,901	371,298	365,840	372,671
Net Operating Loss before grants and investments	(13,109)	(21,216)	(9,142)	(50,460)
Net Loss	(4,126)	(36,193)	(9,696)	(14,641)
EBITDA	10,848	(5,914)	6,375	(4,881)
Balance Sheet				
Total Assets	140,340	130,507	134,681	160,081
Total Liabilities	86,573	103,086	88,959	129,000
Total Stockholders Equity	53,767	27,421	45,722	31,081
Net Working Capital Surplus (Deficit)	2,308	(22,301)	(5,246)	25,647

(Dollars in Thousands)	FY2017	FY2018	FY2019	FY2020
Cash Flow Statement				
Cash from Operating Activities	$ (3,151)	$ 4,323	$ (5,167)	$ 57,574
Cash from Investing Activities	3,069	(9,131)	(8,953)	(55,240)
Cash from Financing Activities	(4,009)	4,808	13,861	(167)
Liquidity				
Total Cash	-	-	-	1,820
Available Line of Credit	N/A	N/A	N/A	N/A

Furthermore, certain financial metrics calculated from the AFS of PCC over the previous four FYs are as follows:

Table 2

	PCC				
	FY2017	FY2018	FY2019	FY2020	Comments
Liquidity					
Current ratio	1.03	0.74	0.93	1.38	Higher is better
NWC % to Revenue	1.12%	-6.14%	-1.47%	7.96%	Higher is better
Activity					
Days cash on hand	-	-	-	2.03	Higher is better
Days in accounts receivable	45.71	48.04	50.87	41.14	N/A
Days in accounts payable	27.93	35.04	33.36	33.17	N/A
Leverage					
Liabilities to total assets	61.69%	78.99%	66.05%	80.58%	Lower is better
Profitability					
EBITDA Margin	3.20%	-5.75%	1.79%	-1.51%	Higher is better
Capital Spending					
Capital Expenditures/Depreciation and Amortization	50.88%	59.44%	65.96%	59.09%	Higher is better

Based on information provided from FY2015 – FY2020, PCC has accumulated net losses of $88.1 million in the aggregate during this time. From the acquisition by PMH in 2014 to FY2019, these losses were funded by PMH and recorded as a liability presented on the PCC balance sheet as Due to PMH. As of September 30, 2019, the AFS presented a $16.7 million amount Due to PMH. That amount, however, is net of prior intercompany liability forgiveness from PMH to PCC, such as the debt to equity conversion of $24.7 million that occurred during FY2019.[2] Therefore, the intercompany liability presented as of FY2019 was not representative of the amount necessary to fund the cumulative operational losses of PCC since acquisition.

During FY2020, two separate one-time events, among other operational impacts, affected the intercompany balance between PCC and PMH. First, PCC received approximately $41 million in PRF distributions as a result of the CARES Act. Additionally, PCC received approximately $27.5 million in MAAP funding (see additional details regarding PRF and MAAP in the "Key PMH Financial Observations" section of this Report). This total amount of one-time funding ($68.5 million) was transferred from PCC to PMH. As a result, the FY2019 balance of the Due to PMH liability was satisfied in full, and the remaining amount of one-time funding transferred to PMH was reflected as an asset on the PCC FY2020 balance sheet, presented as Due from PMH ($32 million). While we were not provided detail regarding the components of this account balance, we observe that, absent these one-time events, the change in the account balance suggests approximately $19.8 million in additional, unsatisfied liability of PCC to PMH in FY2020.

Table 3 (Dollars in Thousands)		FY2020
Due to PMH October 1, 2019	$	(16,700)
Due from PMH September 30, 2020		32,000
Year Over Year Change		48,700
One-time funding for PRF and MAAP		68,500
Additional support from PMH to PCC	$	(19,800)

Additional relevant PCC financial observations include:

- Neither PCC nor the two individual hospitals hold any cash or cash equivalents, as reported on their balance sheets. The treasury function is centralized within PMH. Prior to FY2020, PCC appears to have benefited from this approach, as operational cash flows produced by other PMH subsidiaries, whose treasury functions were also consolidated within PMH, were used to subsidize PCC's operations and capital needs.

[2] During FY2019, a noncash equity contribution of $24.7 million was recorded related to the forgiveness of accrued and unpaid management fees, which were recorded in the Due to PMH account on PCC's balance sheet.

This is a standard practice for integrated health systems. However, the cumulative liability incurred by PCC from FY2015 through FY2019 demonstrates its dependency on PMH to fund operations and capital needs.

- PMH charges a management fee to PCC for centralized administrative and support services. In FY2019, these management fees approximated 2.0% of NPSR. Based on PYA experience, this management fee is not materially inconsistent with rates charged to operating entities by integrated health systems for centralized support services.
- Per the PCC FY2020 AFS, its FY2020 and FY2019 direct and indirect expenses for the provision of charity care approximated $1,094,000 and $501,000, respectively, or 0.3% and 0.15% of total operating expenses.[3] Based on our experience, this level of reported charity care, even for investor owned hospital companies, is low. See ***Table 7*** for a comparison to other investor owned hospital companies. However, relevant also to this observation is the fact that Rhode Island has expanded its Medicaid program, known as Rhode Island Medical Assistance Program, under the ACA. This expansion, in theory, reduces the number of residents who are deemed eligible for charity care. The auditor notes PCC provides services to other medically indigent patients under various state Medicaid programs; however, the costs for those services which was not fully reimbursed from the Medicaid programs was not defined.

  As presented within the statement of cash flows of PCC's AFS, purchases of property, improvements, and equipment by PCC for FY2017 through FY2020 averaged $7.8 million, which equated to replacing approximately 66% of the annual depreciated value of PCC assets. This suggests there is a potential level of deferred capital investment in recent fiscal years, as high performing and growing health systems reinvest at levels closer to average annual depreciation so as to support growth. A comparison of this capital spending to depreciation expense for other investor owned hospital companies is included in ***Table 7***.

  A summary of PCC's historical capital expenditures as shown in the AFS is included in the below table:

Table 4
Prospect CharterCARE

	FY2017	FY2018	FY2019	FY2020	Average
Capital Expenditures	$ 7,043,000	$ 8,973,000	$ 9,926,000	$ 5,273,000	$ 7,803,750
Depreciation Expense	$ 12,200,000	$ 13,222,000	$ 13,100,000	$ 8,815,000	$ 11,834,250
Capital Expenditures as a % of Depreciation Expense	57.73%	67.86%	75.77%	59.82%	65.94%

[3] PCC's charity costs are estimated by calculating a ratio of cost to gross charges and then multiplying that ratio by the gross uncompensated charges associated with providing care to charity patients.

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However, Mr. Lee asserted in his SUO that PMH has invested over $100 million in the PCC facilities since the acquisition. PYA was not provided with the information prior to FY2017 necessary to analyze this claim. Mr. Lee referenced significant emergency room, oncology services, and behavioral health facility investments within his SUO.

The independent monitor for the 2014 HCA decision, AMI, indicated in their December 23, 2020 report that the information submitted by PCC to evidence routine capital expenditures was sufficient to support that PCC had complied with the $10 million per year routine capital expenditure requirement for FY2015 through FY2018 as required in the May 16, 2014 HCA decision. Furthermore, AMI indicated that the documentation submitted by PCC demonstrated that PCC complied with and exceeded the revised long-term capital commitment of $62.5 million.

Per information provided by PCC, its FY2021 capital budget is $17.9 million. Approximately $10 million of the budget is associated with facility capital expenditures funded through PACE financing (see below observation for details). PACE financing is debt assumed by PCC for which proceeds must be used for certain facility related expenditures. Therefore, the FY2021 capital budget for routine capital replacement and other facility investment needs, after adjusting for the PACE financing, is commensurate with prior periods analyzed.

- RWMC entered into the PACE financing agreement in May 2020 to improve energy efficiency, financing up to $42 million for property renovations. Per the PMH FY2020 AFS, as of September 30, 2020, $27 million had been expended and recognized as a liability with $15 million remaining in escrow. In January 2021, PCC entered into another PACE agreement to finance approximately $18 million of qualified renovations at OLF. The financed amounts are to be repaid through non-ad valorem assessments collected through PCC property tax bills through 2046. Security on the loan includes a levy and lien against certain real property of RWMC and OLF.
- PCC real property assets were excluded from the MPT transaction. (see "Key PMH Financial Observations" for more detail related to the MPT transaction). However, as a part of the MPT transaction, PMH entered into a promissory note (the "TRS Note"), with an original principal amount approximating $113 million. The promissory note carried an initial interest rate of 7.5%, which increases annually between 2% and 4%. The promissory note also has a balloon payment due on August 31, 2022 and must be either: (i) paid in full at that date, (ii) amended to extend the maturity date, or (iii) satisfied through the sale and subsequent leaseback of the RWMC and OLF real property assets which is contractually allowed per the agreement. However, the TRS Note is not secured by any PCC real or personal property.[4] No evidence was provided to PYA which illustrates how repayment of the TRS Note will be addressed. If the PCC facilities are sold to meet this obligation, PCC's ability, in and of itself, to access additional sources of capital could be limited as collateralizing assets would be significantly reduced.

[4] E. Samuels confirmation of facts letter dated July 22, 2020, as provided by Applicants.

- Even though pension obligations were not assumed by PMH in the original 2014 transaction, in December 2020, various IH subsidiaries entered into a settlement agreement to pay $27.5 million in exchange for release from ongoing litigation regarding pension funding. PCC does not hold the ongoing pension liability and, of the $27.5 million, approximately $22.5 million was expensed in the year ended September 30, 2020 and approximately $5 million was allocated to the purchase price of the 15% residual ownership in PCC held by CCCB. It appears this settlement suggests no further claims will be brought related to the Rhode Island pensions.

KEY PMH FINANCIAL OBSERVATIONS

Observations regarding the Proposed Transaction's impact on PMH's financial statements and its ability to access capital are relevant considerations in the context of the Applicable Criteria. The financial results reported by PMH from FY2017 through FY2020 are erratic. Operational performance declined through FY2019, as quantified in net income/(loss) and EBITDA, per the AFS. Several factors contribute to these erratic operational results during the four-year period, including events characterized as non-recurring in nature such as an EMR system conversion in FY2019 and the impacts, including non-recurring governmental assistance associated with the nationwide COVID-19 public health emergency. That stated, PMH's financial condition, absent governmental assistance associated with the COVID-19 public health emergency, could raise questions regarding the ongoing financial viability of PMH to support its subsidiaries, including PCC. The following information summarizes PMH's recent financial results over the last four years:

Table 5

(Dollars in Thousands)	FY2017	FY2018	FY2019	FY2020
Income Statement				
Total Net Revenue	$ 2,914,497	$ 2,893,888	$ 2,849,198	$ 2,733,388
Total Operating Expenses	2,847,665	2,888,619	2,853,052	2,836,702
Net Operating Income (Loss) before grants and investments	66,832	5,269	(3,854)	(103,314)
Net Income (Loss)	34,252	(244,165)	(297,736)	(99,610)
EBITDA	212,344	36,512	(48,613)	89,762
Balance Sheet				
Total Assets	1,862,400	1,818,633	1,866,367	2,042,389
Total Liabilities	1,795,084	2,440,982	2,836,427	3,102,004
Total Stockholders Equity (Deficit)	67,316	(622,349)	(970,060)	(1,059,615)
Net Working Capital Surplus (Deficit)	27,932	(136,886)	58,335	130,032

(Dollars in Thousands)	FY2017	FY2018	FY2019	FY2020
Cash Flow Statement				
Cash from Operating Activities	$ 50,239	$ (5,962)	$ (71,448)	$ 412,236
Cash from Investing Activities	(90,461)	(108,799)	(65,587)	(4,670)
Cash from Financing Activities	37,744	95,346	181,432	(72,833)
Liquidity				
Total Cash	27,109	7,694	52,091	386,824
Available Line of Credit	29,900	41,000	175,600	210,800

Furthermore, certain financial metrics calculated from the AFS of PMH over the previous four FYs are as follows:

Table 6

	PMH				
	FY2017	FY2018	FY2019	FY2020	Comments
Liquidity					
Current ratio	1.04	0.85	1.07	1.14	Higher is better
NWC % to Revenue	1.78%	-3.65%	4.59%	7.42%	Higher is better
Activity					
Days cash on hand	3.61	1.00	6.90	53.53	Higher is better
Days in accounts receivable	44.95	40.04	39.28	38.56	N/A
Days in accounts payable	41.13	37.81	33.88	51.44	N/A
Leverage					
Liabilities to total assets	96.39%	134.22%	151.98%	151.88%	Lower is better
Profitability					
EBITDA Margin	7.29%	0.63%	-2.76%	3.28%	Higher is better
Capital Spending					
Capital Expenditures/Depreciation and Amortization	54.44%	82.94%	56.60%	32.92%	Higher is better

The below table shows a comparison of PMH financial metrics to those calculated from peer group data.

Table 7

	PMH FY2020	Peer Group Average	HC TTM 09/20	THC TTM 09/20	CHS TTM 09/20	Comments
Activity						
Days in accounts receivable	38.56	52.10	46.26	50.34	59.72	N/A
Days in accounts payable	51.44	24.34	27.17	22.49	23.34	N/A
Leverage						
Liabilities to total assets	151.88%	99.58%	97.45%	92.36%	108.94%	Lower is better
Profitability						
EBITDA Margin	3.28%	15.38%	18.89%	13.79%	13.45%	Higher is better
Capital Spending						
Capital Expenditures/Depreciation and Amortization	32.9%	87.6%	122.1%	65.6%	75.2%	Higher is better
Charity Care						
Charity care as % of Operating expenses	0.23%	1.92%	3.73%	0.90%	1.14%	Higher is better

	FY19					
	PMH	Peer Group Average	HC	THC	CHS	Comments
Activity						
Days cash on hand	6.90	5.98	5.46	5.88	6.60	Higher is better

The following observations report events and circumstance affecting PMH's financial results, liquidity, and capital structure as noted in our analysis of the information provided and within the SUOs:

- In FY2018[5], the PMH Board of Directors authorized dividends to be paid to stockholders of approximately $457 million ("2018 Dividend"). PMH recorded operating income (before interest expense and other financing related costs) of approximately $8 million and a net loss before income taxes of approximately $127 million during FY2018. The 2018 Dividend was financed via a recapitalization whereby PMH entered into new debt obligations approximating $1.12 billion. In addition to funding the 2018 Dividend, this new debt was used to refinance prior debt facilities, pay certain expenses associated with the refinance, prefund approximately $40 million of pension liabilities to PMH's subsidiaries (none of which related to PCC), make payments to certain option holders under the dividend recapitalization, and to finance certain working capital and operational needs of PMH and its subsidiaries. These actions contributed to the resulting FYE2018 stockholders' deficit balance of approximately $623 million, compared to stockholders' equity at FYE2017 of approximately $67 million. Also, the FYE2018 financial statements reported a working capital deficit of approximately $137 million, compared to a working capital surplus of approximately $28 million for FYE2017. The 2018 Dividend extracted cash from PMH equivalent to 60 days of operating expenses.[6] At September 30, 2018, PMH cash and cash equivalents of $7.7 million was sufficient to cover approximately 1 day of PMH's operating expenses. At that date, PMH had an outstanding balance on the amended revolving credit facility of approximately $208 million, with an available balance on the line of credit of approximately $41 million (sufficient to cover approximately 5 days of PMH's operating expenses).
- On August 23, 2019, PMH closed a series of transactions with MPT, a publicly traded REIT, whereby PMH sold to MPT hospital real estate assets in California, Connecticut, and Pennsylvania for an aggregate purchase price approximating $1.386 billion[7]. Proceeds from the sale were utilized, in part, to extinguish the long-term debt assumed in FY2018. Concurrent with the real estate transactions, PMH entered into two master lease agreements whereby the assets sold to MPT were leased back for an initial 15-year term with options to extend. These long-term lease arrangements are recorded on the PMH balance sheet as liabilities. No Rhode Island facilities were included in the MPT sale/leaseback transactions. In addition to this sale/leaseback transaction and other transactions between MPT and PMH involving PMH real property assets, MPT and PMH entered into the aforementioned TRS Note which can be satisfied, among other alternatives, by entering into a sales/leaseback transaction for the PCC facilities.
- During FY2019[8], an additional $44.0 million was paid to stockholders, which was mostly offset by capital contributions from stockholders during FY2019 of $41 million. We understand this $41 million was to inject capital into PMH to support operations during a transition to a new EMR. Also, during FY2019, PMH also agreed with lenders to expand its maximum revolving credit facility from $250 million to $285 million,

[5] FY2018 PMH AFS.
[6] Operating expenses in days cash on hand calculations exclude interest, depreciation, and amortization expense.
[7] FY2019 PMH AFS.
[8] FY2019 PMH AFS.

with subsequent reductions totaling $30 million upon closures of two hospital facilities. At September 30, 2019, the outstanding balance and available balance on the revolving credit facility approximated $70 million and $176 million, respectively, per the FY2019 AFS.

- In response to the global COVID-19 pandemic, the CARES Act afforded healthcare providers with liquidity in the form of stimulus payments to offset qualifying and substantiated expenses incurred in response to the pandemic, in addition to revenues lost by providers as a result of certain care being eliminated or postponed for public health reasons. The CARES Act also provided the opportunity for healthcare providers to receive advances on Medicare reimbursement via the MAAP. Per the 2020 PMH AFS, PMH received approximately $183 million in PRF stimulus payments and approximately $276 million associated with MAAP. Repayments are not required on PRF distributions to the extent the provider recipient can justify, report, and support that the distributions were used to offset qualifying expenses and lost revenue as defined in pronouncements from HHS.

  Per the PMH FY2020 AFS, all but $10.4 million of the PRF stimulus payments were recognized into operating income during FY2020. The MAAP will be recovered via withholdings of future Medicare reimbursement due to providers over a 17-month period beginning at the one-year anniversary of the provider's initial MAAP recipients.

  These two one-time funding sources contributed to a dramatic increase in PMH's cash and cash equivalent balance, increasing $334 million over the reported FY2019 balance to a total balance of $387 million at September 30, 2020. As a result of this increase, PMH's cash available to cover operating expenses as of September 30, 2020 increased to approximately 52 days. However, as noted, the full $276 million in cash held by PMH at September 30, 2020 associated with MAAP will be recovered via reduced reimbursement from Medicare starting in April 2021. If the $276 million is removed from the reported FY2020 cash and cash equivalents, the remaining funds cover approximately 15 days of operating expenses. Per the 2020 PMH AFS, at September 30, 2020, PMH did not have an outstanding balance on its revolving line of credit, and the available balance to borrow was approximately $211 million (which amounts to approximately 28 days of operating expenses).

These patterns in operational performance and recapitalization are relevant because PMH has somewhat limited ability, in the form of current liquidity especially after recoupment of MAAP funds, to weather additional or continued financial challenges. That, in turn, is a risk to the ongoing financial viability of PCC as a PMH subsidiary. Such challenges can be mitigated by accessing additional sources of capital; however, PMH is already extremely leveraged and has limited unencumbered assets to collateralize additional debt financing. If the effects of the Proposed Transaction have material impacts on PMH's financial position, or creates additional challenges with respect to its ability to access capital, the financial risk associated with the ability to fund ongoing operations and capital needs of the PCC entities is also increased.

KEY PROPOSED TRANSACTION OBSERVATIONS

PYA analyzed how the Proposed Transaction could impact the Applicable Criteria. The most relevant considerations appear to be twofold: 1) what impact does the Proposed Transaction have on the ability of IH and its related subsidiaries, including PMH, to access capital and 2) how does the Proposed Transaction's consummation affect IH's and its related entities' financial condition, including liquidity, cash flow, operating results, and net asset balance. Our observations related to these matters are as follows:

Access to Capital

A key financial consideration is whether the Proposed Transaction will impact PMH's ability to access capital to fund operations and investments. PYA was provided no information suggesting that LGP, and specifically GEI as the owners in IH, has invested additional capital in IH, as PMH's corporate parent entity, since the acquisition of PCC in 2014, with the exception of capital contributions equal to GEI's portion of the $41 million capital call in FY2019. That contribution appears to be essentially a shareholder loan to provide short term liquidity during the 2019 system conversion and was subsequently returned in the form of dividends. Per the SUOs from Mr. Baumer and Ms. Wagner, no additional investments beyond the initial 2010 capital investment in IH in an amount approximating $151 million have been made by GEI in IH.[9] As described previously in this Report, some, perhaps most, of the dividends received by GEI from IH resulted from the $457 million 2018 Dividend to IH shareholders as a part of a dividend recapitalization. At that time, we understand GEI held a majority of the stock in IH.

Furthermore, while PYA was not provided information pertaining to GEI, Ms. Wagner and Mr. Baumer stated in their respective SUOs that the GEI funds are at the end of their life and are contractually required per the terms of the investor agreements to liquidate held investments. IH has utilized the two automatic extensions allowing IH extended use of the funds per the investor agreement, and IH must now close the funds.

The ability of any entity to access capital is impacted by several considerations, including, but not limited to, operational performance, assets to serve as collateral, personal guarantees, etc. As discussed previously in this Report, PMH is in a highly leveraged position. As a result, it remains unclear whether PMH would be able to obtain incremental capital investments and/or access debt funds. The sale/leaseback transaction(s) described previously remains as an option available to PMH to access funding. The amount of capital available through this mechanism is unknown, however, as the value of the collateral necessary for such a transaction has not been quantified. Whether or not GEI remains an investor in IH going forward is only one variable when evaluating the amount of capital IH and PMH are able to access. Indeed, the ability of the IH, PMH, or their collective subsidiaries to produce positive operating results, and as a result, positive returns on any invested funds would be a key consideration for any lender or investor.

[9] Ms. Wagner and Mr. Baumer are Partners with Leonard Green & Partners and Board members of IH and PMH.

Financial Impact of Proposed Transaction on Transacting Parties

Per the Merger Agreement, the agreed upon cash consideration at close of the Proposed Transaction is $11,940,992. PYA was provided no further analysis to substantiate this amount, such as third-party fair market value analyses or fairness opinions. Furthermore, in their respective SUOs, Mr. Baumer, Ms. Wagner and Mr. Lee asserted that the amount was agreed upon between the Transacting Parties.[10] In addition to the cash to be paid upon closing the Proposed Transaction, the Merger Agreement also appears to, in effect, release GEI from any portion of existing liabilities and future obligations related to IH and its subsidiaries. As stated in the FY2020 PMH AFS, total current and long-term liabilities held by PMH approximated $3.1 billion. As a result of the Proposed Transaction, our understanding is IH will fund the cash payment, via the merger, for the net purchase price of approximately $11.9 million, and will retain all other assets and liabilities of IH and its subsidiaries. This component of the Proposed Transaction marginally, but directly, impacts PMH's net assets, cash flow, and liquidity.

Existing stockholders, Mr. Lee and Mr. Topper, held approximately 34% of the stock in IH at time of the Application, and will hold 100% if the Proposed Transaction is approved and consummated.[11] Furthermore, those proposed sole owners are also operators and leaders in the operating entities. This is a different dynamic than a sale of all or the majority of the stock to an external investor, as this transaction should have more continuity in leadership and less disruption on operations. The transaction will result in a change in the board governance, with LGP vacating 3 of the 5 IH board seats.[12] It is yet to be determined how this change in board composition may positively or negatively impact governance and leadership of PMH.

OTHER CONSIDERATIONS RELEVANT TO PMH AND PCC

There are many risks faced by the healthcare provider industry, including but not limited to, public policy and regulatory changes, macro-economic shifts, payer reimbursement changes, impacts of public health emergencies and natural disasters, skilled labor availability, supply chain continuity, regulatory compliance investigations, etc. The scope of this Report is not to consider all those risks. But, specific to observations relevant to the Proposed Transaction and its impact on the ongoing support and viability of PCC to provide essential healthcare services to the residents of Rhode Island, some risks exist in any change of majority ownership of an entity, not specifically this circumstance. We are not able to make observations regarding whether any of these risks could materialize under this particular Proposed Transaction, as we have no information on management's prior actions, and it was not in our scope to evaluate the efficacy or motives of management. But we recognize, agnostic to particular industries or individual entities, majority owners do have legal rights and ability to affect change in an organization. In this particular case, certain minority owners (who are also executive leaders and operators of the business) will become majority owners, increasing their legal ability to make changes. Therefore, these observations simply recognize the changing dynamics which could occur in any change in majority stockholders. Based on our limited information, the following could influence decisions on how PCC is funded going forward:

[10] Mr. Sam Lee is Chief Executive Officer of PMH and a Board member of IH, PMH, and PCC, among other entities.
[11] Derived from the Application, page 1154.
[12] Derived from the Application, page 1154.

- PMH is a conglomerate of various healthcare operations across multiple states. Some operations will generate positive operational results which are used, to some extent, to offset losses in other segments of the business, including PCC. There is risk to continuity to the aforementioned support provided by PMH to PCC if operations of the more successful components of the PMH provider portfolio suffer. PYA was not provided financial information for each of the PMH regions. However, there is risk to continuity of the aforementioned support provided by PMH to PCC if operations of the more successful components of the PMH provider portfolio suffer. Similarly, if PCC operations do not improve to a point where they are contributing to the profitability and/or growth of PMH, it remains unclear whether the new board of IH and PMH would continue funding those portfolio investments.
- At present, any lingering financial impact to the healthcare industry as a result of the COVID-19 pandemic remains unclear. Some of the PMH facilities are located in geographic regions which experienced high rates of infection, hospitalizations, and fatalities from COVID-19, and some locations continue to have state-imposed restrictions which affect the timing of economic recovery. Therefore, if continued delays in economic recovery continues, such delays could have negative impacts on PMH's and PCC's liquidity and ability to meet obligations to third parties. PMH management members' interviews identified the pandemic as their greatest economic concern.

SUMMARY OF PROPOSED TRANSACTION IMPLICATIONS

We have observed through our analyses that both PCC and its parent, PMH, face long-term financial viability challenges. We observed that PCC, since the acquisition by PMH in 2014, has consistently been dependent upon PMH to fund operational shortfalls and capital investments. In addition, based on our observations, PMH has reported limited liquidity and a highly leveraged position in recent fiscal years. Threats to long-term viability might jeopardize the healthcare access for Rhode Island residents who depend on PCC health services, including those populations who are traditionally underserved.

In addition to the $11.9 million of proceeds GEI would receive as a result of the Proposed Transaction, GEI would also be released from any portion of existing and future obligations related to IH and its subsidiaries. At September 30, 2020, current and long-term liabilities held by PMH approximated $3.1 billion. Based on our observations, GEI has not made significant investments in IH or PMH since the initial capitalization in 2010 nor do they appear to be instrumental in assisting PMH with obtaining access to capital going forward.

However, despite these general observations, utilizing the information made available to us by the Transacting Parties, we did not observe impacts from the Proposed Transaction, whereby GEI would divest of its majority stake in IH, which directly affect the financial condition of PCC. We do note that PCC may be impacted indirectly as a result of any potential material effects to PMH caused by the Proposed Transaction.

APPENDIX A: SCOPE OF WORK

Scope of Work	Key Information Utilized
Project Initiation	
Conduct kick-off call with relevant individuals of RIDOH to ensure RIDOH's objectives are clearly understood and to confirm timeline, process for interviews with the Transacting Parties, and form of anticipated deliverables.	
Perform an inventory of relevant information provided to-date by the Transacting Parties to identify additional information needs.	
Discuss with parties already engaged by the state of Rhode Island (e.g., Attorney General's financial expert) to understand analyses already performed.	
Issue information request to obtain data and information not yet provided by the Transacting Parties.	
Understand Key Terms of the Proposed Transaction	
Obtain an overview of the Transacting Parties' organizational structure before and after the Proposed Transaction.	- Pre-transaction and proposed Post Transaction Organizational Charts - Listing of Board Members and Officers - Governing Documents - 2014 Asset Purchase Agreement - PMH HCA Application
Read the purchase agreement for Chambers, Inc.'s purchase of the shares in Ivy Holdings, Inc.	- Agreement and Plan of Merger Agreement between Chamber Inc., Ivy Holdings, Inc., and Green Equity Investors
Obtain and comment on audited financial statements* from calendar years 2015 through 2019, and requested supporting information, for Chambers, Inc., Ivy Holdings, Inc., Ivy Immediate Holding, Inc., and Prospect Medical Holdings, Inc.	- Audited Financial Statements - Unaudited Quarterly Financial results for FY2020 - Unaudited Monthly Financial Statements for October and November 2020

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Scope of Work	Key Information Utilized
After understanding the terms of the purchase agreement and existing financial statements of Chambers, Inc., Ivy Holdings, Inc., Ivy Intermediate Holdings, Inc., and Prospect Medical Holdings, Inc., analyze implications which the transaction by Chamber's Inc. purchase in the shares of Ivy Holdings, Inc. may have on the continued financial viability and access to capital of the Prospect CharterCARE S.11-15111, LLC and Prospect CharterCARE RWMC, LLC entities (collectively, "PCC").	- Audited Financial Statements - Listing of auditor's comments for FY2018-FY2020 for PCC - Unaudited Quarterly Financial Results for FY2020 for PCC - Unaudited Monthly Financial Statements for October and November 2020
Provide observations at a high level of the $12 million purchase price for approximately 60% of the interests in Prospect Medical Holdings, Inc, as they may relate to industry standards and norms.[13]	- N/A
Provide observations regarding prior relevant transactions with major investors in the equity of Ivy Holdings, Inc., Ivy Intermediate Holdings, Inc., and Prospect Medical Holdings, Inc. during the period from 2015 through the current period, and specifically how those transactions impacted these entities' ability to invest in healthcare services, including at PCC.	- Various Board of Directors' Meeting Minutes that outline distributions and other major relevant transactions
Provide observations regarding relevant, major transactions in healthcare real estate assets by Ivy Holdings, Inc., Ivy Intermediate Holdings, Inc., and Prospect Medical Holdings, Inc. during the period from 2015 through the current period, and specifically how those transactions impacted these entities' ability to invest in healthcare services, including at PCC.	- Real Property Asset Purchase Agreement between PMH and MPT dated July 10, 2019 - ChambersProspectCharterCARE-LTR E. Samuels Confirmation of Facts 07.22.2020 - Various details of real estate transactions that occurred within PMH

[13] No portion within the entirety of PYA's scope should be considered in any way to constitute a fairness opinion, an opinion regarding fair market value exchange of consideration, or a commercial reasonableness opinion related to any transactions analyzed in our processes.

Scope of Work	Key Information Utilized
Analyze Current Financial Performance of PCC	
Obtain and comment on the previous three annual financial statements of PCC and the three most recent internal monthly financial statement packages distributed.	– Audited Financial Statements – Unaudited Quarterly Financial Results for FY2020 for PCC – Unaudited Monthly Financial Statements for October and November 2020 – Adjusted EBITDA (15-month Trend) for October and November 2020 – Listing of Provider Relief Funding Received for PCC
Comment on significant estimates found in PCC's internal financial statements for the prior 3 annual periods and the current year to date (collectively, the "Historical Period").	– Audited Financial Statements
Obtain and comment on any PCC budget to actual reports for the Historical Period.	– Operating Budget for FY2018-FY2021 for PCC entities
Obtain listing and statements of cash and investment accounts held by PCC for the Historical Period.	– Various detail and statements related to Cash accounts – Audited Financial Statements – Treasury, Revenue, and Purchases Cycle descriptions
Inquire and comment on the following items related to PCC's banking relationships during the Historical Period, including: – Banking agreements – Borrowing terms and debt covenants – Credit facilities – Debt covenant compliance – Outstanding indebtedness	– Various detail of debt agreements related to the ABL Credit Agreement and Financing Agreement – Various detail of debt agreements related to the PACE financing agreement, including the Certificate of Levy and Lien of PACE Assessment – Audited Financial Statements

Scope of Work	Key Information Utilized
Obtain and comment on materials related to PCC's historical revenues during the Historical Period, including: - Cash to net revenue historical trends - Charity care - Revenue trends by payer - Volume metrics	- Revenue cycle description - PCC Table of Revenue by Payer for FY2018-FY2020 and November 2020 - PCC Operating Metrics for FY2018-FY2020 and November 2020 - Audited Financial Statements - Unaudited Monthly Financial Statements for October and November 2020
Prepare annual trending analysis for select ratios and metrics of PCC compared to appropriate benchmarks during the Historical Period.	- Audited Financial Statements - Unaudited Quarterly Financial Results for FY2020 for PCC - Balance Sheet and Income Statement for OLF and RWMC as of June 30, 2020 - PCC Full Time Equivalent Adjusted Occupied Bed comparison - PCC Full Time Equivalent Calculations
Obtain and comment on materials related to operating and financing lease contracts, purchase commitments, and other agreements that have otherwise restricted the use of PCC's assets.	- Summary schedule of operating and finance leases - Various detail of debt agreements related to the ABL Credit Agreement and Financing Agreement - Management service agreement - Audited Financial Statements

Scope of Work	Key Information Utilized
Obtain schedules and details in order to comment on PCC's patient accounts receivable during the Historical Period, including: - Aging analysis by payer - Allowance for contractual adjustments - Bad debt reserves and adjustments - Credit balances	- Accounts Receivable Process memo – Current - Accounts Receivable Process memo – Historical - Accounts Receivable Aging by Payer analysis for 2018-2020 and November 2020 - PCC lookback analysis of collections on accounts receivable - Audited Financial Statements - Unaudited Monthly Financial Statements for October and November 2020
Comment on the aging of PCC's accounts payable and accrued liabilities during the Historical Period by obtaining detail reports.	- Accounts Payable Aging report as of December 31, 2020 - Purchasing cycle description - Various schedules related to accounts payable and accrued liability accounts - Various schedules related to prepaid accounts - Employee Handbook and Vacation Policy description - Summary of changes in employee benefits - Audited Financial Statements - Unaudited Quarterly Financial Results for FY2020 for PCC - Unaudited Monthly Financial Statements for October and November 2020

Scope of Work	Key Information Utilized
Inquire of and comment on PCC's significant commitments or contingent liabilities, including: - Pending or threatened litigation - Investigations by regulatory or other authorities - Self-insurance liabilities - Post-retirement benefits	- Summary of post-retirement benefits for PCC employees - Listing of pending and historical litigation claims - Regulatory update summary - PCC incentive plan payout - Worker's compensation claim listing - Audited Financial Statements - Unaudited Quarterly Financial Results for FY2020 for PCC - Unaudited Monthly Financial Statements for October and November 2020
Obtain and comment on PCC's projected monthly statistical reports related to patient volume and payer mix.	- Audited Financial Statements - Unaudited Monthly Financial Statements for October and November 2020 - PCC Table of Revenue by Payer for FY2018-FY2020 and November 2020
Obtain and comment on intercompany account activity between PCC and parent organizations.	- Audited Financial Statements - Unaudited Monthly Financial Statements for October and November 2020 - List of joint ventures
Comment on PCC's ability during the Historical Period to support its capital needs through cash flow generated from hospital operations.	- Audited Financial Statements - Listing of auditor's comments for FY2018-FY2020 for PCC - Unaudited Quarterly Financial Results for FY2020 for PCC - Unaudited Monthly Financial Statements for October and November 2020

Scope of Work	Key Information Utilized
Potential Need for Capital for Working Capital and Physical Plan Investment Purposes	
Obtain and comment on a schedule of PCC capital spending over the past three years.	- Summary of Routine Capital Expenditures for 2017 - 2020
Obtain and comment on PCC provided capital budgets for future periods compared against historical levels of depreciation and relevant benchmarks.	- Capital Projection Schedule for 2020-2022 - Capital Budget 2021 - IT Commitment summary for 2018 – 2030 - Audited Financial Statements - Unaudited Quarterly Financial Results for FY2020 for PCC - Unaudited Monthly Financial Statements for October and November 2020
Interviews of Relevant Parties	
Upon request by RIDOH, participate in and/or assist with the facilitation of interviews under oath with selected members relevant to the proposed transaction (estimated total of 20 to 25 hours) for enhanced understanding of purpose and impact of the Proposed Transaction.	
Preparation and Provision of Report	
Document in a written executive summary report, key findings of our analysis for consideration by RIDOH in its assessment of the Transacting Parties Application. This report will contain a list of relevant observations through our analyses and considerations for RIDOH.	
Presentation to Rhode Island Health Services Council	
Prepare and deliver presentation of key observations and considerations to the Health Services Council at the conclusion of the engagement. This presentation will be provided remotely and will not require travel to Rhode Island for an in-person meeting.	

Scope of Work	Key Information Utilized
Communication with RIDOH	
Throughout the engagement, provide regular updates to RIDOH leadership on the progress of the analysis, any complicating issues in completing the scope of work, updates to timeline, and sharing of significant observations.	

*Audited Financial Statements analyzed include:

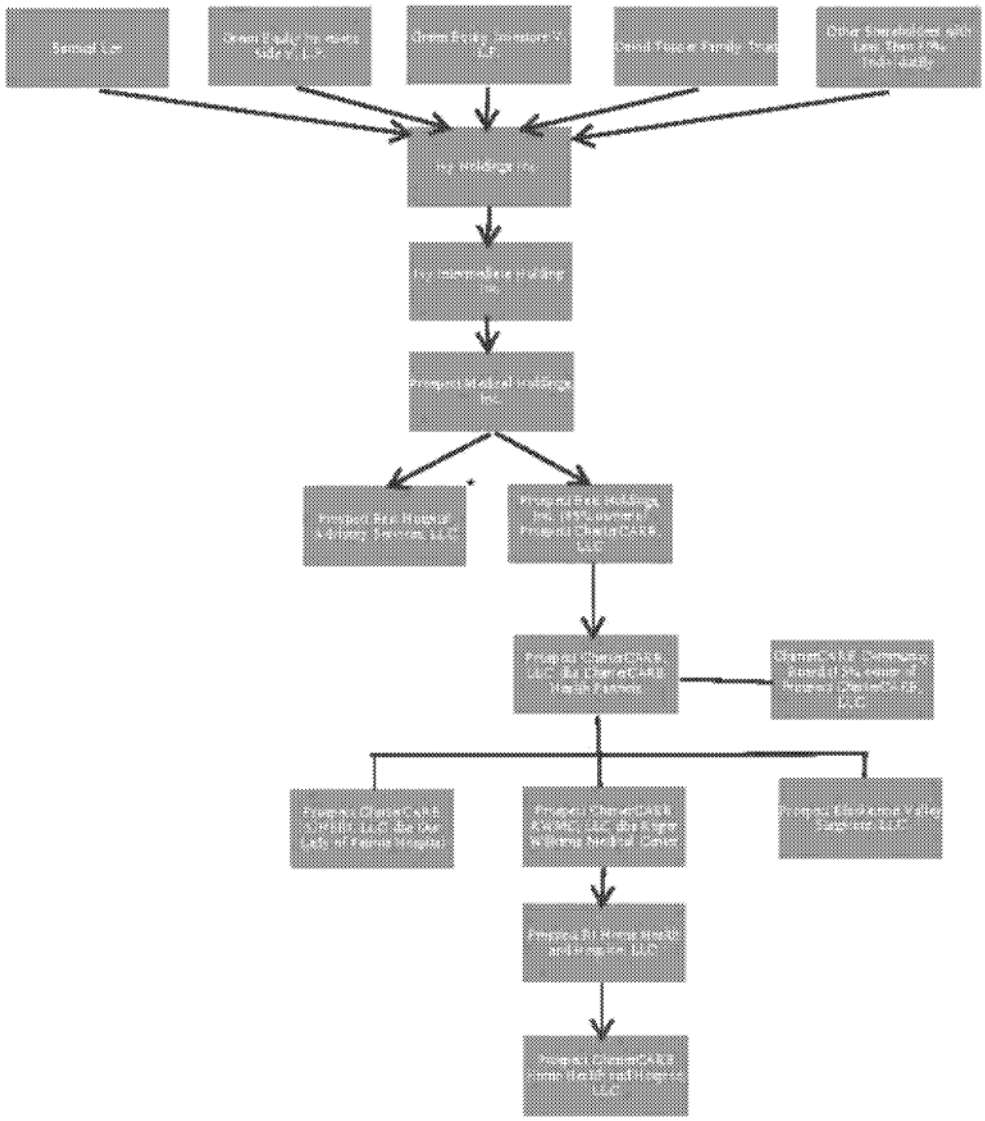
- 2016-2020 Audited Financial Statements of PMH
- 2016-2020 Audited Financial Statements of PCC
- 2016-2019 Audited Financial Statements of OLF
- 2017-2019 Audited Financial Statements of RWMC

APPENDIX B: ORGANIZATIONAL CHART PRIOR TO CONVERSION

PCC wholly owns RWMC, OLF, and Prospect Blackstone Valley Surgicare, LLC a licensed freestanding ambulatory surgery center. In addition, RWMC wholly owns PRIHHH, a home healthcare provider, which wholly owns PCCHHH a licensed home nursing care provider. All PCC entities are located in Rhode Island and are subject to the provisions of the Act. PCC is currently owned 85% by PEH and 15% by CCCB; however, associated with a settlement in December 2020, PEH is acquiring the remaining 15% interest in PCC from CCCB.

PEH and PEHAS are wholly owned by PMH. PMH is wholly owned by Ivy Intermediate Holding Inc., which is wholly owned by IH. IH is currently primarily owned by a combination of GEI, Mr. Lee, and Mr. Topper (through his Family Trust). Other PMH management own a small minority of shares. The current organization structure, as submitted in the Application, can be found below.

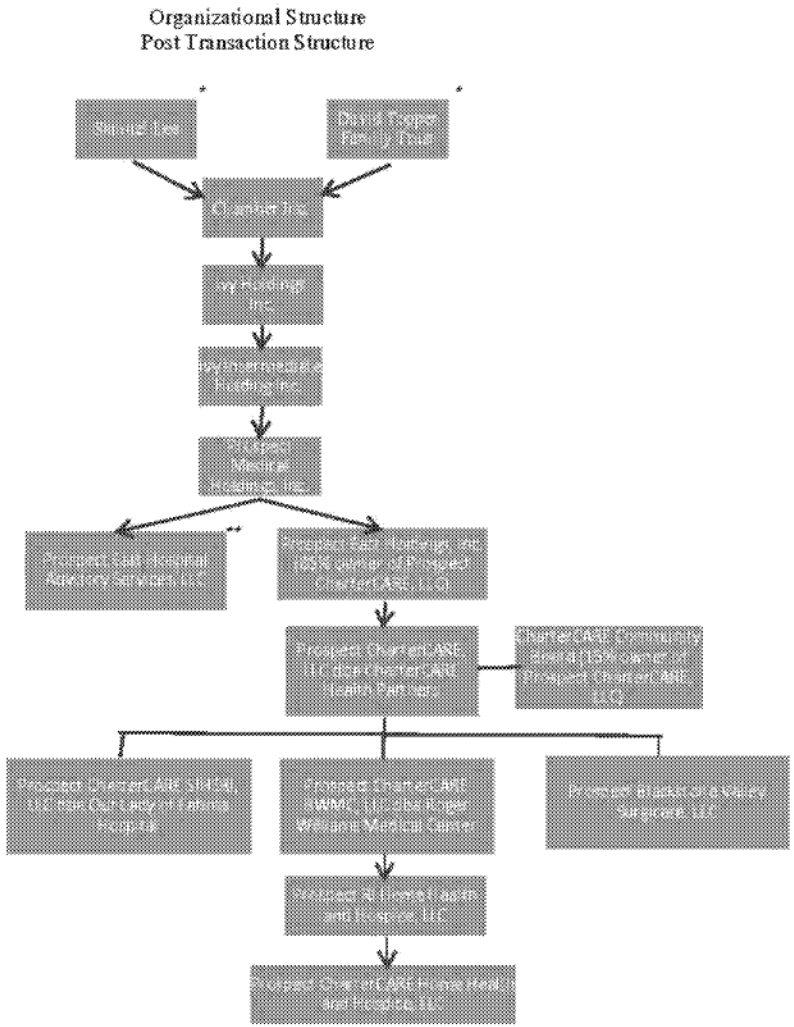
Organizational Chart
Pre-Transaction Structure



*Prospect East Hospital Advisory Services, LLC serves as manager to Prospect CharterCARE, LLC

APPENDIX C: PROPOSED ORGANIZATIONAL CHART SUBSEQUENT TO CONVERSION

The proposed organization structure, as submitted in the Application, can be found below.



*Post transaction change involves ownership of Ivy Holdings, Inc., which will be solely owned by Chamber Inc., owned by Samuel Lee and David Topper through his Family Trust, with ownership interest of 66.67% and 33.33%, respectively.

**Prospect East Hospital Advisory Services, LLC serves as manager to Prospect CharterCARE, LLC

PROSPECT MEDICAL HOLDINGS, INC.

Consolidated Financial Statements

As of and for the Years Ended
September 30, 2018 and 2017

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.

BDO

Prospect Medical Holdings, Inc.

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Independent Auditor's Report

Board of Directors
Prospect Medical Holdings, Inc.
Los Angeles, California

We have audited the accompanying consolidated financial statements of Prospect Medical Holdings, Inc. (the "Company"), which comprise the consolidated balance sheets as of September 30, 2018 and 2017, and the related consolidated statements of operations, statements of comprehensive (loss) income, statements of stockholder's (deficit) equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Prospect Medical Holdings, Inc. and its subsidiaries as of September 30, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

January 25, 2019

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Prospect Medical Holdings, Inc.

Consolidated Balance Sheets
(in thousands, except par value and share amounts)

September 30,	**2018**	2017
Assets		
Current assets		
Cash and cash equivalents	$ **7,694**	$ 27,109
Restricted cash	**1,742**	30,761
Restricted investments	**23,779**	15,810
Patient accounts receivable, net of allowance for doubtful accounts of $193,439 and $141,775 at September 30, 2018 and 2017, respectively	**350,789**	358,914
Due from government payers	**32,833**	51,152
Other receivables, prepaid expenses and other current assets	**128,378**	191,190
Income tax receivable	**2,737**	-
Inventories	**37,461**	36,967
Hospital fee program receivable	**211,454**	59,209
Total current assets	**796,867**	771,112
Property, improvements and equipment, net	**623,963**	576,933
Deferred income taxes, net	**1,975**	104,323
Goodwill	**305,126**	310,695
Intangible assets, net	**33,619**	40,794
Other assets	**57,083**	58,543
Total assets	$ **1,818,633**	$ 1,862,400

See accompanying notes to the consolidated financial statements.

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Prospect Medical Holdings, Inc.

Consolidated Balance Sheets
(in thousands, except par value and share amounts)

September 30,	**2018**	2017
Liabilities and Stockholder's (Deficit) Equity		
Current liabilities:		
Accrued medical claims and other healthcare costs payable	**$ 62,933**	$ 55,485
Accounts payable and other accrued liabilities	**328,431**	320,246
Accrued salaries, wages and benefits	**177,554**	144,287
Hospital fee program liability	**65,967**	1,968
Due to government payers	**30,615**	23,754
Income taxes payable	**-**	42,793
Revolving line of credit, net	**207,645**	113,061
Current portion of capital leases	**14,348**	11,315
Current portion of long-term debt	**18,429**	12,509
Other current liabilities	**27,831**	17,762
Total current liabilities	**933,753**	743,180
Long-term debt, net of current portion	**1,099,441**	625,719
Malpractice reserves	**77,280**	60,722
Capital leases, net of current portion	**35,853**	37,612
Asset retirement obligations	**6,179**	6,022
Other long-term liabilities	**34,355**	21,465
Pension obligations	**254,121**	300,364
Total liabilities	**2,440,982**	1,795,084
Commitments and contingencies		
Stockholder's (deficit) equity:		
Common stock, $0.01 par value; 100 shares authorized, issued and outstanding at September 30, 2018 and 2017	**1**	1
Additional paid-in capital	**23,961**	22,398
Accumulated other comprehensive income	**21,303**	8,148
(Accumulated deficit) retained earnings	**(676,930)**	24,165
Total stockholder's (deficit) equity attributable to Prospect Medical Holdings, Inc.	**(631,665)**	54,712
Non-controlling interests	**9,316**	12,604
Total stockholder's (deficit) equity	**(622,349)**	67,316
Total liabilities and stockholder's (deficit) equity	**$ 1,818,633**	$ 1,862,400

See accompanying notes to the consolidated financial statements.

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Prospect Medical Holdings, Inc.

Consolidated Statements of Operations
(in thousands)

For the Years Ended September 30,	**2018**	2017
Revenues:		
Net Hospital Services revenues	**$ 2,766,929**	$ 2,538,695
Provision for bad debts	**(119,414)**	(91,203)
Net Hospital Services revenues less provision for bad debts	**2,647,515**	2,447,492
Medical Group revenues	**334,408**	391,120
Net Global Risk Management revenues	**33,863**	20,752
Other revenues	**53,848**	55,133
Total net revenues	**3,069,634**	2,914,497
Operating Expenses:		
Hospital operating expenses	**2,203,277**	2,003,706
Medical Group cost of revenues	**267,376**	274,639
Global Risk Management cost of revenues	**20,430**	10,396
General and administrative	**529,194**	454,576
Depreciation and amortization	**97,814**	104,348
Total operating expenses	**3,118,091**	2,847,665
Operating income from unconsolidated joint ventures	**2,599**	5,388
Operating (loss) income	**(45,858)**	72,220
Other (income) expense:		
Interest expense and amortization of deferred financing costs, net	**101,889**	73,190
Loss on early extinguishment of debt	**18,422**	-
Bargain purchase gain	**-**	(30,010)
Goodwill impairment	**18,800**	-
Other expense (income), net	**2,148**	(1,861)
Total other expense, net	**141,259**	41,319
(Loss) income before income taxes	**(187,117)**	30,901
Income tax provision	**61,497**	554
Net (loss) income from continuing operations	**(248,614)**	30,347
Income from discontinued operations:		
Income from discontinued operations	**-**	7,738
Income tax provision	**-**	2,966
Income on discontinued operations, net of taxes	**-**	4,772
Net (loss) income before allocation to non-controlling interests	**(248,614)**	35,119
Net (loss) income attributable to non-controlling interests	**(4,449)**	867
Net (loss) income attributable to Prospect Medical Holdings, Inc.	**$ (244,165)**	$ 34,252

See accompanying notes to the consolidated financial statements.

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Prospect Medical Holdings, Inc.

Consolidated Statements of Comprehensive (Loss) Income
(in thousands)

For the Years Ended September 30,	**2018**	2017
Net (loss) income attributable to Prospect Medical Holdings, Inc.	**$ (244,165)**	$ 34,252
Other comprehensive income, net of tax:		
Pension obligation and other post-retirement benefits adjustment (net of $6,833 and $(1,794) tax)	**12,995**	(3,646)
Debt and equity securities, unrealized gain	**160**	456
Total other comprehensive income (loss), net of tax	**13,155**	(3,190)
Total comprehensive (loss) income	**$ (231,010)**	$ 31,062

See accompanying notes to the consolidated financial statements.

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Prospect Medical Holdings, Inc.

Consolidated Statements of Stockholder's (Deficit) Equity
(in thousands, except share amounts)

	Number of Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings (Accumulated Deficit)	Prospect Medical Holdings, Inc. Stockholder's Equity	Non-controlling Interests	Total Stockholder's (Deficit) Equity
Balance at October 1, 2016	100	$ 1	$ 21,277	$ 11,338	$ (10,087)	$ 22,529	$ 7,227	$ 29,756
Options exercised	-	-	3	-	-	3	-	3
Stock-based compensation	-	-	1,118	-	-	1,118	-	1,118
Non-controlling interest attributed to minority shareholders	-	-	-	-	-	-	4,510	4,510
Net income	-	-	-	-	34,252	34,252	867	35,119
Other comprehensive income, net of tax	-	-	-	(3,190)	-	(3,190)	-	(3,190)
Balance at September 30, 2017	100	1	22,398	8,148	24,165	54,712	12,604	67,316
Options exercised	-	-	853	-	-	853	-	853
Stock-based compensation	-	-	710	-	-	710	-	710
Non-controlling interest attributed to minority shareholders	-	-	-	-	-	-	1,161	1,161
Net income	-	-	-	-	(244,165)	(244,165)	(4,449)	(248,614)
Dividend paid to stockholder	-	-	-	-	(456,930)	(456,930)	-	(456,930)
Other comprehensive income, net of tax	-	-	-	13,155	-	13,155	-	13,155
Balance at September 30, 2018	100	$ 1	$ 23,961	$ 21,303	$ (676,930)	$ (631,665)	$ 9,316	$ (622,349)

See accompanying notes to the consolidated financial statements.

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Prospect Medical Holdings, Inc.

Consolidated Statements of Cash Flows
(in thousands)

For the Years Ended September 30,	2018	2017
Operating activities		
Net (loss) income	$ (248,614)	$ 35,119
Adjustments to reconcile net (loss) income to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	97,814	104,348
Amortization of deferred financing costs, net	2,702	2,090
Goodwill impairment	18,800	-
Write-off of deferred financing costs	11,709	-
Amortization of original issue discount and premium, net	2,976	1,909
Write-off of asset retirement obligation	-	(272)
Write-off of original issue discount and premium	6,713	-
Provision for bad debts	119,414	91,203
Pension obligation net periodic benefit cost	12,403	13,688
Deferred income taxes, net	97,782	(50,248)
Stock-based compensation	710	1,118
Undistributed earnings from equity method investments	(2,599)	(5,552)
Loss (gain) on sale of equity method investments	280	(2,974)
Loss (gain) on disposal of assets	212	(2,870)
Bargain purchase gain	-	(30,010)
Changes in operating assets and liabilities, net of business combinations:		
Patient accounts receivable	(111,289)	(147,130)
Due to/from government payers, net	25,180	(14,063)
Other receivables, prepaid expenses and other current assets	64,660	(76,754)
Hospital fee program receivable	(152,242)	(16,170)
Inventories	(494)	(2,489)
Hospital fee program liability and deferred revenue	63,999	(16,716)
Income taxes payable/receivable, net	(45,530)	67,523
Deposits and other assets	1,580	19,593
Accrued medical claims and other healthcare costs payable	7,448	2,980
Accounts payable, other accrued liabilities and other long term liabilities	62,091	83,713
Pension obligation	-	(7,174)
Net cash and cash equivalents used in operating activities from discontinued operations	-	(623)
Net cash and cash equivalents provided by operating activities	35,705	50,239
Investing activities		
Purchases of property, improvements and equipment	(98,580)	(56,807)
Purchases of long-term investments	-	(991)
Proceeds from sale of equity method investment	-	2,245
Cash paid for acquisitions, net of cash received and working capital adjustments	(5,780)	(18,373)
Cash in escrow for acquisitions	-	-
Change in restricted cash for acquisitions	-	(21,562)
Proceeds from sale of property and improvements	726	7,840
Distribution received from equity method investments	2,150	2,089
Increase in investments	(7,315)	(10,786)
Net cash and cash equivalents used in investing activities from discontinued operations	-	5,884
Net cash and cash equivalents used in investing activities	(108,799)	(90,461)

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Prospect Medical Holdings, Inc.

Consolidated Statements of Cash Flows (Continued)
(in thousands)

For the Years Ended September 30,	2018	2017
Financing activities		
Borrowings on Senior Secured Notes, net of original issue discount	1,097,600	-
Repayments on Senior Secured Notes	(622,788)	(6,250)
Borrowings on line of credit, net	209,000	59,515
Promissory note	-	3,500
Repayments on retired line of credit, net	(115,300)	-
Proceeds of other long-term debt	-	1,413
Repayments of long-term debt	(1,380)	(1,179)
Proceeds from financing leases, net	-	9,646
Repayment of financing leases	(2,450)	(683)
Repayments of capital leases	(12,419)	(12,313)
Proceeds from exercise of stock options	853	3
Cash paid for deferred financing costs	(19,833)	(2,990)
Change in restricted cash	29,019	(3,082)
Dividend paid to stockholder	(456,930)	-
Excess contribution to pension plan	(41,667)	-
Repayments of insurance premium financing	(10,026)	(9,836)
Net cash and cash equivalents provided by financing activities	53,679	37,744
Decrease in cash and cash equivalents	(19,415)	(2,478)
Cash and cash equivalents, beginning of year	27,109	29,587
Cash and cash equivalents, end of year	$ 7,694	$ 27,109
Supplemental disclosure of cash flow information		
Interest paid (including cash paid on debt extinguishment)	$ 63,650	$ 52,593
Income taxes (received) paid, net	$ (3,485)	$ 13,739
Schedule of non-cash investing and financing activities		
Equipment acquired under capital leases	$ 19,443	$ 12,959
Accrual of property, improvements and equipment	$ 19,995	$ -
Insurance premium financed	$ 9,900	$ 9,836
Partial satisfaction of long-term liability assumed from acquisition of PCC	$ 1,195	$ 1,537
Acquisition of NUMG	$ 7,452	$ -

See accompanying notes to the consolidated financial statements.

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1. Organization

Prospect Medical Holdings, Inc. ("Prospect" or the "Company" or the "Parent Entity") is a Delaware corporation and a wholly-owned indirect subsidiary of Ivy Holdings Inc. ("Ivy Holdings").

The Company's operations are currently organized into four primary reportable segments: Hospital Services, Medical Group, Global Risk Management and Corporate, as discussed below.

Liquidity

The Company had a net working capital deficit of $136,886,000 as of September 30, 2018 compared to net working capital surplus of $27,932,000 as of September 30, 2017, respectively. Additionally, the Company had a net loss before income taxes of $187,117,000 for the year ended September 30, 2018 compared to net income before income taxes of $30,901,000 for the year ended September 30, 2017. As of September 30, 2018, the Company has a stockholder's deficit of $622,349,000 compared to stockholder's equity of $67,316,000, as of September 30, 2017. Cash and cash equivalents generated by operations declined to $35,705,000 from $50,239,000 for the years ended September 30, 2018 and 2017, respectively, and total change in cash and cash equivalents decreased year on year from a decline of $2,478,000 for the year ended September 30, 2017 to a decline of $19,415,000 for the year ended September 30, 2018. Total debt, net of discount/ premiums and deferred finance charges increased to $1,117,870,000 at September 30, 2018 compared to $638,228,000 at September 30, 2017. Such increase was primarily due to the Company's entry into New Senior Secured Credit Facilities during the year ended September 30, 2018 (Note 9). As part of the New Senior Secured Credit Facilities, the Company entered into a restated and amended revolving credit facility with a maximum revolving commitment of $250.0 million, which is expandable to $325.0 million. The balance outstanding at September 30, 2018 on the amended revolving credit facility was $207,645,000 comparable to $113,061,000 on the existing revolving credit facility at September 30, 2017. At September 30, 2018, the available balance on the line was approximately $41.0 million. Cash and cash equivalents declined from approximately $27.1 million at September 30, 2017 to approximately $7.7 million at September 30, 2018. The Company has various initiatives in place to generate positive cash flows from operations. From a revenue generating perspective, these include a focus on improving charge capture, improving the success rate on denials, and increasing reimbursements through rate negotiations with managed care payors, as well as improving volumes. From a cost cutting perspective, the initiatives include improvements to labor productivity and the reduction in overtime and use of registry, as well as better controls on supply and pharmacy contracts. Further, there are initiatives to focus on improving both productivity and volumes from the Company's physician groups. The Company is currently investigating new sources of liquidity which may include discussions with both the Company's investors and lenders in relation to additional borrowings. On January 25, 2019, Ivy Holdings made an equity contribution in the amount of $40 million (see Note 15). The Company believes that it will have sufficient cash flows from operations and available revolving facilities to provide sufficient capital resources to sustain operations, investing activities and financing for at least the next twelve months from the date these financial statements were available to be issued.

Hospital Services Segment

As of September 30, 2018, through its subsidiaries the Company owns 20 acute care and behavioral hospitals and multi-level elder care facilities in Southern California, Texas, Rhode Island, New Jersey, Pennsylvania and Connecticut with approximately 3,700 licensed beds, and a network of specialty and primary care clinics. The Hospital Services segment subsidiaries are wholly-owned by Prospect, except for the facilities in Rhode Island, in which Prospect has an 85% interest in the subsidiary that owns such facilities.

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Admitting physicians are primarily practitioners in the local area. The hospitals have payment arrangements with Medicare, Medicaid and other third party payers, including commercial insurance carriers, health maintenance organizations ("HMOs") and preferred provider organizations ("PPOs").

Medical Group Segment

The Medical Group segment is a healthcare management services organization that provides management services to affiliated physician organizations that operate as independent physician associations ("Medical Groups" or "IPAs"). The affiliated physician organizations enter into agreements with HMOs to provide HMO enrollees with a full range of medical services in exchange for fixed monthly fees ("Capitation"). The Medical Groups contract with physicians (primary care and specialist) and other healthcare providers to provide enrollees with medical services. Prospect currently manages the provision of healthcare services for its affiliated physician organizations in California, Texas, Rhode Island, Connecticut, Pennsylvania and New Jersey. The California network consists of various physician organizations that are generally wholly-owned by Prospect Medical Group, Inc. ("PMG") and managed by the two medical management company subsidiaries that are wholly-owned by Prospect. The Medical Group segment also owns clinic facilities through New Genesis Medical Association ("NGMA") that operates by employing physicians to serve its patients. PMG and NGMA are owned by a nominee physician shareholder pursuant to an assignable option agreement, under which Prospect has an assignable option, obtained for a nominal amount from PMG and the nominee shareholder, to designate the purchaser (successor physician) for all or part of PMG's issued and outstanding stock held by the nominee physician shareholder (the "Stock Option") in its sole discretion.

Most of the physician organizations have entered into Management Service Agreements ("MSA") with Prospect Medical Systems Inc., ("PMS"), and have agreed to pay a management fee to PMS, which is based in part on the costs to the management company and on a percentage of revenues. In return for payment of the management fee, PMS has agreed to provide financial management, information systems, marketing, advertising, public relations, risk management, and administrative support, including for utilization review and quality of care. At its cost, PMS has assumed the obligations for all facilities and employs physician and non-physician personnel for administrative services. The management fee is earned based on a combination of percentage of revenue and share of pre-tax income. The management fees fluctuate based on the revenue and profitability of each physician organization. The Management Agreements are not terminable by the physician organization except in the case of gross negligence, fraud or other illegal acts, or bankruptcy, of PMS.

Prospect consolidates the revenues and expenses of all the physician organizations (except for one entity that is a 50/50 joint venture, which is accounted for under the equity method) from the respective dates of execution of the Management Agreements. All significant inter-entity balances have been eliminated in consolidation. In the case of the joint venture, only that portion of the results which are contractually identified as Prospect's are recognized in the consolidated financial statements, together with the management fee that the Company charges the joint venture for managing the other owners' share of the joint venture operations.

Prospect has also entered into management services agreements with unaffiliated third parties to manage services to their HMO enrollees. These management agreements do not have characteristics that give rise to the consolidation of the entities under current accounting literature. These management services agreements are terminable in accordance with the agreements.

The affiliated physician organizations provided medical services to a combined total of approximately 442,000 and 355,000 enrollees as of September 30, 2018 and 2017, respectively. The enrollees include approximately 255,000 and 159,000 enrollees that the Company manages for the economic benefit of certain independent third parties, and for which the Company earns management fee income as of September 30, 2018 and 2017, respectively. The total paid member months including managed enrollees, for the years ended September 30, 2018 and 2017 was approximately 5,360,000 and 3,991,000, respectively.

Global Risk Management Segment

The Global Risk Management segment has entered into global capitation arrangements with certain unrelated third-party health plans. The Global Risk Management segment also manages the provision of care for members in coordination with the Hospital Services and Medical Group segments.

Corporate Segment

The Company established a captive insurance company, Prospect Medical Holding Risk Retention Group, Inc. ("RRG") on June 20, 2016 in the state of Vermont. RRG was formed to provide primary insurance coverage for hospital and physician professional and general liability risks for the Company's subsidiary health care organizations located in Pennsylvania on a claims-made basis. RRG is wholly owned by Prospect Penn, LLC, which is wholly-owned directly by the Company. All intercompany balances and transactions are eliminated upon consolidation.

Additionally, the Company has a captive insurance company based in the Cayman Islands, Connecticut Healthcare Insurance Company ("CHIC"), which provides hospital and physician professional and general liability coverage to all of the Company's hospitals and affiliated subsidiaries except for Crozer and its Pennsylvania subsidiaries (Covered by RRG above). Effective January 1, 2018, ownership of CHIC was transferred from Prospect ECHN, Inc. to make CHIC a direct wholly-owned subsidiary of the Company. CHIC is an exempted Company with limited liability under the Companies Law of the Cayman Islands and it holds a Class "B(i)" Insurer's License under Section 4(3)(b) of the Cayman Islands Insurance Law 2010. CHIC's principal activity is to issue primary policies for hospital liabilities covering Prospect, its subsidiaries and employees, on a claims-made basis. The Company procured excess healthcare professional liability and umbrella liability insurance policy on a claims-made basis covering healthcare professional liability, general liability, automobile liability, employer's liability, helipad liability and non-owned aircraft liability of the Company and its affiliates. This excess coverage is purchased entirely from unrelated commercial insurers. CHIC also provides a deductible reimbursement policy for workers compensation to the Company's California and Connecticut hospital facilities all of which have high deductible program structures or are qualified self-insureds.

On January 1, 2018, CHIC began providing an employee benefit stop-loss policy to all Company subsidiaries. Unlimited excess coverage is purchased from unrelated reinsurance companies.

The Company does not allocate interest expense related to acquisition debt or income taxes to the other reporting segments.

2. Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of all controlled subsidiaries, of which control is effectuated through ownership of voting common stock or by other means, but do not include the accounts of the parent companies, Ivy Holdings Inc. and Ivy Intermediate Holding Inc. The Company has a variable interest in various entities under the Medical Group segment due to the existence of two call options, under which the Company has the ability to require the holders of all of the voting common stock of the underlying subsidiaries to sell their shares at a fixed nominal price ($1,000) to another designated physician chosen by the Company. This call option agreement represents rights provided through a variable interest other than the equity interest itself that limits the returns that could be earned by the equity holders. In addition, the Company has management agreements with the physician organizations under the Medical Group segment which allows the Company to direct the activities of such physician organizations that most significantly impact their economic performance, retain the right to receive expected residual returns and assume the obligation to absorb losses. Accordingly, the Company is considered to be the primary beneficiary and these entities are consolidated within the accompanying consolidated financial statements.

Operating results for acquisitions are consolidated with the Company's financial statements from their acquisition dates. All significant intercompany balances and transactions have been eliminated in consolidation. Non-controlling interests in less-than-wholly-owned consolidated subsidiaries of the Company are presented as a component of total equity to distinguish between the interests of the Company and the interests of the non-controlling owners.

The consolidation of these entities does not change any legal ownership, and does not change the assets or the liabilities and equity of the Parent Entity as a stand-alone entity. These entities had total revenues of approximately $310,720,000 and $413,866,000 and total net loss of approximately $2,184,000 and net income of approximately $20,298,000 for the years ended September 30, 2018 and 2017, respectively.

The assets and liabilities of the variable interest entities are as follows (in thousands):

September 30,		**2018**		2017
Assets				
Total current assets	$	**89,882**	$	177,525
Total non-current assets		**90,465**		18,044
Total assets	$	**180,347**	$	195,569
Liabilities				
Total current liabilities	$	**69,097**	$	82,082
Total long-term liabilities		**730**		700
Total liabilities	$	**69,827**	$	82,782

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Reclassifications

Certain reclassifications were made to the prior year consolidated financial statements in order to conform to the current year presentation.

Revenues

Revenues by reportable segment are comprised of the following amounts (in thousands):

For the Years Ended September 30,	2018	2017
Net Hospital Services		
Inpatient	$ 1,625,187	$ 1,423,273
Outpatient	958,715	955,543
Capitation	157,622	110,330
Other	25,405	49,549
Total Hospital Services revenues	2,766,929	2,538,695
Less: Provision for bad debts	(119,414)	(91,203)
Total net Hospital Services revenues less provision for bad debts	2,647,515	2,447,492
Medical Group		
Capitation	307,444	369,185
Management fees	10,501	7,977
Other	16,463	13,958
Total Medical Group revenues	334,408	391,120
Global Risk Management		
Capitation	23,095	13,097
Other	10,768	7,655
Total Global Risk Management revenue	33,863	20,752
Other revenues	53,848	55,133
Total net revenues	$ 3,069,634	$ 2,914,497

The revenues of acquisitions have been included in the accompanying consolidated financial statements for the period from their respective acquisition dates. These revenues also exclude revenues from discontinued operations.

Hospital Services Segment

Net Patient Service Revenues

Operating revenue of the Hospital Services segment consists primarily of net patient service revenue. The Company reports net patient service revenue at the estimated net realizable amounts from patients and third-party payers and others in the period in which services are rendered. The Company has agreements with third-party payers, including Medicare, Medicaid, managed care and other insurance programs that

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are paid at negotiated rates. These payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments, as further described below. Estimates of contractual allowances are based upon the payment terms specified in the related contractual agreements. The Company accrues for amounts that it believes may ultimately be due to or from the third-party payers. Normal estimation differences between final settlements and amounts accrued in previous years are reported as changes in estimates in the current year. Outstanding receivables, net of allowances for contractual discounts and bad debts, are included in patient accounts receivable in the accompanying consolidated balance sheets.

The following is a summary of sources of patient service revenues (net of contractual allowances and discounts) before provision for bad debts and exclude revenues from discontinued operations (in thousands):

Years ended September 30,	**2018**	2017
Medicare	**$ 850,197**	$ 848,221
Medicaid	**905,322**	699,340
Managed Care	**631,209**	607,362
Self-Pay/Other	**197,174**	223,893
Capitation	**157,622**	110,330
Other	**25,405**	49,549
Total patient service revenue	**$ 2,766,929**	$ 2,538,695

A summary of the payment arrangements with major third-party payers follows:

Medicare: Medicare is a federal program that provides certain hospital and medical insurance benefits to persons aged 65 and over, some persons with end-stage renal disease and certain other beneficiary categories, including eligible disabled persons. Most inpatient hospital services rendered to Medicare program beneficiaries are paid on a fee-for-service basis at prospectively determined rates per discharge, according to a patient classification system based on clinical, diagnostic, and other factors. Most outpatient services also are paid on a fee-for-service basis generally using prospectively determined rates. The Company receives, as appropriate, Medicare disproportionate share hospital ("DSH") and bad debt payments at tentative rates, with final settlement determined after submission of the annual Medicare cost report and audit thereof by the Medicare Administrative Contractor. The Company also receives, as appropriate, Medicare uncompensated care DSH payments, which are generally not subject to cost report audit except to determine eligibility for Medicare DSH. The Company also receives Medicare outlier payments on an ongoing basis during the year for cases that are unusually costly, and under certain circumstances these payments may be reconciled to more closely reflect the costs in excess of outlier thresholds after the submission and audit of the annual Medicare cost report. Normal estimation differences between filed settlements and amounts accrued are reflected in net patient service revenue.

The Company is reimbursed by Medicare for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare Administrative Contractor. The estimated amounts due to or from the program are reviewed and adjusted annually based on the status of such audits and any subsequent appeals. Differences between final settlements and amounts accrued in previous years are reported as adjustments to net patient service revenue in the year that examination is substantially completed.

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Although services for most Medicare beneficiaries are paid by the Federal government on a fee-for-service basis, approximately one-third of Medicare beneficiaries are enrolled in a "Medicare Advantage" plan, which is a type of health plan that contracts with the Medicare program to provide hospital and medical benefits to Medicare beneficiaries. Medicare Advantage Plans include Health Maintenance Organizations, Preferred Provider Organizations, Private Fee-For-Service Plans, Special Needs Plans, and Medicare Medical Savings Account Plans. For Medicare beneficiaries enrolled in a Medicare Advantage plan, most Medicare services are covered by the plan and are not paid for under fee-for-service Medicare. Certain Medicare Advantage plans make capitation payments to the Company using a "Risk Adjustment model," which compensates providers based on the health status (acuity) of each enrollee. Providers with higher acuity enrollees generally will receive more and those with healthier enrollees will receive less.

Medicaid: Medicaid is a joint federal-state funded healthcare benefit program that is administered by states to provide benefits to qualifying individuals who are unable to afford care. The Company receives reimbursements under the Medicaid programs in each state in which it operates at prospectively determined rates for inpatient services and a mixture of fee schedules and cost reimbursement methodologies for outpatient services depending on the specific state regulations. Cost report settlements are recorded based upon as-filed cost reports (if required by the respective facility's state) and adjusted for tentative and final settlements, if any.

The various states in which the Company operates have additional programs in which certain of the Company's facilities participate in, related to medical facilities serving a disproportionate number of low-income patients. The following table shows the revenues generated by these programs during the years ended September 30, 2018 and 2017 (in thousands), which are reflected in Net Hospital Services revenues in the accompanying consolidated statements of operations:

For the years ended September 30,	**2018**	2017
California Medi-Cal Disproportional Share ("CA DSH") *(a)*	**$ 13,761**	$ 21,460
Texas Section 1115 Waiver - UCC Pool *(b)*	**(7,324)**	10,492
Texas Section 1115 Waiver - DSRIP Pool *(b)*	**12,712**	12,712
Rhode Island DSH and UPL *(c)*	**19,035**	24,402
New Jersey Health Care Subsidy Funds *(d)*	**900**	9,040
Pennsylvania State Programs *(e)*	**40,344**	30,719
Connecticut Medicaid DSH revenue *(f)*	**33,152**	14,301
	$ 112,580	$ 123,126

(a) Revenues are accrued based on the expected total annual awards. Differences between the estimated and the actual awards are recorded in the period they become known, and are subject to retrospective revision prior to finalization, which could lead to material retractions. The Company records retrospective retractions when they are estimable and probable. Retrospective additional revenues are recorded when the amounts are received.

(b) The program has consisted of three major components: statewide Medicaid managed care, the Uncompensated Care ("UC") pool, and "Delivery System Reform Incentive Payment" (DSRIP). The UC pool contains $3.1 billion in annual funding to cover, among other things, "shortfall" between the cost of providing care to an uninsured patient and the reimbursement amount that Medicaid would pay for that service. DSRIP is an incentive pool with another $3.1 billion in annual funding that allows providers to earn payments for meeting certain CMS and HHSC-approved reporting and

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performance metrics for "a wide range of innovative projects. Historically, Nix Health has received payments from both the DSRIP and UC pools. Texas' Medicaid Section 1115 Waiver that CMS approved in December 2017 (the "2017 Waiver") extended the program for an additional five years from October 2017 through September 2022 but made significant changes to the pools. The UC pool will remain at $3.1 billion until September 2019 and will subsequently be adjusted based on aggregate provider data concerning charity care cost in 2017. Widespread failure by providers to report accurate charity care data will result in a "default" pool size of $2.3 billion. The DSRIP program will be phased out during the five-year period as federal matching funds of DSRIP activities will be reduced each year until it ceases entirely in 2021. Some of these funds might be available to support other programs, or if the original DSRIP projects will be continued or incorporated into managed care. Moreover, the impact of UC pool changes, particularly in relation to charity care hospitals, while currently uncertain, will become more evident with each passing deadline over the new Waiver's five-year term.

At September 30, 2017, the Company had recorded a net receivable of approximately $17 million (net of reserves of approximately $5 million) related to State fiscal years 2015 through 2017 in respect of UC monies owed to the Company. As a result of a lawsuit by a hospital in Texas against CMS in relation to the calculation of uncompensated care, the Texas Health and Human Services Commission set aside reserves as a contingency against a reallocation of those funds, pending the outcome of the lawsuit. During the year ended September 30, 2018, the hospital won the lawsuit and it is under appeal. At September 30, 2018, given the additional uncertainty, the Company has recorded a reduction to revenue of approximately $17 million. Accordingly, the net revenues recorded under the UC program for the year ended September 30, 2018 are negative.

(c) Rhode Island hospitals receive federal and state Medicaid funds as additional reimbursement for treating a disproportionate share of low income patients. The State of Rhode Island also assesses a license fee to all hospitals in Rhode Island based on each hospital's net patient revenue. The Company recorded $16,925,000 and $20,137,000 of expense during the years ended September 30, 2018 and 2017, respectively, as a result of the license fee.

(d) The New Jersey Health Care Reform Act of 1992 established Health Care Subsidy Funds to provide certain hospitals in New Jersey with funds necessary to provide charity care and other forms of uncompensated care.

(e) The Company's Pennsylvania hospitals are participants in Pennsylvania statewide hospital assessment, Medicaid Modernization Assessment ("MMA"), which has been extended through June 30, 2023. The assessments have enabled the Commonwealth of Pennsylvania to maintain the updated inpatient payment system, make changes to existing disproportionate share/supplemental payments, and to create new payments where applicable. The Company has also recognized revenues from the Pennsylvania Community Access Fund ("CAF").

(f) The Company's hospitals in Connecticut participate in its Medicaid DSH program and receive additional reimbursement for treating a disproportionate share of low income patients. Connecticut assesses a provider tax based on total net revenue received by a hospital for the provision of inpatient hospital services and outpatient hospital services. The amount of the provider tax is currently the subject of litigation. The state's two-year budget adopted in late 2017 provides for an increase in the provider tax, as well as additional supplemental payments to be paid to hospitals. CMS has approved both parts of the arrangement: the increase in the provider tax, and the additional supplemental payments to be paid to certain hospitals. The state has noted

the potential that further negotiations may be needed between the hospital association and the state given that increases in a portion of the state payments may exceed federal limits.

Managed Care: The Company has also entered into payment agreements with certain commercial insurance carriers, HMOs, and PPOs. The basis for payment under these agreements is in accordance with negotiated contracted rates or at the Company's standard charges for services provided. Some of these payments are capitated, meaning that the Company receives an agreed amount per patient for providing an agreed range of services.

Self-Pay: Self-pay patients represent those patients who do not have health insurance and are not covered by some other form of third party arrangement. Such patients are evaluated, at the time of services or shortly thereafter, for their ability to pay based upon federal and state poverty guidelines, qualifications for Medicaid, as well as the Company's local hospital's indigent and charity care policy.

Laws and regulations governing the third-party payor arrangements are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Normal estimation differences between subsequent cash collections on patient accounts receivable and net patient accounts receivable estimated in the prior year are reported as adjustments to net patient service revenue in the current period.

The following is a summary of due from and due to governmental payers at September 30, 2018 and 2017 (in thousands):

September 30,	**2018**	2017
Due from government payers:		
Medicaid Disproportionate Share (DSH)	$ **16,673**	$ 20,414
Medicare cost report settlements	**5,877**	7,707
Medicaid Section 1115 receivable	**10,283**	23,031
	$ **32,833**	$ 51,152
Due to government payers:		
Medicare cost report settlements	$ **21,616**	$ 17,712
Medicaid cost report settlements	**8,999**	6,042
	$ **30,615**	$ 23,754

The Company is not aware of any material claims, disputes, or unsettled matters with any payers that would affect revenues that have not been adequately provided for and disclosed in the accompanying consolidated financial statements.

California Hospital Fee Program

The Company recognizes revenues related to supplemental Medi-Cal payments under California provider fee programs. These programs are funded by quality assurance fees paid by participating hospitals and matching federal funds.

Based on formulas contained in the legislation as well as modeling done by the California Hospital Association, the Company recognized supplemental payments, included in net patient service revenue, and quality assurance fee expense, included in general and administrative expenses in the accompanying consolidated statements of operations as follows (in thousands):

Years Ended September 30,	**2018**	2017
Hospital services revenues	**$ 284,122**	$ 70,620
General and administrative expenses	**123,996**	46,127
Net pre-tax impact	**$ 160,126**	$ 24,493

As of September 30, 2018 and 2017, the Company had receivables related to the California Hospital Fee Program of approximately $211,454,000 and $59,209,000, respectively, and had liabilities related to the California Hospital Fee Program of approximately $65,967,000 and $1,968,000, respectively, in the accompanying consolidated balance sheets.

Legislation approved by the State of California in October 2013 created the framework for the hospital fee program to continue in perpetuity without requiring further legislation from the State. In November 2016, California voters approved Proposition 52, which made the hospital fee program permanent and prohibits lawmakers from diverting Medi-Cal funds to pay for anything other than their intended purpose. In December 2017, CMS approved the fee-for-service inpatient and outpatient payments and taxes for the period from January 1, 2017 to June 30, 2019 ("QAF 5"). The increased payments to the Medi-Cal managed plans for the current California Hospital Fee Program period are anticipated to occur the first half of Calendar 2019 when it is anticipated CMS will approve the amended Health Plan contracts. During the year ended September 30, 2018, the Company recorded revenues under the QAF 5 program of $111.9 million related to periods prior to the current fiscal year. Additionally, the Company recorded revenues related to previous hospital fee programs prior to QAF 5 of $14.6 million during the year ended September 30, 2018.

Charity Care

The Company provides charity care to patients who lack financial resources and are deemed to be medically indigent based on criteria established under the Company's charity care policy. This care is provided without charge or at amounts less than the Company's established rates. Because the Company does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue. The direct and indirect costs related to this care totaled approximately $10,623,000 and $10,653,000 for the years ended September 30, 2018 and 2017, respectively. Direct and indirect costs for providing charity care are estimated by calculating a ratio of cost to gross charges and then multiplying that ratio by the gross uncompensated charges associated with providing care to charity patients. In addition, the Company provides services to other medically indigent patients under various state Medicaid programs. Such programs pay amounts that are less than the cost of the services provided to the recipients. The Company has not changed its charity care or uninsured discount policies during the years ended September 30, 2018 and 2017.

Provisions for Contractual Allowances and Bad Debts

Collection of receivables from third-party payers and patients is the Company's primary source of cash and is critical to its operating performance. The Company closely monitors its historical collection rates, as well as changes in applicable laws, rules and regulations and contract terms, to assure that provisions for contractual allowances are made using the most accurate information available. However, due to the complexities involved in these estimations, actual payments from payers may be materially different from the amounts management estimates and records. The Company's primary collection risks relate to uninsured patients and the portion of the bill which is the patient's responsibility, primarily co-payments and deductibles. Payments for services may also be denied due to issues over patient eligibility for medical coverage, the Company's ability to demonstrate medical necessity for services rendered and payer authorization of hospitalization.

Accounts receivable are reduced by an allowance for doubtful accounts. Valuation of the collectability of accounts receivable and provision for bad debts is based on historical collection experience, payer mix and the age of the receivables. Management routinely reviews accounts receivable balances in conjunction with these factors and other economic conditions which might ultimately affect the collectability of the patient accounts, and makes adjustments to the Company's allowances as warranted. For receivables associated with services provided to patients who have third-party coverage, management analyzes contractually due amounts and subsequently calculates an allowance for doubtful accounts and provision for bad debts once the age of the accounts reaches a specific age category based on historical experience. For receivables associated with self-pay patients, management records a significant provision for bad debts beginning in the period services were provided based on past experience that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The allowance for doubtful accounts as a percent of gross accounts receivable was 36% and 28% at September 30, 2018 and September 30, 2017, respectively. The allowance for doubtful accounts was $193,439,000 and $141,775,000 as of September 30, 2018 and 2017, respectively.

Legislation

All of the Company's hospital facilities are subject to the Emergency Medical Treatment and Active Labor Act ("EMTALA"). This federal law requires any hospital that participates in the Medicare program to conduct an appropriate medical screening examination of every person who presents to the hospital's emergency department for treatment and, if the patient is suffering from an emergency medical condition, to either stabilize that condition or make an appropriate transfer of the patient to a facility that can handle the condition. The obligation to screen and stabilize emergency medical conditions exists regardless of a patient's ability to pay for treatment. There are severe penalties under EMTALA if a hospital fails to screen or appropriately stabilize or transfer a patient or if the hospital delays appropriate treatment in order to first inquire about the patient's ability to pay. Penalties for violations of EMTALA include civil monetary penalties and exclusion from participation in the Medicare program. In addition, an injured patient, the patient's family or a medical facility that suffers a financial loss as a direct result of another hospital's violation of the law can bring a civil suit against that other hospital. The Company believes that it is in compliance with EMTALA and is not aware of any pending or threatened EMTALA investigations involving allegations of potential wrongdoing that would have a material effect on the Company's consolidated financial statements.

Medical Group Segment

Medical Group Revenues

Operating revenue of the Medical Group segment consists primarily of payments for medical services procured by the Affiliates under capitated contracts with various managed care providers including HMOs. Capitation revenue under HMO contracts is prepaid monthly to the Affiliates based on the number of enrollees electing any one of the Affiliates as their health care provider. See "Concentrations of Credit Risks" below for revenues received from the five largest contracted HMOs.

Capitation revenue (net of capitation withheld to fund risk share deficits discussed below) is recognized in the month in which the physician organizations are obligated to provide services. Minor ongoing adjustments to prior months' capitation, primarily arising from contracted HMOs' finalizing of monthly patient eligibility data for additions or subtractions of enrollees, are recognized in the month they are communicated to the Company. Additionally, Medicare pays capitation using a "Risk Adjustment model," which compensates managed care organizations and providers based on the health status (acuity) of each enrollee. Health plans and providers with higher acuity enrollees will receive more and those with healthier enrollees will receive less. Under Risk Adjustment, capitation is determined based on health severity, measured using patient encounter data. Capitation is paid on an interim basis based on data submitted for the enrollee for the preceding year and is adjusted in subsequent periods (generally in the Company's fourth quarter) after the final data is compiled. Positive or negative capitation adjustments are made for Medicare enrollees with conditions requiring more or less healthcare services than assumed in the interim payments. Since the Company cannot reliably predict these adjustments, periodic changes in capitation amounts earned as a result of Risk Adjustment are recognized generally in the fourth quarter when those changes are communicated by the health plans to the Company. During the years ended September 30, 2018 and 2017, the Company returned and recognized as a reduction in revenue, approximately $3,220,000 and $13,105,000, respectively, as a result of the final Hierarchical Condition Category ("HCC") reconciliation.

HMO contracts also include provisions to share in the risk for hospitalization, whereby the physician organization can earn additional incentive revenue or incur penalties based upon the utilization of hospital services. Typically, any shared risk deficits are not payable until and unless the Company generates future risk sharing surpluses, or if the HMO withholds a portion of the capitation revenue to fund any risk share deficits. At the termination of the HMO contract, any accumulated risk share deficit is typically extinguished. Due to the lack of access to information necessary to estimate the related costs, shared-risk amounts receivable from the HMOs are only recorded when such amounts are known. Risk pools for the prior contract years are generally final settled in the third or fourth quarter of the following fiscal year. For the years ended September 30, 2018 and 2017, Medical Group revenues included approximately $7,125,000 and $73,454,000, respectively, relating to risk-sharing profit. At September 30, 2018 and 2017, contingent liabilities for carry-forward risk-pool deficits expected to be forgiven, or offset against future surpluses were approximately $92,700,000 and $30,543,000, respectively, based on the available information from the health plans.

The Company also receives incentives under "pay-for-performance" programs for quality medical care based on various criteria. These incentives, which are included in other revenues within Medical Group revenues, are generally recorded in the third and fourth quarters of the fiscal year when such amounts are known. Performance and incentive revenues recorded during the years ended September 30, 2018 and 2017 were $5,751,000 and $4,469,000, respectively.

Management fee revenue is earned in the month the services are rendered. Management fee arrangements with unaffiliated entities provide for compensation ranging from 6.5% to 10% of revenues. Management fee revenues recorded during the years ended September 30, 2018 and 2017 were $5,656,000 and $6,261,000, respectively. Management fees for revenue for entities that are consolidated are eliminated on consolidation.

Medical Group Cost of Revenues

The cost of health care services consists primarily of capitation and claims payments, pharmacy costs and incentive payments to contracted providers. These costs are recognized in the period incurred, or when the services are provided. Claims costs also include an estimate of the cost of services which have been incurred but not yet reported to the Company. The estimate for accrued medical costs is based on projections of costs using historical studies of claims paid and adjusted for seasonality, utilization and cost trends. These estimates are subject to trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management records its best estimate of the amount of medical claims incurred at each reporting period. Estimates are continually monitored and reviewed and, as settlements are made or estimates adjusted, differences are reflected in current period. See Note 13 for changes in claims estimates during the years ended September 30, 2018 and 2017.

The Company has contractual reimbursement obligations to providers and discretionary incentive payment obligations to physicians. These payments are in large part predicated on the pay-for-performance, shared risk revenues, and favorable senior capitation risk adjustment payments received by the Company from the health plans. The Company records these revenues generally in the third or fourth quarter of each fiscal year when the incentives and capitation adjustments due from the health plans are known. During this period, the Company also finalizes the physician discretionary incentive.

The Company recorded physician incentives expense of approximately $21,669,000 and $41,808,000 for the year ended September 30, 2018 and 2017, respectively. As of September 30, 2018 and 2017, physician incentive accruals of approximately $17,396,000 and $31,193,000, respectively, were included in accounts payable and other accrued liabilities in the accompanying consolidated financial statements.

The Company also periodically evaluates the need to establish premium deficiency reserves for the probability that anticipated future health care costs could exceed future capitation payments from HMOs under capitated contracts and, where appropriate, records a premium deficiency reserve. There were no such premium deficiencies recorded at September 30, 2018 and 2017, respectively.

The Company, for certain matters, maintains stop loss coverage for health care costs that are in excess of set thresholds.

Global Risk Management Segment

Global Risk Management Revenues

Operating revenue of the Global Risk Management segment consists primarily of payments for medical services procured under global capitation arrangements from third-party health plans. Capitation revenue under these global capitation contracts is prepaid monthly to the Global Risk Management segment based on the number of enrollees. Entities within the Global Risk Management segment entered into Management Services Agreements with the Hospital Services and Medical Group segments, under which 98% of capitation revenue received is transferred to these segments.

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Similar to the Medical Group segment, capitation revenue is recognized in the month in which the Global Risk Management segment is obligated to provide services. Minor ongoing adjustments to prior months' capitation, primarily arising from contracted HMOs' finalizing of monthly patient eligibility data for additions or subtractions of enrollees, are recognized in the month they are communicated to the Company. Additionally, Medicare pays capitation using a "Risk Adjustment model," which compensates managed care organizations and providers based on the health status (acuity) of each enrollee. Health plans and providers with higher acuity enrollees will receive more and those with healthier enrollees will receive less. Under Risk Adjustment, capitation is determined based on health severity, measured using patient encounter data. Capitation is paid on an interim basis based on data submitted for the enrollee for the preceding year and is adjusted in subsequent periods (generally in the Company's fourth quarter) after the final data is compiled. Positive or negative capitation adjustments are made for Medicare enrollees with conditions requiring more or less healthcare services than assumed in the interim payments. Since the Company cannot reliably predict these adjustments, periodic changes in capitation amounts earned as a result of Risk Adjustment are recognized generally in the fourth quarter when those changes are communicated by the health plans to the Company. During the years ended September 30, 2018 and 2017, the Global Risk Management Segment recognized capitation risk adjustments of $5,155,000 and $3,234,000, respectively.

Global Risk Management Cost of Revenues

The cost of health care services consists primarily of the transfer of capitation revenue to the Hospital Services and Medical Group segments under the Management Services Agreements, and capitation and claims payments. These costs are recognized in the period incurred, or when the services are provided. Claims costs also include an estimate of the cost of services which have been incurred but not yet reported to the Company. The estimate for accrued medical costs is based on projections of costs using historical studies of claims paid and adjusted for seasonality, utilization and cost trends. These estimates are subject to trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management records its best estimate of the amount of medical claims incurred at each reporting period. Estimates are continually monitored and reviewed and, as settlements are made or estimates adjusted, differences are reflected in current operations.

The Company also periodically evaluates the need to establish premium deficiency reserves for the probability that anticipated future health care costs could exceed future capitation payments from HMOs under capitated contracts and, where appropriate, records a premium deficiency reserve. There were no such premium deficiencies recorded at September 30, 2018 or 2017.

The Company, for certain matters, maintains stop loss coverage for health care costs that are in excess of set thresholds.

Property, Improvements and Equipment

Property, improvements and equipment are stated on the basis of cost or, in the case of acquisitions, at their acquisition date fair values. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, and amortization of leasehold improvements is provided using the straight-line basis over the shorter of the remaining lease period or the estimated useful lives of the leasehold improvements. Leasehold improvements are generally depreciated over 5 to 40 years, buildings are depreciated over 5 to 40 years, equipment is depreciated over 2 to 15 years and furniture and fixtures are depreciated over 2 to 20 years. Equipment capitalized under capital lease obligations are amortized over the lesser of the life of the lease or the useful life of the asset.

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As more fully described in Note 12, the Company is required to comply with certain seismic standards as required by the state of California by January 1, 2020 (subject to possible extension of up to 30 months to July 1, 2022, as described in Note 12). The useful life of buildings subject to seismic retrofit requirements may be limited if the Company does not make the necessary upgrades by the required compliance date.

Goodwill

Goodwill represents the excess of the consideration paid and liabilities assumed over the fair value of the net assets acquired, including identifiable intangible assets.

Goodwill is not amortized; rather it is reviewed annually for impairment for each reporting unit, or more frequently if impairment indicators arise. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value.

Through the year ended September 30, 2017, the Company tested for goodwill impairment as of September 30 each year. During the year ended September 30, 2018, the Company changed the date of the annual goodwill impairment test to July 1. The Company does not believe that the change in assessment date represents a material change in the application of applicable accounting literature. Impairment of goodwill is tested at the reporting unit level, by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. The fair value of the reporting units are estimated. In evaluating whether indicators of impairment exist, the Company considers adverse changes in market value, laws and regulations, profitability, cash flows, ability to maintain enrollment and renew payer contracts at favorable terms, among other factors. The Company has adopted new literature during the year ended September 30, 2018 which changes the goodwill impairment test from a two-step process to a one-step process, which consists of estimating based on a weighted combination of (i) the guideline company method that utilizes revenue or earnings multiples for comparable publicly-traded companies, and (ii) a discounted cash flow model. If the estimated fair value of the reporting unit is less than its carrying value, this indicates that goodwill is impaired, and impairment is recorded based on the deficiency of fair value compared to the carrying value. The Company's impairment test related to goodwill during the year ended September 30, 2018 resulted in a full impairment of goodwill related to the Chartercare and East Orange facilities. There were no impairment charges during the year ended September 30, 2017.

Intangible Assets

Intangible assets include customer relationships, trade names, favorable leasehold, and physician guarantees. The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The Company considers assets to be impaired and writes them down to fair value if estimated undiscounted cash flows associated with those assets are less than their carrying amounts. Fair value is based upon the present value of the associated cash flows. Changes in circumstances (for example, changes in laws or regulations, technological advances or changes in strategies) may also reduce the useful lives from initial estimates. Changes in planned use of intangibles may result from changes in customer base, contractual agreements, or regulatory requirements. In such circumstances, management will revise the useful life of the long-lived asset and amortize the remaining net book value over the adjusted remaining useful life. There were no impairments recorded during the years ended September 30, 2018 and 2017.

Insurance Reserves

Medical Malpractice Liability Insurance

The individual physicians who contract with the physician organizations carry their own medical malpractice insurance, some of which may be purchased from RRG or CHIC. In the Hospital Services segment, the Company's hospitals carry professional and general liability insurance to cover medical malpractice claims under claims-made policies. Under the policies, insurance premiums cover only those claims actually reported during the policy term. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims related to occurrences during the policy term but reported subsequent to the policy's termination may be uninsured. The Company's hospitals have a consolidated policy for professional and general liability insurance with separate retentions for each entity. The Pennsylvania MCARE fund provides the $500,000 in excess of $500,000 RRG malpractice coverage for Crozer.

For the current fiscal year, RRG provided primary malpractice insurance ($500,000 per occurrence and $2,500,000 in the aggregate) and general liability ($1,000,000 per occurrence and $2,000,000 in the aggregate). In addition, the RRG provided coverage for losses of $4,000,000 in excess of $1,000,000 for each hospital professional liability claim with no aggregate limit. The RRG also provides additional layers of excess coverage over $5,000,000 up to $20,000,000, which are 100% reinsured by third party insurance carriers through multiple layers. The excess coverage provided for general liability is over $10,000,000 up to $50,000,000, which is also 100% reinsured by third party carriers.

CHIC provided malpractice ($3,000,000 per occurrence and $9,000,000 in the aggregate) and general liability ($1,000,000 per occurrence and $3,000,000 in the aggregate) coverage for ECHN for the year ended September 30, 2017. During the year ended September 30, 2018, CHIC provided malpractice and general liability ($2,000,000 per occurrence) coverage for all facilities except Crozer. CHIC also provided an excess healthcare professional liability and umbrella liability insurance policy on a claims-made basis covering healthcare professional liability, general liability, automobile liability, employers' liability, helipad liability and non-owned aircraft liability. The limit provided was $60,000,000 for each loss event and in the annual aggregate excess of the primary coverage layers described above. This coverage was fully reinsured by third party carriers.

GAAP requires that a health care organization record and disclose the estimated costs of medical malpractice claims in the period of the incident of malpractice, if it is reasonably possible that liabilities may be incurred and losses can be reasonably estimated. The Company has recognized an estimated liability for incurred but not reported claims and the self-insured risks (including deductibles and potential claims in excess of policy limits) based upon an actuarial valuation of the Company's historical claims experience of its hospitals. At September 30, 2018 and 2017, the total gross claims liability, was $77,280,000 and $60,722,000 and reinsurance recoverable on unpaid losses were $12,834,000 and $9,059,000, respectively, included in other assets on the accompanying consolidated balance sheets, and were estimated using a discount factor ranging from 3.5% to 4%.

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Workers' Compensation Insurance

The workers' compensation coverage provides the statutory benefits required by law with a $500,000 deductible reimbursement policy provided by CHIC for the Company's entities located in California and Connecticut. The facilities in Texas have opted out of the Texas Workers' Compensation system as non-subscribers, and provide their employees with benefits for occupational injury or disease through an ERISA plan, and have an Employer's Excess Indemnity policy with a $25,000 deductible with limits of $10,000,000 per occurrence and $25,000,000 aggregate. The facilities in Rhode Island were fully insured for workers' compensation claims with no deductible. East Orange was fully insured for workers' compensation claims with no deductible from March 1, 2017 through September 30, 2018. Crozer has a workers' compensation policy with a $500,000 deductible. At September 30, 2018 and 2017, included in accrued salaries, wages and benefits are accruals for uninsured claims and claims incurred but not reported of approximately $27,776,000 and $28,329,000 and reinsurance recoverable on unpaid losses of $8,557,000 and $7,246,000, respectively, included in other assets on the accompanying consolidated balance sheets. The amounts are estimated based upon an actuarial valuation of claims experience, using a discount factor of 4%.

Reserve Methodology

The claims reserve is based on the best data available to the Company. The estimate, however, is subject to a significant degree of inherent variability. The estimate is continually monitored and reviewed, and as the reserve is adjusted, the difference is reflected in current operations. While the ultimate amount of the medical malpractice and workers' compensation claims liability is dependent on future developments, management is of the opinion that the associated liabilities recognized in the accompanying consolidated financial statements are adequate to cover such claims. Management is not aware of any potential claims whose settlement, if any, would have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Stock Options

Ivy Holdings has a stock option plan (the "Ivy Plan"), which is administered by the Compensation Committee of the Ivy Holdings Board. The plan includes an Incentive Stock Option Agreement and a Non-Qualified Stock Option Agreement to be used in connection with the grant of options under the plan. These options granted under the Ivy Plan are exercisable into Ivy Holdings stock and vest based on a number of criteria.

Compensation costs for option awards are measured and recognized in the consolidated financial statements based on their grant date fair value, net of estimated forfeitures over the awards' service period. Options subject to variable accounting treatment are subject to revaluation at the end of each reporting period. The Company uses the Black-Scholes option pricing model and a single option award approach to estimate the fair value of stock options granted. The fair value of restricted stock grants are determined on the date of grant, based on the number of shares granted and the quoted price or estimated fair market value of the Company's common stock. Equity-based compensation is classified within the same line items as cash compensation paid to employees. Compensation costs related to stock options that vest or are exercisable when certain corporate transactions occur, including a change in control, are recognized at the time that such an event occurs.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments with initial maturities of 90 days or less to be cash equivalents. Cash and cash equivalents are primarily comprised of deposits with banks. The Company maintains its cash at banks with high credit-quality ratings.

Restricted Cash

Some of the Company's cash is restricted for various purposes including research, regulatory requirements and letters of credit. The Company is also required to keep restricted deposits by certain HMOs for the payment of claims. Such restricted deposits are classified as a current asset in the accompanying consolidated balance sheets, as they are restricted for payment of current liabilities. Restricted cash also include certificates of deposit with maturity dates of more than 90 days when purchased.

Restricted Investments

Investments in marketable securities, primarily mutual funds, and are classified as available for sale and are stated at fair value. Adjustments are recorded in the statements of other comprehensive income. Investment securities are exposed to various risk, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in values of investment securities could occur in the near term and such changes could materially affect investment. These investments are held in the Company's captive insurance companies and are shown as restricted because the state/local regulators require their approval before dividends or return of capital to the Parent Entity.

Inventories

Inventories of supplies are valued at the lower of amounts that approximate the weighted average cost or market. Inventories consist primarily of medical and surgical supplies and pharmaceuticals.

Deferred Financing Costs

Deferred financing costs are amortized over the period in which the related debt is outstanding using the effective interest method and are classified as a deduction from the carrying amount of the related debt.

Income Taxes

Deferred income tax assets and liabilities are recognized for differences between financial and income tax reporting bases of assets and liabilities based on enacted tax rates and laws. To the extent a deferred tax asset cannot be recognized under the preceding criteria, allowances must be established. The impact on deferred taxes of changes in tax rates and laws, if any, are applied to the years during which temporary differences are expected to be settled and reflected in the financial statements in the period of enactment. The Company recognizes interest and penalties associated with income tax matters and unrecognized tax benefits in the income tax expense line item of the statements of operations. For the years ended September 30, 2018 and 2017, the Company incurred $2,405,000 and $960,000 of interest and penalties related to income taxes, respectively.

An entity is required to evaluate its tax positions using a two-step process. First, the entity should evaluate the position for recognition. An entity should recognize the financial statement benefit of a tax position if it determines that it is more likely than not that the position will be sustained on examination. Next, the entity should measure the amount of benefit that should be recognized for those tax positions that meet the more-likely-than-not test.

A consolidated federal tax return is filed for Ivy Holdings, with the exception of Nuestra Familia Medical Group Inc., ("Nuestra"), which files its own federal tax returns. The Company files separate state tax returns for California, Texas, Rhode Island, Pennsylvania, Connecticut, New Jersey and Florida. The Company's filed tax returns are generally subject to examination by the IRS and state tax boards for 3 to 4 years.

Sale-Leaseback Transactions

The Company evaluates sale-leaseback transactions by determining whether the transaction meets the qualifying criteria to be recognized as a sale-leaseback, including the transfer of risk and rewards of ownership as well as the absence of continuing involvement of the Company. When the qualifying criteria for a sale-leaseback transaction are not met, the Company accounts for the transaction as a financing (see Note 9).

Comprehensive Income (Loss)

Comprehensive income consists of net income and other gains and losses affecting stockholder's equity that, under generally accepted accounting principles, are excluded from net income (loss) attributable to the Company. For the Company, such items consist primarily of unrealized gains or losses on debt and equity securities as well as changes related to pension and other postretirement liabilities that are not recognized immediately in net periodic benefit costs (see Note 11).

Fair Value of Financial Instruments

Financial instruments consist primarily of cash and cash equivalents, restricted cash, restricted investments, patient and other accounts receivables, accrued salaries and benefits, accounts payable and accrued expenses, medical claims and related liabilities, amounts due to government agencies, notes receivable and payable, capital lease obligations, debt, and other liabilities. The carrying amounts of current assets and liabilities approximate their fair value due to the relatively short period of time between the origination of the instruments and their expected realization.

Fair Value Measurement

Relevant accounting guidance establishes a framework for measuring fair value and clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

The guidance requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of inputs as follows: Level 1 quoted prices in active markets for identical assets or liabilities; Level 2 quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; or Level 3 unobservable inputs for the asset or liability, such as discounted cash flow models or valuations. The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The Company's Level 1 assets include cash and cash equivalents and investments (certificates of deposit and money market mutual funds). The inputs for fair value of goodwill and intangible assets (including long lived assets and intangible assets subject to amortization) would be based on Level 3 inputs as data used for such fair value calculations would be based on discounted cash flows that are not observable from the market, directly or indirectly.

Financial Items Measured at Fair Value on a Recurring Basis

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis and where they are classified within the hierarchy (in thousands):

	Total	Level 1	Level 2	Level 3
As of September 30, 2018				
Mutual funds	$ 23,779	$ 23,779	$ -	$ -
Total	$ 23,779	$ 23,779	$ -	$ -
As of September 30, 2017				
Certificates of deposit	$ 850	$ 850	$ -	$ -
Mutual funds	14,960	14,960	-	-
Total	$ 15,810	$ 15,810	$ -	$ -

The Company's investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices. The Company's defined benefit pension plan assets are also measured at fair value (see Note 11).

The Company's carrying amount of long-term debt approximated fair value as of September 30, 2018 and 2017, respectively.

Nonfinancial Items Measured at Fair Value on a Nonrecurring Basis

Nonfinancial assets such as goodwill and identifiable intangible assets are measured at fair value when there is an indicator of impairment and recorded at fair value only when impairment is recognized. The Company performs an annual impairment test on the goodwill, and performs an impairment test on the intangible assets when there are indications of impairment.

During the year ended September 30, 2018, the Company recorded approximately $18.8 million of impairment relating to goodwill, which is reflected in the accompanying consolidated statements of operations.

The Company uses the discounted cash flow approach, the guideline public company approach and the guideline transactions approach to estimate the residual value of the Company's goodwill. The measurement of goodwill is a Level 3 measurement.

The following table provides quantitative information related to the significant unobservable inputs to determine fair value and impairment of goodwill as of September 30, 2018:

Residual Value of Goodwill	Valuation Technique	Unobservable Input	Rates
$ -	Discounted Cash Flow	Weighted average cost of capital	9.3%
		Revenue growth rate	(1.8)% - 11.2%
	Guideline Public Company	LTM revenue multiple	0.5x
		NTM EBITDA multiple	7.0x

There were no nonrecurring measurements as of September 30, 2017.

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Concentrations of Credit Risk

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits of $250,000 per depositor of each financial institution. The Company has not experienced any losses to date related to these balances.

Financial instruments that potentially subject the Company to concentrations of credit risk consist of receivables due from Medicare, Medicaid, patients, and health plans including shared-risk arrangements.

The Company invests excess cash in liquid securities at institutions with strong credit ratings, following established guidelines relative to diversification and maturities to maintain safety and liquidity. These guidelines are periodically reviewed and modified to take into consideration trends in yields and interest rates and principal risk. Management attempts to schedule the maturities of the Company's investments to coincide with the Company's expected cash requirements. Credit risk with respect to receivables is limited since amounts are generally due from large HMOs within the Medical Group segment and from the Medicare and Medicaid programs within the Hospital Services segment. Management reviews the financial condition of these institutions on a periodic basis and does not believe the concentration of cash or receivables results in a high level of risk.

For the years ended September 30, 2018 and 2017, the Hospital Services segment received a total of 64% and 61% of its net patient revenues from Medicare and Medicaid programs, respectively, and the Medical Group segment received a total of 63% and 64% for the years ended September 30, 2018 and 2017, respectively, of their capitation revenues from its five largest HMOs, as follows (in thousands):

Years Ended September 30,	2018	% of Total Revenue		2017	% of Total Revenue
Hospital Services:					
Government Payers:					
Medicare	$ 850,197	31%		$ 848,221	33%
Medicaid	905,322	33%		699,340	28%
Total	$ 1,755,519	64%		$ 1,547,561	61%
Medical Group:					
HMO A	$ 60,506	20%	HMO A	61,624	21%
HMO B	35,705	12%	HMO F	34,950	12%
HMO F	32,934	11%	HMO B	32,923	11%
HMO D	32,357	11%	HMO D	29,617	10%
HMO C	27,051	9%	HMO C	28,585	10%
Total	$ 188,553	63%		$ 187,699	64%

The Global Risk Management segment received all of their revenues from seven health plans during the years ended September 30, 2018 and 2017.

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Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities at the dates, and for the periods, that the consolidated financial statements are prepared. Actual results could materially differ from those estimates. Principal areas requiring the use of estimates include third party settlements, settlements under risk sharing programs, allowances for contractual discounts and doubtful accounts, accruals for medical claims, impairment of goodwill, long-lived assets and intangible assets, share-based payments, professional and general liability claims and workers' compensation claims, reserves for pension obligations and other postretirement benefit reserves, reserves for outcome of legislation and valuation allowances against deferred tax assets.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" which defers the effective date of the revenue standard ASU 2015-14. The core principle of ASU 2014-09 is built on the contract between a vendor and a customer for the provision of goods and services, and attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this objective, the standard requires five basic steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, (v) recognize revenue when (or as) the entity satisfies a performance obligation. Nonpublic entities will apply the new standard for annual periods beginning after December 15, 2018, including interim periods therein. Three basic transition methods are available — full retrospective, retrospective with certain practical expedients, and a cumulative effect approach. Under the third alternative, an entity would apply the new revenue standard only to contracts that are incomplete under legacy U.S. GAAP at the date of initial application (e.g. October 1, 2019) and recognize the cumulative effect of the new standard as an adjustment to the opening balance of retained earnings. That is, prior years would not be restated and additional disclosures would be required to enable users of the financial statements to understand the impact of adopting the new standard in the current year compared to prior years that are presented under legacy U.S. GAAP. The Company is currently evaluating the effect of this guidance on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments (Subtopic 825-10)". ASU 2016-01 requires all equity investments to be measured at fair value with changes in fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). ASU 2016-01 also requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition, ASU 2016-01 eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities. ASU 2016-01 is effective for annual and interim periods beginning after December 15, 2017. The Company is currently evaluating the standard and the impact on its consolidated financial statements and footnote disclosures.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)". The core principle of ASU 2016-02 is that a lessee should recognize the assets and liabilities that arise from leases, including operating leases. Under the new requirements, a lessee will recognize in the statement of financial position a liability to make lease payments (the lease liability) and the right-of-use asset representing the right to the underlying asset for the lease term. For leases with a term of 12 months or less, the lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous GAAP. The standard is effective for nonpublic entities for fiscal years beginning after December 15, 2019. The Company is currently evaluating the standard and the impact on its consolidated financial statements and footnote disclosures.

In March 2016, the FASB issued ASU 2016-09, "Compensation - Stock Compensation (Topic 718)". The updated standard simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for non-public business entities for annual reporting periods beginning after December 15, 2017, including interim periods within those annual reporting periods. The Company is currently evaluating the impact of its pending adoption of the new standard on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230)". The updated standard addresses eight specific cash flow issues with the objective of reducing diversity in practice. ASU 2016-15 is effective for non-public business entities for annual reporting periods beginning after December 15, 2018, including interim periods within those annual reporting periods. Early adoption is permitted. The Company is assessing the impact of the adoption of ASU 2016-15 on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business." These amendments clarify the definition of a business. The amendments affect all companies and other reporting organizations that must determine whether they have acquired or sold a business. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The amendments are intended to help companies and other organizations evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted under certain circumstances. The amendments should be applied prospectively as of the beginning of the period of adoption. The Company is evaluating the effect that this update will have on its consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-04, "Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment)". The new guidance is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years, and should be applied on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The new guidance simplifies the current two-step goodwill impairment test by eliminating Step 2 of the test. The new guidance requires a one-step impairment test in which an entity compares the fair value of a reporting unit with its carrying amount and recognizes an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, if any. The Company early adopted this standard in the current fiscal year.

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In March 2017, the FASB issued ASU 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The ASU amends ASC Topic 715, Compensation — Retirement Benefits, to require employers that present a measure of operating income in their statements of income to include only the service cost component of net periodic pension costs and net periodic postretirement benefit cost in operating expenses. The ASU also stipulates that only the service cost component of net benefit cost is eligible for capitalization. This guidance is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted as of the beginning of an annual period for which financial statements have not been issued or made available for issuance. Disclosures of the nature of and reason for the change in accounting principle are required in the first interim and annual periods of adoption. The Company is currently evaluating the provisions of ASU 2017-07 and its impact on the Company's consolidated financial position, results of operations and cash flows.

In May 2017, the FASB issued ASU 2017-09, "Modification Accounting for Share-Based Payment Arrangements (Topic 718)", which identifies and provides guidance on the types of changes to share-based payment awards that an entity would be required to apply modification accounting under ASU 2016-09, Stock Compensation (Topic 718). Specifically, an entity would not apply modification accounting if the fair value, vesting conditions and classification of the awards are the same immediately before and after the modification. ASU 2017-09 is effective for annual periods beginning after December 15, 2017 and will be applied prospectively to awards modified on or after the effective date. The Company is currently evaluating the provisions of ASU 2017-09 and its impact on the Company's consolidated financial position, results of operations and cash flows.

In February 2018, the FASB issued ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income", which allows a reclassification from accumulated other comprehensive income to retained earnings for the standard tax effects in accumulated other comprehensive income resulting from enactment of the comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act") and corresponding accounting treatment recorded in the fourth quarter of 2017. The ASU is effective for all entities for fiscal years beginning after December 15, 2018. Early adoption of the amendments in this ASU is permitted. The Company is currently evaluating the provisions of ASU 2018-02 and its impact on the Company's consolidated financial position, results of operations and cash flows.

In August 2018, the FASB issued ASU 2018-14, "Compensation - Retirement Benefits - Defined Benefit plans - General (Topic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans", which amends ASC 715 to add, remove and clarify disclosure requirements related to defined benefit pension and other postretirement plans. This ASU is effective for fiscal years ending after December 15, 2021. Early adoption is permitted. The Company is currently evaluating the provision of ASU 2018-14 and its impact on its consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU 2018-15, "Intangibles - Goodwill and Other - Internal - Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract", which provides guidance on implementation costs incurred in a cloud computing arrangement that is a service contract. Specifically, it amends ASC 350 to include in its scope implementation costs of a cloud computing arrangement that is a service contracts and clarifies that a customer should apply ASC 350-40 to determine which implementation costs should be capitalized in such a cloud computing arrangement. The Company has early adopted this literature for the year ended September 30, 2018.

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3. Property, Improvements and Equipment

Property, improvements and equipment, consisted of the following (in thousands):

September 30,	2018	2017
Land and land improvements	$ 83,446	$ 86,214
Buildings and improvements	386,278	352,194
Leasehold improvements	28,971	26,641
Equipment	331,426	274,577
Furniture and fixtures	5,259	5,184
	835,380	744,810
Less: accumulated depreciation	(304,139)	(219,093)
	531,241	525,717
Construction in Progress	92,722	51,216
Property, improvements and equipment, net	$ 623,963	$ 576,933

At September 30, 2018 and 2017, the Company had assets under capitalized leases of approximately $_____ and $30,986,000, respectively, and related accumulated depreciation of $26,320,000 and $22,960,000, respectively.

Depreciation expense was approximately $91,385,000 and $96,143,000 for the years ended September 30, 2018 and 2017, respectively.

4. Acquisitions

For the years ended September 30, 2018 and 2017, the Company entered into the following material acquisitions. All business combinations were consistent with the Company's strategic growth plan and were accounted for using the acquisition method of accounting. Operating results for each of the acquisitions have been included in the accompanying consolidated financial statements from the date of acquisition. Goodwill arising is primarily attributable to the synergies expected to arise after the acquisitions, and is expected to be deductible for tax purposes for entities that were asset acquisitions.

All assets acquired and liabilities assumed were at fair value with the exception of the defined benefit pension liabilities and other post retirement employee benefits, which allows for an exception to fair value accounting for business combinations in accordance with GAAP. The recognized tax bases (the amount that is attributable for tax purposes) of the assets and liabilities are compared to the financial reporting values of the acquired assets and assumed liabilities (book bases) to determine the appropriate temporary differences. The Company identified temporary differences related to assumed pension liabilities, due primarily to differences in tax law regarding when a liability is or is not assumed in an asset acquisition; this difference in the treatment of the pension liabilities resulted in the recording of deferred tax assets which are reflected in the acquisition accounting and noted in the tables below.

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The Company incurred approximately $3.1 million transaction costs during the year end September 30, 2017, which are included in general and administrative expenses in the accompanying consolidated statements of operations. Transaction costs incurred during the year ended September 30, 2018 were immaterial.

2018 acquisitions

In December 2017, New University Medical Group LLC ("New UMG") entered into a Second Closing to acquire the remaining assets of University Medical Group ("UMG") that were not acquired in the initial acquisition in December 2014. As consideration for the acquisition, New UMG has assumed certain designated liabilities of the practice, which consists of various loans payable to subsidiaries of the Company, totaling approximately $7.5 million. Post-acquisition, these liabilities are eliminated on consolidation. There was no cash consideration related to the transaction. The remaining assets and liabilities acquired were immaterial and no value was assigned to them in the purchase price allocation, and accordingly goodwill of $7.5 million arises from the acquisition. New UMG's parent company, Prospect CharterCARE Physicians, LLC, dba CharterCARE Medical Associates ("CCMA"), entered into a Post Closing Administrative Services Agreement pursuant to which CCMA and its affiliates provide services to the seller of the practice in connection with its termination of all operations and the wind up its affairs and operations.

The Company completed the acquisitions of four physician practice acquisitions in Connecticut for an aggregate purchase price of approximately $2.6 million, one physician multi-specialty practice in Pennsylvania for a purchase price of $1.6 million (net of working capital adjustments), three physician medical practices in California for an aggregate purchase price of approximately $800,000, and one physician family practice in Rhode Island for $180,000. All acquisitions were asset acquisitions, except for one stock purchase acquisition in Connecticut for a purchase price of $800,000, and accordingly goodwill arising from that acquisition is not deductible for tax purposes.

2017 acquisitions

On October 1, 2016, the Company acquired substantially all of the assets, and certain liabilities, of Eastern Connecticut Health Network, Inc. and certain of its subsidiaries (collectively, "ECHN") in exchange for cash consideration of $105 million (subject to certain adjustments). The acquired assets include a network of hospitals, outpatient service centers and providers and specialists serving eastern Connecticut. The acquired hospitals are The Manchester Memorial Hospital and The Rockville General Hospital.

On October 1, 2016, the Company acquired substantially all of the assets, and certain liabilities, of Greater Waterbury Health Network, Inc. and certain of its subsidiaries (collectively, "Waterbury") in exchange for cash consideration of $31.8 million (subject to certain adjustments). The acquired assets include Waterbury Hospital, an acute-care hospital with 357 licensed beds, and a network of outpatient centers and affiliated physicians.

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The following table summarizes the assets acquired and liabilities assumed in connection with each of the acquisitions in 2017 (in thousands):

	ECHN	Waterbury
Cash and cash equivalents	$ 5,292	$ 3,010
Patient accounts receivable and other receivables	31,238	23,442
Prepaid expenses and other current assets	8,893	4,100
Property, improvements and equipment	100,002	46,298
Intangible assets	3,440	2,870
Other assets	24,071	6,108
Accounts payable and other current liabilities	(39,122)	(24,639)
Capital leases and long term debt	(15,307)	(3,646)
Other long-term liabilities	(15,286)	(7,354)
Deferred tax liabilities ("DTL")	(5,474)	(13,360)
Pension obligations	(66,902)	(11,850)
Noncontrolling interests	(421)	(2,504)
Bargain gains, net of DTL of $5,474 and $13,360, respectively	(8,722)	(21,288)
Consideration	$ 21,702	$ 1,187

In connection with the acquisitions of ECHN and Waterbury, the Company recorded bargain gains (net of deferred tax liabilities) of $30,010,000 which are included in gain on bargain purchase in the accompanying consolidated statements of operations for the year ended September 30, 2017. The bargain gains arose primarily because of the future capital commitment requirements associated with the acquisitions. During the year ended September 30, 2018, the Company identified further adjustments to the purchase price allocations, which resulted in charges to the accompanying consolidated statements of operations of $3,020,000. Such adjustments related primarily to additional liabilities, offset by lower deferred tax liabilities, at Waterbury.

On May 1, 2017, the Company's wholly-owned subsidiary, Prospect Blackstone Valley Surgicare, LLC ("Prospect Blackstone"), completed an asset acquisition of a freestanding ambulatory surgery center located near the facilities in Rhode Island, in exchange for cash consideration of $1.5 million, of which $100,000 is subject to a one-year indemnification escrow hold-back.

5. Discontinued Operations

During the year ended September 30, 2016, the Company determined that it would discontinue the operations of Prospect CharterCARE Elmhurst Extended Care LLC (dba Elmhurst Extended Care), Nix Community General Hospital LLC ("Nix CGH") and Prospect ACO CA, LLC ("CA ACO"). Elmhurst Extended Care and Nix CGH are reported in the Hospital Services segment and the CA ACO is reported in the Global Risk Management segment. During the year ended September 30, 2017, the assets of Elmhurst Extended Care were sold (effective December 22, 2016) and Nix CGH ceased operations (effective October 1, 2016). The Company closed and sold the Elmhurst Extended Care business for proceeds of $13,722,000. Effective April 1, 2017, the Company made a decision to no longer discontinue operations of CA ACO and its onward activities are classified as part of the continuing operations on the consolidated financial statements. The

Company's decision to discontinue the operations of each of the entities was based on the strategy of the Company's management in their respective markets and financial results.

Summarized financial information for discontinued operations is included below (in thousands):

For the Years Ended September 30,	**2018**	2017
Net Hospital Services revenues	$ -	$ 10,178
Operating expenses	-	(6,941)
Depreciation and amortization	-	(80)
Interest expense	-	(24)
Income on discontinued operations before income taxes	-	3,133
Gain from sale of discontinued operations	-	4,605
Income tax provision	-	2,966
Income on discontinued operations	$ -	$ 4,772

6. Goodwill and Intangible Assets

The carrying value of goodwill by reporting unit is as follows (in thousands):

September 30,	**2018**	2017
Southern California Hospitals	$ **130,912**	$ 130,912
Nix Health	**3,138**	3,138
CharterCARE	**-**	5,822
California Medical Groups	**28,222**	27,420
East Orange	**-**	4,572
Crozer	**140,216**	138,831
ECHN	**483**	-
Waterbury	**2,155**	-
Total	$ **305,126**	$ 310,695

The changes in the carrying amount of goodwill for the years ended September 30 are as follows (amounts in thousands):

September 30,	**2018**	2017
Balance, beginning of year	$ **310,695**	$ 341,488
Acquisitions	**13,231**	2,047
Impairment	**(18,800)**	-
Adjustments to prior year acquisitions	**-**	(32,840)
Balance, end of year	$ **305,126**	$ 310,695

Identifiable intangible assets are comprised of the following (in thousands):

September 30,	Useful lives	**2018**	2017
HMO membership	14 years	**$ 25,200**	$ 25,200
Trade names, net of impairment	3 - 20 years	**52,583**	52,583
Physician guarantees	2 to 3 years	**-**	723
Customer relationships	7 years	**350**	350
Other	5 - 6 years	**97**	117
Gross carrying value		**78,230**	78,973
Accumulated amortization		**(44,611)**	(38,179)
Intangible assets, net		**$ 33,619**	$ 40,794

Amortization is recognized on a straight-line basis (management's best estimate of the period of economic benefit) over the respective useful lives and expense for the years ended September 30, 2018 and 2017 was $6,429,000 and $8,205,000, respectively. There are no expected residual values related to these intangible assets.

Estimated amortization expense for each future fiscal year is as follows (in thousands):

Years ending September 30,	
2019	$ 6,523
2020	5,350
2021	5,331
2022	3,542
2023	3,022
Thereafter	9,851
	$ 33,619

The weighted-average remaining useful life for the intangible assets was approximately 7 years as of September 30, 2018.

7. Related Party Transactions

Jeereddi Prasad, M.D., a shareholder of Ivy Holdings, a director of Ivy Holdings and the Company, and an officer of the Upland Medical Group, a Professional Medical Group and Pomona Valley Medical Group, Inc (collectively "ProMed Entities"), has ownership interests in physician medical groups that provide medical services to ProMed members, including Chaparral Medical Group, Inc., (in which the Company beneficially owns a 13.2% interest). For the years ended September 30, 2018 and 2017, the ProMed Entities paid these groups approximately $19,760,000 and $17,216,000, respectively. As of September 30, 2018 and 2017, the Company had accounts payable and other accrued liabilities due to these related parties of $1,266,000 and $473,000, respectively.

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Pursuant to a Management Services Agreement, dated December 15, 2010 and amended on May 3, 2012 (the "LGP Management Agreement"), between the Company and Leonard Green & Partners, L.P. ("LGP"), a private equity fund with affiliated funds that collectively constitute the majority shareholder of Ivy Holdings, LGP provides to the Company, (a) certain investment banking services, (b) management, consulting and financial planning services and (c) financial advisory and investment banking services in connection with major financial transactions from time to time. In consideration for the services provided by LGP under the LGP Management Agreement, the Company pays LGP an annual fee of $1,000,000, payable in monthly installments, and reimburses LGP for its related expenses up to $50,000 annually. If approved by the unanimous consent of the Board of Directors of the Company, additional customary fees may be due to LGP pursuant to the terms of the LGP Management Agreement for services rendered in connection with major transactions from time to time. No amounts were payable related to these related party transactions as of September 30, 2018 or 2017.

The Company is a wholly-owned indirect subsidiary of Ivy Holdings. Therefore, Ivy Holdings is the parent of an affiliated group of corporations within the meaning of Section 1504(a) of the Internal Revenue Code of 1986. On December 15, 2010, Ivy Holdings, Ivy Intermediate and the Company entered into a Tax Sharing Agreement. The Tax Sharing Agreement allows the Company to make payments to Ivy Holdings as necessary to fund their payment of any required taxes incurred due to such parent status. Under this agreement, the Company received refunds (net of payments) of $5,463,000 and $26,378,000 for the years ended September 30, 2018 and September 30, 2017, respectively.

8. Income Taxes

The components of the income tax (benefit) provision for continuing operations are as follows (in thousands):

For the years ended September 30,	2018	2017
Current:		
Federal	$ (27,738)	$ 42,836
State	(8,547)	8,057
	(36,285)	50,893
Deferred:		
Federal	86,922	(41,809)
State	10,860	(8,529)
	97,782	(50,338)
Total:		
Federal	59,184	1,026
State	2,313	(472)
	$ 61,497	$ 554

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Temporary differences and carry forward items that result in deferred income tax balances as of September 30, are as follows (in thousands):

September 30,	2018	2017
Deferred tax assets:		
Accrued medical claims	$ 4,344	$ 11,317
Malpractice reserves	3,727	9,020
Accounts receivable	24,654	26,693
Accrued salaries & wages	12,562	22,920
Pension obligation	82,697	133,960
Net operating losses	55,231	6,617
Tax Credits	2,870	2,174
Outside basis differences	762	9,706
UTP & other	12,552	5,512
Deferred tax assets	199,399	227,919
Valuation allowance	(119,544)	(10,308)
Net deferred tax assets	79,855	217,611
Deferred tax liabilities:		
Property, plant & equipment	(55,058)	(96,490)
Intangible assets	(8,601)	(7,317)
Prepaid expenses	(2,809)	(3,543)
Other comprehensive income	(11,412)	(5,938)
Deferred tax liabilities	(77,880)	(113,288)
Net deferred tax assets	$ 1,975	$ 104,323

Deferred tax assets and liabilities reflect the effect of temporary differences between the assets and liabilities recognized for financial reporting purposes and the amounts recognized for income tax purposes.

Management assesses the available positive and negative evidence to estimate whether sufficient future pretax income will be generated to permit use of the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative pretax losses incurred over the three year period ended September 30, 2018. Such objective evidence limits the ability to consider other subjective evidence, such as the Company's projections for future growth. On the basis of this evaluation, at September 30, 2018, a valuation allowance of approximately $119.5 million has been recorded to recognize only the portion of the deferred tax asset that is more likely than not to be realized. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased or if negative objective evidence in the form of cumulative losses is no longer present and additional weight is given to subjective evidence such as the Company's projections for growth.

During fiscal 2018, the Company completed an IRS examination for Prospect Medical Group, Inc. & Subsidiaries' fiscal year 2014 federal income tax return. The Company's IRS examination for Ivy Holdings, Inc. & Subsidiaries fiscal 2014 through 2016 federal income tax returns are also ongoing. No adjustments have been proposed thus far for any of the years under audit. We do not have any ongoing examinations

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in states. We do not currently anticipate any changes to our unrecognized tax benefits for the next twelve months related to these examinations.

Generally, the Company's tax years 2014 through 2017 are open for federal and state tax examination. As of September 30, 2018, the Company has recorded a liability in the amount of $12.7 million related to uncertain tax positions ("UTP") with respect to impermissible accounting methods for federal income tax purposes, which is recorded in other long-term liabilities in the accompanying consolidated balance sheets. The Company believes that it is reasonably possible that an increase in unrecognized tax benefits may be necessary within the coming year, and these unrecognized tax benefits would primarily impact deferred taxes and taxes payable, and the expected range of potential increase in the unrecognized tax benefits is not expected to be material to the balance sheet nor the income statement.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Act") was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, limitations on various business deductions such as executive compensation under Internal Revenue Code §162(m), the transition of U.S international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017. The United States federal income tax rate reduction was effective as of January 1, 2018. Accordingly, the Company's federal statutory income tax rate for fiscal 2018 reflected a blended rate of approximately 24.5%. The Company has calculated the impact of the Act in its year end income tax provision in accordance with its understanding of the Act and guidance available as of the date of this filing. As a result, the Company has reduced net U.S. deferred tax assets by $25,660,000. As the Company does not have profitable foreign subsidiaries, it does not anticipate any impacts as a result of the mandatory deemed repatriation of cumulative foreign earnings.

On December 22, 2017, Staff Accounting Bulletin No. 118 ("SAB 118") was issued to address the application of US GAAP in situations when an entity does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Act. Pursuant to SEC Staff Accounting Bulletin ("SAB") 118 (regarding the application of ASC740 associated with the enactment of the Tax Act), the Company believes the accounting under ASC 740 for the provisions of the Tax Act is complete.

The differences between the income tax provision at the federal statutory rate and that reflected in the accompanying consolidated statements of operations are summarized as follows:

For the years ended September 30,	**2018**	2017
Tax provision at statutory rate	**25%**	35%
State taxes, net of federal benefit	**12%**	(1)%
Impact of US Tax Reform	**(11)%**	-
Bargain purchase gain	**-**	(34)%
Valuation allowance	**(55)%**	-
UTP	**(1)%**	-
Other	**(2)%**	2%
	(32)%	2%

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9. Long-Term Debt

Long-term debt consists of the following (in thousands):

	2018	2019
Senior secured credit facility (net of discount of $20,085 and $7,374, respectively)	$ 1,094,315	$ 609,813
Other debt *(1)*	39,769	38,321
Less: Deferred financing costs, net ("DFC")	(16,214)	(9,906)
Total Debt, net of discount, premium and DFC	1,117,870	638,228
Less: current maturities	(18,429)	(12,509)
Long-term debt, net of current maturities	$ 1,099,441	$ 625,719

(1) Other debt also includes financing obligations related to sales-leaseback transactions. The financing obligations related to sales-leaseback transactions were $24,614,000 and $26,027,000 for years ended September 30, 2018 and 2017, respectively.

Senior Secured Credit Facilities

On June 30, 2016, the Company entered into a six-year $625 million senior secured term loan B (the "Original Term Loan"), the proceeds of which were used to repay $425 million of PMH's existing 8.375% senior secured notes due during 2019; to repay $60 million of borrowings under the Company's existing revolving credit facility (the "Replaced Revolver"); to fund acquisitions, including the acquisition of Crozer; and to finance transaction fees and expenses. The Original Term Loan bore interest at LIBOR (subject to a 1.0% floor) plus 6.0%. The Original Term Loan was issued with an original discount of 1.5%, or $9,375,000. Additionally, the Company refinanced the Replaced Revolver with a new $100 million asset-based revolving credit facility ("Original ABL Facility" and together with the Original Term Loan, the "New Senior Secured Credit Facilities"). Pursuant to various amendments from August 2016 through October 2017, the aggregate commitment amount under the Original ABL facility was increased in stages to $175 million. The maturity date for the Original ABL Facility was June 30, 2021, and the maturity date for the Term Loan was June 30, 2022.

On February 22, 2018, the Company refinanced and replaced both the Original Term Loan and the Original ABL Facility, and entered into an Amended and Restated Term Loan Credit Agreement (the "Amended TL Agreement"), by and among the Company (as the borrower), the lenders party thereto and JPMorgan Chase Bank, N.A. ("JPMorgan"), as administrative agent and collateral agent. The Amended TL Agreement replaced the Original Term Loan with a new Term B-1 Loan ("Term B-1 Loan"). The principal amount of the Term B-1 Loan is $1,120 million and such loan bears interest at LIBOR (subject to a 1.0% floor) plus 5.5%, which as of September 30, 2018 was 7.625%. The Term B-1 Loan was issued with an original discount of 2% and matures on February 22, 2024.

Additionally, on February 22, 2018, the Company entered into an Amended and Restated ABL Credit Agreement (the "Amended ABL Agreement"), by and among the Company (as the borrower), the lenders party thereto and JPMorgan, as administrative agent and collateral agent. The Amended ABL Agreement replaced the Original ABL Facility. Under the Amended ABL Agreement, the maximum revolving

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commitment is $250.0 million with ability to expand the facility to $325.0 million, and the new ABL facility (the "New ABL Facility") bears interest at a variable base rate plus an applicable spread that is based on excess availability under the New ABL Facility, as further described in the Amended ABL Agreement, which was 3.875% as of September 30, 2018. The New ABL Facility matures on February 22, 2023. As of September 30, 2018, the available balance on the new ABL facility was $41.0 million.

The proceeds of the Term B-1 Loans and the New ABL Facility (the "New Senior Secured Credit Facilities") were used to refinance the Original Term Loan and the Original ABL Facility, to pay a dividend of $457.0 million to the Company's stockholders, to pay certain expenses associated with the refinancing, to prefund approximately $40 million of pension liabilities of the Company's subsidiaries, to make payments to certain option holders as a result of the Dividend Recapitalization, and to finance certain working capital and other operational needs of the Company and its subsidiaries.

Under applicable accounting literature, deferred financing costs of $11.7 million and outstanding debt discount of $6.7 million as of February 22, 2018 were expensed and presented within loss on debt extinguishment in the accompanying consolidated statements of operations, and new costs of approximately $18.0 million incurred in connection with the refinancing have been capitalized to offset the new long-term debt in the accompanying consolidated balance sheets, and are being amortized over the term of the related debt using the effective interest method.

The New Senior Secured Credit Facilities are guaranteed on a senior secured basis by all assets of the Company and its wholly-owned subsidiaries ("Guarantors") except PHP, CHIC, RRG, Prospect Health Access Network, Inc. and certain immaterial subsidiaries. The New ABL Facility is secured by a first priority security interest on the working capital assets of the Company and the Guarantors and a second priority security interest on their fixed assets. The Term B-1 Loan is secured by a first priority security interest on fixed assets and a second priority security interest on working capital assets. The New Senior Secured Credit Facilities are effectively senior to all of the Company's existing and future indebtedness. The New Term B-1 loan has no financial covenants. However, the consolidated total leverage ratio is required to be calculated and reported on a quarterly basis. If such ratio is above 3.5, then receipts under the QAF 5 program are required to be utilized to pay down principal on the New Term B-1 loan. The Company currently expects to receive QAF 5 payments of approximately $83 million in May 2019, and these are the only expected payments to be received in fiscal 2019 based on current information from the California Hospital Association. The Company has made an accounting election to present all receivables under QAF 5 as current, and to not reflect expected paydowns of debt related to the collection of QAF 5 monies in fiscal 2019 as current debt as the timing is an estimate. The Amended ABL Agreement does not have any financial maintenance covenants. The Amended ABL Agreement has a "springing" fixed charge ratio covenant that applies if excess availability is less than the greater of 10% of the maximum borrowing amount and $22 million. The fixed charge ratio covenant was not required to be tested for the fiscal quarter ended September 30, 2018. The Company was in compliance with all of its debt covenants at September 30, 2018 or obtained a waiver.

Demand Notes

The Company has a commitment from a bank for a $15 million equipment leasing facility to finance various equipment at the Company's hospital facilities. As of September 30, 2018 and 2017, draws under the facility are classified as capital lease arrangements. Draws represent demand notes until conversion to capital leases, and interest accrues on such draws at the bank prime rate plus 1.5% with a floor of 4.5% and payable monthly. As of September 30, 2018, approximately $15 million had been drawn under the line.

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Scheduled payments under the Company's current and long-term debt as of September 30, 2018 are as follows (in thousands):

Years ending September 30,	
2019	$ 18,429
2020	16,869
2021	14,672
2022	13,097
2023	13,228
Thereafter	1,077,874
Total scheduled payments	1,154,169
Less: Senior Secured Notes discount, net	(20,085)
Less: Deferred financing costs, net	(16,214)
Less: Current maturities	(18,429)
Total long-term debt	$ 1,099,441

10. Stockholder's Equity

Equity Based Compensation Plans

Effective December 15, 2010, the Board of Directors of Ivy Holdings adopted the Ivy Plan that initially authorized the issuance of options exercisable for up to 155,110 shares of the common stock of Ivy Holdings ("Initial Options") to employees, certain consultants and independent members of the boards of directors, of Ivy Holdings and its subsidiaries (including the Company and its subsidiaries). These options are exercisable into Ivy Holdings stock and vest based on a number of criteria, including time, Company and Business Unit performance based on EBITDA targets and CEO and Compensation Committee discretion. Since the Ivy Holdings stock options were granted to Company employees for their services related to the Company, the related compensation cost has been recorded in the Company's consolidated financial statements. Effective June 30, 2015, the Board of Directors of Ivy Holdings adopted the First Amendment to the Ivy Plan. Under the First Amendment, and subsequent amendments, a further 63,704 shares of common stock of Ivy Holdings ("New Options") can be issued.

The New Options are exercisable into Ivy Holdings stock and vest based on a number of criteria, including the same criteria as the Initial Options. However, they only become exercisable on the occurrence of certain corporate transactions, including a change in control of Ivy Holdings, as defined in the Incentive Stock Option Agreements ("Corporate Transaction"). Because the occurrence and timing of a Corporate Transaction is not determinable as of September 30, 2018 and 2017 no compensation cost has been recorded in the Company's consolidated financial statements for the years then ended.

Under the terms of the Ivy Plan, the exercise price of an incentive stock option ("ISO") may not be less than 100% of the fair market value of the Company's common stock on the date of grant and, if granted to a shareholder owning more than 10% of the Company's common stock, then not less than 110%. Stock options granted under the Ivy Plan have a maximum term of 10 years from the grant date, and are exercisable at such time and upon such terms and conditions as determined by the Compensation Committee. Stock options granted to employees generally vest over four years, subject to continued service, performance, and other criteria. In the case of an ISO, the amount of the aggregate fair market

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value of common stock with respect to which the ISO grant is exercisable, for the first time by an employee during any calendar year, may not exceed $100,000.

Stock Options Activity

The following table summarizes information about Ivy Holdings stock options outstanding as of September 30, 2018 and 2017 and activity during the years then ended for the Initial Options and the New Options:

	Shares Subject to Options	Weighted Average Exercise Price	Weighted Average Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term (Months)
Outstanding as of October 1, 2016	143,201	$ 92.94	$ 445.06	76.2
Granted	29,141	568.55	—	—
Exercised	(100)	30.00	—	—
Canceled/Forfeited	(3,367)	107.81	—	—
Outstanding as of September 30, 2017	168,875	174.91	663.09	73.4
Granted	26,516	418.21	—	—
Exercised	(22,608)	37.74	—	—
Canceled/Forfeited	(9,530)	322.72	—	—
Outstanding as of September 30, 2018 *(1)*	163,253	$ 140.47	$ 156.53	70.5

(1) The number of options outstanding at September 30, 2018 were modified in connection with the Adjusted Exercise Price of the options (see below).

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the estimated fair value of the Company's common stock for those awards that have an exercise price currently below the estimated fair value. As of September 30, 2018, the aggregate intrinsic value of outstanding shares was approximately $25,554,000. As of September 30, 2018, there were 104,496 options that are exercisable at a weighted average exercise price of $47.40.

A summary of Ivy Holdings non-vested options and the changes during the fiscal years ended September 30, 2018 and 2017 is presented as follows for the Initial Options and New Options:

	Shares	Weighted Average Grant Date Fair Value
Ivy Holdings Stock Options:		
Nonvested at October 1, 2016	26,424	$ 97.55
Granted	29,141	299.00
Vested	(17,834)	178.49
Canceled/Forfeited	(3,367)	107.81
Nonvested at September 30, 2017	34,364	225.09
Granted	26,516	188.98
Vested	(17,054)	269.50
Canceled/Forfeited	(9,530)	206.09
Nonvested at September 30, 2018	34,296	$ 181.07

Stock-Based Compensation Expense

Stock-based compensation expense for all share-based payments in exchange for employee services (including stock options and restricted stock) is measured at fair value on the date of grant, estimated using an option pricing model and is recognized in the consolidated financial statements, net of estimated forfeitures over the awards requisite service period.

The Company uses the Black-Scholes option pricing model and a single option award approach to estimate the fair value of options granted. Estimated forfeitures will be revised in future periods if actual forfeitures differ from the estimates and will impact compensation cost in the period in which the change in estimate occurs. The determination of fair value using the Black-Scholes option-pricing model is affected by the Company's estimated stock price as well as assumptions regarding a number of complex and subjective variables, including expected stock price volatility, risk-free interest rate, expected dividends and projected employee stock option exercise behaviors.

Fair value for options granted during the years ended September 30, 2018 and 2017 was estimated with the following assumptions for Ivy Holdings:

For the years ended September 30,	**2018**	2017
Weighted average fair value of option grants	**$ 188.98**	$ 299.00
Estimated fair market value of the Company's common stock on the date of grant	**$ 390.14**	$ 568.55
Weighted average expected life of the options	**5 years**	10 years
Risk-free interest rate	**0.85%**	1.79%
Weighted average expected volatility	**60.0%**	43.8%
Dividend yield	**0.00%**	0.00%

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Expected Term - The expected term of options granted represents the period of time that they are estimated to be outstanding.

Risk-Free Interest Rate - The Company bases the risk-free interest rate on the implied yield in effect at the time of option grant on U.S. Treasury zero-coupon issues with equivalent remaining terms.

Expected Volatility - The Company estimates the volatility of the common stock at the date of grant based on the average of the historical volatilities of a group of peer companies. The Company has identified a group of comparable companies to calculate historical volatility from publicly available data for sequential periods approximately equal to the expected terms of the option grants. In selecting comparable companies, Management considered several factors including industry, stage of development, size and market capitalization.

Forfeitures - Share-based compensation is recognized only for those awards that are ultimately expected to vest. Compensation expense is recorded net of estimated forfeitures. Those estimates are revised in subsequent periods if actual forfeitures differ from those estimates. The Company used data since December 2010 to estimate pre-vesting option forfeitures.

Stock-based compensation expense for the Ivy Holdings stock options recognized by the Company during the years ended September 30, 2018 and 2017 was $710,000 and $1,118,000, respectively. At September 30, 2018, there were no unvested options, which could potentially vest over the next nine fiscal years, subject to meeting the vesting requirements noted above. There were no remaining maximum estimated stock compensation expense to be amortized to expense in future periods. Options which are expected to vest based on CEO and Compensation Committee discretion are treated as variable stock options and are subject to revaluation at each reporting period. Management determined the fair value of the discretionary vested options using a Black Scholes calculation but determined that the change in compensation expense was not material to the consolidated financial statements for the years ended September 30, 2018 and 2017.

Dividends

The Company distributed approximately $457.0 million in connection with the issuance of “New Senior Secured Credit Facilities” during the year ended September 30, 2018, which was recorded against retained earnings, and was ultimately paid to the common stockholders of Ivy Holdings Inc (see Note 9).

On February 22, 2018, the Board of Directors of Ivy Holdings, Inc. (“the Board”) approved special cash in the amount of approximately $33 million in bonus payments were made (“the Bonuses”) to Option Holders in connection with the dividend provided that any Bonus with respect to an unvested portion of an option shall be payable upon the date such unvested portion becomes vested and exercisable, subject to the Optionee’s continued employment with Prospect through such date. At September 30, 2018 approximately $2.3 million was accrued for bonuses in connection with this. To reflect the Dividend and pursuant to the terms of the Option Plan, the Board further resolved to equitably adjust the Options by reducing the per-share exercise price of the Options to an amount determined with reference to the Bonus amount payable by Prospect Medical with respect to such Option (the “Adjusted Exercise Price”).

11. Retirement Benefits

The Company sponsors various employee non-contributory, defined benefit pension plans covering certain full-time employees of Crozer, ECHN and Waterbury.

In connection with the acquisition of Crozer, $100 million of the purchase price was put into an escrow and subsequently used by the Company, as the new sponsor of the Crozer pension plan pursuant to IRS rules and regulations, to fund in part the underfunded plan liability then outstanding. Additionally, within five years after acquisition and subject to applicable filing and authorization by the applicable government agency or entity, the Company will adopt a plan amendment to terminate the plan effective within such five year period and will liquidate, fully fund and satisfy, and pay all benefits owed to participants and beneficiaries of the plan by providing lump sum distributions to participants, purchasing annuities for participants who do not elect a lump sum distribution.

Also in connection with the Crozer acquisition, the plan was frozen with all benefit accruals ceased as of July 1, 2016. With respect to each Represented Employee who is a member of the Laborers' International Union of North America, the Monthly Compensation (as defined), the Credited Service (as defined), the Eligibility Service (as defined) and the accrued benefit was frozen and determined as of July 1, 2016. No benefits accrue since that date. Additionally, the plan was amended to provide that for purposes of determining Vesting Service (as defined) for employees who were employed with the Company before July 1, 2016, years of service shall include all periods of employment completed on and after July 1, 2016, subject to the Break in Service rules (as defined).

On September 3, 2016, the DB Plan was further amended to provide certain Qualifying Participants (as defined) the right to make a Special Benefit Election (as defined) during "2016 Lump Sum Option Window" period from October 15, 2016 through November 30, 2016 to receive or commence receiving his or her vested Accrued Benefit as of December 1, 2016 in accordance with procedures adopted by the Committee.

In conjunction with the acquisition the Company also became the sponsor and assumed CKHS postretirement benefit program (the "OPEB Plan") which is an unfunded medical care and life insurance benefit program, and a supplemental executive retirement plan (the "SERP Plan") which is an unfunded retirement plan that covers a group of current and former executives. These plans were frozen with all benefit accruals ceased as of July 1, 2016. No benefits will accrue since that date. With respect to each Represented Employee who is a member of the Laborers' International Union of North America, benefits will continue to accrue until a settlement of an ongoing union contract negotiation is reached.

ECHN has a defined benefit pension plan that covered substantially all of its employees. The benefits were based upon years of service and compensation for the five highest years during the employee's last 10 years of service. Effective December 31, 2013, ECHN froze the defined-benefit for all remaining participants. During September 2013, the Board passed a resolution to freeze all benefits related to the Defined benefit pension plan. On December 31, 2008, ECHN implemented a soft freeze on the defined benefit pension plan. All qualified employees were eligible to enter into the defined contribution plan, ECHN contributed 3% of eligible employees' salaries. This contribution was non-guaranteed for all employees, except certain union workers covered under a collective bargaining agreement.

ECHN also sponsors a postretirement benefit plan that provides health care benefits to those employees who retired. The criteria to receive this benefit is to be vested in the pension plan, attain age 55 or older and start collecting under the defined benefit plan described above once retired. The retiree must be enrolled into the medical plan on the date of retirement to be eligible for the continuation. Full-time registered nurse retirees from ECHN's Manchester facility (retired prior to October 1, 2005 and were

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eligible per the collective bargaining agreement) were grandfathered and required to pay at least 50% of the total cost of the medical and dental coverage they elect for themselves under the plan.

Waterbury has a noncontributory defined benefit cash balance plan. It is Waterbury's policy to make contributions to the plan sufficient to meet the minimum funding requirements of applicable laws and regulations. The plan was frozen to non-union participants effective June 30, 2015. Participants who are part of the Connecticut Healthcare Associates Technical Unit remain active in the plan. Non-union employees no longer accrue additional employer contribution credits in the plan. These participants will continue to receive interest credits based on their account balances in accordance with the terms of the plan. They will be entitled to their account balance (the retirement benefit they have earned up to June 30, 2015) plus applicable interest credits after the Plan were frozen.

The activity of the pension plans for the years ended September 30, 2018 and 2017 is as follows (in thousands):

	2018	2017
Changes in benefit obligations		
Projected benefit obligations, beginning of period	$ 864,293	$ 953,983
Service cost	194	292
Interest cost	27,695	33,193
Plan participant contributions	461	367
Actuarial loss	(48,654)	(31,788)
Benefits paid	(134,185)	(91,045)
Lump sum benefits paid and annuity purchase	(49,628)	-
Plan changes	-	(709)
Projected benefit obligation, end of year	$ 660,176	$ 864,293
Changes in plan assets		
Fair value of plan assets, beginning of year	$ 556,590	$ 656,074
Actual return on plan assets	(14,437)	(15,980)
Contributions by plan sponsor	41,667	7,174
Plan participant contributions	461	367
Benefits paid	(134,185)	(91,045)
Lump sum benefits paid and annuity purchase	(49,628)	-
Fair value of plan assets, end of year	$ 400,468	$ 556,590
Funded status of the plan, end of year	$ (259,708)	$ (307,703)
Accumulated benefit obligation, end of year	$ (259,708)	$ (307,703)

The funded status of the pension plans as of September 30, 2018 and 2017 is as follows (in thousands), split between the pension plans and the post retirement plans:

	2018 Pensions	2018 OPEBs	2017 Pensions	2017 OPEBs
Amounts recognized in the consolidated balance sheets consist of:				
Current liability	$ -	$ 600	$ -	$ 820
Non-current liability	254,121	4,987	300,364	6,519
Amount recognized, end of year	$ 254,121	$ 5,587	$ 300,364	$ 7,339

The components of net periodic benefit cost for the years ended September 30, 2018 and 2017 are as follows (in thousands):

	2018	2017
Components of net periodic benefit cost:		
Service cost	$ 194	$ 292
Interest cost	27,695	33,193
Expected return on plan assets	(16,045)	(19,477)
Effect of settlement	1,457	(2,479)
Amortization of prior service credit	(48)	-
Total net periodic benefit cost	$ 13,253	$ 11,529
Other change in benefit obligations recognized in accumulated other comprehensive income:		
Gain due to assumption change	$ (64,429)	$ (23,922)
Liability (gain) loss due to participant experience	14,118	(7,865)
Asset return loss	30,483	35,456
Prior service cost credit	-	(708)
Amount recognized due to settlement	-	2,479
Total recognized in other comprehensive loss (income) and accumulated other comprehensive loss (income)	$ (19,828)	$ 5,440

The assumptions used in determining the actuarial present value of the projected benefit obligations for pension plans as of September 30, 2018 and 2017 and for the years ended September 30, 2018 and 2017 are as follows:

	2018	2017
Weighted average assumptions used to determine benefit obligations at end of period		
Discount rate	**3.23-4.48 %**	3.23-3.68 %
Rate of compensation increase	**0.00-2.00 %**	0.00-2.00 %
Weighted average assumptions used to determine net periodic benefit cost for the period ended		
Discount rate	**3.49-4.41 %**	3.18-4.01 %
Rate of compensation increase	**0.00-2.00 %**	0.00-2.00 %
Expected return on the plan assets	**0.00-4.50 %**	0.00-5.00 %

Assumed health care cost trend rates for the next period used to measure the expected cost of benefits covered by the plan are as follows:

	2018	2017
Health care trend rate assumed for next year	**7.0%**	7.0%
Rate to which the cost trend is assumed to decline (the ultimate rate)	**4.5%**	4.5%
Year that the rate reaches the ultimate trend rate	**2026**	2025

Assumed health care cost trend rates have a significant effect on amounts reported for other postretirement benefit programs. A one-percentage-point change in assumed health care cost trends would have the following effects (in thousands):

	1% Increase	1% Decrease
Effect on other postretirement benefit obligations	$ 5,701	$ 5,486
Effect on total of service and interest cost components	$ 239	$ 228

The asset allocation percentage by major asset class for the plans and the target allocation for 2018 follows:

	Target	2018
Asset class:		
Cash and cash equivalents	0% - 20%	
Fixed income	10% - 100%	**94 %**
Domestic equity	0% - 100%	
International equity	0% - 40%	
Real estate	0% - 30%	**1 %**
Alternative investments and hedge funds	0% - 30%	**5 %**
		100 %

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The investment objectives of the plans are to invest consistently with the fiduciary standards of ERISA, to provide for the funding and anticipated withdrawals on an ongoing basis, conserve and enhance the capital value of the plans in real terms while maintaining a moderate risk profile, to minimize principal fluctuations over the investment cycle, and achieve a long-term level of return commensurate with contemporary economic conditions. The expected long-term rate of return with respect to the plans is based on an aggregate of expected capital market returns within each asset category.

The following tables set forth the assets in the plans measured at fair value, by input level (in thousands):

September 30, 2018	Level 1	Level 2	Level 3	Net asset value	Total
Fixed income securities:					
Short-Term Duration	$ -	$ 35,100	$ -	$ -	$ 35,100
Extended Duration	-	125,562	-	-	125,562
Interim Duration	-	41,193	-	-	41,193
Long-Term Duration	-	174,162	-	-	174,162
Real estate	-	-	2,962	-	2,962
Alternative investments	-	-	18,593	-	18,593
Cash and cash equivalents	-	-	-	2,896	2,896
Total	$ -	$ 376,017	$ 21,555	$2,896	$ 400,468

September 30, 2017	Level 1	Level 2	Level 3	Net asset value	Total
Fixed income securities:					
Short-Term Duration	$ -	$ 37,637	$ -	$ -	$ 37,637
Extended Duration	-	163,537	-	-	163,537
Interim Duration	-	53,703	-	-	53,703
Long-Term Duration	-	275,139	-	-	275,139
Real estate	-	-	6,288	-	6,288
Alternative investments	-	-	17,454	-	17,454
Cash and cash equivalents	-	-	-	2,832	2,832
Total	$ -	$ 530,016	$ 23,742	$ 2,832	$ 556,590

Pension plan assets classified as Level 3 in the fair value hierarchy represent investments in which the trustee has used significant unobservable inputs in the valuation model. The hedge funds consist of equity/long/short funds and multi-strategy funds in which fair values have been estimated using the net asset value per share of the investment. The alternative investments primarily consist of investments in limited partnerships that invest in the Public-Private Investment Program which fair values have been estimated using the net asset value per share of the investment.

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On an annual basis, the Company assesses the valuation hierarchy for pension assets recorded at fair value. From time to time, assets will be transferred within the fair value hierarchy as a result of changes in, among other things, inputs used, liquidity, or valuation methodologies. During the years ended September 30, 2018 and 2017, there were no transfers in classification within the fair value hierarchy.

The following table is a rollforward of the plans' assets classified within Level 3 of the fair value hierarchy (in thousands):

September 30,	2018	2017
Balance, beginning of year	$ 23,742	$ 62,397
Actual return on plan assets:		
Realized loss	-	(445)
Unrealized (loss) gain	(2,187)	2,283
Purchases	-	5,434
Sales	-	(45,927)
Balance, end of year	$ 21,555	$ 23,742

The expected long-term future benefit payments to retirees with respect to the plans and are as follows (in thousands):

2019	$ 46,620
2020	44,230
2021	43,040
2022	43,270
2023	42,920
2024 - 2028	206,460
	$ 426,540

Waterbury participates in multi-employer pension plans that cover substantially all union employees. Contributions to the plans are based upon a percentage of each participant's total salary. The risks of participating in these multi-employer plans are different from single employer plans in the following aspects:

- Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of another participating employer.
- If a participating employer stops contributing to the plan, the unfunded obligation of the plan may be borne by the remaining participating employers.
- If Waterbury chose to stop participating in the multi-employer plans, Waterbury may be required to pay those plans an amount based on the underfunded status of the plans, referred to as a withdrawal liability.

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The following table presents Waterbury's participation in these plans as of and for the years ended September 30, 2018 and 2017.

Pension Trust Fund	EIN / Pension Plan	Pension Protection Act ("PPA") Certified Zone Status (1) 2018	2017	FIP / RP Status Pending / Implemented (2)	Contributions 2018	2017	Surcharge Imposed	Exp. Date of CBA (3)
Connecticut Health Care Associates Pension Fund	06-1313462	**Red**	Green	Implemented	**$2,140,000**	$ 2,018,000	No	9/30/18
New England Health Care Employees Pension Fund	22-3071963	**Green**	Green	NA	**821,000**	939,000	No	2/28/17
Total contributions					**$2,961,000**	$ 2,957,000		

(1) The most recent PPA zone status available in 2018 is for the plan's year-ending during 2017. The zone status is based on information received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the orange zone are less than 80 percent funded and have an accumulated funding deficiency in the current year or projected in the next six years, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded.

(2) The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented. As it relates to the Connecticut Health Care Associates ("CHCA") Pension Plan, the trustees adopted the attached Rehabilitation Plan on May 7, 2018. The Rehabilitation Period, as defined, commences on January 1, 2019 and ends on December 31, 2028.

(3) These agreements are currently under negotiations.

During the years ended September 30, 2018 and 2017, Waterbury's contributions to the CHCA Pension Plan and the New England Health Care Employees Pension Plan represented 98.2% and 2.6% and 98.3% and 2.4% of the total contributions made to the plans by all participating employers, respectively.

Governmental regulations impose certain requirements relative to union-sponsored pension plans. In the event of plan termination or employer withdrawal, an employer may be liable for a portion of the plan's unfunded vested benefits. As of September 30, 2018, Waterbury has not recorded any liabilities for future withdrawal obligations related to the multi-employer plans.

Defined contribution plans

The Company previously sponsored five defined contribution plans covering substantially all employees who meet certain eligibility requirements. Effective May 1, 2018, the plans covering employees at ECHN, Waterbury and Crozer were merged into the plan covering employees at CharterCARE, and the two remaining plans were renamed and segregated between union and non-union employees. Under these plans, employees can contribute up to 50% of their compensation up to the IRS deferred annual maximum. There is currently no company match offered under the plans, except at certain facilities in Texas, Rhode

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Island, Pennsylvania, for which the expense for the employer match was $19,723,000 and $18,088,000 for the years ended September 30, 2018 and 2017, respectively.

12. Commitments and Contingencies

Leases

The Company leases various office facilities and equipment from third parties under non-cancelable operating and capital lease arrangements expiring at various dates through 2030. Certain operating leases contain rent escalation clauses and renewal options, which have been factored into determining rent expense on a straight-line basis over the lease terms. Capital leases bear interest at rates ranging from 2.5% to 19.5% per annum.

The future minimum annual lease payments required under leases in effect at September 30, 2018, are as follows (in thousands):

For the Years ending September 30,	Capital Leases	Operating Leases
2019	$ 16,475	$ 27,031
2020	12,517	24,802
2021	7,384	21,604
2022	3,891	18,515
2023	3,670	16,361
Thereafter	23,733	57,518
Total minimum lease payments	67,670	$ 165,831
Less: amounts representing interest	(17,469)	
	50,201	
Less: current portion	(14,348)	
	$ 35,853	

Rent expense for the years ended September 30, 2018 and 2017 was approximately $47,190,000 and $49,965,000, respectively. Sublease rental income was not material to the consolidated financial statements for the years ended September 30, 2018 and 2017.

Litigation

The Company is subject to a variety of claims and suits that arise from time to time in the ordinary course of its business, acquisitions, or other transactions. While the Company's management currently believes that resolving all of these matters, individually or in the aggregate, will not have a material adverse impact on the Company's consolidated financial position or results of operations, the litigation and other claims that the Company faces are subject to inherent uncertainties and management's view of these matters may change in the future. Should an unfavorable final outcome occur, there exists the possibility of a material adverse impact on the Company's consolidated financial position, results of operations and cash flows for the period in which the effect becomes probable and reasonably estimable.

Seismic Standards

The Company's California Hospitals (with the exception of Bellflower, which currently only provides psychiatric services) are required to comply with laws that regulate the seismic performance of all aspects of hospital facilities in California and imposes near-term and long-term compliance deadlines for seismic safety assessment, submission of corrective plans, and retrofitting or replacement of medical facilities to comply with current seismic standards. These laws and regulations require hospitals to meet seismic performance standards to ensure that they are capable of providing medical services to the public after an earthquake.

The Company was required to conduct engineering studies at its hospitals to determine whether and to what extent modifications to the hospital facilities will be required. Two buildings at Southern California Hospital at Culver City ("SCH Culver City") and one building at Los Angeles Community Hospital ("LACH") do not currently meet the applicable seismic requirements. The three buildings are currently classified at Structural Performance Category 1 ("SPC-1") and, subject to possible deadline extensions discussed below, they must be upgraded to at least SPC-2 by January 1, 2020. That deadline date was set pursuant to an extension granted upon the Company's application submitted in accordance with California Senate Bill 90 (SB 90) and approved by the Office of Statewide Health Planning and Development ("OSHPD").

OSHPD has a voluntary program to re-evaluate the seismic risk of hospital buildings classified as SPC-1. These buildings are considered hazardous and at high risk of collapse in the event of an earthquake and they were required to be retrofitted, replaced or removed from providing acute care services by the applicable deadline. OSHPD is using Hazards U.S. ("HAZUS"), a state-of-the-art methodology, to reassess the seismic risk of SPC-1 buildings. Once the SPC-1 buildings have been seismically upgraded to SPC-2, they are no longer considered a significant risk to occupants, but they may not be repairable or functional after an earthquake. Participation in the HAZUS program is optional for hospital owners wishing to have their SPC-1 buildings evaluated.

Applications for HAZUS evaluation of seismic risk were submitted for all five of the Company's California acute care facilities: Southern California Hospital at Hollywood ("SCH Hollywood"); SCH Culver City; Los Angeles Community Hospital; Los Angeles Community Hospital at Norwalk ("LACH Norwalk"); and Foothill Regional Medical Center ("Foothill"). All buildings at these five facilities obtained SPC-2 reclassification using HAZUS, except for the aforementioned three buildings at SCH Culver City and LACH which are still classified as SPC-1. Currently, failure to obtain SPC-2 reclassification for the three remaining SPC-1 buildings by January 1, 2020 would mean that the buildings would not be allowed to provide acute care services starting on that date.

Recently enacted Assembly Bill 2190 (AB-2190) could potentially provide an additional extension of up to 30 months (July 1, 2022) to obtain SPC-2 reclassification. Such extension must be requested by April 1, 2019. If granted, any required construction must be begun by April 1, 2020 and final seismic compliance must be achieved by July 1, 2022.

The Company will also be required to make significant capital expenditures in the future to comply with 2030 seismic standards (i.e., upgrade to SPC-4D) for any buildings that will be utilized for hospital facilities beyond January 1, 2030. Such modifications to the hospital facilities could potentially result in environmental remediation liabilities which may be material to the Company.

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These requirements can result in significant operational changes and capital outlays. Management is continuing to assess its options and the methods of financing the required retrofits. Based on management's evaluation, the costs of renovation needed to comply with the California seismic safety standards for its acute-care facilities, including asbestos abatement, are not estimable at this time.

Legislation and HIPAA

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

The Company believes that it is in compliance with fraud and abuse regulations as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

The Health Insurance Portability and Accountability Act ("HIPAA") assures health insurance portability, reduces healthcare fraud and abuse, guarantees security and privacy of health information, and enforces standards for health information. The Health Information Technology for Economic and Clinical Health Act ("HITECH Act") expanded upon HIPAA in a number of ways, including establishing notification requirements for certain breaches of protected health information. In addition to these federal rules, states have also developed their own standards for the privacy and security of health information as well as for reporting certain violations and breaches (for example, California's Confidentiality of Medical Information Act and Lanterman-Petris Short Act) which in some cases are more stringent. Other federal privacy laws may also apply to certain services provided by the Company, including 42 C.F.R. Part 2, which addresses the confidentiality of substance use disorder records. The Company may be subject to significant fines and penalties if found not to be compliant with these state or federal provisions.

Affordable Care Act

The Patient Protection and Affordable Care Act ("PPACA") has made significant changes to the United States health care system. The legislation impacted multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Under this legislation, 33 states have expanded their Medicaid programs to cover previously uninsured childless adults, and four additional states voted in 2018 to expand Medicaid or to elect a governor that pledged to expand Medicaid. In addition, many uninsured individuals have had the opportunity to purchase health insurance via state-based marketplaces, state-based marketplaces using a federal platform, state-partnership marketplaces or the federally-facilitated marketplace. PPACA also implemented a number of health insurance market reforms, such as allowing children to remain on their parents' health insurance until age 26 or prohibiting certain plans from denying coverage based on pre-existing conditions. Nationally, these reforms have reduced the number of uninsured individuals.

It is unclear what changes may be made to PPACA with the divided Congress, current presidential administration, and pending litigation over the validity of PPACA. The Administration has promulgated rules to broaden the availability of coverage options that do not comply with the full range of PPACA requirements for individual market coverage, namely Association Health Plans and Short-Term Limited-Duration Insurance. The Administration has also provided additional guidance on state PPACA waivers. These executive actions have been or may be challenged in court. In addition, the Tax Cuts and Jobs Act ("TCJA"), passed in December 2017, eliminates the individual mandate penalty under PPACA, effective January 1, 2019. The individual mandate penalty was included in PPACA to address concerns that other market reforms expanding access to coverage might produce adverse selection and higher premiums. The extent to which the repeal of the individual mandate penalty will impact the uninsured rate and 2019 premiums is unclear at this juncture. On December 14, 2018, the United States District Court for the Northern District of Texas ruled that the individual mandate without the penalty is unconstitutional and that PPACA is therefore invalid in its entirety. Litigation on this issue is ongoing, with the Administration indicating it will continue implementing PPACA pending any appeals, the court ordering expedited briefing on a potential stay and certification of an interlocutory appeal, and pending litigation in the United States District Court for the District of Maryland to ensure continued implementation of PPACA. This litigation along with any future legislative changes to PPACA or other federal and state legislation could have a material impact on the operations of the Company. The Company is continuing to monitor the legislative environment and developments in pending litigation for risks and uncertainties.

Collective Bargaining Agreements

As of September 30, 2018, the Company had approximately 18,300 employees, of whom approximately 5,500 employees or 30% are represented by various labor organizations. Of those, approximately 1,800 employees or 10% of the Company's employees are employed under union contracts that have expired or will expire before September 30, 2019.

Tangible Net Equity ("TNE") Requirement

The Company's affiliated California physician organizations and licensed healthcare service plans may be subject to one or more of the following requirements: minimum working capital, Tangible Net Equity ("TNE"), cash-to-claims ratio and claims payment requirements as prescribed by the California Department of Managed Health Care ("DMHC"). TNE is defined as net assets, less intangibles and amounts due from affiliates, plus subordinated obligations. As of September 30, 2018, the Company's affiliated California physician organizations were in compliance with these regulatory requirements. In January 2019, the Company received inquiries from DMHC related to the calculation of certain receivables for PHP and PMG. The Company is currently responding to the inquiries; however, the conclusion and potential effect on compliance with the requirements are unknown at this time.

Employee Health Plans

The Company offers self-insured EPO/HMO and PPO plans to all eligible employees.

Employee health benefits are administered by a third party claims administrator, based on plan coverage and eligibility guidelines determined by the Company, as well as by collective bargaining agreements (as reflected above). Prior to January 1, 2018, commercial insurance policies covered per occurrence losses in excess of $750,000 for Crozer, $160,000 for East Orange, $275,000 for CharterCARE, $225,000 for ECHN, $350,000 for Waterbury, $250,000 for all other hospitals and $175,000 for the Medical Group and Corporate segments. Effective January 1, 2018, all locations were covered by insurance policies with CHIC

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for per occurrence losses in excess of $350,000, except for Crozer for which the limit is $750,000. CHIC maintains reinsurance coverage above $500,000 for all locations except for Crozer, for which the limit is $750,000. An actuarially and internally-estimated liability of approximately $16,566,000 and $10,985,000 for incurred but not reported claims has been included in accrued salaries, wages, and benefits as of September 30, 2018 and 2017, respectively.

Provider Contracts

Many of the Company's payer and provider contracts are complex in nature and may be subject to differing interpretations regarding amounts due for the provision of medical services. Such differing interpretations may not come to light until a substantial period of time has passed following contract implementation. Liabilities for claims disputes are recorded when the loss is probable and can be estimated. Any adjustments to reserves are reflected in current operations.

13. Accrued Medical Claims and Other Healthcare Costs Payable

The following table presents the roll-forward of incurred but not reported ("IBNR") claims reserves (Medical Group segment, Global Risk Management segment, and full risk contracts) as of and for each of the fiscal years ended September 30, 2018 and 2017 (in thousands):

September 30,	**2018**	2017
IBNR as of beginning of year	$ **54,283**	$ 52,761
Claim expenses incurred during the year:		
Related to current year	**301,598**	235,207
Related to prior year	**7,969**	2,841
Total incurred	**309,567**	238,048
Claims paid during the year:		
Related to current year	**(246,369)**	(195,678)
Related to prior year	**(54,548)**	(40,848)
Total paid	**(300,917)**	(236,526)
IBNR as of end of year	$ **62,933**	$ 54,283

Following is a table showing the details of the Medical Group and Global Risk Management segments cost of revenues per the consolidated statements of operations (in thousands):

Years Ended September 30,	**2018**	2017
Capitation expense	$ **96,027**	$ 94,141
Fee-for-service claims expense	**171,443**	137,860
Other physician compensation	**15,097**	45,173
Other cost of revenues	**5,239**	7,861
Total cost of revenues	$ **287,806**	$ 285,035

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14. Joint Ventures and Unconsolidated Equity Investments

The Company has invested in several joint ventures with unrelated third parties, which are accounted for under the equity method of accounting. As of September 30, 2018 and 2017, CharterCARE owned: 20% of Roger Williams Radiation Therapy and 20% of Southern New England Regional Cancer Center, LLC. ECHN owned: 50% of NRRON, LLC; 50% of Aetna Ambulance Service, Inc.; 50% of Ambulance Service of Manchester, LLC; and 50% of Evergreen Endoscopy Center, LLC. Waterbury owned: 50% of Harold Leever Regional Cancer Center Inc. Crozer owned: 50% of University Technology Park, Inc.; 35% of DCMH MOB Associates; and 21.25% of Delaware Valley Sleep Management Company, LLC. Prospect Medical Group, Inc. owned: 50% of AMVI/Prospect Medical Group. These joint ventures under the equity method are included in the other assets in the accompanying consolidated balance sheets as of September 30, 2018 and 2017 are $24,627,000 and $17,371,000, respectively. For the years ended September 30, 2018 and 2017, the Company received $1,746,000 and $1,636,000, respectively, in distributions for equity method investments, and $404,000 and $453,000, respectively, for cost method investments.

Summarized combined unaudited financial information for the Company's joint ventures as of September 30, 2018 and 2017 for the years then ended is as follows (in thousands):

September 30,	**2018**	2017
Cash	**$ 17,226**	$ 16,440
Receivables	**8,060**	7,590
Other current assets	**23,654**	23,852
Total current assets	**48,940**	47,882
Property, improvements and equipment, net	**33,757**	34,843
Goodwill	**7,142**	7,142
Intangible assets	**852**	882
Other long-term assets	**3,094**	2,921
Total assets	**$ 93,785**	$ 93,670
Accounts payable and accrued liabilities	**5,563**	$ 7,180
Other long-term liabilities	**5,334**	4,275
Equity	**82,888**	82,215
Total liabilities and partner's capital	**$ 93,785**	$ 93,670

Years ended September 30,	**2018**	2017
Revenues	**$ 67,554**	$ 65,197
Net income	**$ 5,039**	$ 6,106
PMH's income from equity method investments	**$ 1,332**	$ 2,015

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15. Subsequent Events (Unaudited)

The Company has evaluated subsequent events through January 25, 2019, the date the Company's consolidated financial statements were available for issuance.

On January 25, 2019, Ivy Holdings made an equity contribution in the amount of $40 million to Ivy Intermediate Holding Inc., which was then contributed as equity to the Company.

Prospect Medical Holdings, Inc.

Consolidated Financial Statements

For the Years Ended
September 30, 2013 and 2012

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.

Prospect Medical Holdings, Inc.

Consolidated Financial Statements

For the Years Ended September 30, 2013 and 2012

Prospect Medical Holdings, Inc.

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Independent Auditor's Report

Board of Directors
Prospect Medical Holdings, Inc.
Los Angeles, California

We have audited the accompanying consolidated financial statements of Prospect Medical Holdings, Inc., which comprise the consolidated balance sheets as of September 30, 2013 and 2012, and the related consolidated statements of income, statements of stockholder's (deficit) equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Prospect Medical Holdings, Inc. as of September 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As discussed in Note 2 to the consolidated financial statements, Prospect Medical Holdings, Inc. adopted an update to accounting standards which requires certain health care entities to present the provision for bad debts as a reduction from net Hospital services revenues. Accordingly, Prospect Medical Holdings, Inc.'s provision for bad debts associated with net Hospital services revenues has been reclassified from Hospital operating expenses to deductions from net Hospital services revenues for the year ended September 30, 2013 with retrospective application for the year ended September 30, 2012.

December 17, 2013

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Prospect Medical Holdings, Inc.

Consolidated Balance Sheets
(in thousands except par value and share amounts)

September 30,		**2013**		2012
Assets				
Current assets:				
Cash and cash equivalents	$	**86,315**	$	82,427
Restricted cash		**563**		263
Investments, primarily restricted money market funds		**637**		633
Patient accounts receivable, net of allowance for doubtful accounts of $28,050 and $34,470		**75,606**		61,280
Due from government payers		**27,408**		14,248
Other receivables		**8,034**		7,241
Income taxes receivable, net		**2,365**		-
Deferred income taxes, net		**8,254**		11,041
Inventories		**4,679**		4,660
Hospital fee program receivable		**18,895**		33,473
Prepaid expenses and other current assets		**8,967**		7,892
Total current assets		**241,723**		223,158
Property, improvements and equipment, net		**126,532**		113,415
Deferred financing costs, net		**11,625**		9,748
Deferred income taxes, net, non-current		**6,361**		7,503
Goodwill		**158,864**		156,545
Intangible assets, net		**31,325**		38,080
Other assets		**2,516**		1,623
Total assets	$	**578,946**	$	550,072

See accompanying notes to the consolidated financial statements.

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Prospect Medical Holdings, Inc.

Consolidated Balance Sheets
(in thousands except par value and share amounts)

September 30,	2013	2012
Liabilities and Stockholder's (Deficit) Equity		
Current liabilities:		
Accrued medical claims and other healthcare costs payable	$ 30,352	$ 26,985
Accounts payable and other accrued liabilities	52,151	45,774
Accrued salaries, wages and benefits	30,057	24,787
Hospital fee program liability and deferred revenue	8,609	19,777
Due to government payers	19,634	21,437
Income taxes payable, net	1,288	9,210
Current portion of capital leases	5,429	3,337
Current portion of long-term debt	178	1,515
Other current liabilities	485	1,094
Total current liabilities	148,183	153,916
Long-term debt, net of current portion	420,889	326,957
Deferred income taxes, net	24,869	29,137
Malpractice reserves	4,660	2,229
Capital leases, net of current portion	11,816	6,260
Other long-term liabilities	570	556
Total liabilities	610,987	519,055
Commitments, contingencies and subsequent events		
Stockholder's (deficit) equity:		
Common stock, $0.01 par value; 100 shares authorized, issued and outstanding at September 30, 2013 and 2012	1	1
Additional paid-in capital	15,334	11,634
(Accumulated deficit) Retained earnings	(47,496)	19,269
Total stockholder's (deficit) equity attributable to Prospect Medical Holdings, Inc.	(32,161)	30,904
Noncontrolling interests	120	113
Total stockholder's (deficit) equity	(32,041)	31,017
Total liabilities and stockholder's (deficit) equity	$ 578,946	$ 550,072

See accompanying notes to the consolidated financial statements.

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Prospect Medical Holdings, Inc.

Consolidated Statements of Income
(in thousands)

For the Years Ended September 30,	2013	2012
Revenues:		
Net Hospital services revenues	$ 518,206	$ 477,402
Provision for bad debts	(34,067)	(32,355)
Net Hospital services revenues less provision for bad debts	484,139	445,047
Medical Group revenues	221,743	203,806
Other revenues	7,700	9,897
Total net revenues	713,582	658,750
Operating Expenses:		
Hospital operating expenses	348,961	325,936
Medical Group cost of revenues	164,457	158,312
General and administrative	99,935	83,890
Depreciation and amortization	16,814	12,576
Impairment of intangibles asset	3,476	-
Total operating expenses	633,643	580,714
Operating income from unconsolidated joint venture	2,217	2,606
Operating income	82,156	80,642
Other (income) expense:		
Interest expense and amortization of deferred financing costs, net	38,860	28,220
Prepayment penalties on debt refinance	-	13,316
Loss on debt extinguishment	-	10,318
Other expense (income)	244	(40)
Total other (income) expense, net	39,104	51,814
Income before income taxes	43,052	28,828
Income tax provision	9,810	2,598
Net income	33,242	26,230
Net income attributable to noncontrolling interests	7	22
Net income attributable to Prospect Medical Holdings, Inc.	$ 33,235	$ 26,208

See accompanying notes to the consolidated financial statements.

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Prospect Medical Holdings, Inc.

Consolidated Statements of Stockholder's (Deficit) Equity
(in thousands)

	Number of Common Shares	Common Stock	Additional Paid-in Capital	(Accumulated Deficit) Retained Earnings	Prospect Medical Holdings, Inc. Stockholder's Equity	Non-controlling Interests	Total Stockholder's (Deficit) Equity
Balance at September 30, 2011	100	$ 1	$ 108,926	$ (6,939)	$ 101,988	$ (4,020)	$ 97,968
Options exercised	-	-	85	-	85	-	85
Stock-based compensation	-	-	1,294	-	1,294	-	1,294
Distribution to Ivy Holdings Inc. (Parent)	-	-	(88,128)	-	(88,128)	-	(88,128)
Purchase of noncontrolling interests	-	-	(10,543)	-	(10,543)	3,928	(6,615)
Noncontrolling stockholder contribution of capital	-	-	-	-	-	183	183
Net income	-	-	-	26,208	26,208	22	26,230
Balance at September 30, 2012	100	1	11,634	19,269	30,904	113	31,017
Options exercised	-	-	105	-	105	-	105
Stock-based compensation	-	-	3,595	-	3,595	-	3,595
Distribution to Ivy Holdings Inc. (Parent)	-	-	-	(100,000)	(100,000)	-	(100,000)
Net income	-	-	-	33,235	33,235	7	33,242
Balance at September 30, 2013	100	$ 1	$ 15,334	$ (47,496)	$ (32,161)	$ 120	$ (32,041)

See accompanying notes to the consolidated financial statements.

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Prospect Medical Holdings, Inc.

Consolidated Statements of Cash Flows
(in thousands)

For the Years Ended September 30,	2013	2012
Operating activities		
Net income	$ 33,242	$ 26,230
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,814	12,576
Amortization of deferred financing costs, net	2,071	1,744
Amortization of original issue discount and premium, net	1,002	1,315
Provision for bad debts	34,067	32,355
Loss on debt extinguishment	-	10,318
Deferred income taxes, net	(340)	(10,915)
Stock-based compensation	3,595	1,294
Impairment of intangible asset	3,476	-
Loss on disposal of assets	28	-
Changes in operating assets and liabilities, net of business combinations:		
Patient accounts receivable and other receivables	(47,956)	(41,168)
Due to/from government payers, net	(14,962)	3,243
Prepaid expenses and other current assets	560	1,304
Hospital fee program receivable	14,578	(33,473)
Prepaid hospital fee program provider tax	-	8,841
Inventories	(12)	580
Hospital fee program liability and deferred revenue	(11,168)	187
Income taxes payable, net	(10,286)	8,261
Deposits and other assets	(960)	(1,099)
Accrued medical claims and other healthcare costs payable	3,367	3,684
Accounts payable and other accrued liabilities	11,831	(5,683)
Net cash provided by operating activities	38,947	19,594
Investing activities		
Purchases of property, improvements and equipment	(14,283)	(6,938)
Cash paid for acquisitions, net of cash received and working capital adjustments	(3,085)	(42,861)
Decrease in note receivable	63	60
Increase in restricted investments	(3)	(95)
Purchase of non-controlling interests in SCH Culver City	-	(6,615)
Net cash used in investing activities	(17,308)	(56,449)
Financing activities		
Borrowings of 2019 Notes	102,000	325,000
Repayments of 2014 Notes	-	(151,800)
Repayments of long-term debt	(211)	(21,578)
Repayments on SCH Culver City Creditors Trust Note	(500)	(1,000)
Borrowings (repayments) on lines of credit, net	-	(5,956)
Repayments of capital leases	(4,370)	(1,583)
Cash paid for deferred financing costs, net	(3,948)	(11,006)

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Prospect Medical Holdings, Inc.

Consolidated Statements of Cash Flows (Continued)
(in thousands)

For the Years Ended September 30,	2013	2012
Change in restricted cash	(300)	3,810
Cash paid for consent fees - 2019 Notes	(8,914)	-
Distribution to Ivy Holdings Inc. (Parent)	(100,000)	(88,128)
Proceeds from exercises of stock options and warrants	105	85
Repayments of insurance premium financing	(1,613)	-
SCH Culver City non-controlling shareholder cash contribution	-	183
Net cash (used in) provided by financing activities	(17,751)	48,027
Increase in cash and cash equivalents	3,888	11,172
Cash and cash equivalents, beginning of year	82,427	71,255
Cash and cash equivalents, end of year	$ 86,315	$ 82,427
Supplemental disclosure of cash flow information		
Equipment acquired under capital leases	$ 4,274	$ 6,337
Building lease capitalized	$ 5,675	$ -
Interest paid	$ 32,435	$ 31,450
Income taxes paid, net	$ 20,438	$ 5,252
Schedule of non-cash investing and financing activities		
Tenant improvement allowance	$ 1,227	$ -
Conversion of note payables to capital leases	$ 804	$ 2,498
Insurance premium financed	$ 1,635	$ -

See accompanying notes to the consolidated financial statements.

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1. Organization

Prospect Medical Holdings, Inc. ("Prospect" or the "Company" or the "Parent Entity") is a Delaware corporation and a wholly owned indirect subsidiary of Ivy Holdings Inc. ("Ivy Holdings"). The Company's operations are organized into three primary reportable segments: Hospital Services, Medical Group, and Corporate, as discussed below. During the year ended September 30, 2013, the Company incorporated Prospect Health Plan, Inc. ("PHP"), a Delaware corporation and a wholly owned indirect subsidiary of Prospect. PHP has filed an application with the California Department of Managed Health Care ("DMHC") to operate as a Knox-Keene Health Care Service Plan for the purpose of managing "plan-to-plan" contracts with the fully licensed Medicare Advantage ("MA") health plans.

The Company's operations are currently organized into three primary reportable segments: Hospital Services, Medical Group and Corporate, as discussed below.

Hospital Services Segment

The Company owns and operates eight acute care and behavioral hospitals in Southern California and the Greater San Antonio, Texas region, with a total of 1,082 licensed beds, and a network of specialty and primary care clinics, through its three wholly-owned subsidiaries, SCHS, Alta Los Angeles Hospitals and Nix Health (collectively, the "Hospital Services segment").

On February 1, 2012 the Company acquired substantially all of the assets of MHS San Antonio, LLC (dba Nix Health Care System) located in San Antonio, Texas which is now operated under the following subsidiaries: Nix Hospitals System, LLC, Nix Services, LLC, and Nix SPE, LLC (collectively "Original Nix Health"). On April 16, 2013, the Company acquired Community General Hospital of Dilley, Texas Inc., through its newly created subsidiary, Nix Community General Hospital, LLC ("Nix CGH" and, together with Original Nix Health, "Nix Health"). Nix CGH operates a hospital with 18 licensed beds located in the city of Dilley, Texas.

Effective January 1, 2013, the Company merged the Brotman subsidiary into the Alta Hollywood Hospitals, Inc. subsidiary. The surviving entity was renamed Southern California Healthcare System, Inc. ("SCHS") on June 26, 3013. In connection with the merger, the Company changed the names of the hospitals owned by SCHS to Southern California Hospital at Hollywood ("SCH Hollywood") fka Hollywood Community Hospital, Southern California Hospital at Van Nuys ("SCH Van Nuys") fka Van Nuys Community Hospital, and Southern California Hospital at Culver City ("SCH Culver City") fka Brotman Medical Center.

The Company's three community hospitals in Hollywood, Los Angeles and Norwalk offer a comprehensive range of medical and surgical services, including general acute care hospital services, pediatrics, obstetrics and gynecology, pediatric sub-acute care, general surgery, medical-surgical services, orthopedic surgery, and diagnostic, outpatient, skilled nursing and urgent care services. The Company's psychiatric hospital in Van Nuys provides acute inpatient and outpatient psychiatric services on a voluntary basis. SCH Culver City offers a comprehensive range of inpatient and outpatient services, including general surgery, orthopedic, spine, cardiology, diagnostic outpatient, rehabilitation, psychiatric and detox services. In addition, SCH Culver City has an active emergency room that plays an integral part in providing emergency services to the West Los Angeles area. Nix Health provides comprehensive service offerings at various locations throughout the greater San Antonio, Texas region. These locations include Nix Medical Center, which provides inpatient acute care, geriatric psychiatry services, and emergency room services,

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Nix Specialty Health Center, which provides a full range of behavioral health and rehabilitation services for children, adolescents, and adults, and a range of health clinics and provider based clinics throughout San Antonio, Texas, and Nix CGH, which operates an inpatient acute hospital in Dilley, Texas and a medical clinic in Pearsall, Texas.

Admitting physicians are primarily practitioners in the local area. The hospitals have payment arrangements with Medicare, Medicaid (Medi-Cal in California) and other third party payers, including some commercial insurance carriers, health maintenance organizations ("HMOs") and preferred provider organizations ("PPOs").

Medical Group Segment

The Medical Group segment is a healthcare management services organization that provides management services to affiliated physician organizations that operate as independent physician associations ("Medical Groups"). The affiliated physician organizations enter into agreements with HMOs to provide HMO enrollees with a full range of medical services in exchange for fixed, prepaid monthly fees known as "capitation" payments. The Medical Groups contract with physicians (primary care and specialist) and other healthcare providers to provide enrollees with all medical services. Prospect currently manages the provision of prepaid healthcare services for its affiliated physician organizations in Southern California. The network consists of the following physician organizations as of September 30, 2013 (stand alone or individually referred to as, an "Affiliate"):

Prospect Medical Group, Inc. ("PMG")
Prospect Health Source Medical Group, Inc. ("PHS")
Prospect Professional Care Medical Group, Inc. ("PPCM")
Genesis HealthCare of Southern California, Inc. ("Genesis")
Prospect NWOC Medical Group, Inc. ("PNW")
StarCare Medical Group, Inc. ("PSC")
AMVI/Prospect Medical Group ("AMVI/Prospect")
Nuestra Familia Medical Group, Inc. ("Nuestra")
Upland Medical Group, a Professional Medical Group ("UMG")*
Pomona Valley Medical Group, Inc. ("PVMG")*

* PVMG and UMG are collectively referred to as the "ProMed Entities."

These Affiliates are managed by the following two medical management company subsidiaries that are wholly-owned by Prospect:

Prospect Medical Systems, Inc. ("PMS")
ProMed Healthcare Administrators ("PHCA")

All of the Affiliates are wholly-owned by PMG, with the exception of Nuestra, which was 62% owned by PMG as of September 30, 2013 and September 30, 2012, and AMVI/Prospect which is a 50/50 Joint Venture between AMVI Care Health Network, Inc. ("AMVI") and PMG. See Subsequent Events (Note 15) for a description of a share repurchase by Nuestra which raised PMG's interest to 66.95% as of October, 7, 2013. PMG is owned by a nominee physician shareholder pursuant to an assignable option agreement described below. The operations of all of these entities, with the exception of AMVI/Prospect, are consolidated in the accompanying consolidated financial statements.

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The AMVI Joint Venture was formed for the sole purpose of combining enrollment in order to meet minimum enrollment levels required for participation in the CalOptima Medicaid (Medi-Cal in California) program in Orange County, California. The joint venture ownership is set at 50/50 to prevent either party from exerting control over the other; however, AMVI's and PMG's businesses are operated autonomously, and enrollees, financial results and cash flows are each separately tracked and recorded. In accordance with the joint venture partnership agreement, profits and losses are not split in accordance with the partnership ownership interest, but rather, are directly tied to the results generated by each separate portion of the business. Separate from any earnings the Company generates from PMG's portion of business within the joint venture, the Company also earns fees for management services PMS provides to PMG's partner in the joint venture. The Company accounts for PMG's interest in the joint venture partnership using the equity method of accounting. The Company includes in the consolidated financial statements only the net results attributable to those enrollees specifically identified as assigned to the Company, together with the management fee that PMS charges for managing those enrollees specifically assigned to the other joint venture partner.

PMS has entered into an assignable option agreement with PMG and the nominee physician shareholder of PMG. Under the assignable option agreement, Prospect has an assignable option, obtained for a nominal amount from PMG and the nominee shareholder to designate the purchaser (successor physician) for all or part of PMG's issued and outstanding stock held by the nominee physician shareholder (the "Stock Option") in its sole discretion. The Company may also assign the assignable option agreement to any person. The assignable option agreement has an initial term of 30 years and is automatically extended for additional terms of 10 years each, as long as the term of the related management services agreement described below (the "Management Agreement") is automatically extended. Upon termination of the Management Agreement with PMG, the related Stock Option would be automatically and immediately exercised. The Stock Option may be exercised for a purchase price of $1,000. Under these nominee shareholder agreements, Prospect has the unilateral right to establish or effect a change of the nominee, at will, and without the consent of the nominee, on an unlimited basis and at nominal cost throughout the term of the Management Agreement. In addition to the Management Agreement with PMG, Prospect, through one of its management company subsidiaries, has a management agreement with each Affiliate. The term of the Management Agreements is generally 30 years. PMG is the sole shareholder of PHS, PPCM, PNW, PSC, Genesis, PVMG, and UMG.

The Company's Affiliates have entered into Management Agreements with PMS or PHCA, as applicable (each of which is a wholly-owned subsidiary of Prospect). Each Affiliate has agreed to pay a management fee to PMS or PHCA, as applicable. The fee is based in part on the costs to the management company and on a percentage of revenues the Affiliate receives (i) for the performance of medical services by the Affiliate's employees and independent contractor physicians and physician extenders, and (ii) for all other services performed by the Affiliates. The revenue from which this fee is determined includes medical capitation, all sums earned from participation in any risk pools and all fee-for-service revenue earned. The management fee also includes a fixed amount for marketing and public relations services. Except in the case of Nuestra and AMVI/Prospect, the Management Agreements had initial terms of 30 years, renewable for successive 10-year periods thereafter, unless terminated by either party for cause. Effective September 1, 2013, the Managements Agreements for the ProMed Entities were consolidated under one new Management Agreement with PHCA. Effective October, 1, 2013, the Management Agreements for the rest of the Affiliates, other than Nuestra and AMVI/Prospect, were consolidated under one new Management Agreement with PMS. Those two new Management

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Agreements with PHCA and PMS include initial five year terms and are renewable for successive five year periods thereafter. In the case of Nuestra, its Management Agreement had an initial 10 year term renewable for successive one year terms, subsequently amended in January 15, 2009 to an initial 20 year term renewable for two 10 year periods. In the case of AMVI/Prospect, the Management Agreement has a one year term with successive one year renewal terms. In return for payment of the management fee, Prospect (through PMS and PHCA) has agreed to provide financial management, information systems, marketing, advertising, public relations, risk management, and administrative support, including for utilization review and quality of care. At its cost, Prospect has assumed the obligations for all facilities, medical and non-medical supplies, and employment of non-physician personnel of its affiliated medical clinics.

The management fee earned by Prospect fluctuates based on the profitability of each wholly-owned Affiliate. Prospect is allocated a 50% residual interest in any profits after the first 8% of the profits. The remaining balance is retained by the Affiliates.

The Management Agreements are not terminable by the Affiliates except in the case of gross negligence, fraud or other illegal acts of Prospect, or bankruptcy of the Company.

Further, Prospect's rights under the Management Agreements are unilaterally saleable or transferable. Based on the provisions of the Management Agreements and the assignable option agreement with PMG, Prospect has determined that it has a controlling financial interest in the Affiliates, with the exception of AMVI/Prospect. Consequently, under applicable accounting principles, Prospect consolidates the revenues and expenses of all the Affiliates except AMVI/Prospect from the respective dates of execution of the Management Agreements. All significant inter-entity balances have been eliminated in consolidation. In the case of AMVI/Prospect, only that portion of the results which are contractually identified as Prospect's are recognized in the consolidated financial statements, together with the management fee that the Company charges AMVI for managing AMVI's share of the joint venture operations.

Prospect has also entered into management agreements with unaffiliated third parties to manage services to their HMO enrollees. These management agreements do not have characteristics that give rise to the consolidation of the entities under current accounting literature.

The affiliated physician organizations provided medical services to a combined total of approximately 186,100 and 184,700 HMO enrollees as of September 30, 2013 and 2012, respectively. The enrollees include approximately 34,400 and 34,100 enrollees that the Company manages for the economic benefit of five independent third parties, and for which the Company earns management fee income as of September 30, 2013 and 2012, respectively. The total paid member months including managed enrollees, for the fiscal years ended September 30, 2013 and 2012 was 2,193,000 and 2,187,000, respectively.

Effective October 1, 2012, the Company, through its newly created affiliate, New Genesis Medical Associates, Inc. ("NGMA"), dba Genesis Medical Clinic, acquired substantially all of the assets in Orange County, California. NGMA is controlled through a nominee shareholder arrangement like the Stock Option structure utilized for PMG and discussed above. NGMA was consolidated with the operating results of the Medical Groups since its acquisition date (see Note 4). All intercompany balances were eliminated upon consolidation.

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Corporate Segment

The Corporate segment reflects certain expenses incurred at the Parent Entity not specifically allocable to the Hospital Services or Medical Group segments. These include, but are not limited to: salaries, benefits and other compensation for corporate employees; financing expenses; insurance expenses; rent; legal fees; and accounting fees. The Company does not allocate interest expense related to acquisition debt or income taxes to the other reporting segments.

2. Significant Accounting Policies

Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of all controlled subsidiaries, which control is effectuated through ownership of voting common stock or by other means, but do not include the accounts of the parent companies, Ivy Holdings and Ivy Intermediate. The Medical Group entities (subsidiaries) have been determined to be variable interest entities due to the existence of a call option under which the Company has the ability to require the holders of all of the voting common stock of the underlying subsidiaries to sell their shares at a fixed nominal price ($1,000) to another designated physician chosen by the Company. This call option agreement represents rights provided through a variable interest other than the equity interest itself that caps the returns that could be earned by the equity holders. In addition, the Company has a management agreement with the subsidiaries and the holders of the voting common stock of the subsidiaries which allows the Company to direct all of the activities of the subsidiaries, retain all of the economic benefits and assume all of the risks associated with ownership of the subsidiaries. In this manner, the Company has all of the economic benefits and risks associated with the subsidiaries but has disproportionately few voting rights (based on the terms of the equity). As the Company retains all of the economic benefits and assumes all of the risks associated with ownership of the subsidiaries, the Company is considered to be the primary beneficiary of the activities of the subsidiaries and therefore must consolidate the underlying subsidiaries. Operating results for Nix Health, NGMA and Nix CGH are consolidated with the Company's financial statements from their acquisition dates (February 1, 2012, October 1, 2012 and April 16, 2013, respectively (see Note 4). All significant intercompany balances and transactions have been eliminated in consolidation.

Reclassifications

Certain reclassifications were made to the 2012 consolidated financial statements in order to conform to the 2013 presentation.

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Revenues

Revenues by reportable segment are comprised of the following amounts (in thousands):

For the Years Ended September 30,	2013 (b)	2012 (a)
Net Hospital Services		
Inpatient	$ 403,183	$ 392,756
Outpatient	63,382	43,702
Capitation	44,923	35,767
Other	6,718	5,177
Total Hospital Services revenues	518,206	477,402
Less: Provision for bad debts	(34,067)	(32,355)
Total net Hospital Services revenues less provision for bad debts	484,139	445,047
Medical Group		
Capitation	215,971	199,415
Management fees	2,352	2,334
Other	3,420	2,057
Total Medical Group revenues	221,743	203,806
Other revenues	7,700	9,897
Total net revenues	$ 713,582	$ 658,750

(a) Nix Health revenues have been included in the accompanying consolidated financial statements for the period from acquisition, February 1, 2012 through September 30, 2012.

(b) NGMA and Nix CGH revenues have been included in the accompanying consolidated financial statements for the period from acquisition, October 1, 2012 and April 16, 2013, respectively, through September 30, 2013.

Hospital Services Segment

Net Patient Service Revenues

Operating revenue of the Hospital Services segment consists primarily of net patient service revenue. The Company reports net patient service revenue at the estimated net realizable amounts from patients and third-party payers and others in the period in which services are rendered. The Company has agreements with third-party payers, including Medicare, Medicaid (Medi-Cal in California), managed care and other insurance programs that are paid at negotiated rates. These payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments, as further described below. Estimates of contractual allowances are based upon the payment terms specified in the related contractual agreements. The Company accrues for amounts that it believes may ultimately be due to or from the third-party payers. Normal estimation differences between final settlements and

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amounts accrued in previous years are reported as changes in estimates in the current year. Outstanding receivables, net of allowances for contractual discounts and bad debts, are included in patient accounts receivable in the accompanying consolidated balance sheets.

The following is a summary of sources of patient service revenues (net of contractual allowances and discounts) before provision for doubtful accounts:

September 30,	**2013**	2012
Medicare	**$ 205,849**	$ 178,838
Medicaid	**152,102**	175,554
Managed Care	**89,019**	73,211
Self Pay / Other	**19,595**	8,855
Capitation	**44,923**	35,767
Other	**6,718**	5,177
Total	**$ 518,206**	$ 477,402

A summary of the payment arrangements with major third-party payers follows:

Medicare: Medicare is a federal program that provides certain hospital and medical insurance benefits to persons aged 65 and over, some disabled persons with end-stage renal disease and certain other beneficiary categories. Inpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge, according to a patient classification system based on clinical, diagnostic, and other factors. Outpatient services are paid based on a blend of prospectively determined rates and cost-reimbursed methodologies. The Company is also reimbursed for various disproportionate share and Medicare bad debt components at tentative rates, with final settlement determined after submission of the annual Medicare cost report and audit thereof by the Medicare fiscal intermediary. Normal estimation differences between filed settlements and amounts accrued are reflected in net patient service revenue.

Cost report settlement estimates are recorded based upon as-filed cost reports and are usually not adjusted until a final Notice of Program Reimbursement ("NPR") is issued. Due to litigation in class action suits over the determination of the Supplemental Security Income ("SSI") percentage which affects the disproportionate share reimbursement, the Centers for Medicare and Medicaid Services ("CMS") suspended issuing any NPRs for 2007 cost reporting years and forward. On March 16, 2012, CMS began issuing updated SSI ratios for 2006 through 2009, and on October 17, 2012, CMS issued updated SSI ratios for 2010. The latest updated SSI ratios for 2011 were issued on June 13, 2013. To date, the Company has received final NPRs for 2006 through 2009 for the Company's SCHS Hospitals, Alta Los Angeles Hospitals, and Nix Health. The issuance of final NPRs resulted in changes to existing cost reporting estimates. Accordingly the Company updated its estimates relating to open cost reporting of prior years using the revised SSI ratios and recorded a charge of $42,000 for 2011 cost reports during the year ended September 30, 2013 and a charge of $3,562,000 for 2010 and prior years cost reports during the year ended September 30, 2012. Additionally, the Company has joined a second round of litigation relating to Medicare's recent settlement with providers relating to the manner in which CMS handled the budget neutrality adjustment associated with the rural floor wage index in setting the Medicare inpatient

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prospective system rates ("Rural Floor"). The Company has not yet recorded any settlement revenue relating to the Rural Floor litigation.

Medicaid: Medicaid is a joint federal-state funded healthcare benefit program that is administered by states to provide benefits to qualifying individuals who are unable to afford care. The Company receives reimbursements under the Medicaid program at prospectively determined rates for both inpatient and outpatient services. Medi-Cal is the version of the federal Medicaid program that is applicable to California residents. Inpatient services rendered to Medi-Cal fee-for-service program beneficiaries in California are in the process of a three-year transition to payment at prospectively determined rates based on diagnosis related groups from a contracted per diem rate. Outpatient services are paid based on prospectively determined rates per procedure provided. Inpatient and outpatient services rendered to Medi-Cal managed care beneficiaries in California are paid at either contracted rates or at the Medi-Cal fee-for-service rates. The SCHS and Alta Los Angeles Hospitals are eligible to participate in the State of California Medi-Cal Disproportionate Share ("DSH") programs, under which medical facilities that serve a disproportionate number of low-income patients receive additional reimbursements. Eligibility is determined annually based on prescribed guidelines. Prior to the merger of SCH Culver City with the SCH Hollywood and SCH Van Nuys Hospitals, SCH Culver City did not participate in the program. The Company accrues a receivable each month based on the expected total annual DSH payments. Differences between the estimated and the actual award are recorded in the period they become known. DSH amounts are subject to retrospective revision prior to finalization and such revisions could lead to material retractions. The Company records retrospective retractions when they are estimable and probable. Retrospective additional DSH revenues are recorded when the amounts are probable and have been received. The Medi-Cal DSH receivable as of September 30, 2013 and 2012 totaled approximately $5,437,000 (including SCH Culver City) and $5,399,000, respectively, and were included in due from government program payers in the accompanying consolidated balance sheets. For fiscal years ended September 30, 2013 and 2012, total Medi-Cal DSH payments received by the SCHS and Alta Los Angeles Hospitals were approximately $11,618,000 (including SCH Culver City) and $11,758,000, respectively, and total Medi-Cal DSH revenues recorded were approximately $11,218,000 (including SCH Culver City) and $9,151,000, respectively. Additionally, pursuant to an audit of Medi-Cal cost reports and notification sent to the Company, the Company accrued a cost report liability payable to Medi-Cal of $1,316,000 and $1,341,000 as of September 30, 2013 and 2012, respectively.

During the fourth quarter of fiscal 2011, the Company's SCHS and Alta Los Angeles Hospitals received notification that the DSH amounts received related to the State fiscal year 2009-2010 were being re-examined and that the DSH amounts to be received for State fiscal years 2010-2011 would be significantly reduced. The notification was the result of legislation that extended payments under Senate Bill 90 ("SB 90"). During the years ended September 30, 2013 and 2012, the Company recorded reductions of $2,146,000 and $2,661,000, respectively, in Medi-Cal DSH revenue related to this matter.

In Texas, the Medicaid program reimburses under prospectively determined rates for both inpatient and outpatient services. Medicaid reimbursement may be subject to periodic adjustment, as well as to changes in existing payment levels and rates, based on the amount of funding available to the Medicaid program. Nix Health has also been receiving payments from the Texas Health and Human Services Commission under the Section 1115 Waiver ("the waiver") that was recently granted to the state of Texas by CMS. Under the first year of the

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waiver ending September 30, 2012, a transition payment was paid to Nix Health based upon prior levels of payment under the "Upper Payment Limit" ("UPL") program, which the waiver replaced. Payments for years two through five under the waiver are based upon two pools. One pool is for payments for uncompensated care which includes the shortfall in Medicaid reimbursement as compared to cost and the cost of providing services to uninsured patients. The other pool is the Delivery System Reform Initiative Payments ("DSRIP"), where approved programs and services are undertaken to improve access and services provided. Programs are established by regions and approved by the Texas Health and Human Services Commission and CMS. These programs are assigned a value and milestones are established to measure success and the timing and level of payment from the DSRIP funds. Nix Health recorded $19,882,000 in revenue associated with the Section 1115 Waiver program during the year ended September 30, 2013, and $13,298,000 in revenue associated with the UPL program during the period from February 1, 2012 (acquisition date) through September 30, 2012. During the same periods, Nix Health recorded $9,477,000 and $7,658,000, respectively, in costs for rural community provision of services associated with the program. The UPL payments are subject to audit by Texas Health and Human Services. At September 30, 2013 and 2012 amounts receivable under the section 1115 waiver amounted to $14,781,000 and $4,987,000, respectively, and amounts payable amounted to $4,754,000 and $1,889,000, respectively.

Managed Care: The Company has also entered into payment agreements with certain commercial insurance carriers, HMOs, and PPOs. The basis for payment under these agreements is in accordance with negotiated contracted rates or at the Company's standard charges for services provided. Some of these payments are capitated, meaning that the Company receives an agreed amount per patient for providing an agreed range of services.

Self-Pay: Self-pay patients represent those patients who do not have health insurance and are not covered by some other form of third party arrangement. Such patients are evaluated, at the time of services or shortly thereafter, for their ability to pay based upon federal and state poverty guidelines, qualifications for Medicaid, as well as the Company's local hospital's indigent and charity care policy.

See "Concentrations of Credit Risks" below for discussion of revenues received from the Medicare and Medicaid programs.

Similar to other hospital operators, the Company is currently undergoing audits under the Recovery Audit Contractor ("RAC") and other similar programs. As of September 30, 2013 and 2012 the Company had accrued $895,000 and $662,000, respectively, related to such liabilities.

SCH Culver City Outlier Liability

Following the acquisition of a majority stake in SCH Culver City, effective April 14, 2009, the Company consolidated SCH Culver City's estimated liability to CMS arising out of outlier payments received for services provided by the hospital to Medicare eligible inpatients, primarily for the last four months of calendar year 2005 and all of calendar year 2006.

While SCH Culver City reports financial statements on a fiscal year ending September 30, Medicare cost reports are filed on a calendar year basis. Acute care hospitals receive Medicare reimbursement payments pursuant to a prospective payment methodology primarily based on the diagnosis of the patient, but are entitled to receive additional payments, referred to as "outliers"

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for patients whose treatment is very costly. When Brotman Medical Center, Inc. acquired the hospital in 2005, CMS provided a ratio of cost to charges (the "RCC") based on the statewide average. Payments received by SCH Culver City on this basis were an interim estimate, subject to final determination upon auditing of SCH Culver City's cost reports. SCH Culver City filed its Medicare cost reports, but determined that its outlier reimbursement for services provided in fiscal years 2005, 2006 and part of 2007 might be subject to adjustment based on certain outlier reconciliation rules. On October 12, 2012, SCH Culver City received from its Medicare fiscal intermediary a proposed outlier adjustment for Medicare fiscal year 2006 in the amount of $12,785,000. SCH Culver City had previously been notified of an adjustment of $2,149,000 for 2005. As of September 30, 2013 and 2012, the Company has accrued $13,834,000 of the estimated $14,934,000 liability to CMS included in the accompanying consolidated balance sheets as of September 30, 2013 and 2012. The difference between the $14,934,000 asserted by CMS and the $13,834,000 accrued by the Company relates to accrued interest of approximately $1,100,000. The Company does not agree, however, with the outlier reconciliation liability. Accordingly, in accordance with relevant literature related to accounting for contingencies, the Company has recorded to the lower end of the range. The Medicare fiscal intermediary has placed the recoupment on hold while the Company is currently in discussions with CMS to resolve this issue. The ultimate resolution of this item is unknown at this stage. In March 2013, the Company received a notice of program reimbursement for the 2006 cost report year which approximated the October 2012 adjustment. The Company has also filed an appeal of the outlier issue with the Provider Reimbursement Review Board for the 2006 cost reporting period since it received a notice of program reimbursement for the 2006 cost report. The ultimate resolution of this appeal is unknown at this stage.

The following is a summary of due from and due to governmental payers at September 30 (in thousands):

September 30,	**2013**	2012
Due from government payers:		
Medi-Cal Disproportionate Share (DSH)	**$ 5,437**	$ 5,339
Medicare cost report settlements	**7,191**	3,922
Medicaid Section 1115 receivable	**14,780**	4,987
	$ 27,408	$ 14,248
Due to government payers:		
Outlier liability	**$ 13,834**	$ 13,834
Medi-Cal Disproportionate Share (DSH)	**-**	1,649
Medicare cost report settlements	**4,484**	4,613
Medi-Cal cost report settlements	**1,316**	1,341
	$ 19,634	$ 21,437

The Company is not aware of any material claims, disputes, or unsettled matters with any payers that would affect revenues that have not been adequately provided for and disclosed in the accompanying consolidated financial statements.

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Charity Care

The Company provides charity care to patients whose income level is below 300% of the Federal Poverty Level. Patients with income levels between 300% and 350% of the Federal Poverty Level qualify to pay a discounted rate under the requirements of California State Assembly Bill 774 (AB 774) based on various government program reimbursement levels. Patients without insurance are offered assistance in applying for Medicaid and other programs they may be eligible for, such as state disability. Patient advocates from the Company's Medical Eligibility Program ("MEP") screen patients in the Hospital and determine potential linkage to financial assistance programs. They also expedite the process of applying for these government programs. The approximate cost of providing charity care was approximately $4,320,000 and $4,178,000 for the years ended September 30, 2013 and 2012, respectively. The Company has estimated the cost of charity care based on a ratio of the cost to charges of operating expenses, excluding depreciation, interest and management fees.

Provisions for Contractual Allowances and Doubtful Accounts

Collection of receivables from third-party payers and patients is the Company's primary source of cash and is critical to its operating performance. The Company closely monitors its historical collection rates, as well as changes in applicable laws, rules and regulations and contract terms, to assure that provisions for contractual allowances are made using the most accurate information available. However, due to the complexities involved in these estimations, actual payments from payers may be materially different from the amounts management estimates and records. The Company's primary collection risks relate to uninsured patients and the portion of the bill which is the patient's responsibility, primarily co-payments and deductibles. Payments for services may also be denied due to issues over patient eligibility for medical coverage, the Company's ability to demonstrate medical necessity for services rendered and payer authorization of hospitalization.

Accounts receivable are reduced by an allowance for doubtful accounts. Valuation of the collectability of accounts receivable and provision for bad debts is based on historical collection experience, payer mix and the age of the receivables. Management routinely reviews accounts receivable balances in conjunction with these factors and other economic conditions which might ultimately affect the collectability of the patient accounts, and makes adjustments to the Company's allowances as warranted. For receivables associated with services provided to patients who have third-party coverage, management analyzes contractually due amounts and subsequently calculates an allowance for doubtful accounts and provision for bad debts once the age of the accounts reaches a specific age category based on historical experience. For receivables associated with self-pay patients, management records a significant provision for bad debts beginning in the period services were provided based on past experience that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The allowance for doubtful accounts was $28,050,000 and $34,470,000 for the years ended September 30, 2013 and 2012, respectively. The decrease was mostly realized at SCH Culver City where a significant number of self-pay accounts that were 180 days or older were deemed uncollectible and written off to bad debt expense. The allowance for doubtful accounts greater than 180 days at SCH Culver City was $6,412,000 and $17,513,000 for the years ended September 30, 2013 and 2012, respectively.

All of the Company's hospital facilities are subject to the Emergency Medical Treatment and Active Labor Act ("EMTALA"). This federal law requires any hospital that participates in the Medicare program to conduct an appropriate medical screening examination of every person who

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presents to the hospital's emergency department for treatment and, if the patient is suffering from an emergency medical condition, to either stabilize that condition or make an appropriate transfer of the patient to a facility that can handle the condition. The obligation to screen and stabilize emergency medical conditions exists regardless of a patient's ability to pay for treatment. There are severe penalties under EMTALA if a hospital fails to screen or appropriately stabilize or transfer a patient or if the hospital delays appropriate treatment in order to first inquire about the patient's ability to pay. Penalties for violations of EMTALA include civil monetary penalties and exclusion from participation in the Medicare program. In addition, an injured patient, the patient's family or a medical facility that suffers a financial loss as a direct result of another hospital's violation of the law can bring a civil suit against that other hospital. The Company believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that would have a material effect on the Company's financial statements.

Other Revenues

Other revenues consist primarily of meaningful use incentive payments and rental revenue from operating leases, and totaled $7,700,000 and $9,897,000 for the years ended September 30, 2013 and 2012, respectively.

A summary of other revenues recorded during the year follows:

Meaningful Use incentives: The American Recovery and Reinvestment Act of 2009 ("ARRA") established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that meaningfully use certified electronic health record ("EHR") technology or adopt or implement such technology. The Medicare incentive payments will be paid out to qualifying hospitals over four consecutive years on a transitional schedule. To qualify for Medicare incentives, hospitals and physicians must meet EHR "meaningful use" criteria that become more stringent over three stages that have yet to be finalized by CMS.

Medicaid programs and payment schedules vary from state to state. The Medicaid programs require hospitals to register for the program prior to 2016, to engage in efforts to adopt, implement or upgrade certified EHR technology in order to qualify for the initial year of participation, and to demonstrate meaningful use of certified EHR technology in order to qualify for payment for up to three additional years.

For the years ended September 30, 2013 and 2012 (including Nix Health from February 1, 2012 (acquisition date) through September 30, 2012), the Company recorded revenues of $5,872,000 and $8,662,000, respectively, related to the Medicare and Medicaid programs in the consolidated statements of income. These incentives have been recognized following the grant accounting model, recognizing income ratably over the applicable reporting period as management becomes reasonably assured of meeting the required criteria. Subsequent changes to these estimates will be recognized in the consolidated statement of operations in the period in which additional information is available. Such estimates are subject to audit by the federal government, the state, or its designee. As of September 30, 2013, there have been no notifications from Medicare or Medicaid requiring an audit.

Rental Revenue: Rental revenue from operating leases, which commenced with the Nix Health acquisition, is recorded based on the fixed, minimum required rents (base rents) per the lease agreements. Rental revenue from base rents is recorded on the straight-line

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method over the terms of the related lease agreements and is included in other revenue on the consolidated statements of income. During the years ended September 30, 2013 and 2012, the Company recorded rental revenues of $1,600,000 and $1,235,000, respectively.

Medical Group Segment

Medical Group Revenues

Operating revenue of the Medical Group segment consists primarily of payments for medical services procured by the Affiliates under capitated contracts with various managed care providers including HMOs. Capitation revenue under HMO contracts is prepaid monthly to the Affiliates based on the number of enrollees electing any one of the Affiliates as their health care provider. See "Concentrations of Credit Risks" below for revenues received from the five largest contracted HMOs.

Capitation revenue (net of capitation withheld to fund risk share deficits discussed below) is recognized in the month in which the Affiliates are obligated to provide services. Minor ongoing adjustments to prior months' capitation, primarily arising from contracted HMOs' finalizing of monthly patient eligibility data for additions or subtractions of enrollees, are recognized in the month they are communicated to the Company. Additionally, Medicare pays capitation using a "Risk Adjustment model," which compensates managed care organizations and providers based on the health status (acuity) of each individual enrollee. Health plans and providers with higher acuity enrollees will receive more and those with healthier enrollees will receive less. Under Risk Adjustment, capitation is determined based on health severity, measured using patient encounter data. Capitation is paid on an interim basis based on data submitted for the enrollee for the preceding year and is adjusted in subsequent periods (generally in the Company's fourth quarter) after the final data is compiled. Positive or negative capitation adjustments are made for Medicare enrollees with conditions requiring more or less healthcare services than assumed in the interim payments. Since the Company cannot reliably predict these adjustments, periodic changes in capitation amounts earned as a result of Risk Adjustment are recognized generally in the fourth quarter when those changes are communicated by the health plans to the Company. The Company received and recorded as additional revenue, approximately $6,145,000 and $2,751,000, respectively, in positive capitation risk adjustments during the years ended September 30, 2013 and 2012, respectively.

HMO contracts also include provisions to share in the risk for hospitalization, whereby the Affiliate can earn additional incentive revenue or incur penalties based upon the utilization of hospital services. Typically, any shared risk deficits are not payable until and unless the Company generates future risk sharing surpluses, or if the HMO withholds a portion of the capitation revenue to fund any risk share deficits. At the termination of the HMO contract, any accumulated risk share deficit is typically extinguished. Due to the lack of access to information necessary to estimate the related costs, shared-risk amounts receivable from the HMOs are only recorded when such amounts are known. Risk pools for the prior contract years are generally final settled in the third or fourth quarter of the following fiscal year. For the years ended September 30, 2013 and 2012, Medical Group revenues included approximately $2,880,000 and $4,245,000, respectively, of additional revenues due to favorable settlements on prior year risk-sharing arrangements. At September 30, 2013 and 2012, contingent liabilities for carry-forward risk-pool deficits expected to be forgiven, or offset against future surpluses were approximately $6,365,000 and $7,170,000, respectively, based on the available information from the health plans.

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The Company also receives incentives under "pay-for-performance" programs for quality medical care based on various criteria. These incentives, which are included in other revenues, are generally recorded in the third and fourth quarters of the fiscal year when such amounts are known. Pay-for-performance revenues recorded during the years ended September 30, 2013 and 2012, were $2,375,000 and $1,923,000, respectively.

Management fee revenue is earned in the month the services are rendered. Management fee arrangements with unaffiliated entities provide for compensation ranging from 7.5% to 12.5% of revenues. Management fee revenue recorded during the years ended September 30, 2013 and 2012, were $2,352,000 and $2,334,000, respectively.

Medical Group Cost of Revenues

The cost of health care services consists primarily of capitation and claims payments, pharmacy costs and incentive payments to contracted providers. These costs are recognized in the period incurred, or when the services are provided. Claims costs also include an estimate of the cost of services which have been incurred but not yet reported to the Company. The estimate for accrued medical costs is based on projections of costs using historical studies of claims paid and adjusted for seasonality, utilization and cost trends. These estimates are subject to trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management records its best estimate of the amount of medical claims incurred at each reporting period. Estimates are continually monitored and reviewed and, as settlements are made or estimates adjusted, differences are reflected in current operations. See Note 12 for changes in claims estimates during the years ended September 30, 2013 and 2012.

In addition to contractual reimbursements to providers, the Company also makes discretionary incentive payments to physicians, which are in large part based on the pay-for-performance and shared risk revenues and favorable senior capitation risk adjustment payments received by the Company. Since the Company records these revenues generally in the third or fourth quarter of each fiscal year when the incentives and capitation adjustments due from the health plans are known, the Company also finalizes the discretionary physician bonuses in the same periods. During the years ended September 30, 2013 and 2012, the Company recorded discretionary physician incentives expense totaling approximately $3,993,000 and $5,738,000, respectively. As of September 30, 2013 and 2012, bonus accruals of approximately $2,623,000 and $4,011,000, respectively, were included in accounts payable and other accrued liabilities.

The Company also periodically evaluates the need to establish premium deficiency reserves for the probability that anticipated future health care costs could exceed future capitation payments from HMOs under capitated contracts and, where appropriate, records a premium deficiency reserve.

The Company, for certain matters, maintains stop loss coverage for health care costs that are in excess of set thresholds. The Company, through two of its affiliated medical groups, was in dispute with its previous stop loss carrier with respect to amounts owed on claims under the 2007-2009 policy years. In November 2012, pursuant to a settlement agreement, the previous stop loss carrier agreed to pay the Company $225,000, in exchange for a mutual release of all claims and liabilities between the parties. As a result, the Company wrote off $679,000, which has been reflected in the consolidated financial statements at September 30, 2012.

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Property, Improvements and Equipment

Property, improvements and equipment are stated on the basis of cost or, in the case of acquisitions, at their acquisition date fair values. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, and amortization of leasehold improvements is provided using the straight-line basis over the shorter of the remaining lease period or the estimated useful lives of the leasehold improvements. Leasehold improvements are generally depreciated over five to ten years, buildings are depreciated over 14 to 28 years, equipment is depreciated over two to five years and furniture and fixtures are depreciated over two to seven years. Equipment capitalized under capital lease obligations are amortized over the life of the lease.

As more fully described in Note 10, the Company is required to comply with certain seismic standards as required by the state of California by January 1, 2020. The useful life of buildings subject to seismic retrofit requirements may be limited if the Company does not make the necessary upgrades by the required compliance date.

Goodwill and Other Intangible Assets

Goodwill totaled approximately $158,864,000 and $156,545,000 at September 30, 2013 and 2012, respectively, and arose as a result of the ProMed, Alta, SCH Culver City, and Nix Health (including Nix CGH) acquisitions. Goodwill represents the excess of the consideration paid and liabilities assumed over the fair value of the assets acquired, including identifiable intangible assets.

Goodwill is not amortized; rather it is reviewed annually for impairment for each reporting unit, or more frequently if impairment indicators arise. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. A two-step impairment test is used to identify potential goodwill impairment and to measure the amount of goodwill impairment loss to be recognized, if any. The Company has five reporting units, consisting of the Alta Hospitals, SCH Culver City (fka Brotman), Nix Health, ProMed and Prospect (which includes all other affiliated physician organizations).

The Company tests for goodwill impairment as of September 30 each year. In evaluating whether indicators of impairment exist, the Company considers adverse changes in market value, laws and regulations, profitability, cash flows, ability to maintain enrollment and renew payer contracts at favorable terms, among other factors. The goodwill impairment test is a two-step process. The first step consists of estimating the fair value of the reporting unit based on a weighted combination of (i) the guideline company method that utilizes revenue or earnings multiples for comparable publicly-traded companies, and (ii) a discounted cash flow model that utilizes expected future cash flows, the timing of those cash flows, and a discount rate (or weighted average cost of capital, which considers the cost of equity and cost of debt financing expected by a typical market participant) representing the time value of money and the inherent risk and uncertainty of the future cash flows. If the estimated fair value of the reporting unit is less than its carrying value, a second step is performed to compute the amount of the impairment by determining the "implied fair value" of the goodwill, which is compared to its corresponding carrying value. The Company's impairment test related to goodwill at September 30, 2013 resulted in no impairment charge.

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Long-Lived Assets and Amortizable Intangibles

Amortizable intangible assets totaled approximately $31,325,000 and $38,080,000, net of accumulated amortization at September 30, 2013 and 2012, respectively, and arose as a result of the ProMed, Alta, Brotman, Nix Health (including Nix CGH), and NGMA acquisitions. Intangible assets include customer relationships, covenants not-to-compete, trade names, provider networks, favorable leasehold, and net physician guarantees. The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The Company considers assets to be impaired and writes them down to fair value if estimated undiscounted cash flows associated with those assets are less than their carrying amounts. Fair value is based upon the present value of the associated cash flows. Changes in circumstances (for example, changes in laws or regulations, technological advances or changes in strategies) may also reduce the useful lives from initial estimates. Changes in planned use of intangibles may result from changes in customer base, contractual agreements, or regulatory requirements. In such circumstances, management will revise the useful life of the long-lived asset and amortize the remaining net book value over the adjusted remaining useful life. During the year ended September 30, 2013, the Company changed the original names of the SCHS Hospitals and expects to transition into the new names over the next three years. As a result of the change, the Company recorded an impairment charge of $3,476,000 at September 30, 2013 related to the trade names (see Note 5). There were no impairments recorded at September 30, 2012.

Medical Malpractice Liability Insurance

The individual physicians who contract with the Affiliates carry their own medical malpractice insurance. In the Hospital Services segment, the Company's hospitals carry professional and general liability insurance to cover medical malpractice claims under claims-made policies. Under the policies, insurance premiums cover only those claims actually reported during the policy term. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims related to occurrences during the policy term but reported subsequent to the policy's termination may be uninsured. From August 31, 2012 through October 1, 2013, the SCHS Hospitals and Alta Los Angeles Hospitals were covered under one professional and general liability insurance policy, and Nix Health was covered under a separate policy. Effective October 1, 2013, the hospitals renewed the professional and general liability insurance under one consolidated policy with separate retentions for each entity that runs through September 30, 2014. The Company is not subject to claims arising prior to the acquisition of Nix Health (February 1, 2012) as the former owner purchased an extended claims reporting policy (tail insurance) covering the incidents that have occurred up through January 31, 2012.

Accounting principles generally accepted in the United States of America require that a health care organization record and disclose the estimated costs of medical malpractice claims in the period of the incident of malpractice, if it is reasonably possible that liabilities may be incurred and losses can be reasonably estimated. The Company has recognized an estimated liability for incurred but not reported claims and the self-insured risks (including deductibles and potential claims in excess of policy limits) based upon an actuarial valuation of the Company's historical claims experience of the Company's hospitals. At September 30, 2013 and 2012, the total claims liability was approximately $3,173,000 and $2,197,000 (net of insurance recoveries of $1,487,000 and $32,000), respectively, and was estimated using a discount factor of 4%.

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The claims reserve is based on the best data available to the Company. The estimate, however, is subject to a significant degree of inherent variability. The estimate is continually monitored and reviewed, and as the reserve is adjusted, the difference is reflected in current operations. While the ultimate amount of medical malpractice liability is dependent on future developments, management is of the opinion that the associated liabilities recognized in the accompanying consolidated financial statements are adequate to cover such claims. Management is not aware of any potential medical malpractice claims whose settlement, if any, would have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Workers' Compensation Insurance

The workers' compensation coverage provides the statutory benefits required by law and that the employer's liability limits are $1,000,000 (excluding Nix Health). Nix Health has opted out of the Texas Workers' Compensation system as a non-subscriber, and provides its employees with benefits for occupational injury or disease through an ERISA plan. Nix has an Employer's Excess Indemnity policy with a $25,000 deductible policy with limits of $10,000,000 per occurrence and $25,000,000 aggregate. From October 1, 2011 to September 30, 2012 the Company's (excluding Brotman and Nix) workers' compensation coverage was a written on a $250,000 incurred loss retro program without an aggregate loss limitation. From October 1, 2012 to present, the Company's (excluding Nix Health only) workers' compensation coverage is written on a $250,000 incurred loss retro program without an aggregate loss limitation. At September 30, 2013 and 2012, included in accrued salaries, wages and benefits are accruals for uninsured claims and claims incurred but not reported of approximately $4,409,000 and $2,808,000, respectively. The amounts are estimated based upon an actuarial valuation of their claims experience, using a discount factor of 4%.

The claims reserve is based on the best data available to the Company; however, the estimate is subject to a significant degree of inherent variability. The estimate is monitored and reviewed, and as the reserve is adjusted, the difference is reflected in current operations. While the ultimate amount of the claims liability is dependent on future developments, management is of the opinion that the associated liabilities recognized in the accompanying consolidated financial statements are adequate to cover such claims. Management is not aware of any potential claims whose settlement, if any, would have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Stock Options

On December 15, 2010, the Board of Directors (the "Ivy Board") of Ivy Holdings adopted the 2010 Stock Option Plan of Ivy Holdings Inc. (the "Ivy Plan") and, on December 16, 2010, the stockholders of Ivy Holdings adopted the Ivy Plan. The Ivy Plan provides that it shall be administered by the Compensation Committee of the Ivy Board. The Ivy Plan includes an Incentive Stock Option Agreement and a Non-Qualified Stock Option Agreement to be used in connection with the grant of options under the Ivy Plan. These options granted under the Ivy Plan are exercisable into Ivy Holdings stock and vest based on a number of criteria, including time, performance and CEO discretion.

Compensation costs for option awards are measured and recognized in the consolidated financial statements based on their grant date fair value, net of estimated forfeitures over the awards' service period. The fair value of restricted stock grants are determined on the date of grant, based on the number of shares granted and the quoted price or estimated fair market value of the Company's common stock. The Company uses the Black-Scholes option pricing model and a single

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option award approach to estimate the fair value of stock options granted. Equity-based compensation is classified within the same line items as cash compensation paid to employees.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments with initial maturities of 90 days or less to be cash equivalents. Cash and cash equivalents are primarily comprised of deposits with banks. The Company maintains its cash at banks with high credit-quality ratings.

Restricted Cash

At September 30, 2013 and 2012, $233,000 was held in a restricted account in connection with workers compensation arrangements, $30,000 was restricted related to a capitation agreement, and $300,000 was restricted in connection with a statutory deposit required by the Department of Managed Care for Knox-Keene licensing.

Restricted Investments

The Company is required to keep restricted deposits by certain HMOs for the payment of claims. Such restricted deposits are classified as a current asset in the accompanying consolidated balance sheets, as they are restricted for payment of current liabilities. Investments also include certificates of deposit with maturity dates of more than 90 days when purchased.

Inventories

Inventories of supplies are valued at the lower of amounts that approximate the weighted average cost or market. Inventories consist primarily of medical and surgical supplies and pharmaceuticals.

Deferred Financing Costs

Deferred financing costs are amortized over the period in which the related debt is outstanding using the effective interest method. During the year ended September 30, 2012, the Company completed an offering of $325 million in 8.375% senior secured notes ("PMH 2019" Notes) (see Note 8), whereby the proceeds were partially used to repay $151.8 million in outstanding 12.75% senior secured notes due 2014 ("PMH 2014 Notes"). Deferred financing costs related to the PMH 2014 Notes of $3,944,000 were written off and deferred financing costs of $10,208,000 related to the PMH 2019 Notes were capitalized and included in deferred financing costs during the year ended September 30, 2012. On November 16, 2012, the Company issued an additional $100 million of PMH 2019 Notes and capitalized deferred financing costs of $3,948,000 and $61,000 associated with the offering during the years ended September 30, 2013 and 2012, respectively, which are reflected in deferred financing costs in the accompanying consolidated balance sheets. The Company determined that the transaction represents a debt modification under the applicable accounting guidance.

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Deferred financing costs at September 30, 2013 and 2012 are as follows (in thousands):

September 30,	**2013**			2012		
	Gross Book Value	**Accumulated Amortization**	**Net Book Value**	Gross Book Value	Accumulated Amortization	Net Book Value
Deferred financing costs	**$14,345**	**$2,720**	**$11,625**	$10,397	$649	$9,748

Income Taxes

Deferred income tax assets and liabilities are recognized for differences between financial and income tax reporting bases of assets and liabilities based on enacted tax rates and laws. To the extent a deferred tax asset cannot be recognized under the preceding criteria, allowances must be established. The impact on deferred taxes of changes in tax rates and laws, if any, are applied to the years during which temporary differences are expected to be settled and reflected in the financial statements in the period of enactment. The Company recognizes interest and penalties associated with income tax matters and unrecognized tax benefits in the income tax expense line item of the statements of operations. For the years ended September 30, 2013 and 2012, no interest and/or penalties related to incomes taxes were accrued and/or expensed.

An entity is required to evaluate its tax positions using a two-step process. First, the entity should evaluate the position for recognition. An entity should recognize the financial statement benefit of a tax position if it determines that it is more likely than not that the position will be sustained on examination. Next, the entity should measure the amount of benefit that should be recognized for those tax positions that meet the more-likely-than-not test.

Consolidated and separate income tax returns are filed with the U.S. Federal jurisdiction and in the State of California and Texas. The Company's filed tax returns are subject to examination by the IRS for tax years ended September 30, 2010 and the period from October 1, 2010 to December 15, 2010. The IRS completed its audit of PMG for the year ended September 30, 2010 with no adjustments. No material tax liabilities have been asserted to date with respect to the PMH audits (see Note 7).

The net deferred tax liabilities are primarily comprised of temporary differences between book and tax bases for intangible and capital assets acquired and net operating loss carryforwards.

Fair Value of Financial Instruments

Financial instruments consist primarily of cash and cash equivalents, restricted cash investments, patient and other accounts receivables, accrued salaries and benefits, accounts payable and accrued expenses, medical claims and related liabilities, amounts due to government agencies, notes receivable and payable, capital lease obligations, debt, and other liabilities. The carrying amounts of current assets and liabilities approximate their fair value due to the relatively short period of time between the origination of the instruments and their expected realization.

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Fair Value Measurement

Accounting literature establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is affected by a number of factors, including the type of investment, the characteristics specific to the investment and the state of the marketplace including the existence and transparency of transactions between market participants. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices in an orderly market generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investments measured and reported at fair value are classified and disclosed in one of the following categories.

- Level I - Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments in Level I include listed equities and listed derivatives.

- Level II - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities and certain over-the-counter derivatives.

- Level III - Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include general and limited partnership interests in corporate private equity and real estate funds, credit-oriented funds, funds of hedge funds, distressed debt and non-investment grade residual interests in securitizations and collateralized debt obligations.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given investment is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

The Company's Level 1 assets include cash and cash equivalents and investments (certificates of deposit and money market mutual funds). The inputs for fair value of goodwill and intangible assets (including long lived assets and intangible assets subject to amortization) would be based on Level 3 inputs as data used for such fair value calculations would be based on discounted cash flows that are not observable from the market, directly or indirectly.

Financial Items Measured at Fair Value on a Recurring Basis

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis and where they are classified within the hierarchy (in thousands):

	Total	Level 1	Level 2	Level 3
As of September 30, 2013				
Certificates of deposit and money market mutual funds	$ 637	$ 637	$ -	$ -
As of September 30, 2012				
Certificates of deposit and money market mutual funds	$ 633	$ 633	$ -	$ -

The Company's investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices.

Nonfinancial Items Measured at Fair Value on a Nonrecurring Basis

The following table presents the fair value of intangible assets subject to amortization measured at fair value during the year ended September 30, 2013 and remaining on the Company's balance sheets as of September 30, 2013 (in thousands):

		Fair Value Measurement Using			Total
	Total	Level 1	Level 2	Level 3	impairment
Trade names	$ 1,940	$ -	$ -	$ 1,940	$ (3,476)

During the year ended September 30, 2013, the Company recorded $3,476,000 of impairment relating to intangible assets subject to amortization, which is reflected in the accompanying consolidated statements of income. No impairment was recorded during the year ended September 30, 2012.

The Company uses the discounted cash flow approach to estimate the fair value of the Company's trade names. The following table provides quantitative information related to the significant unobservable inputs to determine fair value as of September 30, 2013:

Fair value of trade names	Valuation Technique	Unobservable Input	Rates
$1,940,000	Discounted cash flow	Weighted average cost of capital	13.0% - 13.5%
		Revenue growth rate	2% - 3%
		Reduction of revenue attributable to trade names	(30%) - (70%)
		Royalty rate	1.0%

Significant increases or decreases in the Company's weighted average cost of capital may result in a significantly lower or higher fair value measurement, respectively. Significant increases or

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decreases in the revenue growth rate and royalty rates in isolation may result in a significantly higher or lower fair value measurement, respectively.

Nonfinancial assets such as goodwill and identifiable intangible assets are measured at fair value when there is an indicator of impairment and recorded at fair value only when impairment is recognized. The Company performs an annual impairment test on the goodwill, and performs an impairment test on the intangibles as and when there are indications of impairment.

The fair values of the Company's current financial assets and liabilities approximate their reported carrying amounts. The carrying values and the fair values of non-current financial assets and liabilities that qualify as financial instruments under the guidance are as follows (in thousands).

	2013		2012	
September 30,	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Liabilities:				
Long-term debt	**$ 421,067**	**$ 449,339**	$ 326,958	$346,463

The fair value of the Company's long-term debt was determined based on market prices.

Concentrations of Credit Risk

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits of $250,000 per depositor of each financial institution. The Company has not experienced any losses to date related to these balances.

Financial instruments that potentially subject the Company to concentrations of credit risk consist of receivables due from Medicare, Medicaid (Medi-Cal in California), patients, health plans including shared-risk arrangements, and notes receivable.

The Company invests excess cash in liquid securities at institutions with strong credit ratings, following established guidelines relative to diversification and maturities to maintain safety and liquidity. These guidelines are periodically reviewed and modified to take into consideration trends in yields and interest rates and principal risk. Management attempts to schedule the maturities of the Company's investments to coincide with the Company's expected cash requirements. Credit risk with respect to receivables is limited since amounts are generally due from large HMOs within the Medical Group Management segment and from the Medicare and Medicaid (Medi-Cal in California) programs within the Hospital Services segment. Notes receivable are fully secured by collateral of equal or greater value. Management reviews the financial condition of these institutions on a periodic basis and does not believe the concentration of cash or receivables results in a high level of risk.

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For the years ended September 30, 2013 and 2012, the Hospital Services segment received a total of 69% and 74%, respectively, of its net patient revenues from Medicare and Medicaid programs, and the Medical Group segment received a total of 69% and 73%, respectively, of their capitation revenues from its five largest HMOs, as follows (in thousands):

Years Ended September 30,	2013	% of Total Revenue	2012	% of Total Revenue
Hospital Services:				
Government Payers:				
Medicare	$ 205,849	40%	$ 178,838	37%
Medicaid	152,102	29%	175,554	37%
Total	$ 357,951	69%	$ 354,392	74%
Medical Group:				
HMO A	$ 36,194	17%	$ 35,936	18%
HMO B	31,735	15%	31,862	16%
HMO C	28,754	13%	26,818	13%
HMO D	28,346	13%	27,587	14%
HMO E	23,159	11%	23,664	12%
Totals	$ 148,188	69%	$ 145,867	73%

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities at the dates, and for the periods, that the consolidated financial statements are prepared. Actual results could materially differ from those estimates. Principal areas requiring the use of estimates include third party settlements, settlements under risk sharing programs, allowances for contractual discounts and doubtful accounts, accruals for medical claims, impairment of goodwill, long-lived assets and intangible assets, share-based payments, professional and general liability claims and workers' compensation claims, reserves for outcome of legislation and valuation allowances against deferred tax assets.

Recently Adopted Accounting Pronouncements

In December 2010, the Financial Accounting Standards Board ("FASB") issued an update to the existing goodwill impairment accounting standards which modified the goodwill impairment test for reporting units with zero or negative carrying amounts, of which SCH Culver City had a negative carrying value as of September 30, 2012. Effective October 1, 2012, the Company implemented this new guidance and determined that there was no impairment of goodwill relating to SCH Culver City at that date.

Effective October 1, 2012, the Company adopted an update to accounting standards which requires certain health care entities to present the provision for bad debts relating to patient

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service revenue as a deduction from patient service revenue in the statement of operations rather than as an operating expense. Additional disclosures relating to sources of patient revenue and the allowance for doubtful accounts related to patient accounts receivable are also required. The adoption of this update did not have a material impact on the Company's consolidated financial position, results of operations or cash flows; however, it did change the presentation of the Company's revenues on its consolidated statements of income as well as required additional disclosures.

Effective October 1, 2012, the Company adopted an accounting standards update related to goodwill impairment testing. Previously, entities were required to test goodwill for impairment, on at least an annual basis, by first comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the resulting fair value of a reporting unit was less than its carrying amount, then the second step of the test would be performed to measure the amount of the impairment loss, if any. This update permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step goodwill impairment test is unnecessary. An entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. Additionally, this update permits an entity to resume performing the qualitative assessment in any subsequent period. The adoption of this accounting guidance did not have a material impact on the Company's consolidated financial statements as of September 30, 2013.

New Accounting Pronouncements

In June 2011, the FASB issued an accounting standards update that specifies that the liability for the annual fee imposed on certain health insurers under the recently enacted Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act, should be estimated and recorded in full once the entity provides qualifying health insurance in the applicable calendar year in which the fee is payable with a corresponding deferred cost that is amortized to expense using a straight-line method of allocation unless another method better allocates the fee over the calendar year that it is payable. This update is effective for calendar years beginning after December 31, 2013, when the fee initially becomes effective. The Company is currently evaluating the effect of this guidance on its consolidated results of operations and consolidated financial position.

In July 2013, the FASB issued an accounting standards update that requires an unrecognized tax benefit or portion of an unrecognized tax benefit to be presented as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward except when certain conditions exist. The amendment is effective for the Company for fiscal years beginning after December 15, 2014, including interim periods in 2014. The Company is currently evaluating the effect of this guidance on its consolidated results of operations and consolidated financial position.

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3. Property, Improvements and Equipment

Property, improvements and equipment, consisted of the following (in thousands):

September 30,	2013	2012
Property, improvements and equipment:		
Land and land improvements	$ 34,985	$ 34,428
Buildings and improvements	59,270	55,974
Leasehold improvements	950	2,215
Equipment	67,889	46,164
Furniture and fixtures	5,759	4,650
	168,863	143,431
Less: accumulated depreciation	(42,331)	(30,016)
Property, improvements and equipment, net	$ 126,532	$ 113,415

On July 18, 2013, Nix Health entered into a lease agreement to rent land and building located in the city of San Antonio, Texas, where the Company plans to invest significantly for the development of a hospital facility. The Company determined that the lease qualified as a capital lease and recorded fixed assets of $5,675,000 and a capital lease liability of $6,902,000; the difference of $1,227,000 relates to tenant improvement allowance from the landlord, which was recorded as other receivables in the accompanying consolidated balance sheets.

During the year ended September 30, 2013, the Company made investments of $6,200,000 in equipment related to implementation of EHR technology and new hospital systems and $8,600,000 in medical equipment at the Company's hospitals.

At September 30, 2013 and 2012, the Company had assets under capitalized leases of approximately $17,288,000 and $13,015,000, respectively, and related accumulated depreciation of $7,350,000 and $3,792,000, respectively.

Depreciation expense was approximately $12,443,000 and $8,692,000 for the years ended September 30, 2013 and 2012, respectively.

4. Acquisitions

Nix Health

Effective February 1, 2012, the Company acquired substantially all of the assets and assumed certain liabilities of MHS San Antonio, LLC (dba Nix Health Care System), a hospital system with 297 licensed beds, which offers San Antonio, Texas and the surrounding communities an array of medical services ranging from primary care and surgical services to behavioral and rehabilitation services. This acquisition adds further geographic and payor mix diversification consistent with the Company's growth strategy. The assets were acquired from subsidiaries of Merit Health Systems, LLC, principally Accord Medical Management, LP and Accord Properties, LP. The consideration for the Nix Health acquisition included approximately $44,000,000 in cash and assumption of approximately $4,000,000 in loans and capital leases, for total consideration of approximately $48,000,000. The acquisition of Nix Health was accounted for as a business combination using

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purchase accounting. Under the purchase accounting method, the amount of consideration paid is allocated to assets acquired and liabilities assumed based on their estimated fair values.

The following table summarizes the assets acquired and liabilities assumed in connection with the Nix Health acquisition, as of February 1, 2012 (in thousands):

	Purchase Price Allocation (Adjusted)	Purchase Price Allocation (Original)
Patient accounts receivable	$ 9,766	$ 9,766
Prepaid expenses and other current assets	11,514	11,514
Property, improvements and equipment	40,167	40,167
Goodwill	3,138	3,295
Intangible assets	3,362	3,362
Accounts payable and other liabilities	(21,142)	(21,142)
Capital leases	(1,801)	(1,801)
Long-term debt	(2,300)	(2,300)
Net cash consideration subject to working capital adjustment	42,704	42,861
Working capital adjustment	1,319	1,162
Net cash consideration	$ 44,023	$ 44,023

During the year ended September 30, 2013, the Company recorded an additional working capital adjustment of $157,000, which reduced the goodwill balance by the same amount.

New Genesis Medical Associates

On October 1, 2012, the Company, through its newly created affiliate, New Genesis Medical Associates, Inc. (dba Genesis Medical Clinic), a California professional medical corporation, acquired substantially all of the assets of a physician medical practice located in Orange County, California. The consideration for the NGMA acquisition included approximately $400,000 in cash. The acquisition of NGMA is accounted for as a business combination using purchase accounting. Under the purchase accounting method, the amount of consideration paid is allocated to assets acquired and liabilities assumed based on their estimated fair values.

The following table summarizes the assets acquired and liabilities assumed in connection with the NGMA acquisition, as of October 1, 2012 (in thousands):

	Purchase Price Allocation
Property, improvements and equipment	$ 50
Intangible assets	350
Net cash consideration	$ 400

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Nix Community General Hospital

On April 16, 2013, the Company acquired substantially all of the assets and assumed certain liabilities of Community General Hospital of Dilley, Texas Inc. dba Community General Hospital, a hospital with 18 licensed beds, which offers Dilley, Texas and the surrounding communities an array of medical services including primary care. Upon close of the transaction, the hospital was renamed to Nix Community General Hospital. The consideration for the Community General Hospital acquisition included approximately $2,705,000 in cash, contingent cash consideration of $250,000 and assumption of approximately $795,000 in liabilities, for total consideration of approximately $3,750,000. The acquisition of Community General Hospital is accounted for as a business combination using purchase accounting. Under the purchase accounting method, the amount of consideration paid is allocated to assets acquired and liabilities assumed based on their estimated fair values.

The following table summarizes the assets acquired and liabilities assumed in connection with the Community General Hospital acquisition, as of April 16, 2013 (in thousands):

	Purchase Price Allocation
Current assets	$ 7
Property, improvements and equipment	1,267
Goodwill	2,476
Contingent cash consideration	(250)
Accounts payable and other liabilities	(795)
Net cash consideration	$ 2,705

As an asset purchase, the goodwill and the intangible assets acquired in the Nix Health, NGMA and Nix CGH acquisitions are deductible for tax purposes.

5. Goodwill and Intangible Assets

As of September 30, 2013 and 2012, goodwill and intangible assets relate to the ProMed, Alta, SCH Culver City, Nix Health, NGMA, and Nix CGH acquisitions. The Company performed its annual goodwill impairment analysis for each reporting unit that constitutes a business for which 1) discrete financial information is produced and reviewed by management, and 2) services that are distinct from the other reporting units.

For the Medical Group segment, the Company has determined that PHCA and the ProMed Entities (collectively referred to as "ProMed"), as well as PMS and the other affiliated physician organizations as a group (collectively referred to as "Prospect") each constitutes a separate reporting unit. NGMA is consolidated within the Prospect reporting unit.

For the Hospital Services segment, the reporting unit for the annual goodwill impairment analysis is determined to be at the business unit level. A separate analysis was prepared for Alta Hospitals, SCH Culver City and Nix Health. Nix CGH is consolidated within the Nix Health business unit.

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During the year ended September 30, 2013, the Company recorded additional goodwill of $2,476,000 related to the Nix CGH acquisition. In addition, the Company recorded a working capital adjustment of $157,000 against the goodwill balance related to the Nix Health acquisition.

The carrying value of goodwill for Alta Hospitals, SCH Culver City, Nix Health (including Nix CGH), and ProMed at September 30, 2013 and 2012 was $106,539,000, $24,373,000, $5,613,000 and $22,339,000, respectively.

The following is a rollforward of goodwill from October 1, 2011 to September 30, 2013 (in thousands):

	Amount
Balance, October 1, 2011	$ 153,250
Acquisition of Nix Health	3,295
Balance, September 30, 2012	156,545
Acquisition of Nix CGH	2,476
Working capital adjustments - Nix Health (see Note 4)	(157)
Balance, September 30, 2013	$ 158,864

Identifiable intangible assets are comprised of the following (in thousands):

	September 30, 2013					
	Alta	SCH Culver City	Nix Health	Prospect	Promed	Total
HMO membership	$ -	$ -	$ -	$ -	$ 25,200	$ 25,200
Trade names, net of impairment	10,310	1,320	2,740	-	9,450	23,820
Favorable leasehold	-	-	20	-	-	20
Physician guarantees	-	-	1,537	-	-	1,537
Customer relationships	-	-	-	350	-	350
Gross carrying value	10,310	1,320	4,297	350	34,650	50,927
Accumulated amortization	(2,978)	-	(1,513)	(50)	(15,061)	(19,602)
Intangible assets, net	$ 7,332	$ 1,320	$ 2,784	300	$ 19,589	$ 31,325

	September 30, 2012					
	Alta	SCH Culver City	Nix Health	Prospect	Promed	Total

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HMO membership	$ -	$ -	$ -	$ -	$ 25,200	$ 25,200
Covenants not-to-compete	2,240	-	120	-	940	3,300
Trade names	14,140	3,000	2,740	-	9,450	29,330
Favorable leasehold	-	-	20	-	-	20
Physician guarantees	-	-	793	-	-	793
Provider networks	-	-	-	-	1,200	1,200
Gross carrying value	16,380	3,000	3,673	-	36,790	59,843
Accumulated amortization	(5,879)	(516)	(586)	-	(14,782)	(21,763)
Intangible assets, net	$ 10,501	$ 2,484	$ 3,087	-	$ 22,008	$ 38,080

During the year ended September 30, 2013, the Company changed the names of the hospitals owned by SCHS to SCH Hollywood, SCH Van Nuys, and SCH Culver City. The fair value of the original trade names at September 30, 2013 was estimated using the relief-from-royalty method and their remaining useful lives were reduced to three years based on the Company's planned use of the trade names. As a result of the valuation, the trade names were valued at $1,940,000 and the Company recorded an impairment charge of $3,476,000 at September 30, 2013, which is presented as part of operating expenses in the accompanying consolidated statements of income. The Company adjusted the cost basis of the trade names to the new fair value, which resulted in writing off $5,510,000 of gross intangibles and accumulated amortization of $2,034,000. There were no impairments recorded at September 30, 2012.

During the year ended September 30, 2013, fully amortized intangibles related to covenants not-to-compete and provider networks of $3,300,000 and $1,200,000, respectively, were fully amortized and removed from intangibles assets.

Amortization is recognized on a straight-line basis (management's best estimate of the period of economic benefit) over the respective useful lives and expense for the years ended September 30, 2013 and 2012 was approximately $4,371,000 and $3,884,000, respectively.

Estimated amortization expense for each future fiscal year is as follows (in thousands):

Years ended September 30,	
2014	$ 4,583
2015	4,445
2016	4,246
2017	3,098
2018	2,914

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Thereafter		12,039
Total	$	31,325

The following table shows the estimated useful lives for each of the intangible assets:

	Estimated useful lives
HMO membership	14 years
Covenants not-to-compete	18 months to 6 years
Trade names	3 - 20 years
Favorable leasehold	6 years
Physician guarantees	2 to 3 years
Provider networks	3 years
Customer relationships	7 years

The weighted-average remaining useful life for the intangible assets was 8.71 years as of September 30, 2013.

6. Related Party Transactions

Jeereddi Prasad, M.D., a significant shareholder of Ivy Holdings, a director of Ivy Holdings and the Company, and an officer of the ProMed Entities, has ownership interests in physician medical groups that provide medical services to ProMed members. For the years ended September 30, 2013 and 2012, the ProMed Entities paid these groups approximately $16,742,000 and $16,474,000, respectively. On December ____, 2013, the Company entered into a stock purchase agreement (the "CMG Purchase Agreement") to acquire a minority interest in one of these physician medical groups, Chaparral Medical Group, Inc. ("CMG") (See Note 15).

Effective November 3, 2011, the Promed Entities entered into an Exclusivity and Non- Solicitation Agreement with CMG and certain of its physicians (the "CMG Exclusivity Agreement"). The amount paid for this agreement amounted to $1,000,000. On December ____, 2013, concurrently with the execution of the CMG Purchase Agreement, the CMG Exclusivity Agreement was amended and its exclusivity terms were extended through December 31, 2018 in exchange for the payment of an additional $300,000 divided among the exclusive physicians.

Pursuant to a Management Services Agreement, dated December 15, 2010 and amended on May 3, 2012 (the "LGP Management Agreement"), between the Company and LGP, LGP provides to the Company, (a) certain investment banking services, (b) management, consulting and financial planning services and (c) financial advisory and investment banking services in connection with major financial transactions from time to time. In consideration for the services provided by LGP under the LGP Management Agreement, the Company pays LGP an annual fee of $1,000,000, payable in monthly installments, and reimburses LGP for its related expenses up to $50,000 annually. If approved by the unanimous consent of the Board of Directors of the Company, additional customary fees may be due to LGP pursuant to the terms of the LGP Management Agreement for services rendered in connection with major transactions from time to time.

The Company is a wholly-owned indirect subsidiary of Ivy Holdings. Therefore, Ivy Holdings is the parent of an affiliated group of corporations within the meaning of Section 1504(a) of the Internal

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Revenue Code of 1986. On December 15, 2010, Ivy Holdings, Ivy Intermediate and the Company entered into a Tax Sharing Agreement. The Tax Sharing Agreement allows the Company to make payments to Ivy Holdings as necessary to fund their payment of any required taxes incurred due to such parent status. During the years ended September 30, 2013 and 2012, the Company made payments under this arrangement of $17,477,000 and $2,702,000, respectively.

7. Income Taxes

The components of the income tax provision are as follows (in thousands):

For the years ended September 30,	2013	2012
Current:		
Federal	$ 8,000	$ 10,188
State	2,184	3,325
	10,184	13,513
Deferred:		
Federal	(318)	(9,150)
State	(56)	(1,765)
	(374)	(10,915)
Total:		
Federal	7,682	1,038
State	2,128	1,560
	$ 9,810	$ 2,598

Temporary differences and carry forward items that result in deferred income tax balances as of September 30 are as follows (in thousands):

September 30,	2013	2012
Deferred tax assets:		
State tax benefit	$ 2,103	$ 2,042
Allowances for bad debts	4,304	11,161
Vacation accrual and other	4,434	3,954
Workers compensation	1,889	1,203
Accrued physician bonuses	4,847	3,552
Malpractice reserves	1,204	837
Deferred rent	105	105
Other	379	356
Net operating losses	8,798	15,807
Capital loss carryforward	2,255	2,255
Deferred tax assets	30,318	41,272
Valuation allowance	(10,742)	(17,099)
Net deferred tax assets	19,576	24,173
Deferred tax liabilities:		
Intangible assets	(8,211)	(10,549)
Fixed assets	(20,038)	(21,691)
Non-stockholder capital contribution	-	(2,142)
Prepaid expenses	(581)	(384)
Deferred tax liabilities	(29,830)	(34,766)
Net deferred tax liabilities	$ (10,254)	$ (10,593)

Deferred tax assets and liabilities reflect the effect of temporary differences between the assets and liabilities recognized for financial reporting purposes and the amounts recognized for income tax purposes.

Between January and April 2012, the Company increased its ownership in SCH Culver City from 78.28% to 100%, following which, the Company now includes SCH Culver City in its consolidated federal income tax return. Based on the available objective evidence, the Company believes it is more likely than not that certain SCH Culver City deferred tax assets will be fully realizable. Accordingly, the Company reversed approximately $8,000,000 of deferred tax valuation allowances for the year ended September 30, 2012. For the year ended September 30, 2013, the Company released an additional $8,000,000 of deferred tax valuation allowance in connection with net operating losses that became available for use due to the Brotman and Alta Hollywood merger. At September 30, 2013, the Company had federal and state net operating loss carryovers of approximately $17,935,383 and $34,038,681 which, if not utilized, will expire beginning 2033 and 2023, respectively. A substantial portion of these net operating loss carryforwards are subject to limitations under Internal Revenue Code Section 382, and their use may be severely limited in the future.

During the year ended September 30, 2013, the Internal Revenue Service ("IRS") concluded its audit of SCH Culver City for the years ended September 30, 2008 through 2010 with a minor tax impact. PMH is under audit by the IRS for the year ended September 30, 2010 and the period from October 1, 2010 to December 15, 2010. The IRS completed its audit of PMG for the year ended September 30, 2010 with no adjustments. No material tax liabilities have been asserted to date with respect to the PMH audits. At September 30, 2013 and 2012, the Company has approximately $970,000 of unrealized excess tax benefits related to employee stock options. This amount is not included in the table of deferred tax assets above and the benefit will be recorded as an increase to additional paid in capital if and when realized.

The differences between the income tax provision at the federal statutory rate and that reflected in the accompanying consolidated statements of operations are summarized as follows:

For the years ended September 30,	**2013**	2012
Tax provision at statutory rate	**35%**	35%
State taxes, net of federal benefit	**6%**	5%
Permanent and other items	**3%**	2%
Change in valuation allowances	**(19)%**	(28)%
Other	**(2)%**	(5)%
	23%	9%

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8. Long-Term Debt

Long-term debt consists of the following (in thousands):

September 30,	2013	2012
Prospect's debt:		
Senior secured notes		
2019 Notes	$ 325,000	$ 325,000
Less: discount (net)	(7,641)	-
	317,359	325,000
Additional 2019 Notes	100,000	-
Less: discount (net)	1,729	-
	101,729	-
Demand notes	-	804
Other	21	-
	419,109	325,804
SCH Culver City's debt:		
Subordinated promissory note	-	500
	-	500
Nix Health's debt:		
Mortgage debt	1,919	2,028
Note payable	39	140
	1,958	2,168
	421,067	328,472
Less: current maturities	(178)	(1,515)
Long-term debt, net of current maturities	$ 420,889	$ 326,957

Prospect's Debt:

Senior Secured Notes

On May 3, 2012, the Company closed the offering of $325 million in 8.375% senior secured notes due May 1, 2019 ("PMH 2019 Notes"). Interest is payable semi-annually in arrears on May 1 and November 1, commencing on November 1, 2012. The offering was executed in accordance with Rule 144A and Regulation S under the Securities Act of 1933. The terms of the PMH 2019 Notes are governed by an indenture among the Company, certain of its subsidiaries and affiliates (as "Guarantors"), and U.S. Bank National Association (as trustee) (the "Indenture"). The Indenture contains certain covenants that, among other things, limit the Company's ability, and the ability of its restricted subsidiaries (as such term is defined in the Indenture) to: retire and pay dividends or distributions on capital stock or equity interests, prepay subordinated indebtedness or make

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other restricted payments; incur additional debt; make investments; create liens on assets; enter into transactions with affiliates; engage in other businesses; sell or issue capital stock of restricted subsidiaries; merge or consolidate with another company; transfer and sell assets; create dividend and other payment restrictions affecting subsidiaries; and designate unrestricted subsidiaries. The Credit Agreement (defined below), executed in connection with the PMH Senior Secured Credit Facility (discussed below), contains a number of customary covenants as well as covenants requiring the Company to maintain a maximum consolidated secured leverage ratio and limiting the amount of capital expenditures.

Concurrent with the issuance of the PMH 2019 Notes, the Company entered into a five year $50 million revolving senior secured credit facility (the "PMH Senior Secured Credit Facility") which replaced the existing senior secured credit facility. The PMH Senior Secured Credit Facility provides, among other things, for borrowings up to the amount of the facility with sublimits of up to (i) $20 million to be available for the issuance of letters of credit and (ii) $10 million to be available for swingline loans. The commitment under the facility may be increased by up to $10 million upon the Company's request at the discretion of the lenders and subject to certain customary requirements. The interest rate per annum applicable to loans under the PMH Senior Secured Credit Facility will be, at the Company's option, either a rate per annum equal to (i) LIBOR plus 3.50% or (ii) an alternate base rate, which will be the higher of the administrative agent's prime rate, the federal funds rate plus 0.50%, and the 1-month LIBOR rate plus 1.00%, plus in each case, 2.50%. In August 2013, the PMH Senior Secured Credit Facility limit was increased to $60 million, all of which remains undrawn as of September 30, 2013.

The PMH 2019 Notes and the PMH Senior Secured Credit Facility are jointly and severally guaranteed on a senior secured basis by all of the Company's subsidiaries (as such term is defined in the Indenture) other than AMVI/Prospect Medical Group, Nuestra and certain immaterial subsidiaries. The PMH 2019 Notes are secured pari passu with the PMH Senior Secured Credit Facility by first-priority Liens and security interests on substantially all of the tangible and intangible assets of the Guarantors, including, but not limited to, the accounts receivable, inventories, other personal property, real property, fixtures and equipment, in each case now owned or hereafter acquired by the Company and the Subsidiary Guarantors, with certain exceptions. The PMH 2019 Notes are effectively senior to all of the Guarantors' existing and future Indebtedness.

The terms of the PMH Senior Secured Credit Facility are governed by the Credit Agreement, dated as of May 3, 2012, among the Company, Morgan Stanley Senior Funding, Inc. (as administrative agent), Royal Bank of Canada and Credit Suisse AG, Cayman Islands Branch (as co-syndication agents) and the lenders party thereto (the "Credit Agreement").

The Company, at its option, may redeem all or part of the notes at a redemption price equal to 106.281%, 104.188%, 102.094% and 100.0% on or after May 1, 2015, 2016, 2017 and 2018, respectively. Prior to May 1, 2015, the Company, at its option, may (i) redeem up to 35% of the original principal amount of the notes with the proceeds of certain equity offerings at a redemption price of 108.375% (ii) redeem up to 10% of the original principal amount of the PMH 2019 Notes during each 12-month period, commencing on May 1 in each of 2012, 2013 and 2014, at a redemption price of 103.0% of the principal amount thereof (this redemption option was terminated in connection with the Company's November 2012 offering of additional PMH 2019 Notes) or (iii) redeem the PMH 2019 Notes, in whole, but not in part, at a redemption price of 100.0% of the aggregate principal plus a make-whole premium. There are no required principal payments on the PMH 2019 Notes until maturity.

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On November 16, 2012, the Company closed the offering of $100 million in aggregate principal amount of 8.375% senior secured notes due 2019 (the "Additional 2019 Notes") at a price equal to 102% of the principal amount of the Additional 2019 Notes. The Additional 2019 Notes were issued in a private placement to qualified institutional buyers and form a part of the same series as the PMH 2019 Notes issued on May 3, 2012.

The Additional 2019 Notes were issued under the Indenture, dated May 3, 2012 and described above, as supplemented by two supplemental indentures entered into in connection with the issuance of the Additional 2019 Notes (the "Supplemental Indentures"). The Additional 2019 Notes are treated as a single series with the previously issued PMH 2019 Notes for all purposes under the Indenture, including, without limitation, restrictive covenants, waivers, amendments, redemptions and offers to purchase. Prior to closing the issuance of the Additional 2019 Notes, the Company was required to obtain the consent of the majority in interest of its PMH 2019 Notes issued on May 3, 2012 to certain amendments to the Indenture contained in the first Supplemental Indenture. The Company obtained such consent from the holders of approximately $324 million in aggregate principal amount of outstanding PMH 2019 Notes and paid an aggregate consent fee of approximately $8.9 million. The Company determined that the transaction represents a debt modification under the applicable accounting guidance and recorded the consent fee as a debt discount during the year ended September 30, 2013, which is being amortized over the term of the Additional 2019 Notes using the effective interest method. As of September 30, 2013, the aggregate outstanding principal balance of the PMH 2019 Notes was $425,000,000, net of unamortized original issue discount of $7,641,000 and unamortized original issue premium of $1,729,000.

The proceeds from the offering, together with approximately $10.9 million of the Company's available cash, were utilized to pay a dividend to the stockholders of the Company's indirect parent, Ivy Holdings Inc., in an aggregate amount equal to $100 million, to pay the aforementioned $8.9 million consent fee and to pay approximately $2.5 million for other fees and expenses related to the offering.

In connection with the issuance of the Additional 2019 Notes, the Company entered into an amendment of its Credit Agreement governing the PMH Senior Secured Credit Facility that waived and amended certain provisions of the Credit Agreement, including certain restrictive covenants.

As of September 30, 2013, the Company was in compliance with the financial covenants of the Indenture and Credit Agreement.

Retired Senior Secured Notes

On July 29, 2009, the Company closed the offering of $160 million in 12.75% senior secured notes due 2014 at an issue price of 92.335% with interest payable semi-annually in arrears on January 15 and July 15 ("PMH 2014 Notes"). Concurrent with the issuance of the PMH 2014 Notes, the Company entered into a three year $15 million revolving credit facility ("2009 Credit Facility") which was undrawn at closing, with any future borrowings bearing interest at London Interbank Offered Rate ("LIBOR") plus 7.00%, with a LIBOR floor of 2.00%.

In connection with the Company's acquisition of Nix Health, effective February 1, 2012, the Company entered into an amended credit agreement with Royal Bank of Canada (as administrative agent) and in accordance with which the available loan commitments were increased to $25 million, certain covenants were relaxed and the interest rate was changed to the higher of (1) RBC

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prime rate, (2) the Federal funds rate plus 0.5% and (3) the 30-day LIBOR indexed rate. Also on February 1, 2012, the Company borrowed $15 million of the available loan commitment, of which on March 26, 2012 approximately $10 million was repaid. Pursuant to the further Amendment of the 2009 Credit Facility dated March 7, 2012, an additional incremental loan commitment of $15 million was obtained, bringing the total loan commitment to $40 million.

Pursuant to its definitive Prospectus filed with the SEC via Form S-4 on October 26, 2009, the Company offered to exchange (the "Exchange Offer") up to $160 million of its 12.75% Senior Secured Notes, Series B, due 2014 (the "Exchange Notes" and together with the Original Notes, the "PMH 2014 Notes") for an equal amount of the PMH 2014 Notes issued on July 29, 2009 (the "Original Notes"). The Exchange Offer was finalized on December 3, 2009, at which time $159 million of the $160 million aggregate principal amount of private notes had been tendered and accepted for exchange. Pursuant to a post-effective amendment to the Form S-4 filed with the SEC on December 3, 2010, the Company removed from registration the Exchange Notes that were not issued because the corresponding Original Notes were not tendered for exchange.

On April 18, 2012, the Company commenced a cash tender offer, subject to the consummation of the PMH 2019 Notes offering and certain other conditions, to repurchase any and all of the Company's PMH 2014 Notes and a related consent solicitation to proposed amendments to the PMH 2014 Notes indenture and collateral documents to, among other things, permit the grant of liens on the Guarantors assets to secure the notes and subsidiary guarantees. The total consideration for the PMH 2014 Notes under the Tender Offer was equal to $1,087.95 per $1,000 principal amount of the PMH 2014 Notes, which included a consent payment of $30.00 per $1,000 principal amount of PMH 2014 Notes for those holders who tendered and consented to the proposed amendments by the early consent date, plus accrued and unpaid interest to the purchase date. Holders that tendered after the early consent date, but on or before the expiration date, received consideration equal to $1,057.95 per $1,000 principal amount of the PMH 2014 Notes, plus accrued and unpaid interest to the purchase date.

Upon the completed issuance of the PMH 2019 Notes, the proceeds of the issuance were used to repay $151.8 million owing on the PMH 2014 Notes (plus accrued interest), $5 million outstanding on the 2009 Credit Facility, and the call premium of $13.3 million, which is recorded within Prepayment penalty on debt refinance within the consolidated statements of operations. In addition, the Company wrote off the unamortized debt discount of approximately $6.4 million and unamortized debt financing costs of approximately $3.9 million related to the PMH 2014 Notes and 2009 Credit Facility.

Demand Notes

During the year ended September 30, 2012, the Company obtained a commitment from a bank for a $9.3 million equipment leasing facility to finance various equipment at the Company's hospital facilities. As of September 30, 2013, amounts totaling $8.4 million have been drawn under the facility and are classified as capital lease arrangements. On September 30, 2012, a total of $4.9 million was drawn under the facility. Approximately $4.1 million was converted to equipment leases and was classified as capital lease arrangements (see Note 1). Pending its conversion to equipment leases, the remaining $804,000 was classified as current debt as of September 30, 2012, pursuant to certain demand notes. Interest accrued on these notes at the bank prime rate plus 1.5% with a floor of 4.5% and was payable monthly. Effective December 15, 2012, pursuant to certain equipment financing agreements, the amount was converted to equipment leases.

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Nix Health's Debt:

Mortgage Debt

In connection with the Nix Health acquisition, Nix SPE, LLC ("Nix SPE") executed a Loan Assumption Agreement, effective as of February 29, 2012, pursuant to which Nix SPE assumed the obligations of the sellers of Nix Health under a mortgage loan facility provided by The Ohio National Life Insurance Company on December 27, 1999. Nix SPE assumed the obligation to pay the outstanding principal amount of the mortgage loan and interest accruing thereafter. The outstanding balance of the mortgage loan as of September 30, 2013 and 2012 was $1,919,000 and $2,028,000, respectively.

Prospect Hospital Holdings, LLC, the parent company of Nix SPE, has provided a guaranty of the obligations of Nix SPE under the loan. The obligations under the loan facility are secured by a deed of trust on a neighborhood medical center known as Nix Alamo Heights. The loan is subject to a 7.0% interest rate and requires monthly installment payments of $20,674, with a balloon payment on the maturity date of November 1, 2019. Prepayment is subject to a fee and the loan contains customary covenants.

Note Payable

Nix Health entered into a note payable due in March of 2014. Interest accrues on this note at 8.96% and is payable monthly. The outstanding balance of this note as of September 30, 2013 and 2012 was $39,000 and $140,000, respectively.

Scheduled payments under the Company's current and long-term debt as of September 30, 2013 are as follows (in thousands):

Years ending September 30,	
2014	$ 178
2015	126
2016	135
2017	145
2018	155
Thereafter	420,328
	$ 421,067

9. Stockholder's (Deficit) Equity

Equity Based Compensation Plans

Effective December 15, 2010, the Board of Directors of Ivy Holdings adopted the Ivy Plan that authorized the issuance of options exercisable for up to 155,110 shares of the common stock of Ivy Holdings to employees, certain consultants and independent members of the boards of directors, of Ivy Holdings and its subsidiaries (including the Company and its subsidiaries). During the years ended September 30, 2013 and 2012, Ivy Holdings granted 18,462 and 18,987 options to certain members of the Company's management and employees. These options are exercisable into Ivy Holdings stock and vest based on a number of criteria, including time, Company and Business Unit performance and CEO and Compensation Committee discretion. Since the Ivy Holdings stock

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options were granted to Company employees for their services related to the Company, the related compensation cost has been recorded in the Company's consolidated financial statements.

Under the terms of the Ivy Plan, the exercise price of an incentive stock option ("ISO") may not be less than 100% of the fair market value of the Company's common stock on the date of grant and, if granted to a shareholder owning more than 10% of the Company's common stock, then not less than 110%. Stock options granted under the Ivy Plan have a maximum term of 5 - 10 years from the grant date, and are exercisable at such time and upon such terms and conditions as determined by the Compensation Committee. Stock options granted to employees generally vest over four years, subject to continued service, performance, and other criteria. In the case of an ISO, the amount of the aggregate fair market value of common stock with respect to which the ISO grant is exercisable, for the first time by an employee during any calendar year, may not exceed $100,000.

Stock Options Activity

The following table summarizes information about Ivy Holdings, Inc stock options outstanding as of September 30, 2013 and 2012 and activity during the years then ended:

	Shares Subject to Options	Weighted Average Exercise Price	Weighted Average Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term (Months)
Outstanding as of September 30, 2011	122,094	$ 100.00	$ —	112.8
Granted	18,987	100.00	—	—
Exercised	(853)	100.00	—	—
Forfeited	(27,935)	100.00	—	—
Expired	—	—	—	—
Outstanding as of September 30, 2012	112,293	100.00	20.00	104.2
Granted(1)	127,590	43.02		
Exercised	(3,513)	30.00		
Canceled/ Forfeited(1)	(117893)	97.27		
Expired	—			
Outstanding as of September 30, 2013	118,477	$ 44.02	$ 76.56	95.8

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the estimated fair value of the Company's common stock for those awards that have an exercise price currently below the estimated fair value. As of September 30, 2013, the aggregate intrinsic value of outstanding shares was approximately $9,071,000.

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A summary of Ivy Holdings, Inc non-vested options and the changes during the fiscal years ended September 30, 2013 and 2012 is presented as follows:

	Shares	Weighted Average Grant Date Fair Value
Ivy Holdings, Inc. Stock Options:		
Granted	127,349	$ 50.73
Vested	(27,917)	50.73
Forfeited	(5,255)	50.73
Nonvested at September 30, 2011	94,177	50.73
Granted	18,987	50.73
Vested	(26,518)	50.73
Forfeited	(24,222)	50.73
Nonvested at September 30, 2012	62,424	50.73
Granted(1)	127,590	67.51
Vested	(29,903)	92.58
Canceled/ Forfeited(1)	(117,073)	62.83
Nonvested at September 30, 2013	43,038	$ 66.28

(1) The number of options granted and canceled/forfeited includes options granted and canceled in connection with the Repricing (see below).

On April 5, 2013, the Board of Directors of Ivy Holdings approved the repricing of the exercise price of all outstanding stock options as of that date. Pursuant to such resolution, as of the effective date, all of the previously granted options were exchanged for new options with a lower exercise price granted on a one-for-one basis. As a result of this repricing, the Company repriced 49,380 vested options and 59,748 unvested options from an original exercise price of $100.00 per share to a new exercise price of $30.00 per share. Other than the exercise price, all other terms of the repriced options, such as vesting and contractual life, remained the same. The Company has accounted for the repricing as a modification and recorded any net incremental fair value related to vested awards as compensation expense on the date of modification. In addition, the Company is recording the incremental fair value related to the unvested awards, together with unamortized stock-based compensation expense associated with the unvested awards, over the remaining requisite service period of the option holders. In connection with the repriced options, the Company recorded stock compensation expense of $1,454,000 on the date of the modification. Incremental compensation cost resulting from the modification was $548,000 during the six-month period ended September 30, 2013.

The actual fair value of the options granted ranges from $50.73 to $68.31 per option. In connection with the repricing, the stock compensation expense related to the stock options granted prior to April 5, 2013 is calculated based on a fair value of $97.75.

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Stock-Based Compensation Expense

Stock-based compensation expense for all share-based payments in exchange for employee services (including stock options and restricted stock) is measured at fair value on the date of grant, estimated using an option pricing model and is recognized in the consolidated financial statements, net of estimated forfeitures over the awards requisite service period.

The Company uses the Black-Scholes option pricing model and a single option award approach to estimate the fair value of options granted. Estimated forfeitures will be revised in future periods if actual forfeitures differ from the estimates and will impact compensation cost in the period in which the change in estimate occurs. The determination of fair value using the Black-Scholes option-pricing model is affected by the Company's estimated stock price as well as assumptions regarding a number of complex and subjective variables, including expected stock price volatility, risk-free interest rate, expected dividends and projected employee stock option exercise behaviors.

Fair value for options granted during the years ended September 30, 2013 and 2012 was estimated with the following assumptions for Ivy Holdings Inc.

For the years ended September 30,	**2013**	2012
Weighted average fair value of option grants	**$67.51**	$50.73
Estimated fair market value of the Company's common stock on the date of grant	**$120.00**	$100.00
Weighted average expected life of the options	**7** years	5.78 years
Risk-free interest rate	**1.12%**	0.66% - 2.85%
Weighted average expected volatility	**52.94%**	49.42%
Dividend yield	**0.00%**	0.00%

Expected Term - The expected term of options granted represents the period of time that they are estimated to be outstanding.

Risk-Free Interest Rate - The Company bases the risk-free interest rate on the implied yield in effect at the time of option grant on U.S. Treasury zero-coupon issues with equivalent remaining terms.

Expected Volatility—The Company estimates the volatility of the common stock at the date of grant based on the average of the historical volatilities of a group of peer companies. The Company has identified a group of comparable companies to calculate historical volatility from publicly available data for sequential periods approximately equal to the expected terms of the option grants. In selecting comparable companies, Management considered several factors including industry, stage of development, size and market capitalization.

Forfeitures—Share-based compensation is recognized only for those awards that are ultimately expected to vest. Compensation expense is recorded net of estimated forfeitures. Those estimates are revised in subsequent periods if actual forfeitures differ from those estimates. The Company used data since May 2005 to estimate pre-vesting option forfeitures.

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Stock-based compensation expense for the Ivy Holdings Inc. stock options recognized during the years ended September 30, 2013 and 2012 was approximately $3,595,000 and $1,294,000, respectively. At September 30, 2013, there were 43,038 unvested options which could potentially vest over the next three fiscal years, subject to meeting various vesting requirements which include time, discretion, and various performance targets as defined. The remaining maximum estimated stock compensation expense to be amortized to expense in future periods is approximately $3,412,000. The stock-based compensation expense is based on a number of criteria, including time, achievement of Company and Business Unit EBITDA targets and CEO and Compensation Committee discretion. Options which are expected to vest based on CEO and Compensation Committee discretion, are treated as variable stock options and are subject to revaluation at each reporting period. Management determined the fair value of the discretionary vested options using a Black Scholes calculation but determined that the change in compensation expense was not material to the consolidated financial statements for the year ended September 30, 2013.

Dividends

The Company distributed $100 million in connection with the issuance of the Additional 2019 Notes, during the year ended September 30, 2013, which was recorded against retained earnings, and was ultimately paid to the common stockholders of Ivy Holdings, Inc.

The Company distributed $88.1 million in connection with the issuance of the 2019 Notes, during the year ended September 30, 2013. This was used to redeem the preferred stock at Ivy Holdings, Inc., and is accounted for as a return of capital. Accordingly, this distribution was recorded as a reduction of additional paid in capital.

10. Commitments and Contingencies

Leases

The Company leases various office facilities and equipment from third parties under non-cancelable operating and capital lease arrangements expiring at various dates through 2026. Certain operating leases contain rent escalation clauses and renewal options, which have been factored into determining rent expense on a straight-line basis over the lease terms. Capital leases bear interest at rates ranging from 2% to 11% per annum.

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The future minimum annual lease payments (net of anticipated sublease income) required under leases in effect at September 30, 2013, are as follows (in thousands):

For the Years ending September 30,	Capital Leases	Operating Leases
2014	$ 6,081	$ 2,751
2015	4,669	2,685
2016	2,123	2,655
2017	1,552	2,268
2018	1,564	2,138
Thereafter	8,366	3,629
Total minimum lease payments	24,355	$ 16,126
Less: amounts representing interest	(7,110)	
	17,245	
Less: current portion	(5,429)	
	$ 11,816	

Rent expense for the years ended September 30, 2013 and 2012 was approximately $7,365,000 and $6,720,000, respectively. Sublease rental income of approximately $209,000 and $233,000, for the years ended September 30, 2013 and 2012, respectively, was recorded as a reduction to rental expense.

Litigation

The Company is subject to a variety of claims and suits that arise from time to time in the ordinary course of its business, acquisitions, or other transactions. While the Company's management currently believes that resolving all of these matters, individually or in the aggregate, will not have a material adverse impact on the Company's consolidated financial position or results of operations, the litigation and other claims that the Company faces are subject to inherent uncertainties and management's view of these matters may change in the future. Should an unfavorable final outcome occur, there exists the possibility of a material adverse impact on the Company's consolidated financial position, results of operations and cash flows for the period in which the effect becomes probable and reasonably estimable.

Following the announcement of the Merger with controlled entities of LGP, two putative class action complaints were filed against the Company, each of the Company's special committee members, Ivy Holdings, LGP, and certain other parties. These complaints, which were consolidated into a single action, allege generally that defendants breached their fiduciary duties, or aided and abetted others' breaches of their fiduciary duties, in connection with the transaction with the Company by, among other things, authorizing the transaction for what plaintiffs claim to be inadequate consideration and pursuant to what plaintiffs claim to be an inadequate process and with inadequate disclosures. An amended complaint was filed in July 2011 alleging the same general facts.

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On December 30, 2010, another lawsuit was filed in Delaware Chancery Court by Terrier Partners and five related entities against the same defendants identified above. The complaint alleges generally that the consideration offered to shareholders in connection with the transaction with us was inadequate in light of the revenue received under AB 1383 (see California Hospital Fee Program below), and that defendants breached their fiduciary duties, or aided and abetted others' breaches of their fiduciary duties by not obtaining a higher price in light of this additional revenue.

In May 2012, the Court of Chancery granted motions to consolidate the Terrier Partners case and the class action cases, and for class certification, certifying the class as a non-opt out class. The Court also entered a schedule permitting the plaintiffs to file a new amended complaint, and on June 11, 2012, plaintiffs filed their Verified Consolidated Third Amended Class Action Complaint. On July 26, 2012, the director defendants answered the Third Amended Complaint. That same day, Prospect moved to dismiss itself as a party to the Third Amended Complaint. The Court granted the motion to dismiss the Company as a defendant, leaving only the individuals as defendants in the case.

The Court of Chancery subsequently entered into a stipulated Scheduling Order, under which trial is scheduled to commence in May 2014.

Many of the Company's payer and provider contracts are complex in nature and may be subject to differing interpretations regarding amounts due for the provision of medical services. Such differing interpretations may not come to light until a substantial period of time has passed following contract implementation. Liabilities for claims disputes are recorded when the loss is probable and can be estimated. Any adjustments to reserves are reflected in current operations.

Seismic Standards

Our SCHS Hospitals and Alta Los Angeles Hospitals are required to comply with the Hospital Seismic Safety Act ("SB 1953"), which regulates the seismic performance of all aspects of hospital facilities in California. SB 1953 imposes near-term and long-term compliance deadlines for seismic safety assessment, submission of corrective plans, and the retrofitting or replacement of medical facilities to comply with current seismic standards. In addition to SB 1953, California's Alfred E. Alquist Hospital Facilities Seismic Safety Act (the "Alquist Act") requires that the California Building Standards Commission adopt earthquake performance categories, seismic evaluation procedures, standards and timeframes for upgrading certain facilities, and seismic retrofit building standards. These regulations require hospitals to meet seismic performance standards to ensure that they are capable of providing medical services to the public after an earthquake or other disaster. The Building Standards Commission completed its adoption of evaluation criteria and retrofit standards in 1998.

The Alquist Act requires that within three years after the Building Standards Commission had adopted evaluation criteria and retrofit standards:

- Hospitals in California must conduct seismic evaluation and submit these evaluations to the Office of Statewide Health Planning and Development ("OSHPD"), Facilities Development Division for its review and approval;

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- Hospitals in California must identify the most critical nonstructural systems that represent the greatest risk of failure during an earthquake and submit timetables for upgrading these systems to the OSHPD, Facilities Development Division for its review and approval; and
- Hospitals in California must prepare a plan and compliance schedule for each regulated building demonstrating the steps a hospital will take to bring the hospital buildings into substantial compliance with the regulations and standards.

The Company was required to conduct engineering studies at its hospitals to determine whether and to what extent modifications to the hospital facilities will be required. Management believes that SCH Culver City meets all current requirements; however, it may be required to make significant capital expenditures in the future to comply with the seismic standards, which could impact its earnings. The cost at September 30, 2013, is unknown at this time but could be material. In addition, such modifications to the hospital facilities could potentially result in environmental remediation liabilities which may be material to the Company.

The OSHPD is currently implementing a new voluntary program to re-evaluate the seismic risk of hospital buildings classified as Structural Performance Category ("SPC") 1. These buildings are considered hazardous and at risk of collapse in the event of an earthquake and must be retrofitted, replaced or removed from providing acute care services by 2013. OSHPD is using HAZARDS U.S. ("HAZUS"), a state-of-the-art methodology, to reassess the seismic risk of SPC-1 buildings and those that are determined to pose a low seismic risk may be reclassified to SPC-2. The SPC-2 buildings would have until 2030 to comply with the structural seismic safety standards. Participation in the HAZUS program is optional for hospital owners wishing to have their SPC-1 building(s) re-evaluated. Applications for a HAZUS re-evaluation of the seismic risk have been submitted for SCH Hollywood, SCH Culver City and Los Angeles Community Hospital, but there is no assurance they will result in extensions. SCH Culver City has received SB 306 approval that extends to 2020 the seismic replacement or retrofit of its buildings provided SCH Culver City meets certain interim requirements by interim deadlines. However, an interim requirement for such extension, to file plans by January 1, 2013, was not be met by SCH Culver City, which could jeopardize this basis for extension, in which case SCH Culver City would have to rely on the alternative basis for extension under the HAZUS re-evaluation program, or SB90 (addressed below), if obtained. The SB 306 approval subordinates to HAZUS which, if received would give the Company an extension to 2030.

In addition, in 2011, the California Legislature enacted Senate Bill 90, which permitted some hospitals to apply for up to an additional seven year extension to the seismic retrofit deadlines, not to extend beyond January 1, 2020. SB 90 also permits OSHPD to extend until January 1, 2018 the date by which the hospitals must obtain a building permit and commence the required retrofit project. SCH Culver City and Los Angeles Community Hospitals have applied to OSHPD seeking the SB 90 extension. OSHPD has discretion to approve or disapprove such extension, and to determine the length of the extension (up to the maximum seven years), based on eligibility factors including seismic risks associated with the affected buildings (which can be impacted by the updated HAZUS findings), community access to essential hospital services in the area and financial hardships facing the applicant.

These requirements can result in significant operational changes and capital outlays. Management is continuing to assess its options and the methods of financing the required retrofits. Based on management's evaluation, the renovation needs to comply with the California seismic safety standards for its acute-care facilities, including asbestos abatement, are not estimable at this time.

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Legislation and HIPAA

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

The Company believes that it is in compliance with fraud and abuse regulations as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

The Health Insurance Portability and Accountability Act ("HIPAA") assures health insurance portability, reduces healthcare fraud and abuse, guarantees security and privacy of health information, and enforces standards for health information. The Health Information Technology for Economic and Clinical Health Act ("HITECH Act") imposes notification requirements of certain security breaches relating to protected health information. The Company may be subject to significant fines and penalties if found not to be compliant with the provisions outlined in the regulations.

California Hospital Fee Program

The State of California enacted Assembly Bill 1383 ("AB 1383") effective January 1, 2010, as amended by Assembly Bill 1653 (collectively, the "Program"), to provide supplemental payments to certain hospitals such as the hospitals owned and operated by the Company's subsidiaries. The Program requires participating hospitals to pay fee assessments into a pool of funds to which the federal government contributes matching funds. Most of these funds, including the federal matching funds, are then distributed to qualifying hospitals. In addition, on April 13, 2011 SB 90 was signed into law and provided for a six-month extension of the Hospital Fee Program for dates of service from January 1, 2011 through June 30, 2011. CMS granted final approval of SB 90 on December 29, 2011, at which point the revenue and expense was recognized for the retroactive period. In September 2011, the State of California enacted Senate Bill 335 ("SB 335") which provides a 30-month hospital fee program for dates of service from July 1, 2011 through December 31, 2013. The elements of SB 335 related to the fee for service payments were approved by CMS on June 22, 2012. The payments due under the managed care component are scheduled to be made in three cycles. The first two cycles have been approved by CMS. Certain technical changes to the legislation required by CMS are included in Senate Bill 920.

Governor Brown signed Senate Bill 239 ("SB 239") in October 2013, which enacted a hospital fee program for the period January 1, 2014 through December 31, 2016. This program has not yet been approved by the federal government. SB 239 provides that the hospital fee program will end as of December 31, 2016, although the bill as enacted includes provisions that could lead to a hospital fee program that would be in effect indefinitely after December 31, 2016 if the provision including the termination or "sunset" date is repealed. An initiative measure has filed with the

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California Attorney General to be placed on the November 2014 ballot (assuming an adequate number of signatures are obtained) that would repeal the SB 239 sunset date.

For the years ended September 30, 2012 and 2011, SCH Culver City received invoices for fee assessments under AB 1383 and SB 90 of approximately $6,310,000 and $19,000,000, respectively, following payment of which, SCH Culver City was scheduled to receive approximately $5,236,000 and $15,000,000, respectively. Management of SCH Culver City estimated that SCH Culver City would be a "net" payer under the Program, since the fee assessments on SCH Culver City exceeded the supplemental payments by approximately $1,074,000 and $4,000,000, respectively. Accordingly, on October 6, 2010, the Company notified the California Department of Healthcare Services ("DHCS") that SCH Culver City was opting out of the Program.

SCH Culver City did not pay the required fee assessments under the Program. Beginning February 14, 2011, the DHCS began withholding against amounts otherwise due SCH Culver City, in the amount of $65,000 per week indicating that withholdings would continue for 108 weeks and would total approximately $7,000,000. Through September 30, 2012, a total of approximately $2,986,000 had been withheld against SCH Culver City's Medi-Cal fee-for-service payments. As of September 30, 2012, SCH Culver City recorded a liability of approximately $5,494,000, representing the accrued loss above, as well as deferred recognition of payments received from managed care plans. On November 15, 2012 the Company entered into a settlement agreement with DHCS with regards to SCH Culver City's liability under AB 1383, SB 90 and SB 335, as discussed above. Under the terms of the agreement, the DHCS agreed to forgive approximately $2,000,000 of the fees due under AB 1383, which was recorded by the Company during the year ended September 30, 2013. The remaining liability due to DHCS of $4,605,000 will be repaid by the Company monthly over a 10-year period without interest or penalties. The Company recorded a net liability of $3,233,000 as of the settlement date, which represents the net present value of the liability due to DHCS discounted at an effective interest rate of 7.5%. As of September 30, 2013, the unamortized balance of the liability amounted to $3,046,000. The DHCS will no longer withhold against any other amounts due to SCH Culver City unless the Company is delinquent on payments owed under the agreement.

As of September 30, 2013 and 2012, the Company had approximately $18,895,000 and $33,473,000 of amounts reflected in "hospital fee program receivable", respectively. As of September 30, 2013 and 2012, the Company had approximately $8,609,000 and $19,777,000, of amounts reflected in "hospital fee program liability", respectively, on the accompanying consolidated balance sheets.

Total California Hospital Fee program revenues and expenses recognized during the years ended September 30, 2013 and 2012 were as follows (in thousands):

Year Ended September 30,	**2013**	2012
Hospital services revenues	$ **63,371**	$ 95,871
Hospital operating expenses	**37,925**	63,774
Net pre-tax impact	$ **25,446**	$ 32,097

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Collective Bargaining Agreements

A small group of employees at SCH Hollywood, which is one of the hospitals under the consolidated group of Alta Hospitals System, LLC, and Service Employees International Union, United Healthcare Workers-West ("SEIU") are currently parties to collective bargaining agreement with a termination date of May 3, 2015. In addition, approximately 77% of the employees of SCH Culver City are part of a collective bargaining agreement with the SEIU or the California Nurses Association ("CNA"). SCH Culver City and CNA are currently parties to a collective bargaining agreement that expires on December 21, 2015. The collective bargaining agreement between SEIU and SCH Culver City expired on September 30, 2013. The parties are currently in good faith bargaining negotiations.

Tangible Net Equity ("TNE") requirement

The Company's affiliated physician organizations must comply with a minimum working capital requirement, Tangible Net Equity ("TNE") requirement, cash-to-claims ratio and claims payment requirements prescribed by the California Department of Managed Health Care. TNE is defined as net assets, less intangibles and amounts due from affiliates, plus subordinated obligations. At September 30, 2013, the Company and the affiliated physician organizations were in compliance with these regulatory requirements.

Employee Health Plans

During the fiscal year ended September 30, 2012 the Company (except for SCH Culver City and Nix Health) was fully insured for its HMO and PPO plans to employees. For the fully insured groups, health benefits were administered by a commercial insurance carrier, based on plan coverage and eligibility guidelines determined by the Company. The insurance policies had guaranteed cost and the Medical Group and Corporate segment incurred no claim liability if terminated. SCH Culver City and Nix were self-insured for their EPO/HMO and PPO plans and an actuarially estimated liability of approximately $838,000 ($552,000 for Brotman only) for incurred but not reported claims was included in accrued salaries, wages, and benefits as of September 30, 2012.

Effective January 1, 2013 the Company offers self-insured EPO/HMO and PPO plans to all eligible employees. Employee health benefits are administered by a third party claims administrator, based on plan coverage and eligibility guidelines determined by the Company, as well as by collective bargaining agreements (as reflected above). A commercial insurance policy covers losses in excess of $250,000 per occurrence (for the Medical Group and Corporate segments, this figure is $100,000). An actuarially estimated liability of approximately $1,788,000 for incurred but not reported claims has been included in accrued salaries, wages, and benefits as of September 30, 2013.

Provider Contracts

Many of the Company's payer and provider contracts are complex in nature and may be subject to differing interpretations regarding amounts due for the provision of medical services. Such differing interpretations may not come to light until a substantial period of time has passed following contract implementation. Liabilities for claims disputes are recorded when the loss is probable and can be estimated. Any adjustments to reserves are reflected in current operations.

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Acquisition of CharterCARE, Inc.

On September 24, 2013, the Company entered into an Asset Purchase Agreement pursuant to which, the Company's newly formed subsidiary, Prospect CharterCare, LLC (the "New Company") agreed to acquire substantially all of the assets of CharterCARE Health Partners ("CharterCARE") and its subsidiaries in exchange for a 15% interest in the New Company, $45 million in cash and the commitment to invest at least $50 million in the New Company for capital improvements over four years. CharterCare through its subsidiaries owns and operates Roger Williams Medical Center, St. Joseph Health Services of Rhode Island, and Elmhurst Extended Care, which operate hospitals, medical centers and assisted living facilities located in Rhode Island with approximately 579 licensed beds. The closing of this acquisition is subject to certain regulatory approvals and is expected to be consummated in the second or third quarter of 2014. Following the closing, the assets of the New Company will be pledged as collateral for the Company's obligations under the PMH 2019 Notes and the PMH Senior Secured Credit Facility. Results of operations for CharterCARE will be included in the Company consolidated financial statements from the date of acquisition.

11. Defined Contribution Plans

The Company sponsors defined contribution plans covering substantially all employees who meet certain eligibility requirements. Under these plans, employees can contribute up to 100% of their compensation up to the IRS deferred annual maximum. There is currently no company match offered under any of the plans, except for Nix, for which the expense for the employer match was $463,000 for the year ended September 30, 2013, and $215,000 from February 1, 2012 (date of acquisition) to September 30, 2012. Total expenses under the plans were approximately $87,000 and $92,000 during the years ended September 30, 2013 and 2012, respectively.

12. Accrued Medical Claims and Other Healthcare Costs Payable

The following table presents the roll-forward of incurred but not reported ("IBNR"), claims reserves as of and for each of the fiscal years ended September 30, 2013 and 2012 (in thousands):

September 30,	**2013**	2012
IBNR as of beginning of year	**$ 26,985**	$ 23,301
Medical group claim expenses incurred during the year:		
Related to current year	**128,747**	109,494
Related to prior year	**(3,646)**	(2,821)
Total incurred	**125,101**	106,673
Medical group claims paid during the year:		
Related to current year	**(100,301)**	(83,608)
Related to prior year	**(21,433)**	(19,381)
Total paid	**(121,734)**	(102,989)
IBNR as of end of year	**$ 30,352**	$ 26,985

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Following is a table showing the details of the medical group cost of revenues per the consolidated statements of operations (in thousands):

Years Ended September 30,	**2013**	2012
Capitation expense	$ **76,918**	$ 74,457
Fee-for-service claims expense	**82,846**	76,340
Other physician compensation	**3,993**	5,738
Other cost of revenues	**700**	1,777
Total cost of revenues	$ **164,457**	$ 158,312

13. Joint Venture

The Company (through Prospect Medical Group, Inc.) and an unrelated third party, AMVI Care Health Network, Inc. ("AMVI") are partners in a joint venture initially formed to service Medi-Cal (Medi-Cal is the California Medicaid program) members under the CalOptima program in Orange County, California. Healthy Families and OneCare members were subsequently added to the joint venture arrangement. Effective January 1, 2013, all Healthy Family participants were transferred to the Company's Medi-Cal line of business and therefore no longer part of the joint venture. The Company does not consolidate the joint venture. The Company includes in its consolidated financial statements only the net results attributable to those enrollees specifically identified as assigned to it, together with the management fee that it charges the joint venture partner for managing those enrollees specifically assigned to AMVI. Costs incurred by the Company in managing the joint venture are included in general and administrative expenses in the accompanying consolidated financial statements. As of September 30, 2013 and 2012, the net liability balances of the Company investment in the joint venture under the equity method were approximately $2,000,000 and $758,000, respectively, and were included in accounts payable and other accrued liabilities in the accompanying consolidated financial statements.

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Summarized unaudited financial information for the unconsolidated joint venture as of and for each of the years ended September 30, 2013 and 2012 is as follows (in thousands):

September 30,	2013	2012
Cash	$ 742	$ 663
Receivables	2,037	1,791
Total assets	$ 2,779	$ 2,454
Accrued medical claims	$ 1,556	$ 1,100
Other payables	34	48
Other partner's capital	1,188	1,305
Prospect's capital	1	1
Total liabilities and partners' capital	$ 2,779	$ 2,454

Years Ended September 30,	2013	2012
Revenues	$ 16,307	$ 13,695
Income before income taxes	$ 2,206	$ 2,063
Prospect's equity income	$ 2,150	$ 2,606
Management fees earned by Prospect	$ 1,016	$ 826

14. Segment Information

The Company's operations are organized into three reporting segments: (i) Hospital Services — which is comprised of the Alta Hospitals, SCHS Culver City and Nix Health reporting units, owns and operates eight hospitals — SCH Hollywood, SCH Van Nuys, SCH Culver City, Los Angeles Community Hospital, Norwalk Community Hospital, Nix Medical Center, Nix Specialty Health Center and Nix CGH; (ii) Medical Group — which is comprised of the Prospect and ProMed reporting units, provides management services to affiliated physician organizations that operate as independent physician associations or medical practice groups and certain unaffiliated independent physician associations; and (iii) Corporate, which represents expenses incurred in Prospect Medical Holdings, Inc., that were not allocated to the other reporting segments.

The accounting policies of the reporting segments are the same as those described in the summary of significant accounting policies (see Note 2). The Company evaluates financial performance and allocates resources primarily based on earnings from operations before interest expense, interest income, income taxes, depreciation and amortization, as well as income or loss from operations before income taxes, excluding infrequent or unusual items.

The reporting segments are strategic business units that offer different services within the healthcare industry. Business in each reporting segment is conducted by one or more direct or indirect wholly-owned subsidiaries of the Company and certain affiliated physician organizations

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controlled through assignable option agreements and management services agreements. The Company voluntarily discloses the following table which summarizes certain information for each of the reporting segments regularly provided to and reviewed by the chief operating decision maker (in thousands):

	As of and for the Year Ended September 30, 2013				
	Hospital Services *(3)*	Medical Group *(2)*	Corporate *(1)*	Intersegment Eliminations	Consolidated
Revenues from external customers	$ 491,839	$ 221,743	$ -	$ -	$ 713,582
Intersegment revenues	-	727	-	(727)	-
Total revenues	491,839	222,470	-	(727)	713,582
Depreciation and amortization	14,062	2,715	37	-	16,814
Operating income (loss)	75,199	24,399	(17,442)	-	82,156
Other (income) expense	1,314	(49)	37,839	-	39,104
Income (loss) before income taxes	73,885	24,448	(55,281)	-	43,052
Provision for income tax	-	-	9,810	-	9,810
Net income (loss)	$ 73,885	$ 24,448	$ (65,091)	$ -	$ 33,242
Identifiable segment assets	$ 453,232	$ 117,556	$ 8,158	$ -	$ 578,946
Segment capital expenditures, net of dispositions	$ 13,583	$ 650	$ 50	$ -	$ 14,283
Segment goodwill	$ 136,525	$ 22,339	$ -	$ -	$ 158,864

	As of and for the Year Ended September 30, 2012				
	Hospital Services *(3)*	Medical Group *(2)*	Corporate *(1)*	Intersegment Eliminations	Consolidated
Revenues from external customers	$ 454,944	$ 203,806	$ -	$ -	$ 658,750
Intersegment revenues	-	553	-	(553)	-
Total revenues	454,944	204,359	-	(553)	658,750
Depreciation and amortization	9,877	2,673	26	-	12,576
Operating income (loss)	76,092	18,706	(14,156)	-	80,642
Other (income) expense	3,430	(46)	48,430	-	51,814
Income (loss) before income taxes	72,662	18,752	(62,586)	-	28,828
Provision for income tax	-	-	2,598	-	2,598
Net income (loss)	$ 72,662	$ 18,752	$ (65,184)	$ -	$ 26,230
Identifiable segment assets	$ 401,022	$ 132,268	$ 16,782	$ -	$ 550,072
Segment capital expenditures, net of dispositions	$ 6,579	$ 282	$ 77	$ -	$ 6,938
Segment goodwill	$ 134,207	$ 22,338	$ -	$ -	$ 156,545

(1) Prospect files consolidated tax returns (effective February 1, 2012, including SCH Culver City) and allocates costs for shared services and corporate overhead to each of the reporting segments. With the exception of SCH Culver City (2012 only) and Nix Health, all

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debt, including debt related to the Medical Group and Hospital Services segment, is recorded at the Parent Entity level. The Company does not allocate interest expense related to acquisition debt to the operating segments.

(2) Prospect Medical Group, Inc. (which serves as a holding company for the other affiliated physician organizations) files consolidated tax returns. The Medical Group segment includes the results for NGMA from October 1, 2012 (acquisition date) through September 30, 2013.

(3) The Hospital Services segment includes the results for Nix Health from February 1, 2012 (acquisition date) through September 30, 2013, and the results for Nix CGH from April 16, 2013 (acquisition date) through September 30, 2013. Included in revenues from external customers are $7,700,000 and $9,897,000 of other revenues related primarily to meaningful use incentive payments and rental revenue from operating leases for the years ended September 30, 2013 and 2012, respectively.

15. Subsequent Events (Unaudited)

The Company has evaluated subsequent events through December 17, 2013, the date the Company's consolidated financial statements were available for issuance.

Prospect Health Plan

On March 18, 2013, the Company incorporated Prospect Health Plan, Inc. ("PHP"), a Delaware corporation and a wholly owned indirect subsidiary of Prospect. On May 1, 2013, PHP filed a currently pending application with the California Department of Managed Health Care to operate as a Knox-Keene Health Care Service Plan for the purpose of managing "plan-to-plan" contracts with the fully licensed Medicare Advantage health plans.

Acquisition of Pacific Health Corporation hospitals

On November 21, 2013, the Company entered into an Asset Purchase Agreements to acquire substantially all of the assets of three Southern California hospitals owned by Pacific Health Corporation: Newport Specialty Hospital, Bellflower Medical Center, and L.A. Metropolitan Medical Center, for an aggregate purchase price of $55 million ($30 million, $13 million and $12 million, respectively). Newport Specialty Hospital is a 135-bed long term acute care and 42-bed pediatric subacute hospital located in Tustin, California. Bellflower Medical Center is a 144 bed acute care hospital located in Bellflower, California, offering comprehensive healthcare services with medical staff of more than 250 physicians from over 15 specialties. L.A. Metropolitan Medical Center is an acute care hospital located in Los Angeles, California. Newport Specialty Hospital is currently only operating its pediatric subacute unit and Bellflower Medical Center and L.A. Metropolitan Medical Center are closed facilities. The closing of this acquisition is subject to certain regulatory approvals and is expected to be consummated in the second or third quarter of fiscal 2014. Following the closing, the assets of the three hospitals will be pledged as collateral for the Company's obligations under the PMH 2019 Notes and the PMH Senior Secured Credit Facility. Results of operations for the three acquired hospitals will be included in the Company consolidated financial statements from the date of acquisition.

Acquisition of Chaparral Medical Group, Inc.

On December __, 2013, the Company through its NGMA subsidiary, entered into a stock purchase agreement (the "CMG Purchase Agreement") with Chaparral Medical Group, Inc. ("CMG"), a California medical corporation, and two of its largest shareholders to acquire 13,588 shares of the

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acquired company for consideration composed of $1,100,000 in cash at the closing, $700,000 in future cash consideration to be used for the acquired company's general corporate purposes, and 3,750 shares of Ivy Holdings common stock issued at closing to the selling shareholders. After payment of the entire compensation, including the future cash consideration, Prospect will own 17.29% of the stock of CMG. The closing is conditioned upon the delivery of executed copies of certain ancillary documents and it is expected to occur during December 2013.

Pursuant to the terms of the stock purchase agreement, Prospect also has the right and option to make additional stock investments at the same share valuations and prices and upon the same applicable terms and conditions as the initially acquired shares, to bring its aggregate ownership to up to 50%.

Effective November 3, 2011, the Promed Entities entered into an Exclusivity and Non - Solicitation Agreement with CMG and certain of its physicians (the "CMG Exclusivity Agreement") in exchange for the payment of $1,000,000 divided among CMG and the exclusive physicians. On December _____, 2013, concurrently with the execution of the CMG Purchase Agreement, the CMG Exclusivity Agreement was amended and its exclusivity terms were extended through December 31, 2018 in exchange for the payment of an additional $300,000 (out of the $1,100,000 closing payment described above) divided among the exclusive physicians.

Chaparral Medical Group is a well-established 60 physician multi-specialty group serving communities primarily in the Los Angeles and San Bernardino counties since 1978.

Repurchase of Nuestra shares

On October 7, 2013, Nuestra repurchased 109 shares from a physician shareholder that left Nuestra's group medical practice. In accordance with Nuestra's Agreement Concerning Shares of the Company, dated September 19, 1995, the repurchase price was $17,824. The repurchase increased the share percentage holdings of all remaining shareholders and Prospect's percentage rose to 66.95% as of October 7, 2013.

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Prospect Medical Holdings, Inc.

Consolidated Financial Statements

For the Years Ended September 30,
2012 and 2011

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee

Prospect Medical Holdings, Inc.

Consolidated Financial Statements

For the Years Ended September 30, 2012 and 2011

Prospect Medical Holdings, Inc.

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Independent Auditors' Report

Board of Directors
Prospect Medical Holdings, Inc.
Los Angeles, California

We have audited the accompanying consolidated balance sheets of Prospect Medical Holdings, Inc. (the "Company") as of September 30, 2012 and 2011 and the related consolidated statements of operations, stockholder's equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Prospect Medical Holdings, Inc. at September 30, 2012 and 2011, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

BDO USA, LLP

December 17, 2012

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Prospect Medical Holdings, Inc.

Consolidated Balance Sheets
(in thousands except par value and share amounts)

September 30,	2012	2011
Assets		
Current assets:		
Cash and cash equivalents	$ 82,427	$ 71,255
Restricted cash	263	4,073
Investments, primarily restricted money market funds	633	538
Patient accounts receivable, net of allowance for doubtful accounts of $34,470 and $30,891	61,280	46,288
Due from government payors	12,599	4,076
Other receivables	7,241	2,448
Deferred income taxes, net	11,041	9,094
Inventories	4,660	3,109
Hospital fee program receivable	33,473	-
Prepaid hospital fee program provider tax	-	8,841
Prepaid expenses and other current assets	7,892	6,861
Total current assets	221,509	156,583
Property, improvements and equipment, net	113,415	68,836
Deferred financing costs, net	9,748	4,337
Deferred income taxes, non-current	7,503	-
Goodwill	156,545	153,250
Intangible assets, net	38,080	38,291
Other assets	1,623	585
Total assets	$ 548,423	$ 421,882

See accompanying notes to the consolidated financial statements.

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Prospect Medical Holdings, Inc.

Consolidated Balance Sheets (Continued)
(in thousands except par value and share amounts)

September 30,	2012	2011
Liabilities and Stockholder's Equity		
Current liabilities:		
Accrued medical claims and other healthcare costs payable	$ 26,985	$ 23,301
Accounts payable and other accrued liabilities	45,774	38,065
Accrued salaries, wages and benefits	24,787	17,474
Hospital fee program liability and deferred revenue	19,777	19,590
Due to government payors	19,788	15,128
Income taxes payable, net	9,210	949
Current portion of capital leases	3,337	609
Current portion of long-term debt	1,515	29,206
Other current liabilities	1,094	1,276
Total current liabilities	152,267	145,598
Long-term debt, net of current portion	326,957	144,611
Deferred income taxes, net	29,137	30,602
Malpractice reserves	2,229	699
Capital leases, net of current portion	6,260	1,195
Other long-term liabilities	556	1,209
Total liabilities	517,406	323,914
Commitments, contingencies and subsequent events		
Stockholder's equity:		
Common stock, $0.01 par value; 100 shares authorized, issued and outstanding at September 30, 2012 and 2011	1	1
Additional paid-in capital	11,634	108,926
Retained earnings (accumulated deficit)	19,269	(6,939)
Total stockholder's equity attributable to Prospect Medical Holdings, Inc.	30,904	101,988
Noncontrolling interests	113	(4,020)
Total stockholder's equity	31,017	97,968
Total liabilities and stockholder's equity	$ 548,423	$ 421,882

See accompanying notes to the consolidated financial statements.

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Prospect Medical Holdings, Inc.

Consolidated Statements of Operations
(in thousands)

For the Years Ended September 30,	**2012**	2011
Revenues:		
Net Hospital Services revenues	**$ 477,402**	$ 346,962
Medical Group revenues	**203,806**	199,475
Other revenues	**9,897**	-
Total net revenues	**691,105**	546,437
Operating Expenses:		
Hospital operating expenses	**358,594**	274,751
Medical Group cost of revenues	**158,312**	153,687
General and administrative	**83,587**	78,566
Depreciation and amortization	**12,576**	7,803
Total operating expenses	**613,069**	514,807
Operating income from unconsolidated joint venture	**2,606**	2,150
Operating income	**80,642**	33,780
Other (income) expense:		
Prepayment penalties on debt refinance	**13,316**	-
Interest expense and amortization of deferred financing costs, net	**28,220**	28,291
Loss on debt extinguishment	**10,318**	-
Other (income) expense	**(40)**	-
Total other (income) expense, net	**51,814**	28,291
Income before income taxes	**28,828**	5,489
Income tax provision	**2,598**	8,156
Net income (loss)	**26,230**	(2,667)
Net income (loss) attributable to noncontrolling interests	**22**	(3,659)
Net income attributable to Prospect Medical Holdings, Inc.	**$ 26,208**	$ 992

See accompanying notes to the consolidated financial statements.

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Prospect Medical Holdings, Inc.

Consolidated Statements of Stockholder's Equity
(in thousands, except share amounts)

	Number of Common Shares	Common Stock	Additional Paid-in Capital	(Accumulated Deficit) Retained Earnings	Prospect Medical Holdings, Inc. Stockholder's Equity	Non-controlling Interests	Total Stockholder's Equity
Balance at September 30, 2010	21,399,508	$ 214	$ 97,675	$ (7,931)	$ 89,958	$ (1,888)	$ 88,070
Options exercised	383,284	4	1,010	-	1,014	-	1,014
Stock-based compensation	51,334	1	3,167	-	3,168	-	3,168
Excess tax benefits from options exercised	-	-	5,936	-	5,936	-	5,936
Warrants exercised	49,256	1	75	-	76	-	76
Change in investment in noncontrolling interest	-	-	-	-	-	1,527	1,527
Restructure due to merger transaction with Ivy Holdings	(21,883,282)	(219)	1,063	-	844	-	844
Net income (loss)	-	-	-	992	992	(3,659)	(2,667)
Balance at September 30, 2011	100	1	108,926	(6,939)	101,988	(4,020)	97,968
Options exercised	-	-	85	-	85	-	85
Stock-based compensation			1,294		1,294		1,294
Distribution to Ivy Intermediate Holding Inc. (Parent)	-	-	(88,128)	-	(88,128)	-	(88,128)
Purchase of noncontrolling interests	-	-	(10,543)	-	(10,543)	3,928	(6,615)
Noncontrolling stockholder contribution of capital	-	-	-	-	-	183	183
Net income				26,208	26,208	22	26,230
Balance at September 30, 2012	100	$ 1	$ 11,634	19,269	$ 30,904	$ 113	31,017

See accompanying notes to the consolidated financial statements.

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Prospect Medical Holdings, Inc.

Consolidated Statements of Cash Flows
(in thousands)

For the Years Ended September 30,	2012	2011
Operating activities		
Net income (loss)	$ 26,230	$ (2,667)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	12,576	7,803
Amortization of deferred financing costs, net	1,744	2,017
Amortization of original issue discount	1,315	2,691
Provision for doubtful debts	32,355	35,256
Loss on debt extinguishment	10,318	-
Deferred income taxes, net	(10,915)	3,398
Stock-based compensation	1,294	3,167
Excess tax benefits from stock-based compensation	-	(5,936)
Gain on disposal of assets	-	(1)
Changes in operating assets and liabilities, net of business combination:		
Patient accounts receivable and other receivables	(41,168)	(39,162)
Due from government payers	(2,711)	242
Prepaid expenses and other current assets	1,304	(1,872)
Hospital fee program receivable	(33,473)	-
Prepaid hospital fee program provider tax	8,841	(8,841)
Inventories	580	754
Refundable income taxes, net	-	782
Hospital fee program liability and deferred revenue	187	19,590
Income taxes payable, net	8,261	949
Deposits and other assets	(1,099)	71
Accrued medical claims and other healthcare costs payable	3,684	5,442
Accounts payable and other accrued liabilities	271	4,848
Net cash provided by operating activities	19,594	28,531
Investing activities		
Purchases of property, improvements and equipment	(6,938)	(8,527)
Cash paid for acquisition, net of cash received and working capital adjustment	(42,861)	-
Decrease in note receivable	60	57
(Increase) decrease in restricted investments	(95)	95
Purchase of non-controlling interests in Brotman	(6,615)	-
Net cash used in investing activities	(56,449)	(8,375)
Financing activities		
Borrowings of 2019 Notes	325,000	-
Repayments of 2014 Notes	(151,800)	(8,200)
Repayments of long-term debt	(21,578)	-
Repayments on Brotman Creditors Trust Note	(1,000)	(1,000)
Borrowings (repayments) on lines of credit, net	(5,956)	1,676
Repayments of capital leases	(1,583)	(552)
Cash paid for deferred financing costs, net	(11,006)	-
Change in restricted cash	3,810	(951)
Distribution to Ivy Intermediate Holding Inc. (Parent)	(88,128)	-
Proceeds from exercises of stock options and warrants	85	1,090

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Prospect Medical Holdings, Inc.

Consolidated Statements of Cash Flows
(in thousands)

For the Years Ended September 30,		**2012**		2011
Excess tax benefits from stock-based compensation		**-**		5,936
Capital contribution		**-**		844
Brotman non-controlling shareholder cash contribution		**183**		1,527
Net cash provided by financing activities		**48,027**		370
Increase in cash and cash equivalents		**11,172**		20,526
Cash and cash equivalents, beginning of year		**71,255**		50,729
Cash and cash equivalents, end of year	**$**	**82,427**	$	71,255
Supplemental disclosure of cash flow information				
Equipment acquired under capital leases	**$**	**6,337**	$	549
Interest paid	**$**	**31,450**	$	23,560
Income taxes paid, net	**$**	**5,252**	$	3,027

See accompanying notes to the consolidated financial statements.

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1. Organization

Prospect Medical Holdings, Inc. ("Prospect," the "Company" or the "Parent Entity") is a Delaware corporation and a wholly owned indirect subsidiary of Ivy Holdings Inc. The Company's operations are organized into three primary reportable segments: Hospital Services, Medical Group and Corporate, as discussed below.

Hospital Services Segment

Alta Hospitals System, LLC, a California limited liability company ("Alta"), Brotman Medical Center, Inc., a California corporation ("Brotman") and Nix Hospitals System, LLC, a Texas limited liability company, dba Nix Health Care System (collectively, the "Hospital Services segment") own and operate seven acute care and behavioral hospitals in Southern California and San Antonio, Texas, with a total of 1,056 licensed beds, and a network of 18 specialty and primary care clinics. Alta owns (i) Alta Hollywood Hospitals, Inc., a California corporation, dba Hollywood Community Hospital and dba Van Nuys Community Hospital; and (ii) Alta Los Angeles Hospitals, Inc., a California corporation, dba Los Angeles Community Hospital and dba Norwalk Community Hospital. From April 2009 to April 2012 the Company gradually increased its ownership in Brotman from 33% to 100%. Brotman owns and operates Brotman Medical Center, located in Culver City, California. On February 1, 2012 the Company acquired substantially all of the assets of MHS San Antonio, LLC (dba Nix Health Care System) located in San Antonio, Texas which is operated under the following subsidiaries: Nix Hospitals System, LLC, Nix Services, LLC, and Nix SPE, LLC (collectively "Nix Health").

The Company's three community hospitals in Hollywood, Los Angeles and Norwalk offer a comprehensive range of medical and surgical services, including general acute care hospital services, pediatrics, obstetrics and gynecology, pediatric sub-acute care, general surgery, medical-surgical services, orthopedic surgery, and diagnostic, outpatient, skilled nursing and urgent care services. The Company's psychiatric hospital in Van Nuys provides acute inpatient and outpatient psychiatric services on a voluntary basis. Brotman offers a comprehensive range of inpatient and outpatient services, including general surgery, orthopedic, spine and neurosurgery, cardiology, diagnostic outpatient, rehabilitation, psychiatric and detox services. In addition, Brotman has an active emergency room that plays an integral part in providing emergency services to the West Los Angeles area. Nix Health provides comprehensive service offerings at various locations throughout San Antonio, Texas. These locations include Nix Medical Center, which provides inpatient acute care and geriatric psychiatry services and Nix Specialty Health Center, which provides a full range of behavioral health and rehabilitation services for children, adolescents, and adults, and a range of health clinics and provider based clinics throughout San Antonio.

Admitting physicians are primarily practitioners in the local area. The hospitals have payment arrangements with Medicare, Medicaid (Medi-Cal in California) and other third party payers, including some commercial insurance carriers, health maintenance organizations ("HMOs") and preferred provider organizations ("PPOs").

Medical Group Segment

The Medical Group segment is a healthcare management services organization that provides management services to affiliated physician organizations that operate as independent physician associations ("Medical Groups"). The affiliated physician organizations enter into agreements with

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HMOs to provide HMO enrollees with a full range of medical services in exchange for fixed, prepaid monthly fees known as "capitation" payments. The Medical Groups contract with physicians (primary care and specialist) and other healthcare providers to provide enrollees with all medical services. Prospect currently manages the provision of prepaid healthcare services for its affiliated physician organizations in Southern California. The network consists of the following physician organizations as of September 30, 2012 (stand alone or individually referred to as, an "Affiliate"):

Prospect Medical Group, Inc. ("PMG")
Prospect Health Source Medical Group, Inc. ("PHS")
Prospect Professional Care Medical Group, Inc. ("PPCM")
Genesis HealthCare of Southern California, Inc. ("Genesis")
Prospect NWOC Medical Group, Inc. ("PNW")
StarCare Medical Group, Inc. ("PSC")
AMVI/Prospect Medical Group ("AMVI/Prospect")
Nuestra Familia Medical Group, Inc. ("Nuestra")
Upland Medical Group, a Professional Medical Group ("UMG")*
Pomona Valley Medical Group, Inc. ("PVMG")*

* PVMG and UMG are collectively referred to as the "ProMed Entities."

These Affiliates are managed by the following two medical management company subsidiaries that are wholly-owned by Prospect:

Prospect Medical Systems, Inc. ("PMS")
ProMed Healthcare Administrators ("PHCA")

All of the Affiliates are wholly-owned by PMG, with the exception of Nuestra, which is 62% owned by PMG, and AMVI/Prospect which is a 50/50 Joint Venture between AMVI Care Health Network, Inc. ("AMVI") and PMG. PMG is owned by a nominee physician shareholder pursuant to an assignable option agreement described below. The operations of all of these entities, with the exception of AMVI/Prospect, are consolidated in the accompanying consolidated financial statements.

The AMVI Joint Venture was formed for the sole purpose of combining enrollment in order to meet minimum enrollment levels required for participation in the CalOptima Medicaid (Medi-Cal in California) program in Orange County, California. The joint venture ownership is set at 50/50 to prevent either party from exerting control over the other; however, AMVI's and PMG's businesses are operated autonomously, and enrollees, financial results and cash flows are each separately tracked and recorded. In accordance with the joint venture partnership agreement, profits and losses are not split in accordance with the partnership ownership interest, but rather, are directly tied to the results generated by each separate portion of the business. Separate from any earnings the Company generates from PMG's portion of business within the joint venture, the Company also earns fees for management services PMS provides to PMG's partner in the joint venture. The Company accounts for PMG's interest in the joint venture partnership using the equity method of accounting. The Company includes in the consolidated financial statements only the net results attributable to those enrollees specifically identified as assigned to the Company, together with the management fee that PMS charges for managing those enrollees specifically assigned to the other joint venture partner.

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PMS has entered into an assignable option agreement with PMG and the nominee physician shareholder of PMG. Under the assignable option agreement, Prospect has an assignable option, obtained for a nominal amount from PMG and the nominee shareholder to designate the purchaser (successor physician) for all or part of PMG's issued and outstanding stock held by the nominee physician shareholder (the "Stock Option") in its sole discretion. The Company may also assign the assignable option agreement to any person. The assignable option agreement has an initial term of 30 years and is automatically extended for additional terms of 10 years each, as long as the term of the related management services agreement described below (the "Management Agreement") is automatically extended. Upon termination of the Management Agreement with PMG, the related Stock Option would be automatically and immediately exercised. The Stock Option may be exercised for a purchase price of $1,000. Under these nominee shareholder agreements, Prospect has the unilateral right to establish or effect a change of the nominee, at will, and without the consent of the nominee, on an unlimited basis and at nominal cost throughout the term of the Management Agreement. In addition to the Management Agreement with PMG, Prospect, through one of its management company subsidiaries, has a management agreement with each Affiliate. The term of the Management Agreements is generally 30 years. PMG is the sole shareholder of PHS, PPCM, PNW, PSC, Genesis, PVMG, and UMG. PMG holds a 62% interest in Nuestra.

The Company's Affiliates have each entered into a Management Agreement and each Affiliate has agreed to pay a management fee to PMS or PHCA, as applicable (each of which is a wholly-owned subsidiary of Prospect). The fee is based in part on the costs to the management company and on a percentage of revenues the Affiliate receives (i) for the performance of medical services by the Affiliate's employees and independent contractor physicians and physician extenders, (ii) for all other services performed by the Affiliates, and (iii) as proceeds from the sale of assets or the merger or other business combination of the Affiliates. The management fee also includes a fixed percentage fee for marketing and public relations services. The revenue from which this fee is determined includes medical capitation, all sums earned from participation in any risk pools and all fee-for-service revenue earned. Except in the case of Nuestra and AMVI/Prospect, the Management Agreements have initial terms of 30 years, renewable for successive 10-year periods thereafter, unless terminated by either party for cause. In the case of Nuestra, its Management Agreement has an initial 10 year term renewable for successive one year terms. In the case of AMVI/Prospect, the Management Agreement has a one year term with successive one year renewal terms. In return for payment of the management fee, Prospect (through PMS and PHCA) has agreed to provide financial management, information systems, marketing, advertising, public relations, risk management, and administrative support, including for utilization review and quality of care. At its cost, Prospect has assumed the obligations for all facilities, medical and non-medical supplies, and employment of non-physician personnel of its affiliated medical clinics.

The management fee earned by Prospect fluctuates based on the profitability of each wholly-owned Affiliate. Prospect is allocated a 50% residual interest in any profits after the first 8% of the profits. The remaining balance is retained by the Affiliates.

The Management Agreements are not terminable by the Affiliates except in the case of gross negligence, fraud or other illegal acts of Prospect, or bankruptcy of the Company.

Further, Prospect's rights under the Management Agreements are unilaterally saleable or transferable. Based on the provisions of the Management Agreements and the assignable option agreement with PMG, Prospect has determined that it has a controlling financial interest in the Affiliates, with the exception of AMVI/Prospect. Consequently, under applicable accounting principles, Prospect consolidates the revenues and expenses of all the Affiliates except

AMVI/Prospect from the respective dates of execution of the Management Agreements. All significant inter-entity balances have been eliminated in consolidation. In the case of AMVI/Prospect, only that portion of the results which are contractually identified as Prospect's are recognized in the consolidated financial statements, together with the management fee that the Company charges AMVI for managing AMVI's share of the joint venture operations.

Prospect has also entered into management agreements with unaffiliated third parties to manage services to their HMO enrollees. These management agreements do not have characteristics that give rise to the consolidation of the entities under current accounting literature.

The affiliated physician organizations provided medical services to a combined total of approximately 184,700 and 179,900 HMO enrollees as of September 30, 2012 and 2011, respectively. The enrollees include approximately 34,100 and 28,300 enrollees that the Company manages for the economic benefit of four independent third parties, and for which the Company earns management fee income as of September 30, 2012 and 2011, respectively. The total paid member months including managed enrollees, for the fiscal years ended September 30, 2012 and 2011 was 2,187,000 and 2,116,000, respectively.

Corporate Segment

The Corporate segment reflects certain expenses incurred at the Parent Entity not specifically allocable to the Hospital Services or Medical Group segments. These include, but are not limited to: salaries, benefits and other compensation for corporate employees: financing expenses; insurance expenses; rent; legal fees; accounting fees; and Securities and Exchange Commission ("SEC") and Sarbanes-Oxley compliance costs through July 2011 only. In July 2011, the Company obtained consent from a majority of the bondholders and ceased being an SEC registrant and reporting company. The Company does not allocate interest expense related to acquisition debt or income taxes to the other reporting segments.

2. Significant Accounting Policies

Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of all controlled subsidiaries, which control is effectuated through ownership of voting common stock or by other means, but do not include the accounts of the parent companies, Ivy Holdings Inc. and Ivy Intermediate Holding Inc. The Medical Group entities (subsidiaries) have been determined to be variable interest entities due to the existence of a call option under which the Company has the ability to require the holders of all of the voting common stock of the underlying subsidiaries to sell their shares at a fixed nominal price ($1,000) to another designated physician chosen by the Company. This call option agreement represents rights provided through a variable interest other than the equity interest itself that caps the returns that could be earned by the equity holders. In addition, the Company has a management agreement with the subsidiaries and the holders of the voting common stock of the subsidiaries which allows the Company to direct all of the activities of the subsidiaries, retain all of the economic benefits and assume all of the risks associated with ownership of the subsidiaries. In this manner, the Company has all of the economic benefits and risks associated with the subsidiaries but has disproportionately few voting rights (based on the terms of the equity). As the Company retains all of the economic benefits and assumes all of the risks associated with ownership of the subsidiaries, the Company is considered

to be the primary beneficiary of the activities of the subsidiaries and therefore must consolidate the underlying subsidiaries. Operating results for Nix Health are consolidated with the Company's financial statements effective February 1, 2012 (Note 5). All significant intercompany balances and transactions have been eliminated in consolidation.

Revenues

Revenues by reportable segment are comprised of the following amounts (in thousands):

For the Years Ended September 30,	**2012 (a)**	2011
Net Hospital Services		
Inpatient	**$ 392,756**	$ 299,659
Outpatient	**43,702**	23,929
Capitation	**35,767**	22,769
Other	**5,177**	605
Total net Hospital Services revenues	**477,402**	346,962
Medical Group		
Capitation	**199,415**	194,928
Management fees	**2,334**	1,627
Other	**2,057**	2,920
Total Medical Group revenues	**203,806**	199,475
Other revenues	**9,897**	-
Total net revenues	**$ 691,105**	$ 546,437

(a) Nix Health revenues have been included in the accompanying consolidated financial statements for the period from acquisition of Nix Health, February 1, 2012 through September 30, 2012.

Hospital Services Segment

Net Patient Service Revenues

Operating revenue of the Hospital Services segment consists primarily of net patient service revenue. The Company reports net patient service revenue at the estimated net realizable amounts from patients and third-party payers and others in the period in which services are rendered. The Company has agreements with third-party payers, including Medicare, Medicaid (Medi-Cal in California), managed care and other insurance programs that are paid at negotiated rates. These payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments, as further described below. Estimates of contractual allowances are based upon the payment terms specified in the related contractual agreements. The Company accrues for amounts that it believes may ultimately be due to or from the third-party payers. Normal estimation differences between final settlements and amounts accrued in previous years are reported as changes in estimates in the current year.

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Outstanding receivables, net of allowances for contractual discounts and bad debts, are included in patient accounts receivable in the accompanying consolidated balance sheets.

A summary of the payment arrangements with major third-party payers follows:

Medicare: Medicare is a federal program that provides certain hospital and medical insurance benefits to persons aged 65 and over, some disabled persons with end-stage renal disease and certain other beneficiary categories. Inpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge, according to a patient classification system based on clinical, diagnostic, and other factors. Outpatient services are paid based on a blend of prospectively determined rates and cost-reimbursed methodologies. The Company is also reimbursed for various disproportionate share and Medicare bad debt components at tentative rates, with final settlement determined after submission of the annual Medicare cost report and audit thereof by the Medicare fiscal intermediary. Normal estimation differences between filed settlements and amounts accrued are reflected in net patient service revenue.

Cost report settlement estimates are recorded based upon as-filed cost reports and are usually not adjusted until a final Notice of Program Reimbursement ("NPR") is issued. Due to litigation in class action suits over the determination of the Supplemental Security Income ("SSI") percentage which affects the disproportionate share reimbursement, the Centers for Medicare and Medicaid Services ("CMS") suspended issuing any NPRs for 2007 cost reporting years and forward. On March 16, 2012, CMS began issuing updated SSI ratios for 2006 through 2009, and on October 17, 2012, CMS issued updated SSI ratios for 2010. To date, the Company has received final NPRs for 2006 and 2007 for Alta but has not yet received final NPRs for Brotman or Nix Health for any of these years. The issuance of final NPRs could result in changes to existing cost reporting estimates and these changes could be material to the consolidated financial statements of the Company. Accordingly the Company updated its estimates relating to open cost reporting of prior years using the revised SSI ratios and recorded a liability of $3,562,000 during the year ended September 30, 2012. Additionally, the Company joined a second round of litigation relating to Medicare's recent settlement with providers relating to the manner in which CMS handled the budget neutrality adjustment associated with the rural floor wage index in setting the Medicare inpatient prospective system rates ("Rural Floor"). The Company has not yet recorded any settlement revenue relating to the Rural Floor litigation.

Medicaid/Medi-Cal: Medicaid is a joint federal-state funded healthcare benefit program that is administered by states to provide benefits to qualifying individuals who are unable to afford care. The Company receives reimbursements under the Medicaid program at prospectively determined rates for both inpatient and outpatient services. Medi-Cal is the version of the federal Medicaid program that is applicable to California residents. Inpatient services rendered to Medi-Cal program beneficiaries in California are paid at contracted per diem rates. The per diem rates are not subject to retrospective adjustment. Outpatient services are paid based on prospectively determined rates per procedure provided. The Alta hospitals are eligible to participate in the State of California Medi-Cal Disproportionate Share ("DSH") programs, under which medical facilities that serve a disproportionate number of low-income patients receive additional reimbursements. Eligibility is determined annually based on prescribed guidelines. The Company accrues a receivable each month based on the expected total annual DSH payments. Differences between the estimated and the actual award are recorded in the period they become known. DSH amounts are subject

to retrospective revision prior to finalization and such revisions could lead to material retractions. The Company records retrospective retractions when they are estimable and probable. Retrospective additional DSH revenues are recorded as a gain contingency when received. The Medi-Cal DSH receivable as of September 30, 2012 and 2011 totaled approximately $3,690,000 and $3,636,000, net, respectively, and were included in due from government program payors in the accompanying consolidated balance sheets. For fiscal years ended September 30, 2012 and 2011, total Medi-Cal DSH payments received by Alta hospitals were approximately $11,758,000 and $10,487,000, respectively, and total Medi-Cal DSH revenues recorded were approximately $9,151,000 and $9,908,000, respectively. Additionally, pursuant to an audit of Medi-Cal cost reports and notification sent to the Company, the Company accrued a cost report liability payable to Medi-Cal of $1,294,000 during the year ended September 30, 2011. The liability is due to the State's determination that ancillary services of administrative days were paid at a higher percent of charges than is allowable.

During the fourth quarter of fiscal 2011, the Company's Alta Hospitals received notification that the DSH amounts received related to the State fiscal year 2009-2010 were being re-examined and that the DSH amounts to be received for State fiscal years 2010-2011 and 2011-2012 would be significantly reduced. The notification was the result of legislation that extended payments under Senate Bill 90 ("SB 90"). During the years ended September 30, 2012 and 2011, the Company recorded $2,700,000 and $5,800,000 reductions, respectively, in Medi-Cal DSH revenue related to this matter.

In Texas, the Medicaid program reimburses under prospectively determined rates for both inpatient and outpatient services. Medicaid reimbursement may be subject to periodic adjustment, as well as to changes in existing payment levels and rates, based on the amount of funding available to the Medicaid program. Nix Health has also been receiving payments from Texas Health and Human Services Commission under the section 1115 waiver that was recently granted to the state of Texas by CMS. Under the first year of the waiver ending September 30, 2012, a transition payment was paid to Nix Health based upon prior levels of payment under the "Upper Payment Limit" ("UPL") program, which the waiver replaced. Nix Health recorded $13,298,000 in revenue and $7,658,000 in associated cost during the period from February 1, 2012 (acquisition date) through September 30, 2012. These payments are subject to audit by Texas Health and Human Services. At September 30, 2012 accrued revenue under the section 1115 waiver amounted to $4,987,000 and accrued costs amounted to $1,889,000, respectively.

Managed Care: The Company has also entered into payment agreements with certain commercial insurance carriers, HMOs, and PPOs. The basis for payment under these agreements is in accordance with negotiated contracted rates or at our standard charges for services provided. Most of these payments are capitated, meaning that the Company receives an agreed amount per patient for providing an agreed range of services.

Self-Pay: Self-pay patients represent those patients who do not have health insurance and are not covered by some other form of third party arrangement. Such patients are evaluated, at the time of services or shortly thereafter, for their ability to pay based upon federal and state poverty guidelines, qualifications for Medicaid, as well as the Company's local hospital's indigent and charity care policy.

See "Concentrations of Credit Risks" below for discussion of revenues received from the Medicare and Medicaid programs.

Similar to other hospital operators, the Company is currently undergoing audits under the Recovery Audit Contractor ("RAC") program. As of September 30, 2012 and 2011 the Company had accrued $662,000 and $0, respectively, related to such liabilities.

Brotman Outlier Liability

Following the acquisition of a majority stake in Brotman, effective April 14, 2009, the Company consolidated Brotman's estimated liability to CMS arising out of outlier payments received for services provided by Brotman to Medicare eligible inpatients, primarily for the last four months of calendar year 2005 and all of calendar year 2006.

While Brotman reports financial statements on a fiscal year ending September 30, Medicare cost reports are filed on a calendar year basis. Acute care hospitals receive Medicare reimbursement payments pursuant to a prospective payment methodology primarily based on the diagnosis of the patient, but are entitled to receive additional payments, referred to as "outliers" for patients whose treatment is very costly. When Brotman acquired the hospital in 2005, CMS provided a ratio of cost to charges (the "RCC") based on the statewide average. Payments received by Brotman on this basis were an interim estimate, subject to final determination upon auditing of Brotman's cost reports. Brotman filed its Medicare cost reports, but determined that its outlier reimbursement for services provided in fiscal years 2005, 2006 and part of 2007 might be subject to adjustment based on certain outlier reconciliation rules. On October 12, 2012, Brotman received from its Medicare contractor a proposed outlier adjustment for Medicare fiscal year 2006 in the amount of $12,785,000. Brotman had previously been notified of an adjustment of $2,149,000 for 2005. As of September 30, 2012, the Company has accrued $13,834,000 of the estimated $14,934,000 liability to CMS included in the accompanying consolidated balance sheets. The difference between the $14,934,000 asserted by CMS and the $13,834,000 accrued by the Company relates to accrued interest of approximately $1,100,000, an amount with which the Company did not agree. Accordingly, in accordance with relevant literature related to accounting for contingencies, the Company has recorded to the lower end of the range. The Company has advised the Medicare contractor of this difference as well as the Chapter 11 bankruptcy bar date and other factors which the Company asserts impact this matter. The ultimate resolution of this item is unknown at this stage. Final adjustment will take place after the Medicare contractor issues a final notice of program reimbursement and resolution of all related uncertainties have been finalized.

The following is a summary of due from and due to governmental payers at September 30 (in thousands):

September 30,	**2012**	2011
Due from government payers:		
Medi-Cal Disproportionate Share (DSH), net	**$ 3,690**	$ 3,636
Medicare cost report settlements	**3,922**	440
Medicaid Section 1115 receivable	**4,987**	-
	$ 12,599	$ 4,076
Due to government payers:		
Outlier liability	**$ 13,834**	$ 13,834
Medicare cost report settlements	**4,613**	-
Medi-Cal cost report settlements	**1,341**	1,294
	$ 19,788	$ 15,128

The Company is not aware of any material claims, disputes, or unsettled matters with any payers that would affect revenues that have not been adequately provided for and disclosed in the accompanying consolidated financial statements.

Charity Care

The Company provides charity care to patients whose income level is below 300% of the Federal Poverty Level. Patients with income levels between 300% and 350% of the Federal Poverty Level qualify to pay a discounted rate under the requirements of California State Assembly Bill 774 (AB 774) based on various government program reimbursement levels. Patients without insurance are offered assistance in applying for Medicaid and other programs they may be eligible for, such as state disability. Patient advocates from the Company's Medical Eligibility Program ("MEP") screen patients in the Hospital and determine potential linkage to financial assistance programs. They also expedite the process of applying for these government programs. The approximate cost of providing charity care was approximately $4,178,000 and $3,450,000 for the years ended September 30, 2012 and 2011, respectively. The Company has estimated the cost of charity care based on a ratio of the cost to charges of operating expenses, excluding depreciation, interest and management fees.

Provisions for Contractual Allowances and Doubtful Accounts

Collection of receivables from third-party payers and patients is the Company's primary source of cash and is critical to its operating performance. The Company closely monitors its historical collection rates, as well as changes in applicable laws, rules and regulations and contract terms, to assure that provisions for contractual allowances are made using the most accurate information available. However, due to the complexities involved in these estimations, actual payments from payers may be materially different from the amounts management estimates and records. The Company's primary collection risks relate to uninsured patients and the portion of the bill which is the patient's responsibility, primarily co-payments and deductibles. Payments for services may also be denied due to issues over patient eligibility for medical coverage, the Company's ability to demonstrate medical necessity for services rendered and payer authorization of hospitalization.

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The Company estimates the provisions for doubtful accounts based on general factors such as payer mix, the age of the receivables and historical collection experience. Management routinely reviews accounts receivable balances in conjunction with these factors and other economic conditions which might ultimately affect the collectability of the patient accounts, and makes adjustments to the Company's allowances as warranted.

All of the Company's hospital facilities are subject to the Emergency Medical Treatment and Active Labor Act ("EMTALA"). This federal law requires any hospital that participates in the Medicare program to conduct an appropriate medical screening examination of every person who presents to the hospital's emergency department for treatment and, if the patient is suffering from an emergency medical condition, to either stabilize that condition or make an appropriate transfer of the patient to a facility that can handle the condition. The obligation to screen and stabilize emergency medical conditions exists regardless of a patient's ability to pay for treatment. There are severe penalties under EMTALA if a hospital fails to screen or appropriately stabilize or transfer a patient or if the hospital delays appropriate treatment in order to first inquire about the patient's ability to pay. Penalties for violations of EMTALA include civil monetary penalties and exclusion from participation in the Medicare program. In addition, an injured patient, the patient's family or a medical facility that suffers a financial loss as a direct result of another hospital's violation of the law can bring a civil suit against that other hospital. The Company believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that would have a material effect on the Company's financial statements.

The provision for bad debts for the years ended September 30, 2012 and 2011 totaled $32,355,000 and $35,256,000, respectively.

Other Revenues

Other revenues consist primarily of meaningful use incentive payments and rental revenue from operating leases, and totaled $9,897,000 for the year ended September 30, 2012. There were no such revenues during the year ended September 30, 2011.

A summary of other revenues recorded during the year follows:

Meaningful Use incentives: The American Recovery and Reinvestment Act of 2009 ("ARRA") established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that meaningfully use certified electronic health record ("EHR") technology or adopt or implement such technology. The Medicare incentive payments will be paid out to qualifying hospitals over four consecutive years on a transitional schedule. To qualify for Medicare incentives, hospitals and physicians must meet EHR "meaningful use" criteria that become more stringent over three stages that have yet to be finalized by CMS.

Medicaid programs and payment schedules vary from state to state. The Medicaid programs require hospitals to register for the program prior to 2016, to engage in efforts to adopt, implement or upgrade certified EHR technology in order to qualify for the initial year of participation, and to demonstrate meaningful use of certified EHR technology in order to qualify for payment for up to three additional years.

For the years ended September 30, 2012 (including Nix Health from February 1, 2012 (acquisition date) through September 30, 2012) and 2011, the Company recorded revenues of $8,662,000 and $0, respectively, related to the Medicare and Medicaid programs in the

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consolidated statements of operations. These incentives have been recognized following the grant accounting model, recognizing income ratably over the applicable reporting period as management becomes reasonably assured of meeting the required criteria. Subsequent changes to these estimates will be recognized in the consolidated statement of operations in the period in which additional information is available. Such estimates are subject to audit by the federal government or its designee. As of September 30, 2012, there have been no notifications from Medicare or Medicaid requiring an audit.

Rental Revenue: Rental revenue from operating leases, which commenced with the Nix Health acquisition, is recorded based on the fixed, minimum required rents (base rents) per the lease agreements. Rental revenue from base rents is recorded on the straight-line method over the terms of the related lease agreements and is included in other revenue on the consolidated statements of operations. During the years ended September 30, 2012 and 2011, the Company recorded rental revenues of $1,235,000 and $0, respectively.

Medical Group Segment

Medical Group Revenues

Operating revenue of the Medical Group segment consists primarily of payments for medical services procured by the Affiliates under capitated contracts with various managed care providers including HMOs. Capitation revenue under HMO contracts is prepaid monthly to the Affiliates based on the number of enrollees electing any one of the Affiliates as their health care provider. See "Concentrations of Credit Risks" below for revenues received from the five largest contracted HMOs.

Capitation revenue (net of capitation withheld to fund risk share deficits discussed below) is recognized in the month in which the Affiliates are obligated to provide services. Minor ongoing adjustments to prior months' capitation, primarily arising from contracted HMOs' finalizing of monthly patient eligibility data for additions or subtractions of enrollees, are recognized in the month they are communicated to the Company. Additionally, Medicare pays capitation using a "Risk Adjustment model," which compensates managed care organizations and providers based on the health status (acuity) of each individual enrollee. Health plans and providers with higher acuity enrollees will receive more and those with healthier enrollees will receive less. Under Risk Adjustment, capitation is determined based on health severity, measured using patient encounter data. Capitation is paid on an interim basis based on data submitted for the enrollee for the preceding year and is adjusted in subsequent periods (generally in the Company's fourth quarter) after the final data is compiled. Positive or negative capitation adjustments are made for Medicare enrollees with conditions requiring more or less healthcare services than assumed in the interim payments. Since the Company cannot reliably predict these adjustments, periodic changes in capitation amounts earned as a result of Risk Adjustment are recognized in the year to which they relate, generally in the fourth quarter, when those changes are communicated by the health plans to the Company. The Company received and recorded as additional revenue, approximately $2,751,000 and $3,700,000, respectively, in positive capitation risk adjustments in the years ended September 30, 2012 and 2011, respectively.

HMO contracts also include provisions to share in the risk for hospitalization, whereby the Affiliate can earn additional incentive revenue or incur penalties based upon the utilization of hospital services. Typically, any shared risk deficits are not payable until and unless the Company generates future risk sharing surpluses, or if the HMO withholds a portion of the capitation revenue to fund any risk share deficits. At the termination of the HMO contract, any accumulated

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risk share deficit is typically extinguished. Due to the lack of access to information necessary to estimate the related costs, shared-risk amounts receivable from the HMOs are only recorded when such amounts are known. Risk pools for the prior contract years are generally final settled in the third or fourth quarter of the following fiscal year. For the years ended September 30, 2012 and 2011, Medical Group revenues included approximately $4,245,000 and $2,471,000, respectively, of additional revenues due to favorable settlements on prior year risk-sharing arrangements. At September 30, 2012 and 2011, contingent liabilities for carry-forward risk-pool deficits expected to be forgiven, or offset against future surpluses were approximately $7,170,000 and $7,000,000, respectively, based on the available information from the health plans.

The Company also receives incentives under "pay-for-performance" programs for quality medical care based on various criteria. These incentives, which are included in other revenues, are generally recorded in the third and fourth quarters of the fiscal year and are recorded when such amounts are known. Pay-for-performance revenues recorded during the years ended September 30, 2012 and 2011, were $1,923,000 and $2,595,000, respectively.

Management fee revenue is earned in the month the services are rendered. Management fee arrangements with unaffiliated entities provide for compensation ranging from 7.5% to 12.5% of revenues. The Company also provides management services to affiliated providers whose results are consolidated in the Company's financial statements under management fee arrangements, which are generally based on a percentage of revenues and a percentage of net income or loss. Revenues and expenses relating to these inter-entity agreements have been eliminated in consolidation. Management fee revenue recorded during the years ended September 30, 2012 and 2011, were $2,334,000 and $1,627,000, respectively.

In connection with providing services to HMO enrollees, the Affiliates are responsible for the medical services their affiliated physicians provide to assigned HMO enrollees.

Medical Group Cost of Revenues

The cost of health care services consists primarily of capitation and claims payments, pharmacy costs and incentive payments to contracted providers. These costs are recognized in the period incurred, or when the services are provided. Claims costs also include an estimate of the cost of services which have been incurred but not yet reported to the Company. The estimate for accrued medical costs is based on projections of costs using historical studies of claims paid and adjusted for seasonality, utilization and cost trends. These estimates are subject to trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management records its best estimate of the amount of medical claims incurred at each reporting period. Estimates are continually monitored and reviewed and, as settlements are made or estimates adjusted, differences are reflected in current operations. See Note 13 for changes in claims estimates during the years ended September 30, 2012 and 2011.

In addition to contractual reimbursements to providers, the Company also makes discretionary incentive payments to physicians, which are in large part based on the pay-for-performance and shared risk revenues and favorable senior capitation risk adjustment payments received by the Company. Since the Company records these revenues generally in the third or fourth quarter of each fiscal year when the incentives and capitation adjustments due from the health plans are known, the Company also finalizes the discretionary physician bonuses in the same periods. During the years ended September 30, 2012 and 2011, the Company recorded discretionary physician incentives expense totaling approximately $5,738,000 and $3,600,000, respectively. As of

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September 30, 2012 and 2011, bonus accruals of approximately $4,011,000 and $2,208,000, respectively, were included in accounts payable and other accrued liabilities.

The Company also periodically evaluates the need to establish premium deficiency reserves for the probability that anticipated future health care costs could exceed future capitation payments from HMOs under capitated contracts and, where appropriate, records a premium deficiency reserve.

The Company, for certain matters, maintains stop loss coverage for health care costs that are in excess of set thresholds. The Company, through two of its affiliated medical groups, was in dispute with its previous stop loss carrier with respect to amounts owed on claims under the 2007-2009 policy years. In November 2012, pursuant to a settlement agreement, the previous stop loss carrier agreed to pay the Company $225,000, in exchange for a mutual release of all claims and liabilities between the parties. As a result, the Company wrote off $679,000, which has been reflected in the consolidated financial statements at September 30, 2012.

Property, Improvements and Equipment

Property, improvements and equipment are stated on the basis of cost or, in the case of acquisitions, at their acquisition date fair values. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, and amortization of leasehold improvements is provided using the straight-line basis over the shorter of the remaining lease period or the estimated useful lives of the leasehold improvements. Leasehold improvements are generally depreciated over five to ten years, buildings are depreciated over 14 to 28 years, equipment is depreciated over two to five years and furniture and fixtures are depreciated over two to seven years. Equipment capitalized under capital lease obligations are amortized over the life of the lease.

As more fully described in Note 11, the Company is required to comply with certain seismic standards as required by the state of California by January 1, 2020. The useful life of buildings subject to seismic retrofit requirements may be limited if the Company does not make the necessary upgrades by the required compliance date.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets totaled approximately $194,625,000 and $191,541,000, net of accumulated amortization at September 30, 2012 and 2011, respectively, and arose as a result of the ProMed, Alta, Brotman and Nix Health acquisitions (February 1, 2012). Other intangible assets include customer relationships, covenants not-to-compete, trade names, provider networks, favorable leasehold, and net physician guarantees. Goodwill represents the excess of the consideration paid and liabilities assumed over the fair value of the assets acquired, including identifiable intangible assets.

Goodwill and other intangible assets with indefinite useful lives are not amortized; rather they are reviewed annually for impairment for each reporting unit, or more frequently if impairment indicators arise. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. A two-step impairment test is used to identify potential goodwill impairment and to measure the amount of goodwill impairment loss to be recognized, if any. The Company has five operating units, consisting of Alta, Brotman, Nix Health, ProMed and Prospect (which includes all other affiliated physician organizations).

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The Company tests for goodwill impairment as of September 30 each year. In evaluating whether indicators of impairment exist, the Company considers adverse changes in market value, laws and regulations, profitability, cash flows, ability to maintain enrollment and renew payer contracts at favorable terms, among other factors. The goodwill impairment test is a two-step process. The first step consists of estimating the fair value of the reporting unit based on a weighted combination of (i) the guideline company method that utilizes revenue or earnings multiples for comparable publicly-traded companies, and (ii) a discounted cash flow model that utilizes expected future cash flows, the timing of those cash flows, and a discount rate (or weighted average cost of capital, which considers the cost of equity and cost of debt financing expected by a typical market participant) representing the time value of money and the inherent risk and uncertainty of the future cash flows. If the estimated fair value of the reporting unit is less than its carrying value, a second step is performed to compute the amount of the impairment by determining the "implied fair value" of the goodwill, which is compared to its corresponding carrying value. The Company's impairment test related to ProMed and Alta goodwill at September 30, 2012 resulted in no impairment charge. The Company did not perform an impairment test related to Brotman goodwill at September 30, 2012, as this was not required under current accounting literature due to the negative carrying value of Brotman's net assets. However, accounting literature expected to be adopted by the Company effective October 1, 2012 will require performance of an impairment test, which could require an impairment of Brotman goodwill and the amount of such expected impairment could be significant to the consolidated financial statements. Given Nix Health's recent acquisition, the Company used the fair value of the purchase price for its impairment analysis and determined that there was no impairment of goodwill as of September 30, 2012.

Long-Lived Assets and Amortizable Intangibles

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The Company considers assets to be impaired and writes them down to fair value if estimated undiscounted cash flows associated with those assets are less than their carrying amounts. Fair value is based upon the present value of the associated cash flows. Changes in circumstances (for example, changes in laws or regulations, technological advances or changes in strategies) may also reduce the useful lives from initial estimates. Changes in planned use of intangibles may result from changes in customer base, contractual agreements, or regulatory requirements. In such circumstances, management will revise the useful life of the long-lived asset and amortize the remaining net book value over the adjusted remaining useful life. No such impairments were recorded at September 30, 2012 and 2011, respectively.

Medical Malpractice Liability Insurance

The individual physicians who contract with the Affiliates carry their own medical malpractice insurance. In the Hospital Services segment, Alta, Brotman, and Nix Health purchase professional and general liability insurance to cover medical malpractice claims under claims-made policies. Under the policies, insurance premiums cover only those claims actually reported during the policy term. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims related to occurrences during the policy term but reported subsequent to the policy's termination may be uninsured. During the year ended September 30, 2011, Brotman purchased a $0 deductible policy, which effectively insures against such claims from September 1, 2011 through August 31, 2012. Effective August 31, 2012, Brotman is no longer covered under a $0 deductible policy for claims from that date forward. The Company is not subject to claims arising

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prior to the acquisition of Nix Health (February 1, 2012) as the former owner purchased an extended claims reporting policy (tail insurance) covering the incidents that have occurred up through January 31, 2012.

Accounting principles generally accepted in the United States of America require that a health care organization record and disclose the estimated costs of medical malpractice claims in the period of the incident of malpractice, if it is reasonably possible that liabilities may be incurred and losses can be reasonably estimated. The Company has recognized an estimated liability for incurred but not reported claims and the self-insured risks (including deductibles and potential claims in excess of policy limits) based upon an actuarial valuation of the Company's historical claims experience of Alta, Brotman and Nix Health. At September 30, 2012 and 2011, the claims liability was approximately $2,197,000 (net of insurance recoveries of $32,000) and $699,000, respectively and was estimated using a discount factor of 4%.

The claims reserve is based on the best data available to the Company; however, the estimate is subject to a significant degree of inherent variability. The estimate is continually monitored and reviewed, and as the reserve is adjusted, the difference is reflected in current operations. While the ultimate amount of medical malpractice liability is dependent on future developments, management is of the opinion that the associated liabilities recognized in the accompanying consolidated financial statements are adequate to cover such claims. Management is not aware of any potential medical malpractice claims whose settlement, if any, would have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Workers' Compensation Insurance

The workers' compensation coverage provides the statutory benefits required by law and that the employer's liability limits are $1,000,000 (excluding Nix Health). Nix Health has opted out of the Texas Workers' Compensation system as a non-subscriber, and provides its employees with benefits for occupational injury or disease through an ERISA plan. Nix has an Employer's Excess Indemnity policy with a $25,000 deductible policy with limits of $10,000,000 per occurrence and $25,000,000 aggregate. The Company's (excluding Brotman and Nix Health) workers' compensation coverage for October 1, 2010 through September 30, 2012 did not have an aggregate loss limitation. The current workers' compensation policy for the period of October 1, 2012 through September 30, 2013 does not have an aggregate loss limitation. At September 30, 2012 and 2011, included in accrued salaries, wages and benefits are accruals relating to Alta and Brotman for uninsured claims and claims incurred but not reported of approximately $2,808,000 and $2,784,000, respectively. The amounts are estimated based upon an actuarial valuation of their claims experience, using a discount factor of 4%.

The claims reserve is based on the best data available to the Company; however, the estimate is subject to a significant degree of inherent variability. The estimate is monitored and reviewed, and as the reserve is adjusted, the difference is reflected in current operations. While the ultimate amount of the claims liability is dependent on future developments, management is of the opinion that the associated liabilities recognized in the accompanying consolidated financial statements are adequate to cover such claims. Management is not aware of any potential claims whose settlement, if any, would have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Stock Options

Prior to the completion of the merger discussed in Note 4, the Company had stock option and restricted stock agreements with certain directors, officers and employees issued under the Company's 1998 and 2008 equity incentive plans. These equity awards vested based on continuous service and did not include performance or market vesting conditions. Share-based awards have generally been issued at or above the market price of the underlying stock.

On December 15, 2010, the Board of Directors (the "Ivy Board") of Ivy Holdings Inc. adopted the 2010 Stock Option Plan of Ivy Holdings Inc. (the "Ivy Plan") and, on December 16, 2010, the stockholders of Ivy Holdings Inc. adopted the Ivy Plan. The Ivy Plan provides that it shall be administered by the Compensation Committee of the Ivy Board. The Ivy Plan includes an Incentive Stock Option Agreement and a Non-Qualified Stock Option Agreement to be used in connection with the grant of options under the Ivy Plan. These options granted under the Ivy Plan are exercisable into Ivy Holdings stock and vest based on a number of criteria, including time, performance and CEO discretion.

Compensation costs for option awards are measured and recognized in the consolidated financial statements based on their grant date fair value, net of estimated forfeitures over the awards' service period. The fair value of restricted stock grants are determined on the date of grant, based on the number of shares granted and the quoted price or estimated fair market value of the Company's common stock. The Company uses the Black-Scholes option pricing model and a single option award approach to estimate the fair value of stock options granted. Equity-based compensation is classified within the same line items as cash compensation paid to employees. Cash retained as a result of excess tax benefits relating to share-based payments is presented in the consolidated statements of cash flows as a financing cash inflow.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments with initial maturities of 90 days or less to be cash equivalents. Cash and cash equivalents are primarily comprised of deposits with banks. The Company maintains its cash at banks with high credit-quality ratings.

Restricted Cash

At September 30, 2012 and 2011, $233,000 and $233,000 was held in a restricted account in connection with workers compensation arrangements and $30,000 and $0 was restricted related to a capitation agreement, respectively.

Additionally at September 30, 2011, the Company had restricted cash of $3,840,000, which represented amounts set aside pursuant to the Los Angeles Jewish Home for the Aging ("JHA") loan agreements at Brotman (see Note 9), held in escrow for property taxes, maintenance and emergency room construction. The JHA loans were repaid on May 3, 2012 and, as a result, there are no longer restrictions on this cash.

Restricted Investments

The Company is required to keep restricted deposits by certain HMOs for the payment of claims. Such restricted deposits are classified as a current asset in the accompanying consolidated balance sheets, as they are restricted for payment of current liabilities. Investments also include certificates of deposit with maturity dates of more than 90 days when purchased.

Inventories

Inventories of supplies are valued at the lower of amounts that approximates the weighted average cost or market. Inventories consist primarily of medical and surgical supplies and pharmaceuticals.

Deferred Financing Costs

Deferred financing costs are amortized over the period in which the related debt is outstanding using the effective interest method. During the year ended September 30, 2012, the Company completed an offering of $325 million in 8.375% senior secured notes ("PMH 2019" Notes) (see Note 9), whereby the proceeds were partially used to repay $151.8 million in outstanding 12.75% senior secured notes due 2014 ("PMH 2014 Notes"). Deferred financing costs related to the PMH 2014 Notes of $3,944,000 were written off and deferred financing costs of $10,208,000 related to the PMH 2019 Notes were capitalized and included in deferred financing costs, net on the accompanying consolidated balance sheets.

Deferred financing costs at September 30, 2012 and 2011 are as follows (in thousands):

September 30,	**2012**			2011		
	Gross book value	**Accumulated amortization**	**Net book value**	Gross book value	Accumulated amortization	Net book value
Deferred financing costs	**$10,397**	**$649**	**$9,748**	$ 8,508	$ 4,171	$ 4,337

Income Taxes

Deferred income tax assets and liabilities are recognized for differences between financial and income tax reporting bases of assets and liabilities based on enacted tax rates and laws. To the extent a deferred tax asset cannot be recognized under the preceding criteria, allowances must be established. The impact on deferred taxes of changes in tax rates and laws, if any, are applied to the years during which temporary differences are expected to be settled and reflected in the financial statements in the period of enactment. The Company recognizes interest and penalties associated with income tax matters and unrecognized tax benefits in the income tax expense line item of the statements of operations. For the years ended September 30, 2012 and 2011, no interest and/or penalties related to incomes taxes were accrued and/or expensed.

An entity is required to evaluate its tax positions using a two-step process. First, the entity should evaluate the position for recognition. An entity should recognize the financial statement benefit of a tax position if it determines that it is more likely than not that the position will be sustained on examination. Next, the entity should measure the amount of benefit that should be recognized for those tax positions that meet the more-likely-than-not test.

Consolidated and separate income tax returns are filed with the U.S. Federal jurisdiction and in the State of California. The Company's filed tax returns are subject to examination by the IRS for tax years 2008 and later, the State of California for tax years 2007 and later. Net operating losses that were incurred in prior years may still be adjusted by taxing authorities.

The net deferred tax liabilities are primarily comprised of temporary differences between book and tax bases for intangible and capital assets acquired and net operating loss carryforwards.

Fair Value of Financial Instruments

Financial instruments consist primarily of cash and cash equivalents, restricted cash investments, patient and other accounts receivables, accrued salaries and benefits, accounts payable and accrued expenses, medical claims and related liabilities, amounts due to government agencies, notes receivable and payable, capital lease obligations, debt, and other liabilities. The carrying amounts of current assets and liabilities approximate their fair value due to the relatively short period of time between the origination of the instruments and their expected realization (see Note 16).

Concentrations of Credit Risk

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. The Company has not experienced any losses to date related to these balances. All of the Company's non-interest bearing cash balances were fully insured at September 30, 2012 due to a temporary federal program in effect from December 31, 2010 through December 31, 2012. Under the program, there is no limit to the amount of insurance for eligible accounts. Beginning January 1, 2013, insurance coverage will revert to $250,000 per depositor at each financial institution, and the Company's non-interest bearing cash balances may again exceed federally insured limits.

Financial instruments that potentially subject the Company to concentrations of credit risk consist of receivables due from Medicare, Medicaid (Medi-Cal in California), patients, health plans including shared-risk arrangements, and notes receivable.

The Company invests excess cash in liquid securities at institutions with strong credit ratings, following established guidelines relative to diversification and maturities to maintain safety and liquidity. These guidelines are periodically reviewed and modified to take into consideration trends in yields and interest rates and principal risk. Management attempts to schedule the maturities of the Company's investments to coincide with the Company's expected cash requirements. Credit risk with respect to receivables is limited since amounts are generally due from large HMOs within the Medical Group Management segment and from the Medicare and Medicaid (Medi-Cal in California) programs within the Hospital Services segment. Notes receivable are fully secured by collateral of equal or greater value. Management reviews the financial condition of these institutions on a periodic basis and does not believe the concentration of cash or receivables results in a high level of risk.

For the years ended September 30, 2012 and 2011, the Hospital Services segment received a total of 74% and 63%, respectively, of its net patient revenues from Medicare and Medicaid programs, and the Medical Group segment received a total of 73% and 74%, respectively, of their capitation revenues from its five largest HMOs, as follows (in thousands):

Years Ended September 30,	2012	% of Total Revenue	2011	% of Total Revenue
Hospital Services:				
Government Payors:				
Medicare	$ 178,838	37%	$ 153,648	44%
Medicaid	175,554	37%	66,618	19%
Total	$ 354,392	74%	$ 220,266	63%
Medical Group:				
HMO A	$ 35,936	18%	$ 35,139	18%
HMO B	31,862	16%	32,795	16%
HMO C	27,587	14%	27,262	14%
HMO D	26,818	13%	26,069	13%
HMO E	23,664	12%	25,441	13%
Totals	$ 145,867	73%	$ 146,706	74%

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities at the dates, and for the periods, that the consolidated financial statements are prepared. Actual results could materially differ from those estimates. Principal areas requiring the use of estimates include third party settlements, settlements under risk sharing programs, allowances for contractual discounts and doubtful accounts, accruals for medical claims, impairment of goodwill, long-lived assets and intangible assets, share-based payments, professional and general liability claims and workers' compensation claims, reserves for outcome of legislation and valuation allowances against deferred tax assets.

Recently Adopted Accounting Pronouncements

In August 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Updates ("ASU") 2010-24, "Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries," which clarifies that a health care entity should not net insurance recoveries against a related claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. The guidance provided in this ASU is effective for the fiscal years, and interim periods within those years, beginning after December 15, 2010. The Company adopted ASU 2010-24 effective October 1, 2011 and did not elect to retrospectively apply the new presentation to its fiscal 2011 consolidated financial statements. The adoption of ASU 2010-24 did not have a material impact on the Company's consolidated financial statements as of September 30, 2012.

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In August 2010, the FASB issued ASU 2010-23, "Health Care Entities (Topic 954): Measuring Charity Care for Disclosure," which prescribes a specific measurement basis of charity care for disclosure. The guidance provided in this ASU is effective for fiscal years beginning after December 15, 2010. The Company adopted the modified accounting standards on October 1, 2011 and determined that the adoption did not have a material impact on its consolidated results of operations and consolidated financial position.

New Accounting Pronouncements

In December 2010, the FASB issued an update (ASU 2010-28) to the existing goodwill impairment accounting standards which modify the goodwill impairment test for reporting units with zero or negative carrying amounts, of which Brotman has a negative carrying value as of September 30, 2012. The amendments in ASU 2010-28 modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. Upon adoption of the amendments, an entity with reporting units that have carrying amounts that are zero or negative is required to assess whether it is more likely than not that the reporting units' goodwill is impaired. In determining whether it is more likely than not that goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. If the entity determines that it is more likely than not that the goodwill of one or more of its reporting units with zero or negative carrying amounts is impaired, the entity should perform Step 2 of the goodwill impairment test for those reporting unit(s). Any resulting goodwill impairment should be recorded as a cumulative-effect adjustment to beginning retained earnings in the period of adoption. Any goodwill impairment loss occurring after the initial adoption of the amendments should be recognized in earnings. The adoption of this accounting guidance on October 1, 2012 could have a material impact on the Company's consolidated results of operations and financial position.

In June 2011, the FASB issued ASU 2011-06, "Other Expenses (Topic 720): Fees Paid to the Federal Government by Health Insurers (a consensus of the FASB Emerging Issues Task Force ("ASU 2011-06"))." The guidance specifies that the liability for the annual fee imposed on certain health insurers under the recently enacted Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act, should be estimated and recorded in full once the entity provides qualifying health insurance in the applicable calendar year in which the fee is payable with a corresponding deferred cost that is amortized to expense using a straight-line method of allocation unless another method better allocates the fee over the calendar year that it is payable. ASU 2011-06 is effective for calendar years beginning after December 31, 2013, when the fee initially becomes effective.

In July 2011, the FASB issued ASU 2011-07, "Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities" ("ASU 2011-07"). In accordance with ASU 2011-07, an entity will be required to present its provision for doubtful accounts related to patient service revenue as a deduction from revenue, similar to contractual discounts. Accordingly, an entity's revenues will be required to be reported net of both contractual discounts as well as its provision for doubtful accounts related to patient service revenues. Additionally, ASU 2011-07 will require an entity to make certain additional disclosures designed to help users understand how contractual discounts and bad debts affect recorded revenue in both interim and annual financial statements. ASU 2011-07 will be effective for public entities for fiscal years beginning after December 15, 2011, and interim periods within those fiscal years. For nonpublic entities, ASU

2011-07 will be effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. Early adoption is permitted. Entities must apply the presentation requirements retrospectively; however, the qualitative and quantitative disclosures are only required to be provided prospectively. The adoption of ASU 2011-07 on October 1, 2012 is not expected to impact the Company's consolidated financial position, results of operations or cash flows, however, it will change the presentation of the Company's revenues on its consolidated statements of operations as well as requiring additional disclosures.

In September 2011, the FASB issued ASU 2011-08, "Intangibles — Goodwill and Other (Topic 350)" ("ASU 2011-08"). Previously, entities were required to test goodwill for impairment, on at least an annual basis, by first comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the resulting fair value of a reporting unit was less than its carrying amount, then the second step of the test would be performed to measure the amount of the impairment loss, if any. ASU 2011-08 permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step goodwill impairment test is unnecessary. In accordance with ASU 2011-08, an entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. Additionally, ASU 2011-08 permits an entity to resume performing the qualitative assessment in any subsequent period. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company will adopt the authoritative guidance effective October 1, 2012 and does not expect the adoption to have a material impact on its consolidated financial statements.

Subsequent Events

The Company has evaluated subsequent events through December 17, 2012, the date the Company's consolidated financial statements were available for issuance (see Note 17).

3. Property, Improvements and Equipment

Property, improvements and equipment, consisted of the following (in thousands):

September 30,	**2012**	2011
Property, improvements and equipment:		
Land and land improvements	**$ 34,428**	$ 31,028
Buildings and improvements	**52,771**	24,209
Leasehold improvements	**6,295**	4,203
Equipment	**48,932**	29,910
Furniture and fixtures	**1,005**	878
	143,431	90,228
Less: accumulated depreciation	**(30,016)**	(21,392)
Property, improvements and equipment, net	**$ 113,415**	$ 68,836

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The increase in property, improvements and equipment during the year ended September 30, 2012 is largely as a result of the acquisition of Nix Health on February 1, 2012 (see Note 5).

At September 30, 2012 and 2011, the Company had assets under capitalized leases of approximately $13,015,000 and $4,422,000, respectively, and related accumulated depreciation of $3,792,000 and $1,897,000, respectively.

Depreciation expense was approximately $8,692,000 and $3,935,000 for the years ended September 30, 2012 and 2011, respectively.

4. Agreement and Plan of Merger

On August 16, 2010, the Company entered into an Agreement and Plan of Merger (the "Ivy Merger Agreement") with Ivy Holdings Inc. ("Ivy Holdings") and Ivy Merger Sub Corp. ("Merger Sub"), an indirect, wholly owned subsidiary of Ivy Holdings. On December 15, 2010 (the "Merger Effective Date"), at a special meeting of the Company's stockholders, the adoption of the Ivy Merger Agreement was approved by the affirmative vote of a majority of the common stock outstanding as of the record date for the special meeting. In accordance with the Ivy Merger Agreement and the Delaware General Corporation Law on the Merger Effective Date, Merger Sub merged with and into the Company, and the Company became an indirect, wholly-owned subsidiary of Ivy Holdings (the "Ivy Merger"). Following the consummation of the merger, the Company's common stock ceased trading on the NASDAQ Global Market and was delisted.

Pursuant to the Ivy Merger Agreement, at the Merger Effective Date:

All outstanding options to purchase shares of the Company's common stock were canceled and the holder of each such option received a cash payment equal to the excess of the $8.50 per share cash merger consideration over the exercise price of such option, multiplied by the number of shares subject to the option that were vested immediately prior to the Merger Effective Date, less any applicable withholding taxes and after giving effect to the determination of the Company's compensation committee to accelerate the vesting of certain unvested options in connection with the Ivy Merger (see Note 10).

Each outstanding warrant to purchase shares of common stock was canceled and converted into the right to receive a cash payment equal to the excess of the $8.50 per share cash merger consideration over the exercise price of the warrant, multiplied by the number of shares subject to the warrant.

Restrictions on each share of restricted stock issued under any of the Company's equity incentive plans lapsed and each such share of restricted stock was converted into the right to receive the $8.50 per share merger consideration, less any applicable withholding taxes.

The Compensation Committee of the Board of Directors approved a contingent bonus in the amount of $1,235,000 paid to the Company's Chief Executive Officer ("CEO") and Chairman of its Board of Directors, upon successfully completing the merger transaction. Certain of the Company's senior management stockholders (the "Rollover Investors"), which were comprised of the CEO, the Company's Chief Financial Officer, the President of the Alta Hospitals System, LLC subsidiary and one of the Company's directors and the President of ProMed Healthcare

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Administrators, executed a voting agreement pursuant to which they agreed, subject to the terms thereof, to vote their shares of the Company's common stock in favor of the approval and adoption of the Ivy Merger Agreement. The voting agreement provided the requisite stockholder approval for the merger.

Pursuant to a contribution and subscription agreement, immediately prior to the completion of the merger, the Rollover Investors contributed a total of 6,227,824 shares of the Company common stock (the "Rollover Shares") in exchange for shares of Ivy Holdings common stock. Following the completion of the Ivy Merger, the Rollover Investors beneficially own approximately 20.2%, 14.9%, 1.6% and 1.2%, respectively, of the outstanding common stock of Ivy Holdings (excluding any stock options that have been granted, or may in the future be granted, to the Rollover Investors pursuant to a management equity incentive plan that Ivy Holdings adopted in December 2010, as further discussed in Note 10).

The terms of the contribution and subscription agreement entitled the CEO and the President of Alta, in their discretion, to offer other employees of the Company the ability to acquire shares of Ivy Holdings common stock on the same terms and conditions as the Rollover Investors. Immediately prior to the completion of the merger, a group of 11 employees of the Company (the "Additional Employee Investors") contributed to Ivy Holdings approximately 136,765 shares of the Company's common stock in exchange for shares of Ivy Holdings' common stock. Following the completion of the merger, the Additional Employee Investors beneficially own a total of approximately 0.8% of the outstanding common stock of Ivy Holdings (excluding any stock options that have been granted, or may in the future be granted, to the Additional Employee Investors pursuant to a management equity incentive plan that Ivy Holdings adopted in December 2010, as further discussed in Note 10).

The LGP Funds, affiliated investment funds of Leonard Green Partners, L.P. ("LGP"), own the remainder of the common stock of Ivy Holdings not owned by the Rollover Investors and the Additional Employee Investors. As a result, at the Merger Effective Date, the Company, which became a wholly-owned subsidiary of Ivy Holdings, is approximately 61% indirectly owned by the LGP Funds and approximately 39% indirectly owned by the Rollover and Additional Employee Investors. In connection with the Ivy Merger, the Company also recorded a capital contribution of approximately $844,000 from the LGP Funds. In connection with such capital contribution and the acceleration of unvested options at the Merger Effective Date, additional paid-in capital totaling approximately $9,200,000 was recorded in the first quarter of the year ended September 30, 2011.

Following the Ivy Merger, each holder of the Company's PMH 2014 Notes (described in Note 9 below) was entitled under the notes' indenture to require the Company to repurchase all or a portion of the holder's senior secured notes at a cash purchase price equal to 101% of the principal amount of the PMH 2014 Notes plus accrued and unpaid interest. In December 2010 and January 2011, a total of approximately $8,200,000 of the PMH 2014 Notes were tendered by note holders and were purchased by the Company in January 2011.

Following the announcement of the Merger with controlled entities of the LGP Funds, two putative class action complaints were filed against the Company, each of our special committee members, Ivy Holdings, Leonard Green & Partners, L.P. and certain other parties. These complaints, which were consolidated into a single action, allege generally that defendants breached their fiduciary duties, or aided and abetted others' breaches of their fiduciary duties, in connection with the transaction with the Company by, among other things, authorizing the transaction for what

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plaintiffs claim to be inadequate consideration and pursuant to what plaintiffs claim to be an inadequate process and with inadequate disclosures. An amended complaint was filed in July 2011 alleging the same general facts. On December 30, 2010, another lawsuit was filed in Delaware Chancery Court by Terrier Partners and five related entities against the same defendants identified above. The complaint alleges generally that the consideration offered to shareholders in connection with the transaction with the Company was inadequate in light of the revenue received under AB 1383 (see Note 11), and that defendants breached their fiduciary duties, or aided and abetted others' breaches of their fiduciary duties by not obtaining a higher price in light of this additional revenue. This action was stayed pending a decision on the motion for class certification.

In May 2012, the Court of Chancery granted motions to consolidate the Terrier Partners case and the class action cases, and for class certification, certifying the class as a non-opt out class. The Court also entered a schedule permitting the plaintiffs to file a new amended complaint, and on June 11, 2012, plaintiffs filed their Verified Consolidated Third Amended Class Action Complaint.

In connection with the merger, the Company has incurred and expensed a total of approximately $547,000 and $13,331,000 of merger-related expenses, during the years ended September 30, 2012 and 2011, respectively.

5. Acquisitions and Investments

Nix Health

Effective February 1, 2012, the Company acquired substantially all of the assets and assumed certain liabilities of MHS San Antonio, LLC (dba Nix Health Care System), a hospital system with 297 licensed beds, which offers San Antonio, Texas and the surrounding communities an array of medical services ranging from primary care and surgical services to behavioral and rehabilitation services. This acquisition adds further geographic and payor mix diversification consistent with the Company's growth strategy. The assets were acquired from subsidiaries of Merit Health Systems, LLC, principally Accord Medical Management, LP and Accord Properties, LP. The consideration for the Nix Health acquisition included approximately $44,000,000 in cash and assumption of approximately $4,000,000 in loans and capital leases, for total consideration of approximately $48,000,000. The acquisition of Nix Health is accounted for as a business combination using purchase accounting. Under the purchase accounting method, the amount of consideration paid is allocated to assets acquired and liabilities assumed based on their estimated fair values.

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The following table summarizes the assets acquired and liabilities assumed in connection with the Nix Health acquisition, as of February 1, 2012 (in thousands):

	Purchase Price Allocation
Patient accounts receivable	$ 9,766
Prepaid expenses and other current assets	11,514
Property, improvements and equipment	40,167
Goodwill	3,295
Intangible assets	3,362
Accounts payable and other liabilities	(21,142)
Capital leases	(1,801)
Long-term debt	(2,300)
Net cash consideration subject to working capital adjustment	42,861
Working capital adjustment	1,162
Net cash consideration	$ 44,023

Brotman Medical Center

On August 31, 2005, the Company invested $1,000,000 for an approximate 33.1% stake in Brotman. On October 25, 2007, Brotman filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code, and on April 14, 2009, the U.S. Bankruptcy Court confirmed and declared effective the final Chapter 11 Plan of Reorganization (the "Plan") of Brotman whereby, among other things, all of Brotman's outstanding securities were canceled and, in exchange for their pro rata share of the New Value Contribution (as defined in the Plan) totaling $3,500,000, holders of Brotman's securities would receive New Common Stock in Brotman in the same percentage as their pro rata share of the New Value Contribution. Prospect Hospital Advisory Services ("PHAS"), a wholly owned subsidiary of the Company, made a $1,814,000 investment in Brotman on January 13, 2009 and $705,000 on December 31, 2009, totaling $2,519,000 while other shareholders made a total cash investment of $981,000, and this increased PHAS total ownership interest to 71.96%. Brotman completed multiple rights offerings from emergence of bankruptcy through December 2011, whereby PHAS participated in the amount of $6,791,000 increasing its ownership stake to approximately 78.28%, given the level of participation from other stockholders. Between January and April 2012, the Company purchased the remaining interests of Brotman, increasing its ownership to 100%, which have been accounted for as equity transactions. Prior to the ownership of all outstanding common stock of Brotman, the pro rata share of net income (loss) of Brotman attributable to non-controlling interest is reported as net income (loss) attributable to non-controlling interest in the consolidated statements of operations.

For financial reporting purposes, the acquisition of Brotman as of April 14, 2009 was treated as a business combination in accordance with GAAP and the excess consideration over the estimated fair value of assets acquired and liabilities assumed was allocated to goodwill (approximately $24,373,000) and identifiable intangible assets. The Company did not perform an impairment test related to Brotman goodwill at September 30, 2012 and 2011, as this was not required under current accounting literature due to the negative carrying value of Brotman's net assets. However, accounting literature expected to be adopted by the Company effective October 1,

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2012, for non public reporting companies could require an impairment of Brotman goodwill and the amount of such impairment could be significant to the consolidated financial statements.

6. Goodwill and Intangible Assets

As of September 30, 2011, all goodwill and intangible assets relate to the Alta, Brotman and ProMed Entities. Additionally as of September 30, 2012 goodwill and intangible assets also relate to Nix Health. The Company performed its annual goodwill impairment analysis for each reporting unit that constitutes a business for which 1) discrete financial information is produced and reviewed by management, and 2) services that are distinct from the other reporting units. No impairment assessment was performed for Brotman or Nix Health as of September 30, 2012, as Brotman has a negative carrying value, while Nix Health was recently acquired and there have been no indicators of impairment.

For the Medical Group segment, the Company has determined that PHCA and the ProMed Entities (collectively referred to as "ProMed"), as well as PMS and the other affiliated physician organizations as a group (collectively referred to as "Prospect") each constitutes a separate reporting unit.

For the Hospital Services segment, the reporting unit for the annual goodwill impairment analysis is determined to be at the individual entity level. An analysis was prepared for Alta but, as noted above, no assessment was prepared for Brotman or Nix Health.

The carrying value of goodwill for Brotman, Alta and ProMed at September 30, 2012 and 2011 was $24,373,000, $106,538,000 and $22,339,000, respectively.

The following table summarizes the changes to goodwill (in thousands):

Goodwill, September 30, 2011 and 2010	$	153,250
Additions from acquisition of Nix Health (Note 5)		3,295
Goodwill, September 30, 2012	$	156,545

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Identifiable intangible assets are comprised of the following (in thousands):

	September 30, 2012				
	Alta	ProMed	Brotman	Nix Health	Total
HMO membership	$ -	$ 25,200	$ -	$ -	$ 25,200
Covenants not-to-compete	2,240	940	-	120	3,300
Trade names	14,140	9,450	3,000	2,740	29,330
Favorable leasehold	-	-	-	20	20
Physician guarantees	-	-	-	793	793
Provider networks	-	1,200	-	-	1,200
Gross carrying value	16,380	36,790	3,000	3,673	59,843
Accumulated amortization	(5,879)	(14,782)	(516)	(586)	(21,763)
Intangible assets, net	$ 10,501	$ 22,008	$ 2,484	$ 3,087	$ 38,080

	September 30, 2011			
	Alta	ProMed	Brotman	Total
HMO membership	$ -	$ 25,200	$ -	$ 25,200
Covenants no-to-compete	2,240	940	-	3,180
Trade names	14,140	9,450	3,000	26,590
Provider networks	-	1,200	-	1,200
Gross carrying value	16,380	36,790	3,000	56,170
Accumulated amortization	(5,172)	(12,341)	(366)	(17,879)
Intangible assets, net	$ 11,208	$ 24,449	$ 2,634	$ 38,291

Amortization is recognized on a straight-line basis (management's best estimate of the period of economic benefit) over the respective useful lives and expense for the years ended September 30, 2012 and 2011 was approximately $3,884,000 and $3,868,000, respectively.

Estimated amortization expense for each future fiscal year is as follows (in thousands):

Years ended September 30,	
2013	$ 4,220
2014	4,002
2015	3,873
2016	3,786
2017	3,421
Thereafter	18,778
Total	$ 38,080

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The following table shows the estimated useful lives for each of the intangible assets:

	Estimated useful lives
HMO membership	14 years
Covenants not-to-compete	18 months to 6 years
Trade names	5 - 20 years
Favorable leasehold	6 years
Physician guarantees	2 to 3 years
Provider networks	3 years

7. Related Party Transactions

An officer of the ProMed Entities has ownership interests in physician medical groups that provide medical services to ProMed members. For the years ended September 30, 2012 and 2011, the ProMed Entities paid these groups approximately $16,474,000 and $14,719,000, respectively.

Effective November 3, 2011, the Promed Entities entered into an Exclusivity and Non- Solicitation Agreement with the physician medical group and certain of its physicians. The amount paid for this agreement amounted to $1,000,000.

Pursuant to a Management Services Agreement, dated December 15, 2010 and amended on May 3, 2012 (the "LGP Management Agreement"), between the Company and LGP, LGP provides to the Company, (a) certain investment banking services, (b) management, consulting and financial planning services and (c) financial advisory and investment banking services in connection with major financial transactions from time to time. In consideration for the services provided by LGP under the LGP Management Agreement, the Company pays LGP an annual fee of $1,000,000, payable in monthly installments, and reimburses LGP for its related expenses up to $50,000 annually. If approved by the unanimous consent of the Board of Directors of the Company, additional customary fees may be due to LGP pursuant to the terms of the LGP Management Agreement for services rendered in connection with major transactions from time to time. For services rendered by LGP in connection with the consummation of the Ivy Merger, a one-time structuring fee and related expenses of $4,441,000 was paid by the Company to LGP. This amount was expensed during the year ended September 30, 2011.

Concurrent with the closing of the Ivy Merger on December 15, 2010, Ivy Holdings, Ivy Intermediate Holding Inc. ("Ivy Intermediate") and the Company entered into a Tax Sharing Agreement. Following the consummation of the Ivy Merger, the Company, which merged with a subsidiary of Ivy Intermediate, became a wholly-owned subsidiary of Ivy Holdings. Therefore, Ivy Holdings is now the parent of an affiliated group of corporations within the meaning of Section 1504(a) of the Internal Revenue Code of 1986. The Tax Sharing Agreement allows the Company to make payments to Ivy Holdings as necessary to fund their payment of any required taxes incurred due to such parent status. During the years ended September 30, 2012 and 2011, the Company made payments under this arrangement of $2,702,000 and $8,000, respectively.

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8. Income Taxes

The components of the income tax provision are as follows (in thousands):

For the years ended September 30,	2012	2011
Current:		
Federal	$ 10,188	$ 15,032
State	3,325	1,605
	13,513	16,637
Deferred:		
Federal	(9,150)	(7,311)
State	(1,765)	(1,170)
	(10,915)	(8,481)
Total:		
Federal	1,038	7,721
State	1,560	435
	$ 2,598	$ 8,156

Temporary differences and carry forward items that result in deferred income tax balances as of September 30 are as follows (in thousands):

September 30,	2012	2011
Deferred tax assets:		
State tax benefit	$ 2,042	$ 1,384
Allowances for bad debts	11,161	13,388
Vacation accrual and other	3,954	3,103
Workers compensation	1,203	1,193
Accrued physician bonuses	3,552	3,555
Malpractice reserves	837	281
Deferred rent	105	105
Other	356	314
Net operating losses	15,807	17,210
Capital loss carryforward	2,255	2,255
Deferred tax assets	41,272	42,788
Valuation allowance	(17,099)	(27,548)
Net deferred tax assets	24,173	15,240
Deferred tax liabilities:		
Intangible assets	(10,549)	(8,818)
Fixed assets	(21,691)	(25,354)
Non-stockholder capital contribution	(2,142)	(2,142)
Prepaid expenses	(384)	(434)
Deferred tax liabilities	(34,766)	(36,748)
Net deferred tax liabilities	$ (10,593)	$ (21,508)

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Deferred tax assets and liabilities reflect the effect of temporary differences between the assets and liabilities recognized for financial reporting purposes and the amounts recognized for income tax purposes.

As discussed in Note 5, between January and April 2012, the Company increased its ownership in Brotman from 78.28% to 100%, following which, the Company now includes Brotman in its consolidated federal income tax return. Based on the available objective evidence, the Company believes it is more likely than not that certain Brotman deferred tax assets will be fully realizable. Accordingly, the Company reversed approximately $8,000,000 of deferred tax valuation allowances for the year ended September 30, 2012.

At September 30, 2012, the Company had federal and state net operating loss carryovers of approximately $35,600,000 and $45,300,000 which, if not utilized, will expire beginning 2032 and 2022, respectively. A substantial portion of these net operating loss carryforwards are subject to limitations under Internal Revenue Code Section 382, and their use may be severely limited in the future.

Brotman is under audit by the Internal Revenue Service ("IRS") for the years ended September 30, 2008 through 2010. PMH is under audit by the IRS for the year ended September 30, 2010 and the period from October 1, 2010 to December 15, 2010. PMG is under audit by the IRS for the year ended September 30, 2010. No material tax liabilities have been asserted to date with respect to any of these audits.

As further discussed in Note 10, in connection with the Ivy Merger that resulted in acceleration of certain unvested stock options, the Company recorded a credit to additional paid-in capital, which represents the tax benefit of the excess of the deductible amount over the total recognized compensation cost related to the merger transaction. Excess tax benefits realized related to such transaction of approximately $5,900,000, have been reported as both a cash inflow from financing activities and a cash outflow from operating activities in the accompanying consolidated statement of cash flows for the year ended September 30, 2011.

At September 30, 2012 and 2011, the Company has approximately $970,000 and $970,000, respectively, of unrealized excess tax benefits related to employee stock options. This amount is not included in the table of deferred tax assets above and the benefit will be recorded as an increase to additional paid in capital if and when realized.

The differences between the income tax provision at the federal statutory rate and that reflected in the accompanying consolidated statements of operations are summarized as follows:

For the years ended September 30,	**2012**	2011
Tax provision at statutory rate	**35%**	35%
State taxes, net of federal benefit	**5%**	(2)%
Permanent and other items	**2%**	16%
Change in valuation allowances	**(28)%**	99%
Other	**(5)%**	-
	9%	148%

9. Long-Term Debt

Long-term debt consists of the following (in thousands):

September 30,	**2012**	2011
Prospect's debt:		
Senior secured notes	**$ 325,000**	$ 151,800
Less: original issue discount	**-**	(7,689)
Demand notes	**804**	-
	325,804	144,111
Brotman's debt:		
Senior secured revolving credit facility	**-**	5,956
Secured credit facility term loan: A	**-**	16,000
Secured credit facility term loan: B	**-**	6,250
Subordinated promissory note	**500**	1,500
	500	29,706
Nix Health's debt:		
Mortgage debt	**2,028**	-
Note payable	**140**	-
	2,168	29,706
	328,472	173,817
Less: current maturities	**(1,515)**	(29,206)
Long-term debt, net of current maturities	**$ 326,957**	$ 144,611

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Prospect's Debt:

Senior Secured Notes

On May 3, 2012, the Company closed the offering of $325 million in 8.375% senior secured notes due May 1, 2019 ("PMH 2019 Notes"). Interest is payable semi-annually in arrears on May 1 and November 1, commencing on November 1, 2012. The offering was executed in accordance with rule 144A and Regulation S under the Securities Act of 1933. The terms of the PMH 2019 Notes are governed by an indenture among the Company, certain of its subsidiaries and affiliates (as "Guarantors"), and U.S. Bank National Association (as trustee) (the "Indenture"). The Indenture contains certain covenants that, among other things, limit the Company's ability, and the ability of its restricted subsidiaries (as such term is defined in the Indenture) to: retire and pay dividends or distributions on capital stock or equity interests, prepay subordinated indebtedness or make other restricted payments; incur additional debt; make investments; create liens on assets; enter into transactions with affiliates; engage in other businesses; sell or issue capital stock of restricted subsidiaries; merge or consolidate with another company; transfer and sell assets; create dividend and other payment restrictions affecting subsidiaries; and designate unrestricted subsidiaries. The Credit Agreement (defined below), executed in connection with the PMH Senior Secured Credit Facility (discussed below), contains a number of customary covenants as well as covenants requiring the Company to maintain a maximum consolidated secured leverage ratio and limiting the amount of capital expenditures. As of September 30, 2012, the Company was in compliance with the financial covenants of the Indenture and Credit Agreement. Capitalized deferred financing costs related to the PMH 2019 Notes and PMH Senior Secured Credit Facility (discussed below) amounting to $10,208,000 through September 30, 2012 are being amortized over the term of the related debt using the effective interest method.

Concurrent with the issuance of the PMH 2019 Notes, the Company entered into a five year $50 million revolving senior secured credit facility (the "PMH Senior Secured Credit Facility") which replaced the existing senior secured credit facility. The PMH Senior Secured Credit Facility provides, among other things, for borrowings up to the amount of the facility with sublimits of up to (i) $20 million to be available for the issuance of letters of credit and (ii) $10 million to be available for swingline loans. The commitment under the facility may be increased by up to $10 million upon the Company's request at the discretion of the lenders and subject to certain customary requirements. The interest rate per annum applicable to loans under the PMH Senior Secured Credit Facility will be, at the Company's option, either a rate per annum equal to (i) LIBOR plus 3.50% or (ii) an alternate base rate, which will be the higher of the administrative agent's prime rate, the federal funds rate plus 0.50%, and the 1-month LIBOR rate plus 1.00%, plus in each case, 2.50%. The PMH Senior Secured Credit Facility was undrawn at closing and remains undrawn as of September 30, 2012.

The PMH 2019 Notes and the PMH Senior Secured Credit Facility are jointly and severally guaranteed on a senior secured basis by all of the Company's subsidiaries (as such term is defined in the Indenture) other than AMVI/Prospect Medical Group, Nuestra and certain immaterial subsidiaries. The PMH 2019 Notes are secured pari passu with the PMH Senior Secured Credit Facility by first-priority Liens and security interests on substantially all of the tangible and intangible assets of the Guarantors, including, but not limited to, the accounts receivable, inventories, other personal property, real property, fixtures and equipment, in each case now owned or hereafter acquired by the Company and the Subsidiary Guarantors, with certain exceptions. The PMH 2019 Notes are effectively senior to all of the Guarantors' existing and future Indebtedness.

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The terms of the PMH Senior Secured Credit Facility are governed by the Credit Agreement, dated as of May 3, 2012, among the Company, Morgan Stanley Senior Funding, Inc. (as administrative agent), Royal Bank of Canada and Credit Suisse AG, Cayman Islands Branch (as co-syndication agents) and the lenders party thereto (the "Credit Agreement").

The Company, at its option, may redeem all or part of the notes at redemption price equal to 106.281%, 104.188%, 102.094% and 100.0% on or after May 1, 2015, 2016, 2017 and 2018, respectively. Prior to May 1, 2015, the Company, at its option, may (i) redeem up to 35% of the original principal amount of the notes with the proceeds of certain equity offerings at a redemption price of 108.375% (ii) redeem up to 10% of the original principal amount of the PMH 2019 Notes during each 12-month period, commencing on May 1 in each of 2012, 2013 and 2014, at a redemption price of 103.0% of the principal amount thereof (this redemption option was terminated in connection with the Company's November 2012 offering of additional PMH 2019 Notes - see Note 17) or (iii) redeem the PMH 2019 Notes, in whole, but not in part, at a redemption price of 100.0% of the aggregate principal plus a make-whole premium. There are no required principal payments on the PMH 2019 Notes until maturity.

See Note 17 (Subsequent Events) for a description of the Company's November 16, 2012 closing of the issuance of an additional $100 million of PMH 2019 Notes.

Retired Senior Secured Notes

On July 29, 2009, the Company closed the offering of $160 million in 12.75% senior secured notes due 2014 at an issue price of 92.335% with interest payable semi-annually in arrears on January 15 and July 15 ("PMH 2014 Notes"). The sale was executed in accordance with Rule 144A and Regulation S under the Securities Act of 1933. Concurrent with the issuance of the PMH 2014 Notes, the Company entered into a three year $15 million revolving credit facility ("2009 Credit Facility") which was undrawn at closing, with any future borrowings bearing interest at London Interbank Offered Rate ("LIBOR") plus 7.00%, with a LIBOR floor of 2.00%. Capitalized deferred financing costs and original issue discount related to the PMH 2014 Notes was being amortized over the term of the related debt using the effective interest method.

In connection with the Company's acquisition of Nix Health, effective February 1, 2012, the Company entered into an amended credit agreement with Royal Bank of Canada (as administrative agent) and in accordance with which the available loan commitments were increased to $25 million, certain covenants were relaxed and the interest rate was changed to the higher of (1) RBC prime rate, (2) the Federal funds rate plus 0.5% and (3) the 30-day LIBOR indexed rate. Also on February 1, 2012, the Company borrowed $15 million of the available loan commitment, of which on March 26, 2012 approximately $10 million was repaid. Pursuant to the further Amendment of the 2009 Credit Facility dated March 7, 2012, an additional incremental loan commitment of $15 million was obtained, bringing the total loan commitment to $40 million.

Pursuant to its definitive Prospectus filed with the SEC via Form S-4 on October 26, 2009, the Company offered to exchange (the "Exchange Offer") up to $160 million of its 12.75% Senior Secured Notes, Series B, due 2014 (the "Exchange Notes" and together with the Original Notes, the "PMH 2014 Notes") for an equal amount of the PMH 2014 Notes issued on July 29, 2009 (the "Original Notes"). The Exchange Notes were substantially identical to the Original Notes, except that the offer and sale of the Exchange Notes were registered under the Securities Act of 1933, as amended, and the Exchange Notes did not bear any legend restricting their transfer. The Exchange Offer was finalized on December 3, 2009, at which time $159 million of the $160 million

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aggregate principal amount of private notes had been tendered and accepted for exchange. Pursuant to a post-effective amendment to the Form S-4 filed with the SEC on December 3, 2010, the Company removed from registration the Exchange Notes that were not issued because the corresponding Original Notes were not tendered for exchange.

Following the Ivy Merger, each holder of the Company's PMH 2014 Notes was entitled under the notes' indenture to require the Company to repurchase all or a portion of the holder's PMH 2014 Notes at a cash purchase price equal to 101% of the principal amount plus accrued and unpaid interest. Accordingly, following the effective time of the merger, notice was provided to each holder of such notes advising the holder that it was entitled under the indenture, prior to January 14, 2011, to require the Company to purchase the PMH 2014 Notes held by the holder at a purchase price equal to 101% of the principal amount of the PMH 2014 Notes, plus accrued and unpaid interest to the date of purchase. PMH 2014 Notes with an aggregate principal amount of $8.2 million were tendered, and Prospect repurchased such notes effective January 19, 2011.

On December 15, 2010, the effective time of the Ivy Merger, the Company and U.S. Bank National Association, a national banking association (the "Trustee"), entered into a First Supplemental Indenture (the "First Supplemental Indenture") in connection with the merger, pursuant to which the Company was permitted under Section 3.3 of the Indenture to make certain "Restricted Payments" immediately following consummation of the merger. In addition to the First Supplemental Indenture executed on December 15, 2010, on that date the Company and Royal Bank of Canada entered into a Consent and Agreement that provided for certain consents in connection with the Ivy Merger and certain amendments of covenants and conditions contained in the Credit Agreement.

As of July 26, 2011, in response to the Company's solicitation and receipt of tenders and consents from holders of $137,637,000 in aggregate principal amount of the PMH 2014 Notes (representing approximately 90.6% of the outstanding Notes) consenting to the amendment of the Company's reporting obligations under the Indenture, whereby the Company discontinued filing with the SEC. To effectuate such amendment, the Company, its subsidiary guarantors and U.S. Bank National Association (as trustee) executed a Second Supplemental Indenture (the "Second Supplemental Indenture") and the Company filed a Form 15 with the SEC that terminated its reporting obligations for the Exchange Notes under the Securities Exchange Act of 1934. Following the execution of the Second Supplemental Indenture and the filing of the Form 15, the Company no longer filed periodic reports with the SEC and instead provided quarterly and annual financial statements and earnings releases to U.S. Bank National Association (as trustee) and the holders of the PMH 2014 Notes. Pursuant to this amendment, the Company incurred a fee totaling approximately $690,000, which was fully expensed during the year ended September 30, 2011.

On April 18, 2012, the Company commenced a cash tender offer, subject to the consummation of the Existing Notes offering and certain other conditions, to repurchase any and all of the Company's PMH 2014 Notes and a related consent solicitation to proposed amendments to the PMH 2014 Notes indenture and collateral documents to, among other things, permit the grant of liens on the Guarantors assets to secure the notes and subsidiary guarantees. The total consideration for the PMH 2014 Notes under the Tender Offer was equal to $1,087.95 per $1,000 principal amount of the PMH 2014 Notes, which included a consent payment of $30.00 per $1,000 principal amount of PMH 2014 Notes for those holders who tendered and consented to the proposed amendments by the early consent date, plus accrued and unpaid interest to the purchase date. Holders that tendered after the early consent date, but on or before the expiration date, received

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consideration equal to $1,057.95 per $1,000 principal amount of the PMH 2014 Notes, plus accrued and unpaid interest to the purchase date.

Upon the completed issuance of the PMH 2019 Notes, the proceeds of the issuance were used to repay $151.8 million owing on the PMH 2014 Notes (plus accrued interest), $5 million outstanding on the 2009 Credit Facility, and the call premium of $13.3 million, which is recorded within Prepayment penalty on debt refinance within the consolidated statements of operations. In addition, the Company wrote off the unamortized debt discount of approximately $6.4 million and unamortized debt financing costs of approximately $3.9 million related to the PMH 2014 Notes and 2009 Credit Facility.

Demand Notes

During the year ended September 30, 2012, the Company obtained a commitment from a bank for a $9.3 million equipment leasing facility to finance various equipments at Alta and Brotman. As of September 30, 2012, of a total of $4.9 million drawn under the facility, approximately $4.1 million has been converted to equipment leases and are classified as capital lease arrangements (see Note 11). Pending its conversion to equipment leases, the remaining $804,000 was classified as current debt, pursuant to certain demand notes, and the amount is payable on December 15, 2012 unless earlier demanded by the bank. Interest accrues on these notes at the bank prime rate plus 1.5% with a floor of 4.5% and is payable monthly. On December 17, 2012, pursuant to certain equipment financing agreements, the amount was converted to equipment leases, effective December 15, 2012.

Brotman's Debt:

Brotman had debt under a Senior Secured Revolving Credit Facility, Secured Term Loans and an Unsecured Promissory Note entered into in conjunction with affecting its Plan of Reorganization.

Senior Secured Revolving Credit Facility

On April 14, 2009, in conjunction with emergence from bankruptcy, Brotman obtained a commitment from Gemino Healthcare Finance, LLC ("Gemino") for a three year, $6.0 million (subsequently increased to $7.0 million), senior credit facility secured by Brotman's accounts receivable. The facility originally was set to expire on the earlier of April 14, 2012 and the Los Angeles Jewish Home for Aging ("JHA") loan (see below) maturity date and bore interest at LIBOR plus 7% per annum, given a LIBOR floor of 4%. On April 11, 2012, the Company obtained a 30-day extension of the maturity date of its senior credit facility from Gemino, which was extended to May 11, 2012. Interest was incurred based on the greater of $2 million or the actual outstanding principal balance. The agreement also included an unused line fee of 0.5% per annum and a collateral line fee, based on the average outstanding principal balance, of 0.5% per annum. Loan fees associated with the Gemino loan totaling approximately $120,000, were capitalized and amortized over the term of the related debt using the effective interest method. Upon the completed issuance of the PMH 2019 Notes, part of the proceeds of the issuance were used to repay the remaining amounts owing on this credit facility.

Secured Credit Facilities Term Loans: A and B

On April 14, 2009, in conjunction with Brotman's emergence from bankruptcy, JHA agreed to provide Brotman with up to $22.25 million in financing, consisting of two term loans: (i) a Term A

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Loan of $16 million (the "Term A Loan") with a 24-month term and (ii) a Term B Loan of up to $6.25 million, with a 36-month term (the "Term B Loan"). Subject to the notification requirements set forth in the loan agreements, the term of the Term A Loan could be extended up to 36 months. Interest on the Term A Loan was payable at 10% per annum for the first year of the loan, and 7.5% thereafter. Interest on the Term B Loan was payable at 10% per annum for the term of the loan. The Term A Loan and Term B Loan were secured by certain of Brotman's personal property, and a mortgage on certain of Brotman's real property. Loan fees associated with the JHA loans totaling approximately $1,549,000, were capitalized and included as deferred financing costs with that amount being amortized over the term of the related debt using the effective interest method.

As part of the Tem A Loan, Brotman granted JHA an option to purchase certain Brotman-owned property, where JHA planned to construct a senior living facility, for a purchase price equal to the outstanding principal balance of the Term A Loan plus any prepaid amounts. The real estate purchase option, was recorded at its present value, estimated using discounted cash flow analyses based on market rates obtained from independent third parties for similar type debt. Based on an estimated market interest rate of 10.0%, the present value of the loan was estimated to be approximately $15,655,000 at inception. The difference of $345,000 between the recorded present value and the face value of the loan was recorded as a discount against the loan and was amortized to interest expense, using the effective interest rate method, over the term of the loan.

Upon the completed issuance of the PMH 2019 Notes, part of the proceeds of the issuance were used to repay the outstanding balance of approximately $16 million owing on the Term A Loan and approximately $6.25 million on the Term B Loan. The purchase option expired upon the repayment of the Term A Loan and the accrued option liability of $345,000 was reversed into income at that time.

Promissory Note

On April 14, 2009, in conjunction with emergence from bankruptcy, Brotman executed a $4,000,000 unsecured Class 4 Note, to be held by the Creditor Trust for the benefit of holders of allowed Class 4 claims (as defined in the Plan) and paid pro rata to holders of allowed Class 4 claims. The Note bears interest at 7.50% per annum and is payable in sixteen equal quarterly installments of principal, plus accrued interest through February 15, 2013. As of September 30, 2012, the outstanding balance on the note was $500,000.

Nix Health's Debt:

Mortgage Debt

In connection with the Nix Health acquisition, Nix SPE, LLC ("Nix SPE") executed a Loan Assumption Agreement, effective as of February 29, 2012, pursuant to which Nix SPE assumed the obligations of the sellers of Nix Health under a loan facility provided by The Ohio National Life Insurance Company on December 27, 1999. Nix SPE assumed the obligation to pay the outstanding principal amount of approximately $2,028,000 as of September 30, 2012, and interest accruing thereafter. Prospect Hospital Holdings, LLC, the parent company of Nix SPE, has provided a guaranty of the obligations of Nix SPE under the loan. The obligations under the loan facility are secured by a deed of trust on a neighborhood medical center known as Nix Alamo Heights.

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The loan is subject to a 7.0% interest rate and requires monthly installment payments of $20,674, with a balloon payment on the maturity date of November 1, 2019. Prepayment is subject to a fee and the loan contains customary covenants.

Note Payable

Nix Health entered into a note payable due in March of 2014. Interest accrues on this note at 8.96% and is payable monthly. The outstanding balance of this note as of September 30, 2012 is $140,000.

Scheduled payments under the Company's current and long-term debt as of September 30, 2012 are as follows (in thousands):

Year ending September 30,	
2013	$ 1,515
2014	156
2015	126
2016	135
2017	145
Thereafter	326,395
	$ 328,472

10. Equity-Based Compensation Plans

On August 13, 2008, the Company adopted the 2008 Omnibus Equity Incentive Plan ("2008 Plan") to provide flexibility in implementing equity awards, including incentive stock options ("ISO"), non-qualified stock options ("NQSO"), restricted stock grants, stock appreciation rights ("SAR") and performance based awards to employees, directors and outside consultants, as determined by the Compensation Committee of the Board of Directors. In conjunction with the adoption of the 2008 Plan, effective August 13, 2008, additional equity awards under the Company's 1998 Stock Option Plan ("1998 Plan") were discontinued and new equity awards made prior to the completion of the Ivy Merger were granted under the 2008 Plan. Remaining authorized shares under the 1998 Plan which were not subject to outstanding awards as of August 13, 2008, were canceled on August 13, 2008. The 1998 Plan remained in effect as to outstanding equity awards granted under the 1998 Plan prior to August 13, 2008. At the inception of the 2008 Plan, 4,000,000 shares were reserved for issuance under the 2008 Plan.

As a result of the Ivy Merger, both the 1998 Plan and the 2008 Plan (collectively the "Prospect Medical Holdings Plan") were terminated and any unexercised options outstanding under the plans, the individual option agreements and any stock options issued outside of the plans were cancelled. Any offerings of common stock upon exercise of any such options pursuant to their registration statements were terminated.

Effective December 15, 2010, the Board of Directors of Ivy Holdings adopted the Ivy Plan that authorized the issuance of options exercisable for up to 155,110 shares of the common stock of Ivy Holdings to employees, certain consultants and independent members of the boards of directors, of Ivy Holdings and its subsidiaries (including the Company and its subsidiaries). During the years

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ended September 30, 2012 and 2011, Ivy Holdings granted 17,436 and 127,349 options to certain members of the Company's management and employees. These options are exercisable into Ivy Holdings stock and vest based on a number of criteria, including time, Company and Business Unit performance and CEO and Compensation Committee discretion. Since the Ivy Holdings stock options were granted to Company employees for their services related to the Company, the related compensation cost has been recorded in the Company's consolidated financial statements.

Under the terms of the Ivy Plan, the exercise price of an ISO may not be less than 100% of the fair market value of the Company's common stock on the date of grant and, if granted to a shareholder owning more than 10% of the Company's common stock, then not less than 110%. Stock options granted under the Ivy Plan have a maximum term of 10 years from the grant date, and are exercisable at such time and upon such terms and conditions as determined by the Compensation Committee. Stock options granted to employees generally vest over four years, subject to continued service, performance, and other criteria. In the case of an ISO, the amount of the aggregate fair market value of common stock with respect to which the ISO grant is exercisable, for the first time by an employee during any calendar year, may not exceed $100,000.

Stock Options Activity

The following table summarizes information about the Company's stock options outstanding as of September 30, 2012 and 2011 and activity during the years then ended:

	Shares Subject to Options	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term (Months)
Ivy Holdings, Inc. Stock Options:				
Outstanding as of September 30, 2010	—	$ —	$ —	—
Granted	127,349	100.00	—	—
Exercised	—	—	—	—
Forfeited	(5,255)	100.00	—	—
Expired	—	—		—
Outstanding as of September 30, 2011	122,094	100.00	—	112.8
Granted	17,436	100.00	—	—
Exercised	(853)	100.00	—	—
Forfeited	(28,152)	100.00	—	—
Expired	—	—	—	—
Outstanding as of September 30, 2012	110,525	$ 100.00	$ 90.00	104.2

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the estimated fair value of the Company's common stock for those awards that have an exercise price currently below the estimated fair value. As of September 30, 2012 the aggregate intrinsic value of outstanding shares was approximately $9,947,000.

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A summary of the Company's non-vested options and the changes during the fiscal years ended September 30, 2012 and 2011 is presented as follows:

	Shares	Weighted Average Grant Date Fair Value
Ivy Holdings, Inc. Stock Options:		
Granted	127,349	$ 50.73
Vested	(27,917)	50.73
Forfeited	(5,255)	50.73
Nonvested at September 30, 2011	94,177	50.73
Granted	17,436	50.73
Vested	(25,913)	50.73
Forfeited	(24,439)	50.73
Nonvested at September 30, 2012	61,261	$ 50.73

The actual fair value of the options granted ranges from $45.58 to $50.73 per option. However, the stock compensation expense is based on a fair value of $50.73 per option. This does not have a material effect on the consolidated financial statements.

As discussed in Note 4, in connection with the Ivy Merger, the vesting of certain unvested stock options was accelerated. The cancellation of an award accompanied by the concurrent grant of a replacement award or other consideration should be accounted for as a modification of the stock option terms. Thus incremental compensation cost, measured as the excess of the replacement award's fair value over the fair value of the cancelled award (at the cancellation date), totaling approximately $1,400,000 was recorded on the date of the Ivy Merger.

Unvested stock options that were not modified were cancelled, thus requiring the acceleration of the remaining unamortized stock based compensation totaling approximately $252,000, which was expensed on the date of the Ivy Merger.

Stock-Based Compensation Expense

Stock-based compensation expense for all share-based payments in exchange for employee services (including stock options and restricted stock) is measured at fair value on the date of grant, estimated using an option pricing model and is recognized in the consolidated financial statements, net of estimated forfeitures over the awards requisite service period.

The Company uses the Black-Scholes option pricing model and a single option award approach to estimate the fair value of options granted. Estimated forfeitures will be revised in future periods if actual forfeitures differ from the estimates and will impact compensation cost in the period in which the change in estimate occurs. The determination of fair value using the Black-Scholes option-pricing model is affected by the Company's estimated stock price as well as assumptions regarding a number of complex and subjective variables, including expected stock price volatility, risk-free interest rate, expected dividends and projected employee stock option exercise behaviors.

Fair value for options granted during the years ended September 30, 2012 and 2011 was estimated with the following assumptions for Ivy Holdings Inc.

For the years ended September 30,	**2012**	2011
Weighted average fair value of option grants	**$50.73**	$50.73
Estimated fair market value of the Company's common stock on the date of grant	**$100.00**	$100.00
Weighted average expected life of the options	**7.5-8.0 years**	7.5-8.0 years
Risk-free interest rate	**1.43% - 2.85 %**	1.43%-2.85%
Weighted average expected volatility	**41.49% - 43.03 %**	41.49%-43.03%
Dividend yield	**0.00%**	0.00%

Expected Term - The expected term of options granted represents the period of time that they are estimated to be outstanding.

Risk-Free Interest Rate - The Company bases the risk-free interest rate on the implied yield in effect at the time of option grant on U.S. Treasury zero-coupon issues with equivalent remaining terms.

Expected Volatility—The Company estimates the volatility of the common stock at the date of grant based on the average of the historical volatilities of a group of peer companies. The Company has identified a group of comparable companies to calculate historical volatility from publicly available data for sequential periods approximately equal to the expected terms of the option grants. In selecting comparable companies, Management considered several factors including industry, stage of development, size and market capitalization.

Forfeitures—Share-based compensation is recognized only for those awards that are ultimately expected to vest. Compensation expense is recorded net of estimated forfeitures. Those estimates are revised in subsequent periods if actual forfeitures differ from those estimates. The Company used data since May 2005 to estimate pre-vesting option forfeitures.

Stock-based compensation expense for the Ivy Holdings Inc. stock options recognized during the years ended September 30, 2012 and 2011 was approximately $1,294,000 and $1,388,000, respectively. At September 30, 2012, there were 61,261 unvested options which could potentially vest over the next three fiscal years, subject to meeting various vesting requirements which include time, discretion, and various performance targets as defined. The remaining maximum estimated stock compensation expense to be amortized to expense in future periods is approximately $2,771,000. The stock-based compensation expense is based on a number of criteria, including time, achievement of Company and Business Unit EBITDA targets and CEO and Compensation Committee discretion. Options which are expected to vest based on CEO and Compensation Committee discretion, are treated as variable stock options and are subject to revaluation at each reporting period. Management determined the fair value of the discretionary vested options using a Black Scholes calculation but determined that the change in compensation expense was not material to the consolidated financial statements at September 30, 2012.

11. Commitments and Contingencies

Leases

The Company leases various office facilities and equipment from third parties under non-cancelable operating and capital lease arrangements expiring at various dates through 2016. Certain operating leases contain rent escalation clauses and renewal options, which have been factored into determining rent expense on a straight-line basis over the lease terms. Capital leases bear interest at rates ranging from 5% to 10% per annum.

The future minimum annual lease payments (net of anticipated sublease income) required under leases in effect at September 30, 2012, are as follows (in thousands):

For the Years ending September 30,	Capital Leases	Operating Leases
2013	$ 3,876	$ 2,639
2014	3,388	1,467
2015	1,892	1,104
2016	799	478
Thereafter	887	554
Total minimum lease payments	10,842	$ 6,242
Less: amounts representing interest	(1,245)	
	9,597	
Less: current portion	(3,337)	
	$ 6,260	

Rent expense for the years ended September 30, 2012 and 2011 was approximately $6,720,000 and $4,757,000, respectively. Sublease rental income of approximately $233,000 and $43,000, for the years ended September 30, 2012 and 2011, respectively, was recorded as a reduction to rental expense.

Litigation

The Company is subject to a variety of claims and suits that arise from time to time in the ordinary course of its business, acquisitions, or other transactions. While the Company's management currently believes that resolving all of these matters, individually or in the aggregate, will not have a material adverse impact on the Company's consolidated financial position or results of operations, the litigation and other claims that the Company faces are subject to inherent uncertainties and management's view of these matters may change in the future. Should an unfavorable final outcome occur, there exists the possibility of a material adverse impact on the Company's consolidated financial position, results of operations and cash flows for the period in which the effect becomes probable and reasonably estimable.

As discussed at Note 4, following the announcement of the Ivy Merger, two putative class action complaints were filed against the Company, each of the Company's special committee members, Ivy Holdings, LGP and certain other parties. These complaints, which were consolidated into a single action, allege generally that defendants breached their fiduciary duties, or aided and

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abetted others' breaches of their fiduciary duties, in connection with the transaction with the Company by, among other things, authorizing the transaction for what plaintiffs claim to be inadequate consideration and pursuant to what plaintiffs claim to be an inadequate process and with inadequate disclosures. An amended complaint was filed in July 2011 alleging the same general facts.

On December 30, 2010, another lawsuit was filed in Delaware Chancery Court by Terrier Partners and five related entities against the same defendants identified above. The complaint alleges generally that the consideration offered to shareholders in connection with the transaction with us was inadequate in light of the revenue received under AB 1383 (see California Hospital Fee Program below), and that defendants breached their fiduciary duties, or aided and abetted others' breaches of their fiduciary duties by not obtaining a higher price in light of this additional revenue.

In May 2012, the Court of Chancery granted motions to consolidate the Terrier Partners case and the class action cases, and for class certification, certifying the class as a non-opt out class. The Court also entered a schedule permitting the plaintiffs to file a new amended complaint, and on June 11, 2012, plaintiffs filed their Verified Consolidated Third Amended Class Action Complaint. On July 26, 2012, the director defendants answered the Third Amended Complaint. That same day, Prospect moved to dismiss itself as a party to the Third Amended Complaint.

Many of the Company's payer and provider contracts are complex in nature and may be subject to differing interpretations regarding amounts due for the provision of medical services. Such differing interpretations may not come to light until a substantial period of time has passed following contract implementation. Liabilities for claims disputes are recorded when the loss is probable and can be estimated. Any adjustments to reserves are reflected in current operations.

Seismic Standards

Alta and Brotman are required to comply with the Hospital Seismic Safety Act ("SB 1953"), which regulates the seismic performance of all aspects of hospital facilities in California. SB 1953 imposes near-term and long-term compliance deadlines for seismic safety assessment, submission of corrective plans, and the retrofitting or replacement of medical facilities to comply with current seismic standards. In addition to SB 1953, California's Alfred E. Alquist Hospital Facilities Seismic Safety Act (the "Alquist Act") requires that the California Building Standards Commission adopt earthquake performance categories, seismic evaluation procedures, standards and timeframes for upgrading certain facilities, and seismic retrofit building standards. These regulations require hospitals to meet seismic performance standards to ensure that they are capable of providing medical services to the public after an earthquake or other disaster. The Building Standards Commission completed its adoption of evaluation criteria and retrofit standards in 1998.

The Alquist Act requires that within three years after the Building Standards Commission had adopted evaluation criteria and retrofit standards:

- Hospitals in California must conduct seismic evaluation and submit these evaluations to the Office of Statewide Health Planning and Development ("OSHPD"), Facilities Development Division for its review and approval;

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- Hospitals in California must identify the most critical nonstructural systems that represent the greatest risk of failure during an earthquake and submit timetables for upgrading these systems to the OSHPD, Facilities Development Division for its review and approval; and

- Hospitals in California must prepare a plan and compliance schedule for each regulated building demonstrating the steps a hospital will take to bring the hospital buildings into substantial compliance with the regulations and standards.

The Company was required to conduct engineering studies at its hospitals to determine whether and to what extent modifications to the hospital facilities will be required. Management believes that Brotman meets all current requirements; however, it may be required to make significant capital expenditures in the future to comply with the seismic standards, which could impact its earnings. The cost at September 30, 2012 is unknown at this time but could be material. In addition, such modifications to the hospital facilities could potentially result in environmental remediation liabilities which may be material to the Company.

The OSHPD is currently implementing a new voluntary program to re-evaluate the seismic risk of hospital buildings classified as Structural Performance Category ("SPC") 1. These buildings are considered hazardous and at risk of collapse in the event of an earthquake and must be retrofitted, replaced or removed from providing acute care services by 2013. OSHPD is using HAZARDS U.S. ("HAZUS"), a state-of-the-art methodology, to reassess the seismic risk of SPC-1 buildings and those that are determined to pose a low seismic risk may be reclassified to SPC-2. The SPC-2 buildings would have until 2030 to comply with the structural seismic safety standards. Participation in the HAZUS program is optional for hospital owners wishing to have their SPC-1 building(s) re-evaluated. Applications for a HAZUS re-evaluation of the seismic risk have been submitted for Hollywood Community Hospital, Los Angeles Community Hospital and Brotman, but there is no assurance they will result in extensions. Brotman has received SB 306 approval that extends to 2020 the seismic replacement or retrofit of its buildings provided Brotman meets certain interim requirements by interim deadlines. However, the next interim requirement for such extension, to file plans by January 1, 2013, will not be met by Brotman, which could jeopardize this basis for extension, in which case Brotman would have to rely on the alternative basis for extension under the HAZUS re-evaluation program, or SB90, if obtained. The SB 306 approval subordinates to HAZUS which, if received would give the Company an extension to 2030.

In addition, in 2011, the California Legislature enacted Senate Bill 90, which permitted some hospitals to apply for up to an additional seven year extension to the seismic retrofit deadlines, not to extend beyond January 1, 2020. SB 90 also permits OSHPD to extend until January 1, 2018 the date by which the hospitals must obtain a building permit and commence the required retrofit project. Brotman, Hollywood Community Hospital and Los Angeles Community Hospital have applied to OSHPD seeking the SB 90 extension. OSHPD has discretion to approve or disapprove such extension, and to determine the length of the extension (up to the maximum seven years), based on eligibility factors including seismic risks associated with the affected buildings (which can be impacted by the updated HAZUS findings), community access to essential hospital services in the area and financial hardships facing the applicant.

These requirements can result in significant operational changes and capital outlays. Management is continuing to assess its options and the methods of financing the required retrofits. Based on management's evaluation, the renovation needs to comply with the California seismic safety standards for its acute-care facilities, including asbestos abatement, are not estimable at this time.

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Legislation and HIPAA

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

The Company believes that it is in compliance with fraud and abuse regulations as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

The Health Insurance Portability and Accountability Act ("HIPAA") assures health insurance portability, reduces healthcare fraud and abuse, guarantees security and privacy of health information, and enforces standards for health information. The Health Information Technology for Economic and Clinical Health Act ("HITECH Act") imposes notification requirements of certain security breaches relating to protected health information. The Company may be subject to significant fines and penalties if found not to be compliant with the provisions outlined in the regulations.

California Hospital Fee Program

The State of California enacted Assembly Bill 1383 ("AB 1383") effective January 1, 2010, as amended by Assembly Bill 1653 (collectively, the "Program"), to provide one-time supplemental payments to certain medical facilities such as the hospitals owned and operated by the Company's subsidiaries that serve a disproportionate share of indigent and low-income patients. The Program requires participating hospitals to pay fee assessments into a pool of funds to which the federal government contributes matching funds. These funds, including the federal matching funds, are then distributed to qualifying hospitals based on a prescribed formula. In addition, on April 13, 2011 SB 90 was signed into law and provided for a six-month extension of the Hospital Fee Program for dates of service from January 1, 2011 through June 30, 2011. CMS granted final approval of SB 90 on December 29, 2011, at which point the revenue and expense was recognized for the retroactive period. In September 2011, the State of California enacted Senate Bill 335 ("SB 335") which provides a 30-month hospital fee program for dates of service from July 1, 2011 through December 31, 2013. The elements of SB 335 related to the fee for service payments were approved by CMS on June 22, 2012 and final CMS approval for managed care payments is expected in 2013. Implementation of SB 335 was delayed to August 2012 as a result of pending legal advice obtained by the California Hospital Association, although certain technical changes to the legislation required by CMS are included in Senate Bill 920.

For the years ended September 30, 2012 and 2011, Brotman received invoices for fee assessments under AB 1383 and SB 90 of approximately $6,310,000 and $19,000,000, respectively, following payment of which, Brotman was scheduled to receive approximately $5,236,000 and $15,000,000, respectively. Management of Brotman estimated that Brotman would be a "net" payer under the Program, since the fee assessments on Brotman exceeded by approximately $1,074,000 and

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$4,000,000 the supplemental payments that Brotman received as part of the Program. Accordingly, on October 6, 2010, the Company notified the California Department of Healthcare Services ("DHCS") that Brotman was opting out of the Program.

Brotman did not pay the required fee assessments under the Program. Beginning February 14, 2011, the DHCS began withholding against amounts otherwise due Brotman, in the amount of $65,000 per week indicating that withholdings would continue for 108 weeks and total approximately $7,000,000. Through September 30, 2012 and 2011, a total of approximately $2,986,000 and $1,772,000, respectively, had been withheld against Brotman's Medi-Cal payments. As of September 30, 2012 and 2011, Brotman has recorded a liability of approximately $5,494,000 and $4,800,000, respectively, representing the accrued loss above, as well as deferred recognition of payments received from managed care plans. Subsequent to September 30, 2012, the Company has settled this matter with the DHCS (see Note 17), whereby approximately $2,000,000 of the balance was forgiven by the DHCS and the remaining balance due is payable over a 10 year period.

All amounts received were reflected in net patient revenue, and all amounts paid were reflected in hospital operating expenses. As of September 30, 2012, The Company had approximately $33,473,000 of payments reflected in "hospital fee program receivable" and as of September 30, 2011, the Company had $8,841,000, reflected in "prepaid hospital fee program provider tax". As of September 30, 2012 and 2011, approximately $19,777,000 and $19,590,000, respectively, of receipts were reflected in "hospital fee program liability and deferred revenue", on the accompanying consolidated balance sheets.

Total California Hospital Fee program revenues and expenses recognized during the years ended September 30, 2012 and 2011 were as follows (in thousands):

Year Ended September 30,	**2012**	2011
Hospital services revenues	**$ 95,871**	$ 59,594
Hospital operating expenses	**63,774**	45,199
Net pre-tax impact	**$ 32,097**	$ 14,395

Collective Bargaining Agreements

The collective bargaining agreement entered into between Hollywood Community Hospital, which is one of the hospitals under the consolidated group of Alta Hospitals System, LLC, and Service Employees International Union, United Healthcare Workers-West ("SEIU"), covers a small group of Hollywood Community Hospital's employees and expired on May 9, 2011. The parties have agreed on a new collective bargaining agreement, which is still being finalized. In addition, approximately 77% of the employees of Brotman are part of a collective bargaining agreement with the SEIU or the California Nurses Association ("CNA"). Brotman's current agreement with SEIU expires on September 30, 2013, and Brotman's agreement with CNA expired on October 31, 2012. Brotman is currently in negotiations with CNA on a new collective bargaining agreement.

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Tangible Net Equity ("TNE") requirement

The Company's affiliated physician organizations must comply with a minimum working capital requirement, Tangible Net Equity ("TNE") requirement, cash-to-claims ratio and claims payment requirements prescribed by the California Department of Managed Health Care. TNE is defined as net assets, less intangibles and amounts due from affiliates, plus subordinated obligations. At September 30, 2012, the Company and the affiliated physician organizations were in compliance with these regulatory requirements.

Employee Health Plans

Brotman offers self-insured HMO and PPO plans to employees. Employee health benefits are administered by a local claims processor, based on plan coverage and eligibility guidelines determined by Brotman, as well as Brotman's collective bargaining agreements. A commercial insurance policy covers losses in excess of $200,000 per occurrence. An actuarially estimated liability of approximately $520,000 and $595,000 for incurred but not reported claims has been included in accrued salaries, wages, and benefits as of September 30, 2012 and 2011, respectively.

The Company otherwise offers fully insured HMO and PPO plans to employees. Employee health benefits are administered by a commercial insurance carrier, based on plan coverage and eligibility guidelines determined by Prospect Medical Group. The insurance policies are guaranteed cost and Prospect incurs no claim liability if terminated.

Provider Contracts

Many of the Company's payer and provider contracts are complex in nature and may be subject to differing interpretations regarding amounts due for the provision of medical services. Such differing interpretations may not come to light until a substantial period of time has passed following contract implementation. Liabilities for claims disputes are recorded when the loss is probable and can be estimated. Any adjustments to reserves are reflected in current operations.

12. Defined Contribution Plan

Each of the Company's reporting units — Alta, Brotman, Nix, Prospect and ProMed — sponsor a defined contribution plan covering substantially all employees who meet certain eligibility requirements. Under these plans, employees can contribute up to 100% of their compensation up to the IRS deferred annual maximum. There is currently no company match under any of the plans, except for Nix, for which the expense for the employer match was $215,000 from February 1, 2012 (acquisition) to September 30, 2012. Additionally, in the year ended September 30, 2011 Brotman made a matching employer contribution related to 2009 of $215,000. Total expenses under the plans were approximately $92,000 and $88,000 during the years ended September 30, 2012 and 2011, respectively.

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13. Accrued Medical Claims and Other Healthcare Costs Payable

The following table presents the roll-forward of incurred but not reported ("IBNR"), claims reserves as of and for each of the fiscal years ended September 30, 2012 and 2011 (in thousands):

September 30,	2012	2011
IBNR as of beginning of year	$ 23,301	$ 17,859
Medical group claim expenses incurred during the year:		
Related to current year	109,494	95,940
Related to prior year	(2,821)	(377)
Total incurred	106,673	95,563
Medical group claims paid during the year:		
Related to current year	(83,608)	(72,957)
Related to prior year	(19,381)	(17,164)
Total paid	(102,989)	(90,121)
IBNR as of end of year	$ 26,985	$ 23,301

Following is a table showing the details of the medical group cost of revenues per the consolidated statements of operations (in thousands):

Years Ended September 30,	2012	2011
Capitation expense	$ 74,457	$ 73,939
Fee-for-service claims expense	76,340	75,905
Other physician compensation	5,738	3,599
Other cost of revenues	1,777	244
Total cost of revenues	$ 158,312	$ 153,687

14. Joint Venture

The Company (through Prospect Medical Group, Inc.) and an unrelated third party, AMVI Care Health Network, Inc. ("AMVI") are partners in a joint venture initially formed to service Medi-Cal (Medi-Cal is the California Medicaid program) members under the CalOptima program in Orange County, California. Healthy Families and OneCare members were subsequently added to the joint venture arrangement. The Company does not consolidate the joint venture. The Company includes in its consolidated financial statements only the net results attributable to those enrollees specifically identified as assigned to it, together with the management fee that it charges the joint venture partner for managing those enrollees specifically assigned to AMVI. Costs incurred by the Company in managing the joint venture are included in general and administrative expenses in the accompanying consolidated financial statements. As of September 30, 2012 and 2011, the amounts due to the joint venture of approximately $758,000 and $649,000, respectively, which

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represent advance capital distributions from the joint venture, were included in accounts payable and other accrued liabilities in the accompanying consolidated financial statements.

Summarized unaudited financial information for the unconsolidated joint venture as of and for each of the years ended September 30, 2012 and 2011 is as follows (in thousands):

September 30,	2012	2011
Cash	$ 663	$ 887
Receivables	1,791	1,508
Total assets	$ 2,454	$ 2,395
Accrued medical claims	$ 1,100	$ 1,177
Other payables	48	22
Other partner's capital	1,305	1,195
Prospect's capital	1	1
Total liabilities and partners' capital	$ 2,454	$ 2,395
Years Ended September 30,	2012	2011
Revenues	$ 13,695	$ 11,785
Income before income taxes	$ 2,063	$ 1,581
Prospect's equity income	$ 2,606	$ 2,150
Management fees earned by Prospect	$ 826	$ 709

15. Segment Information

The Company's operations are organized into three reporting segments: (i) Hospital Services — which is comprised of the Alta, Brotman, and Nix Health reporting units, owns and operates seven hospitals — Los Angeles Community Hospital, Hollywood Community Hospital, Norwalk Community Hospital, Van Nuys Community Hospital, Brotman Medical Center, Nix Medical Center and Nix Specialty Health Center; (ii) Medical Group — which is comprised of the Prospect and ProMed reporting units, provides management services to affiliated physician organizations that operate as independent physician associations or medical practice groups and certain unaffiliated independent physician associations; and (iii) Corporate, which represents expenses incurred in Prospect Medical Holdings, Inc., that were not allocated to the other reporting segments.

The accounting policies of the reporting segments are the same as those described in the summary of significant accounting policies (see Note 2). The Company evaluates financial performance and allocates resources primarily based on earnings from operations before interest expense, interest income, income taxes, depreciation and amortization, as well as income or loss from operations before income taxes, excluding infrequent or unusual items.

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The reporting segments are strategic business units that offer different services within the healthcare industry. Business in each reporting segment is conducted by one or more direct or indirect wholly-owned subsidiaries of the Company and certain affiliated physician organizations controlled through assignable option agreements and management services agreements. The Company voluntarily discloses the following table which summarizes certain information for each of the reporting segments regularly provided to and reviewed by the chief operating decision maker (in thousands):

	As of and for the Year Ended September 30, 2012				
	Hospital Services (3)	Medical Group (2)	Corporate (1)	Intersegment Eliminations	Consolidated
Revenues from external customers	$ 487,299	$ 203,806	$ -	$ -	$ 691,105
Intersegment revenues	-	553	-	(553)	-
Total revenues	487,299	204,359	-	(553)	691,105
Depreciation and amortization	9,877	2,673	26	-	12,576
Operating income (loss)	76,092	18,706	(14,156)	-	80,642
Other (income) expense	3,430	(46)	48,430	-	51,814
Income (loss) before income taxes	72,662	18,752	(62,586)	-	28,828
Provision for income tax	-	-	2,598	-	2,598
Net income (loss)	$ 72,662	$ 18,752	$ (65,184)	$ -	$ 26,230
Identifiable segment assets	$ 399,373	$ 132,268	$ 16,782	$ -	$ 548,423
Segment capital expenditures, net of dispositions	$ 6,579	$ 282	$ 77	$ -	$ 6,938
Segment goodwill	$ 134,207	$ 22,338	$ -	$ -	$ 156,545

	As of and for the Year Ended September 30, 2011				
	Hospital Services	Medical Group (2)	Corporate (1)	Intersegment Eliminations	Consolidated
Revenues from external customers	$ 346,962	$ 199,475	$ -	$ -	$ 546,437
Intersegment revenues	621	86	-	(707)	-
Total revenues	347,583	199,561	-	(707)	546,437
Depreciation and amortization	4,949	2,839	15	-	7,803
Operating income (loss)	44,117	17,931	(28,268)	-	33,780
Interest expense and amortization of deferred financing costs, net	5,270	(100)	23,121	-	28,291
Income (loss) before income taxes	38,847	18,031	(51,389)	-	5,489
Provision for income tax	-	-	8,156	-	8,156
Net income (loss)	$ 38,847	$ 18,031	$ (59,545)	$ -	$ (2,667)
Identifiable segment assets	$ 284,493	$ 129,836	$ 7,553	$ -	$ 421,882
Segment capital expenditures, net of dispositions	$ 8,375	$ 121	$ 31	$ -	$ 8,527
Segment goodwill	$ 130,912	$ 22,338	$ -	$ -	$ 153,250

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(1) Prospect files consolidated tax returns (effective February 1, 2012, including Brotman) and allocates costs for shared services and corporate overhead to each of the reporting segments. With the exception of Brotman and Nix Health, all debt, including debt related to the Medical Group and Hospital Services segment, is recorded at the Parent Entity level. The Company does not allocate interest expense related to acquisition debt to the operating segments.

(2) Prospect Medical Group, Inc. (which serves as a holding company for the other affiliated physician organizations) files consolidated tax returns.

(3) The Hospital Services segment, includes the results for Nix Health from February 1, 2012 through September 30, 2012. Included in revenues from external customers are $9,897,000 of other revenues related to meaningful use incentive payments and rental revenue from operating leases.

16. Fair Value of Financial Instruments

Relevant accounting guidance establishes a framework for measuring fair value and clarified that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

The guidance requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of inputs as follows: Level 1 quoted prices in active markets for identical assets or liabilities; Level 2 quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; or Level 3 unobservable inputs for the asset or liability, such as discounted cash flow models or valuations. The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The Company's Level 1 assets include cash and cash equivalents (certificates of deposit and money market mutual funds) and investments.

Financial Items Measured at Fair Value on a Recurring Basis

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis and where they are classified within the hierarchy (in thousands):

	Total	Level 1	Level 2	Level 3
As of September 30, 2012				
Certificates of deposit and money market mutual funds	$ 633	$ 633	$ -	$ -
As of September 30, 2011				
Money market mutual funds	$ 538	$ 538	$ -	$ -

The Company's investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices.

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Nonfinancial Items Measured at Fair Value on a Nonrecurring Basis

Nonfinancial assets such as goodwill and identifiable intangible assets are measured at fair value when there is an indicator of impairment and recorded at fair value only when impairment is recognized. The Company performs an annual impairment test on the goodwill, and performs an impairment test on the intangibles as and when there are indications of impairment.

The fair values of the Company's current financial assets and liabilities approximate their reported carrying amounts. The carrying values and the fair values of non-current financial assets and liabilities that qualify as financial instruments under the guidance are as follows (in thousands).

	2012		2011	
September 30,	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Liabilities:				
Long-term debt	**$ 326,958**	**$ 346,463**	$ 144,611	$159,012

The fair value of the Company's long-term debt was determined based on market prices.

17. Subsequent Events (Unaudited)

Acquisition of New Genesis Medical Associates

On October 1, 2012, PMS entered into an Assignable Option Agreement and a long-term Management Services Agreement with New Genesis Medical Associates, Inc. ("NGMA"), which simultaneously acquired, for an acquisition price of $400,000, substantially all of the assets of a two physician family medicine practice group, with approximately $1 million in annual revenue, located in Orange County, CA. The Assignable Option Agreement provides PMS the right to designate the single physician shareholder of NGMA upon the same terms and conditions applicable under the Assignable Option Agreement entered into with Prospect Medical Group, Inc. (see Note 1) and the Management Services Agreement designates PMS to administer all non-medical components of the business for NGMA. The assets of NGMA have been pledged as collateral for the Company's obligations under the PMH 2019 Notes and the PMH Senior Secured Credit Facility.

Senior Secured Notes

On November 16, 2012, the Company closed the offering of $100 million in aggregate principal amount of 8.375% senior secured notes due 2019 (the "Additional Notes") at a price equal to 102% of the principal amount of the Additional Notes. The Additional Notes were issued in a private placement to qualified institutional buyers and form a part of the same series as the PMH 2019 Notes issued on May 3, 2012 (see Note 9).

The Additional Notes were issued under the Indenture, dated May 3, 2012 and described in Note 9, as supplemented by two supplemental indentures entered into in connection with the issuance of the Additional Notes (the "Supplemental Indentures"). The Additional Notes are treated as a single series with the previously issued PMH 2019 Notes for all purposes under the Indenture,

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including, without limitation, restrictive covenants, waivers, amendments, redemptions and offers to purchase. For a description of the terms and conditions of the PMH 2019 Notes, see Note 9 above. Following the November 16, 2012 closing, the aggregate principal amount of outstanding PMH 2019 Notes is $425 million.

Prior to closing the issuance of the Additional Notes, the Company was required to obtain the consent of the majority in interest of its PMH 2019 Notes issued on May 3, 2012 to certain amendments to the Indenture contained in the first Supplemental Indenture. The Company obtained such consent from the holders of approximately $324 million in aggregate principal amount of outstanding PMH 2019 Notes and paid an aggregate consent fee of approximately $8.9 million.

The proceeds from the offering, together with approximately $10.9 million of the Company's available cash, were utilized to pay a dividend to the stockholders of the Company's indirect parent, Ivy Holdings Inc., in an aggregate amount equal to $100 million, to pay the aforementioned $8.9 million consent fee and to pay approximately $2.5 million for other fees and expenses related to the offering.

In connection with the issuance of the Additional Notes, the Company entered into an amendment of its Credit Agreement governing the PMH Senior Secured Credit Facility (see Note 9) that waived and amended certain provisions of the Credit Agreement, including certain restrictive covenants.

California Hospital Provider Fee

On November 15, 2012 the Company entered into a settlement agreement with DHCS with regards to Brotman's liability under AB 1383, SB 90 and SB 335, as discussed in Note 11. Under the terms of the agreement, the DHCS agreed to forgive approximately $2,000,000 of the fees due under AB 1383, which will be recorded by the Company during the year ending September 30, 2013. The remaining liability will be repaid by the Company monthly over a 10-year period without interest or penalties. The DHCS will no longer withhold against any other amounts due to Brotman unless the Company is delinquent on payments owed under the agreement.