TABLE OF CONTENTS

INTRODUCTION **1**

I. PRIVATE EQUITY FIRMS HAVE BECOME INCREASINGLY INVOLVED IN U.S. HOSPITALS. **1**

A. Private equity is a form of private investment that focuses on obtaining profits for its investors. **1**

B. PE investment in the U.S. health care system has grown considerably over the last several decades and has come under the scrutiny of academics and lawmakers alike. **2**

II. THE BUDGET COMMITTEE'S BIPARTISAN INVESTIGATION SOUGHT INFORMATION CONCERNING FINANCIAL TRANSACTIONS AND QUALITY OF CARE. **5**

FINDINGS **7**

I. CASE STUDY 1: LEONARD GREEN & PARTNERS AND PROSPECT MEDICAL HOLDINGS **7**

A. Leadership of Prospect Medical Holdings exhibited a decades-long history of prioritizing profits over patients. **7**

1. David Topper's role with Paracelsus Healthcare Corporation in hospital mismanagement ended shortly before the SEC found that the company overstated hospitals' earnings. 8

2. In 1998, Topper and Sam Lee bought seven hospitals, but only four of them were open and operating just six years later. 9

B. Publicly available information demonstrates a pattern and practice of financial mismanagement at PMH. **12**

1. In August 2007, PMH acquired Alta Healthcare Systems and attempted to address prior issues. 12

2. Shortly after the acquisition, PMH discovered that Alta's 2006 financial statement contained errors. 13

C. Leonard Green & Partners acquired PMH and several warning bells immediately began ringing. **15**

D. Documents obtained by the Budget Committee demonstrate that LGP exercised significant control over PMH's finances and operations. **18**

1. LGP held a majority of seats on PMH's Board of Directors. 18

2. LGP induced alignment with its financial goals by offering stock options to PMH's management. 19

3. LGP siphoned at least $13.4 million in fees from PMH. 22

E. Documents obtained by the Budget Committee show that, following Leonard Green's acquisition of PMH, dividend payouts for shareholders grew exponentially while hospital debt compounded. 22

1. Less than two years after LGP's acquisition, PMH paid out $188 million in dividends to shareholders..... 23

2. PMH's acquisition spree continued, with its biggest net income ever coming in fiscal year 2015. 25

3. PMH used its existing hospitals as collateral for its ongoing expansion, putting them at financial and operational risk..... 27

4. PMH ended its expansion spree by rewarding investors with $457 million in dividends, depleting its entire cash reserves. 31

F. Documents obtained by the Budget Committee demonstrate that PMH's continued financial mismanagement led to multiple internal investigations as well as federal and state investigations and lawsuits..... 35

1. PMH created three new committees during the height of its financial issues. 35

2. PMH conducted a number of internal investigations related to its financial practices. 39

3. While PMH conducted internal investigations into its finances, LGP and PMH were planning another major financial transaction known as a sale-leaseback. 45

4. Since LGP's exit, PMH has been hit with multiple DOJ investigations and lawsuits..... 59

G. Under the profits-over-patients model, PMH hospital systems suffered quality of care and financial issues. 66

1. Under PMH's mismanagement, Nix Health Care System in Texas went from profitable to a financial disaster in just seven years..... 67

2. PMH promised to revitalize a Pennsylvania hospital system, but its pursuit of profits over patient care left it deeper in crisis. 78

II. CASE STUDY 2: APOLLO GLOBAL MANAGEMENT, LIFEPOINT HEALTH, AND OTTUMWA REGIONAL HEALTH CENTER..... 87

A. Under PE ownership, at least nine sexual assaults occurred at ORHC. 89

B. ORHC serves a rural community and is owned by PE. 94

1. ORHC is operated by Lifepoint Health, which is owned by Apollo funds..... 96

2. ORHC's decisional structure is controlled by Lifepoint Health, which is in turn controlled by Apollo. 106

C. ORHC came under PE ownership when it was struggling to access capital and recruit physicians..... 111

D. PE-owned companies made promises to ORHC that have been unfulfilled. 113

1. Unfulfilled Promise #1: Growth 115

2. Unfulfilled Promise #2: Physician recruitment 127

3. Unfulfilled Promise #3: Routine capital expenditures. 130

4. Unfulfilled Promise #4: Charity care. 134

5. Unfulfilled Promise #5: Patient satisfaction. 135

6. Other Unfulfilled Promises 138

7. Unfulfilled Promises: Summary 139

8. New Promises 141

E. The impact of unfulfilled promises and underinvestment has been damaging to ORHC. 141

1. Impact on ORHC's Culture of Safety. 142

2. Impact on ORHC's Finances. 146

F. Apollo and Lifepoint Health's leaders have profited off of Apollo funds' investment in rural health care. 147

G. There have been some positive changes at ORHC, but more action is needed. 154

CONCLUSION 161

INTRODUCTION

I. PRIVATE EQUITY FIRMS HAVE BECOME INCREASINGLY INVOLVED IN U.S. HOSPITALS.

A. Private equity is a form of private investment that focuses on obtaining profits for its investors.

Private equity (PE) is a subclass of private investment whereby PE firms create funds by raising pools of money from investors and then use that money to make investments in multiple companies on behalf of the fund.[1] PE fund investors, known as limited partners, typically include institutional investors such as corporate and public pension funds, endowments, and insurance companies, as well as wealthy individuals.[2] Funds are typically set up for ten years, during which time the investors cannot withdraw their capital and new investors cannot join.[3] Each fund has a general partner, which is a committee of partners and principals of the PE firm that manages the fund on the behalf of the limited partners.[4] Regardless of the exact structure, one key element is consistent across all PE firms: the goal is to increase the value of partners' investments and then sell or "exit" them at a profit.[5] A general structure follows:

[1] *Private Equity Funds*, Sec. & Exchange Comm'n (accessed Nov. 27, 2024), available at https://www.investor.gov/introduction-investing/investing-basics/investment-products/private-investment-funds/private-equity. *Private Equity and Capital Markets Policy*, Cong. Res. Serv. (Mar. 28, 2022), at 1, available at https://crsreports.congress.gov/product/pdf/R/R47053. *GAO-10-710: Nursing Homes: Complexity of Private Investment Purchases Demonstrates Need for CMS to Improve the Usability and Completeness of Ownership Data,* Gov't Accountability Off. (Sept. 2010), at 6-8, available at https://www.gao.gov/products/gao-10-710.

[2] See source 1 at footnote 1.

[3] Eileen Appelbaum & Rosemary Batt, *A Primer on Private Equity at Work*, Ctr. for Econ. & Pol'y Res. (Feb. 2012), at 13-14, available at https://cepr.net/report/primer-on-private-equity/.

[4] Eileen Appelbaum & Rosemary Batt, *Private Equity Buyouts in Healthcare: Who Wins, Who Loses?,* Inst. for New Econ. Thinking, Working Paper No. 118 (Mar. 15, 2020), at 6, available at https://www.ineteconomics.org/uploads/papers/WP_118-Appelbaum-and-Batt-2-rb-Clean.pdf.

[5] See footnotes 1 and 4; Steven N. Kaplan & Per Stromberg, *Leveraged Buyouts and Private Equity*, 23 J. of Econ. Persp. 1 (2009), at 123, available at https://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.23.1.121.

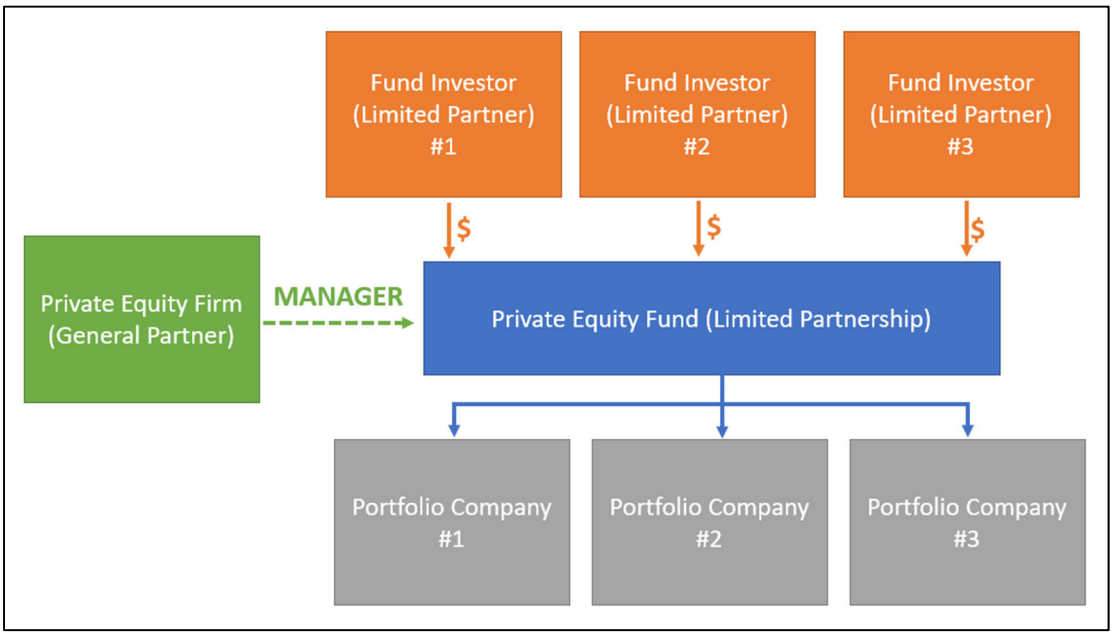


Figure 1. Private Equity Fund Structure (developed by Committee Staff based on cited information).

B. PE investment in the U.S. health care system has grown considerably over the last several decades and has come under the scrutiny of academics and lawmakers alike.

PE investing became popular in the late 1970s and has grown considerably since that time.[6] In 2022, there were approximately 5,000 PE firms and 18,000 PE-backed companies in the United States.[7] PE-backed companies operate in a variety of industries, including energy, technology, retail, manufacturing, and health care services.[8] Within health care services, PE has invested in hospitals, provider staffing companies, physician practices, home health, hospice, urgent care, behavioral health, dental care, eye care, and physical therapy.[9]

PE interest in hospitals reportedly surged in the period from 2009 to 2011, with seven of the twelve largest for-profit hospital chains owned by PE in 2011.[10] During this period, the then-PE owners of HCA Healthcare, the current largest hospital operator in the U.S., enjoyed tremendous financial success in 2011 by taking the company public after just six years of

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[6] Stephen Fraidin & Meredith Foster, *The Evolution of Private Equity and the Change in General Partner Compensation Terms in the 1980s*, 24 J. of Corp. & Fin. L. 2 (2019), at 322-323, available at https://ir.lawnet.fordham.edu/cgi/viewcontent.cgi?article=1474&context=jcfl.

[7] EY, *Economic contribution of the US private equity sector in 2022* (Apr. 2023), at 1, available at https://www.investmentcouncil.org/wp-content/uploads/2023/04/EY-AIC-PE-economic-contribution-report-FINAL-04-20-2023.pdf.

[8] See footnote 7.

[9] Mary Bugbee, Eileen O'Grady & Michael Fenne, *Recent Trends in Private Equity Healthcare Acquisitions*, Private Equity Stakeholder Proj. (Feb. 2023), at 5-6, available at https://pestakeholder.org/wp-content/uploads/2023/02/PESP_Report_HC_Acquisitions_Feb2023_FINAL.pdf.

[10] See footnote 4 at 24 (Appelbaum & Batt 2020).

ownership with an IPO of $3.8 billion—earning one of the PE owners $750 million.[11] Over approximately the next decade, PE investors spent more than $1 trillion on all manner of health care acquisitions.[12] By 2021, private equity investment reached an all-time high in 2021 of 515 deals valued at $151 billion.[13]

Currently, there is no readily available mechanism to identify *all* hospitals in the U.S. operated by PE-owned companies (hereafter "PE hospitals"), as current CMS data on hospital ownership does not capture this information.[14] Consequently, the public must rely on nonprofit organizations, such as Private Equity Stakeholder Project (PESP), to track PE hospital ownership.[15] PESP maintains a publicly available list of current PE hospitals through its Private Equity Hospital Tracker, which is updated about once a year.[16]

At the start of the 2024, PESP identified at least 457 PE-owned hospitals in the United States.[17] Of the hospitals identified as PE-owned, 35% were general acute care hospitals, 25.6% were rehabilitation hospitals, 22.5% were inpatient psychiatric facilities, and 16.6% were long-term acute care hospitals (LTACH).[18] According to PESP, PE ownership of hospitals was highly concentrated at the start of 2024, with just five firms accounting for nearly three-quarters of all

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[11] Christopher Witkowsky, *HCA Raises $3.79bn in largest ever PE-backed IPO*, Private Equity Int'l (Mar. 10, 2021), available at https://www.privateequityinternational.com/hca-raises-3-79bn-in-largest-ever-pe-backed-ipo/.
[12] David Blumenthal, *Private Equity's Role in Health Care*, The Commonwealth Fund (Nov. 17, 2023), available at https://www.commonwealthfund.org/publications/explainer/2023/nov/private-equity-role-health-care.
[13] Nirad Jain et al., *Healthcare Private Equity Market 2021: The Year in Review*, Bain & Company (last visited Jan. 5, 2025).
[14] MedPAC Report to the Congress: Medicare and the Health Care Delivery System, Chapter 3: Congressional request: Private equity and Medicare, (June 2021), at 72, available at https://www.medpac.gov/wp-content/uploads/import_data/scrape_files/docs/default-source/default-document-library/jun21_ch3_medpac_report_to_congress_sec.pdf.
[15] PESP identifies hospitals that are owned by PE through a combination news searches, the data provider Pitchbook," and the CMS Hospital All Owners Information database. According to the PESP project, the CMS Hospital All Owners Information database was "insufficient on its own to trace private equity ownership but provided helpful clues." Furthermore, academics have used the PESP Hospital Tracker to identify PE-owned hospitals or assembled the list on their own. *PESP Private Equity Hospital Tracker*, Private Equity Stakeholder Project, (last updated Feb. 8, 2024, accessed Nov. 27, 2024), available at https://pestakeholder.org/private-equity-hospital-tracker/ Elizabeth Schrier, et al., *Hospital Assets Before and After Private Equity Acquisition*, 3 JAMA 8 (Aug. 27, 2024), at 669-670, available at https://jamanetwork.com/journals/jama/article-abstract/2821826. Janet Gao, et al., *Private Equity in the Hospital Industry*, European Corp. Governance Inst. –Fin. Working Paper (Sept. 20, 2021), at 9-10, available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3924517. Joseph Bruch, et al., *Changes in Hospital Income, Use, and Quality Associated With Private Equity Acquisition*, 180 *JAMA Intern Med 11 (Nov. 2020), at* 1429, available at https://jamanetwork.com/journals/jamainternalmedicine/fullarticle/2769549. Marcello Cerullo, et al., *Financial Impacts And Operational Implications Of Private Equity Acquisition Of US Hospitals*, 41 Health Aff. 4 (Apr. 2022), at 524, available at https://www.healthaffairs.org/doi/10.1377/hlthaff.2021.01284#B21. *PESP provides first update to private equity hospital tracker,* Private Equity Stakeholder Project (February 8, 2024), available at https://pestakeholder.org/news/pesp-provides-first-update-to-private-equity-hospital-tracker/. *About Us*, Private Equity Stakeholder Project (accessed Nov. 27, 2024), available at https://pestakeholder.org/about-us/.
[16] See source 1 at footnote 15. Email from Mary Bugbee, Research & Campaign Director – Healthcare, Private Equity Stakeholder Project, to Senate Budget Committee staff (Sept. 19, 2024), on file with Committee.
[17] See source 1 at footnote 15.
[18] See source 1 at footnote 15.

PE-owned hospitals.[19] The PE firm owning the most hospitals by far was Apollo Global Management ("Apollo")—through its ownership of Lifepoint Health and ScionHealth, it currently owns around 220 hospitals.[20] Apollo and Lifepoint were two of the companies investigated by the Senate Budget Committee and discussed in this Report.[21]

Given the massive investments that PE has made in the health care industry, PE ownership of hospitals has garnered considerable attention from academics and lawmakers—especially given that hospitals, unlike other entities subject to PE investment, are critical components of the nation's public health infrastructure. Although research on the impact of PE investment in hospitals is still in its infancy,[22] contemporary peer-reviewed studies have generally found negative consequences for general acute care hospitals during the first three years of PE ownership as compared to non-PE owned hospitals, including lower quality of care, increased transfers to other hospitals, decreased staffing, and higher prices.[23] One broadly cited Harvard study found, for example, that PE acquisition of hospitals was associated with a 25 percent increase in hospital-acquired conditions when compared to non-PE hospitals.[24]

Lawmakers have also begun to focus on the potential negative effects of private equity on the U.S. health care system. In addition to this investigation, the U.S. Senate Committee on Homeland Security and Government Affairs launched an investigation in April 2024 seeking information about private equity firms' involvement in hospital emergency departments and potential impacts on patient care; the firms under investigation there also include Apollo and Lifepoint Health.[25] On April 3, 2024, the U.S. Senate Health, Education, Labor, and Pensions (HELP) Committee held a hearing concerning the effects of private equity on patient care and

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[19] See source 1 at footnote 15.
[20] See source 1 at footnote 15.
[21] *See infra* Findings, Section II.
[22] Alexander Borsa et al., *Evaluating trends in private equity ownership and impacts on health outcomes, costs, and quality: systematic review*, BMJ 2023; 382, available at https://www.bmj.com/content/382/bmj-2023-075244.
[23] Sneha and colleagues found at 25% increase in adverse events, 38% increase in central line bloodstream infections, 27% increase in falls, a doubling of surgical site infections, and increased transfers to other hospitals relative to control hospitals. Cerullo and colleagues found total personnel full time equivalents (FTE) per occupied bed decreased by 0.5 FTEs after private equity acquisition. Bruch and colleagues found a 7-16% increase in list prices. *See* Sneha Kannan, Joseph Bruch, & Zirui Song Z, *Changes in Hospital Adverse Events and Patient Outcomes Associated With Private Equity Acquisition*, *JAMA* 2023;330(24):2365–2375, available at https://jamanetwork.com/journals/jama/fullarticle/2813379.
Marcello Cerullo, et al., *Financial Impacts And Operational Implications Of Private Equity Acquisition Of US Hospitals*, Health Aff. (2022 Apr.) 41(4):523-530, available at https://www.healthaffairs.org/doi/10.1377/hlthaff.2021.01284#B21. Joseph Bruch, Sunhas Gondi & Zirui Song, *Changes in Hospital Income, Use, and Quality Associated With Private Equity Acquisition*, *JAMA Intern Med.* 2020;180(11):1428–1435, available at https://jamanetwork.com/journals/jamainternalmedicine/fullarticle/2769549.
[24] See source 1 at footnote 23. Dr. Zirui Song testimony to the OPP/BE Private Equity Healthcare Workshop, Federal Trade Commission (March 5, 2024), at 24, available at https://www.ftc.gov/system/files/ftc_gov/pdf/final-trancsript-ftc-opp-be-private-equity-healthcare-workshop-3-5-24.pdf.
[25] U.S. Senate Committee on Homeland Security & Governmental Affairs, *Peters Seeks Information About Private Equity-Run Emergency Departments and Impact on Patient Care* (Apr. 1, 2024), https://www.hsgac.senate.gov/media/dems/peters-seeks-information-about-private-equity-run-emergency-departments-and-impact-on-patient-care/.

health workers; on September 12, 2024, the HELP Committee held another hearing examining the bankruptcy of Steward Health Care, a hospital operator owned by PE until 2020, that focused on how Steward's management decisions impacted patient care.[26] Following the refusal of Steward's CEO to appear before HELP despite a valid subpoena compelling his testimony, the U.S. Senate unanimously approved a criminal contempt resolution against him.[27] In July 2024, the Joint Economic Committee released a report titled *Predatory Private Equity Practices Threaten Americans' Health and the Economy*. Other congressional committees have also held hearings on the general impact of private equity in health care.[28]

II. THE BUDGET COMMITTEE'S BIPARTISAN INVESTIGATION SOUGHT INFORMATION CONCERNING FINANCIAL TRANSACTIONS AND QUALITY OF CARE.

On December 6, 2023, this Committee opened a bipartisan investigation into the effects of private equity ownership on U.S. hospitals.[29] The investigation focused on two private equity firms, their hospital-operator portfolio companies, the hospitals' real estate investor, and a PE-owned hospital in Iowa. These entities include private equity firms Leonard Green & Partners ("Leonard Green") and Apollo; hospital operators Prospect Medical Holdings ("PMH") and Lifepoint Health; real estate investment trust (REIT) Medical Properties Trust ("MPT"); and hospital Ottumwa Regional Health Center ("ORHC"). Chairman Sheldon Whitehouse (D-RI) and Ranking Member Charles Grassley (R-IA) sent letters to the companies requesting answers regarding financial management decisions that may have prioritized profits over patients at the hospitals under private equity ownership. The senators also asked for documents and detailed answers about related-party transactions and the degree to which the private equity firms directed operational decisions at the hospitals within the systems they owned, and they posed interrogatories and document requests related to the entities' assessment of quality of care at their hospitals.

This bipartisan investigation built on a previous inquiry launched in March 2023 by Ranking Member Grassley that sought information on the extent to which private equity ownership of ORHC contributed to a series of horrific events involving alarmingly mismanaged care, including the egregious assault of nine female patients by a nurse practitioner at the

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[26] Senate Committee on Health, Education, Labor, and Pensions, *Hearings to Examine the Bankruptcy of Steward Health Care, Focusing on How Management Decisions Have Impacted Patient Care*, 118th Cong. (Sept. 12, 2024), https://www.congress.gov/event/118th-congress/senate-event/336166; The Office of Senator Edward Markey, Chair of the Subcommittee on Primary Health and Retirement Security, Senate Committee on Health, Education, Labor, and Pensions, *The Steward Health Care Report: How Corporate Greed Hurt Patients, Health Workers, & Communities* (Sep. 2024), https://www.markey.senate.gov/imo/media/doc/the_steward_health_care_report.pdf.

[27] *S. Rep. No. 118-230, Proceeding Against Dr. Ralph de la Torre for Contempt of the Senate*, 118th Cong. (2024), https://www.congress.gov/congressional-report/118th-congress/senate-report/230/1.

[28] U.S. House Committee on Ways & Means, Oversight Subcommittee, *Hearing on Examining Private Equity's Expanded Role in the U.S. Health Care System*, 118th Cong. (Mar. 25, 2021), https://democrats-waysandmeans.house.gov/legislation/hearings/oversight-subcommittee-hearing-examining-private-equity-s-expanded-role-us.

[29] Senate Budget Committee, *Senate Budget Committee Digs into Impact of Private Equity Ownership in America's Hospitals*, U.S. Senate Committee on the Budget (Dec. 7, 2023), https://www.budget.senate.gov/chairman/newsroom/press/senate-budget-committee-digs-into-impact-of-private-equity-ownership-in-americas-hospitals.

hospital. In his initial letter, Ranking Member Grassley asked Apollo, Lifepoint Health, ORHC, and MPT for a review of their financial transactions related to ORHC—the site of the egregious assaults.

For this investigation, Committee staff agreed that Democratic staff would lead work on the inquiry into Leonard Green and PMH while Republican staff would do so for Apollo, Lifepoint Health, and ORHC. Over more than a year of negotiations with the various entities, bipartisan staff were able to obtain over 9,500 documents (totaling more than one million pages). In connection with this Report, Chairman Whitehouse and Ranking Member Grassley are making public over 150 key internal documents (totaling thousands of pages) that help further detail the questionable management practices employed by the PE firms and hospital operators under investigation.

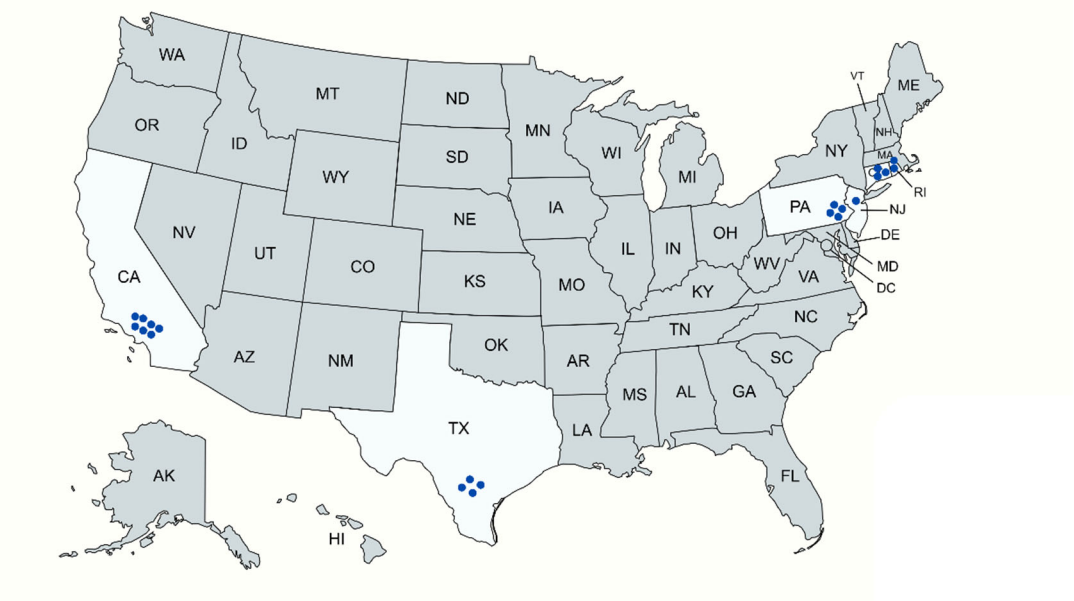
The remainder of this 170-page Report is based on the review and analysis of those documents synthesized with publicly available information concerning the relevant firms and their leaders' financial and investment practices. Section I of the Findings focuses on Leonard Green and PMH, and Section II focuses on Apollo, Lifepoint, and ORHC.

FINDINGS

I. CASE STUDY 1: LEONARD GREEN & PARTNERS AND PROSPECT MEDICAL HOLDINGS

A. Leadership of Prospect Medical Holdings exhibited a decades-long history of prioritizing profits over patients.

Even before joining Prospect Medical Holdings ("Prospect" or "PMH"), the hospital operators' co-owners enriched themselves while driving hospitals into debt, bankruptcy, and closure. David Topper and Sam Lee are the current co-owners of Prospect, and their histories in hospital operations and private equity, respectively, set the stage for a partnership marked by aggressive hospital acquisitions, questionable financial strategies, and a pattern of prioritizing profits over patient care. Topper's work at Paracelsus Healthcare Corporation ("Paracelsus")—a private, for-profit hospital operator—and Lee's work at private equity firm Kline Hawkes laid the groundwork for the creation of their own hospital operator, Alta Healthcare Systems ("Alta"), the predecessor to PMH. It was after PMH acquired Alta—and Lee and Topper joined PMH's senior management—that the company incorporated the ownership and operation of 21 hospitals nationwide into its business —in addition to owning and managing physician organizations.[30]



Map 1. Location of each hospital ever owned and operated by Prospect Medical Holdings.

PMH had been operating for nearly 15 years and steadily building its business through acquisitions and management of physician organizations in Southern California before Topper

[30] Due to the timing of hospital closures and acquisitions, PMH never operated more than 20 hospitals simultaneously.

and Lee entered the picture in 2007.[31] PMH's only foray into hospital operations without Lee or Topper was its acquisition of a minority stake in a single hospital in 2005, which it almost immediately wrote off as a complete financial loss.[32]

1. David Topper's role with Paracelsus Healthcare Corporation in hospital mismanagement ended shortly before the SEC found that the company overstated hospitals' earnings.

Beginning at Paracelsus, both Lee and Topper exhibited a pattern of prioritizing profits over sustainable management, undertaking aggressive acquisitions, and engaging in questionable financial strategies. Topper began working in hospital operations more than a decade before PMH became a company. He joined Paracelsus in February 1981—just one month after the company's inception—rising to Vice President of Development four years later and Senior Vice President in 1993.[33] By 1996, Paracelsus owned and operated 31 hospitals in 11 states, including 25 acute care hospitals.[34] Paracelsus' business strategy for maximizing profits focused on targeting hospitals that had "limited competition" and "evaluat[ing] and eliminat[ing], on an ongoing basis, underutilized or unprofitable [hospital] services."[35]

Paracelsus faced several federal investigations for conduct relating to the operations of its Southern California hospitals, which were reportedly under Topper's purview during his time at the company.[36] From 1986 through 1994, for example, Paracelsus faced significant claims related to Medicare fraud, medical referral kickbacks, and a fraudulent psychiatric billing scheme in which patients were allegedly "given bogus diagnoses and kept in mental hospitals until their insurance benefits were depleted."[37]

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[31] Prospect Med. Holdings, Inc., Quarterly Report (10-Q) at 6 (Aug. 20, 2007), https://www.sec.gov/Archives/edgar/data/1063561/000110465907063743/a07-22221_110q.htm.

[32] PMH acquired a minority stake of approximately 38 percent in Brotman Medical Center (currently known as "Southern California Hospital Culver City") in August 2005 and wrote off the entire investment by September 30, 2005, due to "significant operating deficits [and] uncertain ability to increase revenues and cut costs." Prospect Med. Holdings, Inc., Annual Report (Form 10-K) at F-20 (Dec. 27, 2005), https://www.sec.gov/Archives/edgar/data/1063561/000110465905062736/a05-22018_110k.htm.

[33] Paracelsus Healthcare Corp., Registration Statement (Form S-4) at 166 (July 6, 1996), https://www.sec.gov/Archives/edgar/data/758722/0000912057-96-015077.txt.

[34] Paracelsus Healthcare Corp., Annual Report (Form 10-K) at 4 (Apr. 15, 1997), sec.gov/Archives/edgar/data/758722/0000950129-97-001575.txt; Paracelsus Healthcare Corp., Registration Statement (Form S-4) (July 6, 1996).

[35] Paracelsus Healthcare Corp., Annual Report (Form 10-K) at 5-6 (Apr. 15, 1997), https://www.sec.gov/Archives/edgar/data/758722/0000950129-97-001575.txt.

[36] After Topper left Paracelsus in 1996, an article quoting Topper characterized him as "formerly in charge of L.A. operations of Paracelsus Healthcare before" the merger with "Champion Healthcare Corp. in 1996." *Alta*, L.A. BUS. J. (Nov. 22, 1998), https://labusinessjournal.com/news/alta/.

[37] Julie Marquis, *Provider has a history of legal tangles; health care: Paracelsus has been accused and accuser in cases of false billing, poor care, conflict of interest and bribes*, L.A. TIMES (Dec. 10, 1995), https://www.latimes.com/archives/la-xpm-1995-12-10-mn-12542-story.html; Barbara Marsh, *Hospital Firm Settles Medicare Fraud Case; Insurance: The $7.3-Million Payment Ends Suit Involving Buena Park, Bellflower Facilities*, L.A. TIMES (Sept. 23, 1998), https://www.latimes.com/archives/la-xpm-1998-sep-23-fi-25591-story.html.

Topper's departure from Paracelsus in late 1996 came after receiving a nearly $2.2 million cash payment from the company and shortly before the company became embroiled in an SEC investigation related to its financial statements.[38] The SEC scrutiny came after Paracelsus had acquired the nine-hospital, Houston-based operator Champion Healthcare Corporation ("Champion") in August 1996, and after Paracelsus transitioned from a private company to a public one.[39] Topper's exit came along with the departures of Paracelsus' CEO and CFO, who both later settled SEC allegations that they had fraudulently overstated the company's earnings by $50 million from 1992 to 1996.[40] Reportedly, the same Los Angeles hospitals where Topper managed operations were the source of most of the issues.[41]

2. In 1998, Topper and Sam Lee bought seven hospitals, but only four of them were open and operating just six years later.

Following his departure from Paracelsus, Topper created Alta—a private, for-profit hospital operator—with the intention of buying eight of Paracelsus' financially troubled Southern California hospitals that Paracelsus was seeking to sell due to their poor finances.[42] Topper thought that with the "proper attention [Alta] would be able to turn them around,"[43] but he needed sufficient capital to execute his plan.

Around this time, Lee was advising a $500-million private equity and venture capital firm, Kline Hawkes, on hospital-based providers, and he began working with Topper to negotiate a deal with Paracelsus.[44] This marked the beginning of their partnership in hospital operations, which has continued for more than 25 years. In September 1998, Alta acquired seven (two had merged) of Paracelsus' hospitals in Los Angeles and Orange counties in a leveraged buyout worth $34 million—which consisted of $10 million from Kline Hawkes, as well as $15 million in financing from Heller Healthcare Finance, Inc. and a seller's note.[45] Four of the hospitals

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[38] Paracelsus Healthcare Corp., Registration Statement (Form S-4) at 45 (July 6, 1996), https://www.sec.gov/Archives/edgar/data/758722/0000912057-96-015077.txt.
[39] Paracelsus Healthcare Corp., Registration Statement (Form S-4) at 19 (July 6, 1996), https://www.sec.gov/Archives/edgar/data/758722/0000912057-96-015077.txt.
[40] Paracelsus Healthcare Corp., Annual Report (Form 10-K) at 15 (Apr. 15, 1997), https://www.sec.gov/Archives/edgar/data/758722/0000950129-97-001575.txt; Jonathan Weil, *Ex-Paracelsus Healthcare Officers Settle SEC Allegations of Overstating Earnings*, WALL ST. J. (June 19, 2001), https://www.wsj.com/articles/SB992901512318378887.
[41] *Paracelsus: From Gold to Lead: Misstatement of Financials Lands the Company in a Heap of Trouble*, MERGERS & ACQUISITIONS REP. (Oct. 21, 1996), LexisNexis; Prospect Med. Holdings, Inc., Current Report (8-K/A) (Apr. 1, 2008) (Exhibit 99.1), https://www.sec.gov/Archives/edgar/data/1063561/000110465908021745/a07-27191_2ex99d1.htm.
[42] *Alta*, L.A. BUS. J. (Nov. 22, 1998), https://labusinessjournal.com/news/alta/.
[43] Barbara Kirchheimer, *Alta Builds on Past to Revive L.A. Hospitals*, MODERN HEALTHCARE (June 21, 1999), https://www.modernhealthcare.com/article/19990621/PREMIUM/906210316/alta-builds-on-past-to-revive-l-a-hospitals.
[44] *Kline Hawkes & Co., News & Press – Highlights of 1998, Alta Healthcare Systems LLC*, WAYBACK MACH. (Mar. 2, 2001); Prospect Med. Holdings, Inc., Proxy Statement (Schedule 14A) (Jan. 27, 2009).
[45] *Kline Hawkes & Co., News & Press – Highlights of 1998, Alta Healthcare Systems LLC*, WAYBACK MACH. (Mar. 2, 2001), https://web.archive.org/web/20010302183459/http:/www.klinehawkes.com/news/1998e.htm; *In re* Alta Bellwood Hosps., Inc., Final Order (I) Authorizing Secured and Super Priority Post-Petition Financing, (II) Modifying Automatic Stay, and (III) Granting Other Related Relief, No. LA-0318543-ES, Docket No. 52 at 3

included in the deal are currently PMH-owned and operated.[46] Lee joined Alta as a board member and left Kline Hawkes a few years later.[47] In 2002, he became Alta's president—a title he would hold until PMH's acquisition of the company in 2007.[48]

Topper's initial vision of turning the hospitals around quickly began to unwind soon after the purchase. In 2002, the Los Angeles County Department of Mental Health took disciplinary action against two hospitals, including Alta's Hollywood Community Hospital of Van Nuys ("Van Nuys"), for recommending and improperly discharging three patients to an unlicensed boarding house where they subsequently died from "deplorable living conditions" that were "unclean, unsafe, unsanitary and in very poor condition."[49] Consequently, the Mental Health Department stripped Van Nuys of its ability to detain patients without their consent.[50]

In March 2003, Alta abruptly and permanently closed two of its hospitals on the same day.[51] At the 85-bed Bellwood Memorial Hospital in Bellflower, California, 240 employees were left without jobs and were given less than 24-hours' notice that the hospital was closing.[52] Topper and Lee—respectively Alta's CEO and Corporate CFO[53]—immediately filed for Chapter 11 bankruptcy for both Bellwood and Orange County Community Hospital in Buena Park,

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(Bankr. Cent. D. Cal. Apr. 25, 2003). Orange County Hospital in Orange, a psychiatric hospital—had been closed by Paracelsus in 1997, and its services combined with those of Orange County Community Hospital in Buena Park. *See* Paracelsus Healthcare Corp., Annual Report (Form 10-K) at 4 (Apr. 15, 1997), https://www.sec.gov/Archives/edgar/data/758722/0000950129-97-001575.txt.

[46] These hospitals included Hollywood Community Hospital of Hollywood, Hollywood Community Hospital of Van Nuys, Los Angeles Community Hospital, and Norwalk Community Hospital. *See* Paracelsus Healthcare Corp., Annual Report (Form 10-K) at 16 (Apr. 15, 1997), https://www.sec.gov/Archives/edgar/data/758722/0000950129-97-001575.txt.

[47] *Kline Hawkes & Co.*, WAYBACK MACH. (Mar. 3, 2000), https://web.archive.org/web/20000303042550/https:/www.klinehawkes.com/InvtPerf.htm.

[48] Prospect Med. Holdings, Inc., Current Report (8-K) at 3-4 (Aug. 10, 2007), https://www.sec.gov/Archives/edgar/data/1063561/000110465907061358/a07-21575_18k.htm.

[49] Charles Ornstein, *5 Residents Die at Unlicensed Care Home That County Tried to Close; Health: Authorities have described the Rosemead house as 'unclean, unsafe, unsanitary.'*, L.A. TIMES (Aug. 29, 2002), https://www.latimes.com/archives/la-xpm-2002-aug-29-me-mental29-story.html.

[50] Richard Fausset, *Pine Grove Faces Limits on Patient Care; In response to sexual assaults at the West Hills psychiatric hospital, county plans to halt involuntary admissions to the facility*, L.A. TIMES (Oct. 31, 2002), LexisNexis.

[51] Karen Robes, *Bellwood Hospital in Bellflower closes; Health: Abrupt decision to close financially troubled facility surprised many staff members*, LONG BEACH PRESS-TELEGRAM (Mar. 27, 2003), LexisNexis; *see Hospitals That Have Closed in California*, L.A. TIMES, https://projects.latimes.com/hospitals/emergency-rooms/no/closed/list/ (last visited Dec. 31, 2024); Mary C. Jaklevic, *Another California hospital shut down*, MODERN HEALTHCARE (May 28, 2004), https://www.modernhealthcare.com/article/20040528/NEWS/405280307/another-california-hospital-shut-down; *Monrovia Community Hospital Shuts Doors Because of Insufficient Funds to Pay Employees*, CA HEALTHLINE (May 28, 2004), https://californiahealthline.org/morning-breakout/monrovia-community-hospital-shuts-doors-because-of-insufficient-funds-to-pay-employees/ (citing Gene Maddaus, *Loss of hospital service causes few problems FOR TRIB: City surviving hospital's closure***,** PASADENA STAR-NEWS (June 7, 2004), LexisNexis; *Facility History*, HCAI, https://lfis.hcai.ca.gov/Facility/History/106190541 (last visited Dec. 31, 2024).

[52] Karen Robes, *Bellwood Hospital in Bellflower closes; Health: Abrupt decision to close financially troubled facility surprised many staff members*, LONG BEACH PRESS-TELEGRAM (Mar. 27, 2003), LexisNexis.

[53] *In re* Alta Bellwood Hosps., Inc., Debtor's Statement of Financial Affairs, No. LA-0318543-ES, Docket No. 65 at 9 (Bankr. Cent. D. Cal. Apr. 28, 2003).

California.[54] The filing was subsequently converted to Chapter 7 bankruptcy after sales of the hospitals' assets left Alta well short of covering the overwhelming debt of the two hospitals.[55] The bankruptcy proceeding further revealed that all seven Alta hospitals had incurred additional debt beyond the acquisitional $15 million and were now saddled with a total of $32 million in debt.[56] In addition, the two bankrupt hospitals owed $25 million in intercompany debt.[57] A few months after the sudden closure of the two hospitals, Topper and Lee offloaded another financially troubled Alta hospital, Monrovia Community Hospital, to a new owner.[58] The hospital declared bankruptcy less than one year later.[59]

In sum, just six years after Alta's leveraged buyout of seven open and operating hospitals from Paracelsus, Topper and Lee had overseen the bankruptcy and permanent closure of two hospitals and the sale of another hospital that subsequently closed and declared bankruptcy.[60] Nevertheless, the next year, Topper and Lee determined Alta was financially fit enough to pay out dividends over the next two years—$3 million in 2005 and $12.5 million in 2006.[61] Alta's own restated financial statements showed that by the end of 2006, the company was deficient in net assets by $19.7 million.[62]

Topper and Lee's mismanagement of Alta's hospitals foreshadowed the similar issues they would later oversee at PMH—closures and financial instability. Their focus on short-term profits rather than long-term sustainability led to more than two decades of ongoing mismanagement at hospitals and health care facilities they oversaw.

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[54] Debtor's Voluntary Petition, *In re* Alta Bellwood Hosps., Inc., No. LA-0318543-ES, Docket No. 1 (Bankr. Cent. D. Cal. Mar. 28, 2003).
[55] Debtor's Statement of Fin. Aff., *In re* Alta Bellwood Hosps., Inc., No. LA-0318543-ES, Docket No. 158 (Bankr. Cent. D. Cal. Apr. 28, 2003); *In re* Alta Bellwood Hosps., Inc., Ord. on Debtor's Motion to Convert Case, No. LA-0318543-ES, Docket No. 159 (Bankr. Cent. D. Cal. Sept. 8, 2003).
[56] Debtor's Voluntary Petition, *In re* Alta Bellwood Hosps., Inc., No. LA-0318543-ES, Docket No. 1 (Bankr. Cent. D. Cal. Mar. 28, 2003); Final Ord. (I) Authorizing Secured & Super Priority Post-Petition Fin., (II) Modifying Automatic Stay, & (III) Granting Other Related Relief, *In re* Alta Bellwood Hosps., Inc., No. LA-0318543-ES, Docket No. 52 at 3-4 (Bankr. Cent. D. Cal. Apr. 25, 2003); Debtor's Schedules of Assets & Liabilities, *In re* Alta Bellwood Hosps., Inc., No. LA-0318543-ES, Docket No. 55-63 at 23, 30, 73, 95 (Bankr. Cent. D. Cal. Apr. 28, 2003).
[57] Final Ord. (I) Authorizing Secured & Super Priority Post-Petition Fin., (II) Modifying Automatic Stay, & (III) Granting Other Related Relief, *In re* Alta Bellwood Hosps., Inc., No. LA-0318543-ES, Docket No. 52 at 3-4 (Bankr. Cent. D. Cal. Apr. 25, 2003); Debtor's Schedules of Assets & Liabilities, *In re* Alta Bellwood Hosps., Inc., No. LA-0318543-ES, Docket No. 55-63 at 23, 30, 73, 95 (Bankr. Cent. D. Cal. Apr. 28, 2003).
[58] Deed, MCH Medical Center Inc., June 5, 2003, LexisNexis.
[59] Evelyn Barge, *Monrovia hospital makes a recovery*, SAN GABRIEL VALLEY TRIB. (Apr. 1, 2009), LexisNexis.
[60] Facility History, *Monrovia Community Hospital,* HCAI, https://lfis.hcai.ca.gov/Facility/History/106190541.
[61] Prospect Med. Holdings, Inc., Current Report (8-K/A) at 6, 12 (Apr. 1, 2008) (Exhibit 99.1), https://www.sec.gov/Archives/edgar/data/1063561/000110465908021745/a07-27191_2ex99d1.htm.
[62] Prospect Med. Holdings, Inc., Current Report (8-K/A) at 6, 12 (Apr. 1, 2008) (Exhibit 99.1), https://www.sec.gov/Archives/edgar/data/1063561/000110465908021745/a07-27191_2ex99d1.htm.

B. Publicly available information demonstrates a pattern and practice of financial mismanagement at PMH.

PMH's 2007 acquisition of Alta—a vertical integration of Alta's hospitals with PMH's physician organizations—presented increased opportunities for profit. However, the merger of the two companies was marred with financial issues, missed deadlines, and leadership changes—a pattern of mismanagement that doomed the operator from the start.

1. In August 2007, PMH acquired Alta Healthcare Systems and attempted to address prior issues.

PMH—a publicly traded company—saw considerable potential in acquiring Alta, which would transform PMH into a vertically integrated health care provider that could improve patient care delivery and "satisfy the increasing demand by HMOs to contract with managed care partners that offer an integrated physician/hospital solution."[63] PMH wanted to be an HMO partner that provided services all the way from the doctor's office to the hospital room, building on its prior focus on providing management services to several physician associations and clinics in California that contracted with HMOs for the provision of medical services to the HMO's enrollees.[64] PMH provided these services to physician organizations that it owned or controlled, as well as affiliated physician organizations.[65]

On August 8, 2007, PMH completed its acquisition of Alta for $103 million plus the assumption of Alta's $41 million in debt.[66] PMH paid Alta half of the purchase price in equity and the other half in cash, with Topper and Lee receiving $51.3 million in cash.[67] PMH borrowed $155 million for the transaction, using $88 million to refinance Alta's debt and PMH's own $47 million in debt.[68] As part of the acquisition agreement, Lee became a member of PMH's Board of Directors, was appointed CEO of PMH's new Alta subsidiary, and entered into

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[63] Prospect Med. Holdings, Inc., Current Report (8-K) (July 25, 2007) (Exhibit 99.1), https://www.sec.gov/Archives/edgar/data/1063561/000110465907056191/a07-20272_1ex99d1.htm.
[64] Prospect Med. Holdings, Inc., Quarterly Report (10-Q) at 13 (May 15, 2007), https://www.sec.gov/Archives/edgar/data/1063561/000110465907040122/a07-11921_110q.htm.
[65] Prospect Med. Holdings, Inc., Quarterly Report (10-Q) at 13 (May 15, 2007), https://www.sec.gov/Archives/edgar/data/1063561/000110465907040122/a07-11921_110q.htm.
[66] Prospect Med. Holdings, Inc., Current Report (Form 8-K) at 3–4 (Aug. 10, 2007), https://www.sec.gov/Archives/edgar/data/1063561/000110465907061358/a07-21575_18k.htm; Prospect Med. Holdings, Inc., Current Report (8-K) (Aug. 10, 2007) (Exhibit 99.1), https://www.sec.gov/Archives/edgar/data/1063561/000110465907061358/a07-21575_1ex99d1.htm
[67] Prospect Med. Holdings, Inc., Quarterly Report (Form 10-Q) at 19 (June 6, 2008), https://www.sec.gov/Archives/edgar/data/1063561/000104746908007486/a2186293z10-q.htm; Prospect Med. Holdings, Inc., Current Report (Form 8-K) at 2–3 (Aug. 10, 2007), https://www.sec.gov/Archives/edgar/data/1063561/000110465907061358/a07-21575_18k.htm.
[68] Prospect Med. Holdings, Inc., Current Report (Form 8-K) at 2 (Aug. 10, 2007), https://www.sec.gov/Archives/edgar/data/1063561/000110465907061358/a07-21575_18k.htm.

an employment agreement with PMH at a salary of $610,000 per year with bonuses up to $250,000.[69] In comparison, PMH's then-CEO's base salary was $400,000.[70]

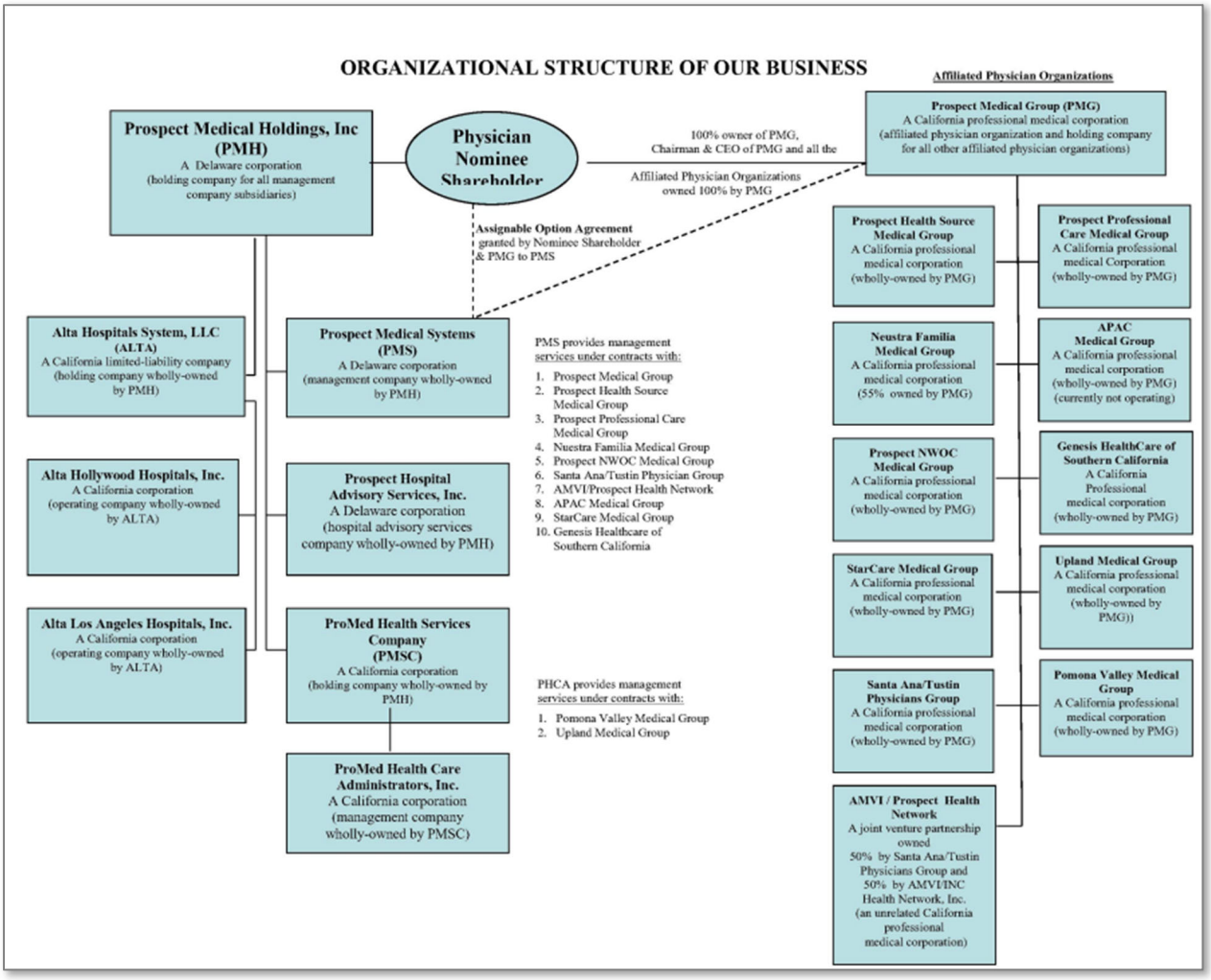


Figure 2. Document produced by PMH of organizational structure of PMH in 2008 after the Alta acquisition.[71]

2. *Shortly after the acquisition, PMH discovered that Alta's 2006 financial statement contained errors.*

PMH's acquisition of Alta was fraught with challenges, as financial and operational issues emerged quickly. In November 2007, PMH announced that delays in finalizing Alta's most recent financial statement would postpone the annual stockholder's meeting.[72] A couple

[69] Prospect Med. Holdings, Inc., Current Report (Form 8-K) at 3–4 (Aug. 10, 2007), https://www.sec.gov/Archives/edgar/data/1063561/000110465907061358/a07-21575_18k.htm.
[70] Prospect Med. Holdings, Inc., Annual Report (Form 10-K) at 101 (Dec. 29, 2008), https://www.sec.gov/Archives/edgar/data/1063561/000104746908013426/a2189729z10-k.htm.
[71] PMH00038174.
[72] Prospect Med. Holdings, Inc., Current Report (8-K) (Nov. 14, 2007) (Exhibit 99.1), https://www.sec.gov/Archives/edgar/data/1063561/000110465907082918/a07-29412_1ex99d1.htm.

months later, the American Stock Exchange delisted PMH due to the company missing the deadline to file its 10-K.[73] In PMH's press release related to the delisting, the company revealed independent auditors were reviewing and restating Alta's 2006 financial statement and had hired independent counsel to assist in the process.[74] Subsequently, PMH missed another deadline for submitting financial and compliance information to its lenders, thereby placing the company in default of its loan agreements.[75]

On March 19, 2008, amid the financial turmoil stemming from the Alta acquisition, Lee became CEO, positioning himself as PMH's new leader during a period of significant instability.[76] Even in light of Alta's financial errors—errors that Lee had presumably overseen as president—PMH allowed Lee, its newest board member, to become CEO in just over six months. In August 2008, with Lee at the helm, PMH filed a corrected version of Alta's 2006 financial statement stating that the previous version had "errors" that included overstating the amounts due from third-party payors and California's Medicaid disproportionate share programs receivables.[77] The overstatements were substantial, having inflated Alta's operating income by about 30 percent, with PMH ultimately paying around $1,383,000 for the special investigation and restatement.[78]

Despite Lee's mismanagement of Alta, PMH rewarded him—both by promoting him to CEO and increasing his compensation. In July 2008, Lee's salary increased retroactively to the date of his CEO appointment by $40,000, and he received a bonus of $425,000 "in recognition of his extraordinary services in implementing [PMH's] turnaround plan."[79] Lee's salary increased again in February 2009 by $100,000, retroactive to October 1, 2008; and three months later, Lee's base salary increased to $950,000, retroactive to April 1, 2009.[80] In 2009, his bonus topped $2,850,000—which included $1.9 million for hitting EBITDA (earnings before interest,

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[73] Prospect Med. Holdings, Inc., Current Report (Form 8-K) (Jan. 22, 2008) (Item 3.01), https://www.sec.gov/Archives/edgar/data/1063561/000110465908003886/a08-3476_18k.htm.
[74] Prospect Med. Holdings, Inc., Current Report (Form 8-K) (Jan. 22, 2008) (Item 3.01), https://www.sec.gov/Archives/edgar/data/1063561/000110465908003886/a08-3476_18k.htm.
[75] Prospect Med. Holdings, Inc., Current Report (Form 8-K) (Feb. 1, 2008) (Item 3.01, referencing press release dated January 15, 2008), https://www.sec.gov/Archives/edgar/data/1063561/000110465908006591/a08-4471_18k.htm.
[76] Prospect Med. Holdings, Inc., Current Report (Form 8-K) (Mar. 25, 2008) (Item 5.02, referencing press release dated March 24, 2008), https://www.sec.gov/Archives/edgar/data/1063561/000110465908019475/a08-8991_28k.htm.
[77] Prospect Med. Holdings, Inc., Current Report (8-K/A) (Apr. 1, 2008) (Exhibit 99.1), https://www.sec.gov/Archives/edgar/data/1063561/000110465908021745/a07-27191_2ex99d1.htm.
[78] Prospect Med. Holdings, Inc., Current Report (8-K) (July 25, 2007) (Exhibit 99.1), https://www.sec.gov/Archives/edgar/data/1063561/000110465907056191/a07-20272_1ex99d1.htm; Prospect Med. Holdings, Inc., Current Report (8-K/A) at 10 (Apr. 1, 2008) (Exhibit 99.1), https://www.sec.gov/Archives/edgar/data/1063561/000110465908021745/a07-27191_2ex99d1.htm, (As previously reported, income from operations was $16,851,602; and as restated, it was $12,965,550); Prospect Med. Holdings, Inc., Annual Report (Form 10-K) at F-56 (Dec. 29, 2008), https://www.sec.gov/Archives/edgar/data/1063561/000104746908013426/a2189729z10-k.htm.
[79] Prospect Med. Holdings, Inc., Current Report (Form 8-K) at 2 (July 11, 2008); https://www.sec.gov/Archives/edgar/data/1063561/000110465908045287/a08-18352_18k.htm.
[80] Prospect Med. Holdings, Inc., Annual Report (10-K) at 105 (Dec. 20, 2010), https://www.sec.gov/Archives/edgar/data/1063561/000104746910010504/a2201450z10-k.htm.

tax, depreciation, and amortization) targets and $950,000 in a discretionary bonus.[81] In 2010, he received a bonus of $1.9 million for achieving EBITDA targets.[82] These cash bonuses were in addition to stock and option awards.[83]

In summary, PMH's acquisition of Alta was marked by financial turmoil, mismanagement, and the elevation of Lee, one of the individuals responsible for Alta's problems. Ultimately, Lee profited handsomely while the company continued to falter operationally, raising concerns about accountability at PMH.

C. Leonard Green & Partners acquired PMH and several warning bells immediately began ringing.

Leonard Green & Partners ("LGP" or "Leonard Green") was founded in 1989.[84] Initially, LGP focused on leveraged buyouts and investments in retail, consumer products, and business services companies.[85] Its portfolio included high-profile companies such as The Container Store, Petco, and Whole Foods Market.[86] Prior to its investment in PMH, LGP's health care portfolio was extremely limited, featuring only IMS Health, which provided pharmaceutical data and consulting services, and VCA Antech, a Los Angeles-based veterinary hospital chain.[87] LGP is a prominent global private equity firm, managing approximately $75 billion in assets in 2024.[88] A key characteristic of private equity firms like LGP is their ability to influence portfolio companies through control over management and operations.[89]

LGP's acquisition of PMH in 2010 exemplified this strategy. On August 16, 2010, LGP announced a definitive agreement to acquire a majority stake in PMH for approximately $363 million, including the assumption of $158 million in net debt.[90] This leveraged buyout

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[81] Prospect Med. Holdings, Inc., Annual Report (10-K) at 105 (Dec. 20, 2010), https://www.sec.gov/Archives/edgar/data/1063561/000104746910010504/a2201450z10-k.htm.
[82] Prospect Med. Holdings, Inc., Annual Report (10-K) at 105 (Dec. 20, 2010), https://www.sec.gov/Archives/edgar/data/1063561/000104746910010504/a2201450z10-k.htm.
[83] Prospect Med. Holdings, Inc., Annual Report (10-K) at 105 (Dec. 20, 2010), https://www.sec.gov/Archives/edgar/data/1063561/000104746910010504/a2201450z10-k.htm.
[84] *Leonard Green & Partners*, TRENDSPIDER LLC, https://trendspider.com/learning-center/leonard-green-partners/ (last visited Dec. 31, 2024).
[85] *Leonard Green & Partners*, TRENDSPIDER LLC, https://trendspider.com/learning-center/leonard-green-partners/ (last visited Dec. 31, 2024).
[86] *Leonard Green & Partners*, TRENDSPIDER LLC, https://trendspider.com/learning-center/leonard-green-partners/ (last visited Dec. 31, 2024).
[87] Deborah Crowe, *L.A. Private Equity Firm to Acquire Prospect*, L.A. BUS. J. (Aug. 16, 2010), https://labusinessjournal.com/healthcare/hospitals/private-equity-firm-acquire-prospect/.
[88] Advent International and Leonard Green & Partners to Partner with Genstar Capital and Management to Drive Next Chapter of Growth at Prometheus Group, LEONARD GREEN & PARTNERS (June 10, 2024), https://www.leonardgreen.com/advent-international-and-leonard-green-partners-to-partner-with-genstar-capital-and-management-to-drive-next-chapter-of-growth-at-prometheus-group/.
[89] Nori Gerardo Lietz & Philipp Chvanov, *Does the Case for Private Equity Still Hold?*, Harv. Bus. Sch. Working Paper No. 24-066 (2024), at 40, https://www.hbs.edu/ris/Publication%20Files/24-066_cc5a53f4-e839-4a01-ba57-9dc7fdf8e339.pdf.
[90] Prospect Med. Holdings, Inc., Quarterly Report (Form 10-Q) at 15–17 (Feb. 14, 2011), https://www.sec.gov/Archives/edgar/data/1063561/000110465911007388/a11-5771_110q.htm.

represented a 38.9 percent premium over the closing price on August 13, 2010, and resulted in PMH becoming a privately held company that was no longer subject to public disclosures and similar oversight.[91] Members of PMH's management owned the other 39 percent stake, including Lee (20.2 percent), the David and Alexa Topper Trust (14.9 percent), the PMH CFO (1.6 percent), and PMH President Dr. Jeereddi Prasad (1.2 percent).[92] Lee was awarded a $1,235,000 bonus for the successful completion of the LGP merger, as approved by PMH's Compensation Committee.[93]

LGP secured majority control over PMH by appointing three of the five board members.[94] The firm's control allowed it to influence PMH's decisions, even amid financial difficulties and operational challenges.[95] Under the terms of the acquisition, LGP also structured a Management Services Agreement (MSA), through which PMH paid millions of dollars in fees for various services, including investment banking, consulting, and financial planning.[96]

Generally speaking, private equity firms aim to generate high returns by acquiring companies they believe they can improve through strategic management and financial engineering.[97] One such financial engineering technique is "dividend recapitalization" (also known as "debt-funded dividends"), whereby a company issues new debt to pay special dividends to shareholders without selling ownership stakes.[98] In 2021, LGP was the most frequent private equity user of "debt-funded dividends"; as of mid-2024, 42 percent of LGP's portfolio companies had pursued such dividends.[99]Private equity firms' ultimate goal is to return capital to investors, traditionally within a three-to-seven year period.[100] It is likely that LGP viewed the acquisition of PMH as a promising financial decision due to the potential for high

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[91] Prospect Med. Holdings, Inc., Annual Report (Form 10-K) at 4 (Dec. 20, 2010), https://www.sec.gov/Archives/edgar/data/1063561/000104746910010504/a2201450z10-k.htm; Eileen O'Grady, *Raiding the Safety Net: Leonard Green & Partners Seek to Walk Away From Prospect Medical Holdings After Collecting $570 Million in Fees and Dividends* (Private Equity Stakeholder Project, Jan. 2020), at 1–2, https://pestakeholder.org/wp-content/uploads/2020/02/Raiding-the-Safety-Net-Leonard-Green-PESP-012920.pdf.

[92] Prospect Med. Holdings, Inc., Annual Report (Form 10-K) at 109 (Dec. 20, 2010), https://www.sec.gov/Archives/edgar/data/1063561/000104746910010504/a2201450z10-k.htm.

[93] Prospect Med. Holdings, Inc., Quarterly Report (Form 10-Q) (Mar. 31, 2011).

[94] PMH00006439, at PMH00006481–82, PMH00006511–12.

[95] *See* PMH00006408, at PMH00006408–14.

[96] *See* PMH00006408, at PMH00006408–14; *see also* discussion *infra* Section D(3).

[97] Felix Barber & Michael Goold, *The Strategic Secret of Private Equity*, HARVARD BUS. REV. (Sept. 2007), https://hbr.org/2007/09/the-strategic-secret-of-private-equity.

[98] , Sajith Matthews & Renato Roxas, *Private Equity and its Effect on Patients: A Window into the Future*, 23 INT'L J. OF HEALTH ECON. & MGMT. 673, 674 (Dec. 2023), https://doi.org/10.1007/s10754-022-09331-y. https://www.proquest.com/scholarly-journals/private-equity-effect-on-patients-window-into/docview/2866948251/se-2.

[99] Julia Chursin & Christina Padgett, *Leveraged Finance – US: Tracking the Largest Private Equity Sponsors*, Moody's Inv. Serv., Oct. 10, 2024, at 5, available at https://dkf1ato8y5dsg.cloudfront.net/uploads/52/504/pe-backed-companies-us-tracking-10oct2024-pbc-1420163.pdf.

[100] Michael Kades & Ethan Gurwitz, *The Role of Private Equity in the U.S. Economy and Whether and How Favorable Tax Policies for the Sector Need to Be Reformed*, WASH. CTR. FOR EQUITABLE GROWTH (June 27, 2023), https://equitablegrowth.org/the-role-of-private-equity-in-the-u-s-economy-and-whether-and-how-favorable-tax-policies-for-the-sector-need-to-be-reformed/#footnote-6.

returns in the health care sector, which offers substantial growth opportunities.[101] Recognizing the chance to capitalize on the increasing demand for health care services and the ability to implement strategic changes that could have improved PMH's profitability, the investment would likely have been seen with high potential.[102]

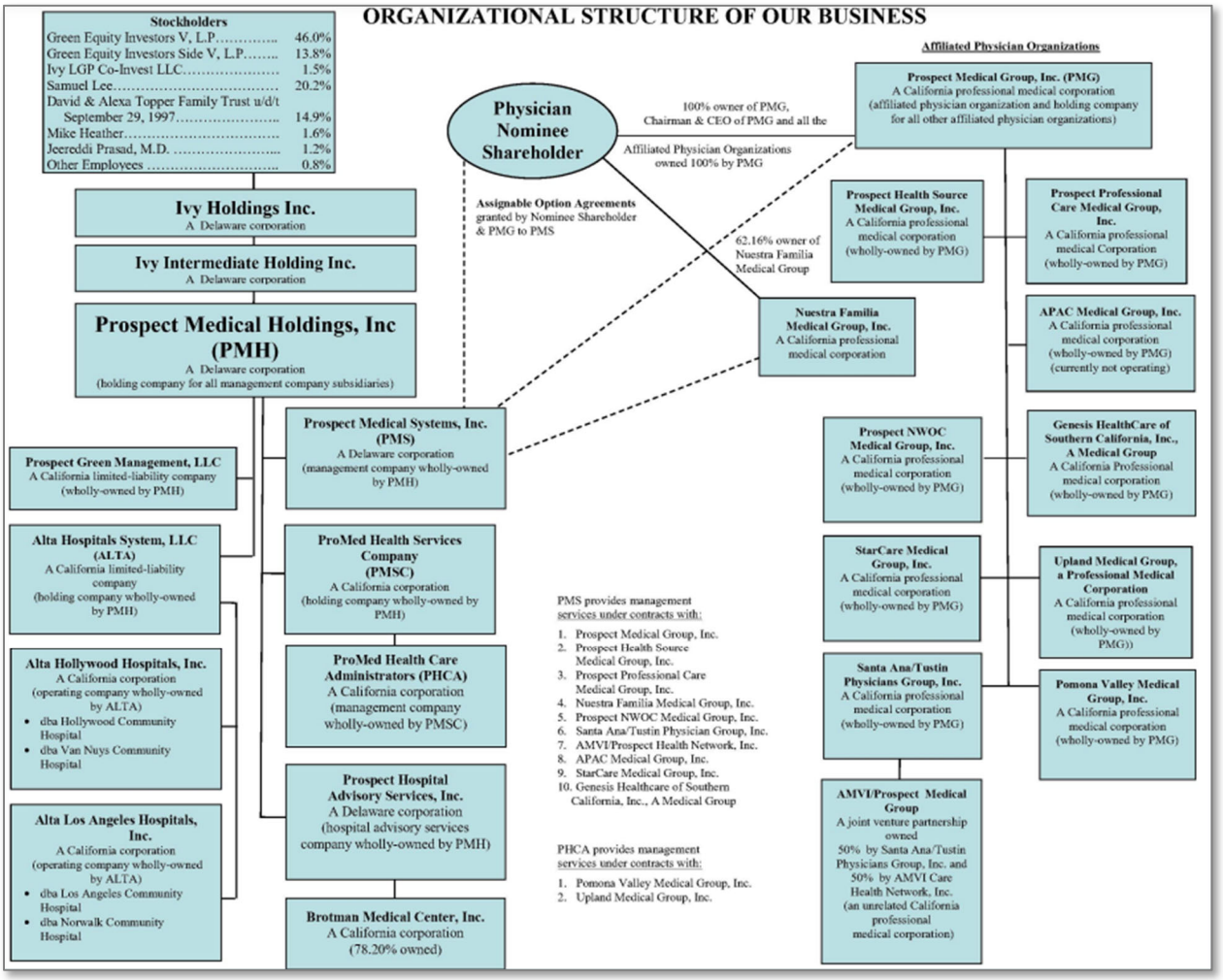


Figure 3. Document produced by PMH of organizational structure of PMH in 2010.[103]

[101] Melanie Evans, *Building Equity: Private Investors Continue to See Strong Value in Many Healthcare Sectors*, 41 MODERN HEALTHCARE 32 (May 2, 2011).
[102] Viral V. Acharya et al., *Corporate Governance and Value Creation: Evidence from Private Equity*, 26 REV. FIN. STUD., 386-388, 398 (No. 2, Feb. 2013).
[103] PMH00038185.

D. Documents obtained by the Budget Committee demonstrate that LGP exercised significant control over PMH's finances and operations.

LGP wielded substantial control over PMH, allowing it to effectively use the hospital system to advance its investment objectives. This influence was demonstrated in several key ways, including holding Board control, levying management fees, and influencing operations.

1. LGP held a majority of seats on PMH's Board of Directors.

One method in which LGP asserted control was through its influence over PMH's Board of Directors. LGP appointed three of the Board's five members.[104] The 2010 Stockholders Agreement ("Agreement") for Ivy Holdings Inc.—PMH's indirect parent company—outlined how investors appointed members to the company's Board of Directors based on the amount of common stock they owned.[105] Under the Agreement, Green Equity Investors, V, L.P. ("GEI")—LGP's affiliated fund—was allowed to appoint up to three directors if they retained at least 50 percent of their shares.[106] GEI and its side fund held approximately 60 percent of the common stock shares at the time of the Agreement in 2010—as a consequence, it reserved the power to appoint three directors to the Board.[107] The directors appointed by GEI were John Baumer, Michael Solomon, and Alyse Wagner (collectively "LGP Directors").[108] All three were employees of LGP at the time.[109] As part of the merger, all former PMH Directors resigned except Lee and Dr. Prasad, who stayed on as PMH's appointed directors (collectively "Management Directors")[110] In addition to controlling the Board, the LGP Directors controlled the Board of Directors' committees, which had oversight of PMH's financials and external auditing process.

The Stockholder's Agreement gave approval rights to LGP Directors for many PMH financial transactions, while other transactions—one of which directly benefitted LGP—did not require a vote at all.[111] Actions that required majority Board approval (including at least one Management Director) encompassed:

- Capital expenditures exceeding $2 million (outside the ordinary course of business);

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[104] Prospect Med. Holdings, Inc., Annual Report (Form 10-K) at 102–103 (Dec. 20, 2010), https://www.sec.gov/Archives/edgar/data/1063561/000104746910010504/a2201450z10-k.htm.
[105] PMH00006439, at PMH00006455, PMH00006481–82.
[106] PMH00006439, at PMH00006455, PMH00006481–82.
[107] PMH00006439, at PMH00006511–12.
[108] PMH00006439, at PMH00006455, PMH00006481–82.
[109] Prospect Med. Holdings, Inc., Annual Report (Form 10-K) at 102–103 (Dec. 20, 2010), https://www.sec.gov/Archives/edgar/data/1063561/000104746910010504/a2201450z10-k.htm.
[110] Prospect Med. Holdings, Inc., Current Report (8-K) at 2 (Dec. 16, 2010), https://www.sec.gov/Archives/edgar/data/1063561/000110465910062923/a10-22887_18k.htm; PMH00006439, at PMH00006455, PMH00006481–82.
[111] PMH00006439, at PMH00006485–87.

- Asset transactions or contracts exceeding $1 million (outside routine operations);
- Transactions with stockholders or affiliates over $1 million;
- Significant changes to tax or accounting policies; and
- Decisions related to liquidation or bankruptcy.[112]

But there were several other actions that did *not* require a vote of the Board of Directors—including preferred stock redemption and so-called "Fundamental Transactions," which included significant asset sales, issuance of securities, and leveraged recapitalizations.[113] For example, when PMH distributed $88.1 million to redeem its preferred stock—of which LGP was the only owner—in 2012, no vote was required.[114] Thus, a key financial decision that would potentially negatively affect PMH but allow LGP to profit did not require a vote of the Board of Directors.[115] Hence, the Stockholders Agreement for Ivy Holdings Inc., in practice, was structured to ensure LGP's financial control over PMH, while allowing LGP to easily recoup its investment in PMH.

2. LGP induced alignment with its financial goals by offering stock options to PMH's management.

LGP further extended control over PMH by using equity compensation to incentivize PMH's senior management to meet financial goals set by LGP. Ivy Holdings, PMH's indirect parent company, granted stock options as an incentive for PMH employees to meet EBITDA targets as determined by the LGP-controlled Compensation Committee.[116] **Notably, no known equity-based compensation was used to incentivize PMH leadership to meet non-financial goals, such as improvements to patient quality and safety at PMH's hospitals.** In fact, LGP has stated that it "did not monitor PMH's quality of care directly but was routinely apprised of PMH's quality performance in a number of ways."[117]

In connection with the creation of the Stock Option Plan, Ivy Holdings established the Compensation Committee to handle its implementation, decide its rules, and make other compensation decisions,[118] including approving a $5.5-million pool for discretionary management bonuses for fiscal year 2013—the date and amount of which were "determined in the discretion of Samuel Lee."[119] Over the entire course of LGP's investment in PMH, members of the Compensation Committee consisted solely of LGP Directors.[120] Even though the Stock

[112] PMH00006439, at PMH00006485–87.
[113] PMH00006439, at PMH00006485–87.
[114] LGP-SBC-000002773, at LGP-SBC-000002824; PMH00006439, at PMH00006511.
[115] PMH00006439, at PMH00006485–87.
[116] PMH00035235, at PMH00035278–79.
[117] LGP Response to the Budget Committee at 5 (Nov. 8, 2024).
[118] PMH00006561, at PMH00006563 & PMH00006570–71.
[119] LGP-SBC-000003024, at LGP-SBC-000003026.
[120] LGP-SBC-000002921, at LGP-SBC-000002924.

Option Plan allowed for stock options to be granted to "independent directors"—LGP Directors—LGP currently claims that none of its appointed board members directly profited from PMH's issuance of dividends.[121] Of note, none of the requirements for the vesting of stock options were related to improving quality of patient care.[122]

[121] LGP Response to the Budget Committee at 4 (Nov. 8, 2024).
[122] LGP-SBC-000003024, at LGP-SBC-000003026–27.

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.

Figure 4. The Compensation Committee approved the vesting of the discretionary portion of Sam Lee's stock option in 2013.

This arrangement underscores how LGP leveraged the Stock Option Plan and Compensation Committee to align PMH management with purely financial objectives, prioritizing executive compensation over non-financial goals such as improving patient care or hospital quality.

3. LGP siphoned at least $13.4 million in fees from PMH.

LGP further profited from its control over PMH by collecting considerable fees—money that PMH otherwise presumably could have used for hospital-related expenses. LGP secured millions in management fees from PMH through vague and open-ended provisions under a Management Services Agreement (MSA) that required PMH to pay LGP $1 million annually.[123] The annual fee became payable on January 3, 2011, "***without regard to the amount of services actually performed by [LGP]***."[124] LGP also charged "normal and customary" fees for major financial transactions, along with expenses like travel and communications, while collecting a $4.4 million structuring fee at the time of the acquisition.[125] In March 2020, PMH "ceased accruing LGP monthly fees."[126] The agreement, which benefited LGP without clear justification, remained in place until its termination in June 2021.[127]

E. Documents obtained by the Budget Committee show that, following Leonard Green's acquisition of PMH, dividend payouts for shareholders grew exponentially while hospital debt compounded.

Under LGP's control, PMH pursued aggressive expansion by leveraging its hospitals as collateral and amassing significant debt. After liabilities surged from $324 million in 2011 to $746 million by 2015, PMH doubled down by taking out a $625 million loan in 2016 to fund more acquisitions in Connecticut and Pennsylvania, despite "junk bond" credit ratings and operational risks.[128] Instead of addressing its mounting debt, PMH distributed $457 million in dividends to shareholders in 2018, depleting its cash reserves.[129] By 2019, the company faced $2.8 billion in liabilities, underperforming hospitals, and the collapse of critical health care services in the communities it served.[130]

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[123] Under the MSA, LGP provided PMH with management and consulting services related to "investment banking" and "the operation and growth" of PMH. PMH00006408, at PMH00006408–14.
[124] PMH00006408, at PMH00006409 (emphasis added).
[125] PMH00006408, at PMH00006409.
[126] MPT_PROSPECT_00010109, at MPT_PROSPECT_00010149.
[127] PMH00006408, at PMH00006408–14; PMH00022758, at PMH00022798.
[128] LGP-SBC-000001954, at LGP-SBC-000001959; LGP-SBC-000000348, at LGP-SBC-000000354; LGP-SBC-000000620, at LGP-SBC-000000662; *High-Yield Bond or Junk Bond*, INVESTOR.GOV, https://www.investor.gov/introduction-investing/investing-basics/glossary/high-yield-bond-or-junk-bond (last visited Jan. 2, 2025).
[129] MPT_PROSPECT_00007591, at MPT_PROSPECT_00007594.
[130] MPT _PROSPECT _00007068, at MPT _PROSPECT _00007072–73.

1. Less than two years after LGP's acquisition, PMH paid out $188 million in dividends to shareholders.

When LGP acquired PMH, the company owned and operated five hospitals—four from the Alta acquisition and one that PMH acquired in 2005.[131] In the year after the acquisition, operating expenses increased significantly, leading to a net income decrease of more than $9 million.[132] Despite declining profits, PMH exited fiscal year 2011 with over $71 million in cash and cash equivalents, which it used to acquire more hospitals.[133] On February 1, 2012, PMH acquired Nix Health Care System in San Antonio, Texas, which included two hospitals, for $48 million, including the assumption of $4 million in debt.[134] Two years later, PMH completed its construction of a third Nix facility in San Antonio.[135] At the time of its 2012 acquisition, the hospitals in Texas were generating annual profits of several million dollars.[136]

A few months after PMH's costly expansion into Texas, LGP decided to cash out its preferred stock in order to return money to its investors. This required PMH to obtain $325 million from creditors in the form of a bond, the funds of which were used to pay $88 million to LGP's investors and repay prior debt (including $151 million toward a prior bond from 2009).[137] Moody's rated PMH's $325 million bond as B2—which meant PMH's notes were risky.[138] S&P also opined that PMH had a "vulnerable business risk profile because of its relatively undiversified business portfolio, its concentration of risk in a small number of hospitals, and its exposure to third-party reimbursement risk."[139]

Prospect ended fiscal year 2012 with a net income of over $26 million and $82.4 million in cash and cash equivalents.[140] Instead of using these funds to pay down its $325 million in newly acquired debt, Prospect decided to take out an additional $100 million bond, which it used to distribute a further $100 million in dividends to its investors—LGP, Lee, Topper, and other members of PMH's senior management.[141] According to PMH, interest payments on the bond were approximately $35 million annually.[142] Moody's changed PMH's outlook from stable

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[131] PMH acquired a minority stake in Southern California Hospital at Culver City (formerly known as "Brotman Medical Center") in 2005. Through a series of financial maneuvers, PMH became 100 percent owner in April 2012. LGP-SBC-000001954, at LGP-SBC-000001964; LGP-SBC-000001085 at LGP-SBC-000001051.
[132] LGP-SBC-000001954, at LGP-SBC-000001960.
[133] PMH's fiscal year ends on September 30. LGP-SBC-000001954, at LGP-SBC-000001958.
[134] *Prospect Medical Holdings Closes Asset Purchase of Nix Health*, BUS. WIRE (Feb. 1, 2012), https://www.businesswire.com/news/home/20120201006885/en/Prospect-Medical-Holdings-Closes-Asset-Purchase-of-Nix-Health.
[135] LGP-SBC-000000278, at LGP-SBC-000000326, LGP-SBC-000000329.
[136] LGP-SBC-000001051, at LGP-SBC-000001065.
[137] PMH00016525, at PMH00016545, PMH00016566.
[138] *Moody's upgrades Prospect Medical to B2, rates proposed sr. secured notes B2; outlook stable*, MOODY'S INV. SERV. (Apr. 19, 2012), https://www.moodys.com/research/Moodys-upgrades-Prospect-Medical-to-B2-rates-proposed-sr-secured-Rating-Action--PR_242746.
[139] *S&P Rates Prospect Medical's $325M Sr Secd Nts 'B-' (Recov: 5)*, REUTERS (Apr. 19, 2012), https://www.reuters.com/article/business/s-p-rates-prospect-medical-s-325m-sr-secd-nts-b-recov-5-idUSWNA5399/.
[140] LGP-SBC-000001051, at LGP-SBC-000001057, LGP-SBC-000001060.
[141] LGP-SBC-000001051, at LGP-SBC-000001111–12.
[142] PMH00008641, at PMH00008645.

to negative.[143] S&P stated the $100 million debt-financed dividend was an "unexpected event" that was "inconsistent with [S&P's] expectation that Prospect's financial profile was on the path to improve."[144] PMH's leverage ratio—meaning the amount of debt it had relative to its earnings (EBITDA)—increased to 4.5x.[145] Leverage ratio is an important financial metric measuring a company's ability to pay off its debt.[146] High leverage ratios may lead to a higher risk of insolvency if a company is not producing enough earnings from operations to repay the debt.[147] By November 2012, LGP had recouped its original investment in PMH through PMH's debt issuances and subsequent dividend payments.[148]

Meanwhile, Moody's downgraded PMH's credit rating due to its increased debt load.[149] Despite LGP recouping its original investment in full and PMH management stating in a corporate due diligence report that there was "no further required annual dividend," this was not the last dividend distribution under LGP's ownership.[150] Notably, PMH was one of *multiple* LGP portfolio companies that utilized dividend recapitalizations in 2012, all of which further increased LGP's profits.[151]

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[143] *Moody's affirms Prospect's sr. secured notes rating at B2; outlook changed to negative*, MOODY'S INV. SERV. (Nov. 8, 2012), https://www.moodys.com/research/Moodys-affirms-Prospects-sr-secured-notes-rating-at-B2-outlook-Rating-Action--PR_259118.

[144] *S&P Revises Prospect Medical 'B' Rtg Outlook To Stable From Pos*, REUTERS (Nov. 8, 2012), https://www.reuters.com/article/business/s-p-revises-prospect-medical-b-rtg-outlook-to-stable-from-pos-idUSWNA9242/.

[145] *S&P Revises Prospect Medical 'B' Rtg Outlook To Stable From Pos*, REUTERS (Nov. 8, 2012), https://www.reuters.com/article/business/s-p-revises-prospect-medical-b-rtg-outlook-to-stable-from-pos-idUSWNA9242/; Javier El Hage, *Will the Leveraged Loan Market Trigger a Financial Pandemic? Understanding Cov-Lite Loans, CLOs, and EBITDA Add-Backs*, FORDHAM J. CORP. & FIN. L. (May 4, 2020), https://news.law.fordham.edu/jcfl/2020/05/04/will-the-leveraged-loan-market-trigger-a-financial-pandemic-understanding-cov-lite-loans-clos-and-ebitda-add-backs/#_edn21 (Section C. The industry-friendly EBITDA add-backs).

[146] Javier El Hage, *Will the Leveraged Loan Market Trigger a Financial Pandemic? Understanding Cov-Lite Loans, CLOs, and EBITDA Add-Backs*, FORDHAM J. CORP. & FIN. L. (May 4, 2020), https://news.law.fordham.edu/jcfl/2020/05/04/will-the-leveraged-loan-market-trigger-a-financial-pandemic-understanding-cov-lite-loans-clos-and-ebitda-add-backs/#_edn21 (Section C. The industry-friendly EBITDA add-backs).

[147] Javier El Hage, *Will the Leveraged Loan Market Trigger a Financial Pandemic? Understanding Cov-Lite Loans, CLOs, and EBITDA Add-Backs*, FORDHAM J. CORP. & FIN. L. (May 4, 2020), https://news.law.fordham.edu/jcfl/2020/05/04/will-the-leveraged-loan-market-trigger-a-financial-pandemic-understanding-cov-lite-loans-clos-and-ebitda-add-backs/#_edn21 (Section C. The industry-friendly EBITDA add-backs).

[148] PMH00016525, at PMH00016561.

[149] *Moody's Changes Prospect Medical's Outlook to Stable from Negative; B2 Rating Affirmed*, MOODY'S INV. SERV. (Aug. 8, 2013), https://www.moodys.com/research/Moodys-changes-Prospect-Medicals-outlook-to-stable-from-negative-B2-Rating-Action--PR_279386.

[150] PMH00016525, at PMH00016561; Yolanda Bobeldijk, *Firms turn to dividend recaps for exits*, PRIV. DEBT INV. (Oct. 24, 2012), https://www.privatedebtinvestor.com/firms-turn-to-dividend-recaps-for-exits/.

[151] In 2012, other LGP portfolio companies utilized dividend recapitalization to distribute large dividends to their investors. Over the years, LGP and its co-investors have profited handsomely from healthcare companies in the form of debt-financed dividends totaling over $2 billion, highlighting LGP's significant financial gains. *See* Eileen O'Grady, *Leonard Green & Partners reaps repeated payouts from health care companies*, PRIV. EQUITY STAKEHOLDER PROJECT (Apr. 14, 2020), https://pestakeholder.org/news/leonard-green-partners-reaps-repeated-payouts-from-health-care-companies-2/; Michael Amato, *Aspen Dental's Loan for Leonard Green Dividend Rises in*

Despite its downgraded credit rating and increased debt load, in April 2013, Prospect acquired an additional Nix Health entity—a community hospital in Dilley, Texas—for $3.75 million.[152] Consequently, in August of 2013, Moody's increased PMH's leverage ratio to 4.5x to 5.0x, which is considered a "high" level of indebtedness.[153]

2. PMH's acquisition spree continued, with its biggest net income ever coming in fiscal year 2015.

At the beginning of 2014, PMH owned and operated eight hospitals, but instead of focusing on improving those operations or paying down its debt, LGP and PMH decided to pursue further acquisitions. With Lee still in place as CEO, in May of 2014, PMH acquired two more hospitals in California: Foothill Regional Medical Center for $15 million; and Bellflower Medical Center for $20 million.[154] PMH paid cash for the transactions.[155] The same month, PMH signed an $84 million Asset Purchase Agreement ("APA") to acquire East Orange General Hospital ("EOGH") in New Jersey—however, the transaction was not completed until 2016.[156] In addition to the APA, PMH and EOGH entered into an Interim Management Advisory Agreement, where PMH took ultimate oversight and governance of EOGH—including both management and financial decisions for the hospital.[157] In connection with its "advisory services," EOGH agreed to pay PMH two percent of its revenue per month.[158]

A month later, in June 2014, PMH acquired an 85 percent stake in CharterCARE for $43.3 million, which included Roger Williams Medical Center and Our Lady of Fatima Hospital in Rhode Island.[159] The purchase price included a pledge to pay off about $34 million of CharterCARE's debts and invest at least $50 million in capital improvements over four years.[160] The health system included 785 beds, along with assisted living and elder care services at

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Trading, BLOOMBERG (Mar. 6, 2012), https://www.bloomberg.com/news/articles/2012-03-06/aspen-dental-s-loan-for-leonard-green-dividend-rises-in`-trading?embedded-checkout=true; Luisa Beltran, *Leonard Green, CVC nearly double their money with BJ's Wholesale*, PE HUB (Nov. 4, 2013), https://www.pehub.com/leonard-green-cvc-double-money-bjs-wholesale; Michael Amato, *Aspen Dental's Loan for Leonard Green Dividend Rises in Trading*, BLOOMBERG (Mar. 6, 2012), https://www.bloomberg.com/news/articles/2012-03-06/aspen-dental-s-loan-for-leonard-green-dividend-rises-in-trading?embedded-checkout=true; Luisa Beltran, *Leonard Green, CVC nearly double their money with BJ's Wholesale*, PE HUB (Nov. 4, 2013), https://www.pehub.com/leonard-green-cvc-double-money-bjs-wholesale/.

[152] LGP-SBC-000002773, at LGP-SBC-000002809.

[153] Fin. Stability Bd., Vulnerabilities Associated with Leveraged Loans and Collateralized Loan Obligations (Dec. 19, 2019), at 5, https://www.fsb.org/uploads/P191219.pdf.

[154] After acquisition, PMH changed the name of Newport Specialty Hospital to Foothill Regional Medical Center. PMH00035169, at PMH00035180. LGP-SBC-000000682, at LGP-SBC-000000716–17.

[155] LGP-SBC-000000682, at LGP-SBC-000000716–17.

[156] Susan K. Livio, *East Orange General to be bought for $84M Deal latest in trend of for-profit ownership*, THE STAR LEDGER (May 30, 2014), LexisNexis.

[157] PMH00017454, at PMH00017456.

[158] PMH00017454, at PMH00017457.

[159] LGP-SBC-000000682, at LGP-SBC-000000717.

[160] LGP-SBC-000000682, at LGP-SBC-000000717; Barbara Polichetti, *R.I. attorney general approves new partnership for Fatima Hospital and Roger Williams Medical Center*, THE PROVIDENCE J. (R.I.) (May 17, 2014), LexisNexis.

Elmhurst Extended Care.[161] PMH's acquisitions included hospitals and facilities that serve a large proportion of patients using Medicaid and Medicare. As of 2019, CharterCARE's Southern New England Rehabilitation Center and Roger Williams Medical Center served communities facing severe socioeconomic challenges, as evidenced by poverty levels reaching 22 percent and 21 percent, respectively, in their immediate areas.[162] Additionally, a significant proportion of households—11 percent in a 5-mile radius of Southern New England Rehabilitation Center—earned less than $10,000 annually.[163]

From 2014 to 2015, PMH went from operating 8 hospitals to operating 13 hospitals.[164] One such hospital, EOGH in New Jersey, exemplified the concerns with Prospect's strategy of rapid growth and prioritization of profits. At the time of its acquisition, EOGH was already losing money.[165] On October 7, 2015, the New Jersey Acting Attorney General formally approved the sale, and the deal closed on October 28, 2015.[166] Less than two weeks later, EOGH, which employed 860 people, filed for Chapter 11 bankruptcy.[167] On March 1, 2016, PMH completed its acquisition of EOGH, committing to an $84 million investment, which included $52 million in long-term capital construction projects over five years, $10 million to cover the hospital's debt, $10 million for the hospital's foundation to improve community services, $8 million for short-term working capital projects, and $4 million for unanticipated closing costs—along with the commitment to maintain EOGH as an acute-care facility and retain its employees and physicians.[168] PMH paid for the bankrupt hospital by borrowing funds from its revolving credit facility.[169] Despite these promises, PMH was already looking for a buyer to offload EOGH by 2019.[170] Moreover, PMH had only invested $26 million in the hospital.[171] The State of New Jersey had to step in to bail out the hospital, with legislators seeking monthly installments of $7.5 million in emergency funding to invest in EOGH.[172]

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[161] LGP-SBC-000000682, at LGP-SBC-000000694.
[162] MPT_PROSPECT_00010682.
[163] MPT_PROSPECT_00010682.
[164] LGP-SBC-000002773, at LGP-SBC-000002783; LGP-SBC-000000682, at LGP-SBC-000000693.
[165] *In re* EOGH Liquidation, Inc., f/k/a East Orange Gen. Hosp., Inc., No. 15-31232, Docket No. 13 at 10 (Nov. 10, 2015) (Bankr. D. N.J.).
[166] Andrew Hedlund, *East Orange General Hospital can tap cash collateral*, THE DEAL PIPELINE (Nov. 18, 2015), LexisNexis.
[167] Susan K. Livio, *East Orange General Hospital files for bankruptcy amid sale*, NJ ADVANCE MEDIA (Nov. 11, 2015), https://www.nj.com/healthfit/2015/11/east_orange_general_hospital_files_for_bankruptcy.html; *In re* EOGH Liquidation, Inc., f/k/a East Orange General Hospital, Inc., Case No. 15-31232, Docket No. 328 (Nov. 10, 2015) (Bankr. D. N.J.).
[168] *Prospect completes takeover of East Orange General, names new CEO for hospital*, EXEC. APPOINTMENTS MONITOR WORLDWIDE (Mar. 2, 2016), LexisNexis.
[169] PMH00002138, at PMH00002145
[170] Anjalee Khemlani, Prospect Medical seeks to 'unload' East Orange General, ROI NJ (May 22, 2019), https://www.roi-nj.com/2019/05/22/healthcare/prospect-medical-seeks-to-unload-east-orange-general-to-new-buyer/.
[171] Anjalee Khemlani, *Prospect Medical seeks to 'unload' East Orange General*, ROI NJ (May 22, 2019), https://www.roi-nj.com/2019/05/22/healthcare/prospect-medical-seeks-to-unload-east-orange-general-to-new-buyer/.
[172] *Lawmakers Want Emergency Funds for Struggling Hospital*, NJ SPOTLIGHT (June 27, 2019), LexisNexis.

Despite EOGH's struggles, PMH ended fiscal year 2015 with $34.6 million in net income—its highest under LGP's ownership.[173] Meanwhile, by November 2015, LGP was reportedly planning to sell PMH—which insiders valued as a $1 billion deal.[174] However, LGP ultimately decided to retain its investment in PMH.

3. PMH used its existing hospitals as collateral for its ongoing expansion, putting them at financial and operational risk.

At the end of fiscal year 2011, PMH's total liabilities were approximately $324 million,[175] but by fiscal year 2015 those liabilities had grown to $746 million.[176] Despite the increasing debt, PMH continued to fund its acquisition spree by obtaining a $625 million loan secured by its hospitals as collateral and increasing the amount it could borrow from its revolving credit facility to $175 million.[177] Consequently, Moody's changed its rating outlook from stable to negative, stating PMH's projected adjusted debt to EBITDA would increase to a "relatively high 5.3 times."[178] This prompted Moody's to caution that PMH's substantial debt burden would significantly weaken the company's ability to navigate potential setbacks.[179]

On July 1, 2016, PMH used its loan to acquire all four of Crozer-Keystone's hospitals in the Philadelphia suburbs.[180] Crozer had been seeking a buyer since late 2014 due to increasing losses that left it with insufficient capital reserves for its long-term debt and pension liabilities.[181] The proposed $300 million sale price included funding for at least $100 million in pension liabilities and the assumption of about $160 million in debt, with PMH also deducting $15 million for liability insurance.[182] Additionally, PMH committed to at least $200 million in capital improvements and to keeping all inpatient hospitals open for at least 10 years—a promise it would later break.[183]

PMH's expansion continued into Connecticut. On October 1, 2016, PMH acquired substantially all of the assets and certain liabilities of Eastern Connecticut Health Network,

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[173] LGP-SBC-000000278, at LGP-SBC-000000285.
[174] Amy Or, *Leonard Green Plans Sale of Prospect Medical Holdings*, PRIVATE EQUITY NEWS (Nov. 6, 2015), https://www.penews.com/articles/leonard-green-plans-sale-of-prospect-medical-holdings-20151106.
[175] LGP-SBC-000001954, at LGP-SBC-000001959.
[176] LGP-SBC-000000348, at LGP-SBC-000000354.
[177] MPT_PROSPECT_00007664, at MPT_PROSPECT_00007670.
[178] *Moody's affirms Prospect Medical's B1 CFR; rates new term loan Ba3; outlook to negative*, MOODY'S INV. SERV., Inc. (June 3, 2016), https://www.moodys.com/research/Moodys-affirms-Prospect-Medicals-B1-CFR-rates-new-term-loan-Rating-Action--PR_349894.
[179] *Moody's affirms Prospect Medical's B1 CFR; rates new term loan Ba3; outlook to negative*, MOODY'S INV. SERV., Inc. (June 3, 2016), https://www.moodys.com/research/Moodys-affirms-Prospect-Medicals-B1-CFR-rates-new-term-loan-Rating-Action--PR_349894.
[180] Patti Mengers, *Delco judge approves Crozer-Keystone sale to Prospect*, DAILY NAT'L NEWS (Updated: Aug. 19, 2021), https://www.dailylocal.com/2016/07/01/delco-judge-approves-crozer-keystone-sale-to-prospect/.
[181] LGP-SBC-000000278, at LGP-SBC-000000290.
[182] Patti Mengers, *Delco judge approves Crozer-Keystone sale to Prospect*, DAILY NAT'L NEWS (Updated: Aug. 19, 2021), https://www.dailylocal.com/2016/07/01/delco-judge-approves-crozer-keystone-sale-to-prospect/.
[183] Patti Mengers, *Delco judge approves Crozer-Keystone sale to Prospect*, DAILY NAT'L NEWS (Updated: Aug. 19, 2021), https://www.dailylocal.com/2016/07/01/delco-judge-approves-crozer-keystone-sale-to-prospect/.

Inc.—and its two hospitals, Manchester Memorial Hospital ("Manchester") and Rockville General Hospital ("Rockville")—for $105 million.[184] The acquired assets included a network of hospitals, outpatient service centers, and providers and specialists serving eastern Connecticut.[185] During the time that PMH would operate the hospitals, it agreed to "maintain ECHN's commitment to quality, safety, and patient satisfaction"—another promise PMH would break.[186]

Also on October 1, 2016, PMH acquired the Greater Waterbury Health Network ("GWHN") for approximately $31.8 million in cash and assumed liabilities.[187] The acquired assets included Waterbury Hospital ("Waterbury"), an acute-care hospital with 357 licensed beds, a network of outpatient centers and affiliated physicians, visiting-nurse services, and shares in the for-profit Waterbury Heart Center and a regional cancer center.[188] At the time of purchase, Medicare, Medicaid, and uninsured patients accounted for 80 percent of inpatient volume at the hospital.[189] In addition to the purchase price, PMH committed to investing $55 million in capital expenditures over seven years, to be funded through GWHN's operating income with any shortfall covered by PMH.[190] These capital expenditures were supposed to be "dedicated to continued improvement in quality and safety, expansion of services, new services, physician and service integration, and improvements in access to service"—a commitment PMH would not uphold.[191]

Despite the promises PMH made, the Connecticut hospitals have been plagued with issues since their acquisition—including health and safety violations and a decline in the number of staffed beds and medical personnel. Beginning just after PMH's acquisition, the number of staffed beds at Manchester and Rockville dropped dramatically from a combined 354 staffed beds in fiscal year 2017 to 181 in fiscal year 2018.[192] At Waterbury, the average occupancy rate of staffed beds jumped from 91 percent in fiscal year 2017 to nearly 113 percent in fiscal year 2018,[193] and its number of full-time equivalent (FTE) physicians declined by nearly 20 percent between fiscal years 2017 and 2023.[194] While staffed beds and personnel were decreasing, the hospitals were hit with citations for health and safety violations. In 2018, surveyors identified an "immediate jeopardy"[195] at Manchester for failing to provide adequate quality of care to a high-

[184] LGP-SBC-000000278, at LGP-SBC-000000346–47; PMH00002004, at PMH00002010; *Prospect Medical Holdings acquires assets of Greater Waterbury Health Network*, MARKETLINE FIN. DEALS TRACKER (Oct. 13, 2016), LexisNexis.
[185] LGP-SBC-000000278, at LGP-SBC-000000346–47.
[186] PMH00002004, at PMH00002013.
[187] LGP-SBC-000000278, at LGP-SBC-000000346–47; *Prospect Medical Holdings acquires assets of Greater Waterbury Health Network*, MARKETLINE FIN. DEALS TRACKER (Oct. 13, 2016), LexisNexis.
[188] LGP-SBC-000000278, at LGP-SBC-000000346–47; *State Regulators Approve Sale of Waterbury Hospital*, PHARMA & HEALTHCARE MONITOR WORLDWIDE (June 25, 2016), LexisNexis.
[189] PMH00002138, at PMH00002141.
[190] PMH00002138, at PMH00002145.
[191] PMH0000213, at PMH00002147,
[192] MPT_PROSPECT_00007056.
[193] MPT_PROSPECT_00007157.
[194] Waterbury's number of FTE physicians declined from 57.8 in fiscal year 2017 to 48.4 in fiscal year 2023. Waterbury Hospital, *Report 450* (2017-2023), https://dphhrswebportal.ct.gov/Reports.
[195] An "immediate jeopardy" is "a situation in which a recipient of care has suffered or is likely to suffer serious injury, harm, impairment, or death as a result of a provider's … noncompliance with one or more health and safety

risk pregnant patient, which resulted in the patient's death.[196] In 2018 and 2019, surveyors cited both Rockville (three times)[197] and Waterbury (immediate jeopardy) for failing to maintain the hospitals' physical environment "in such a manner that the safety and well-being of patients [were] assured."[198]

Furthermore, PMH has failed to address overcrowding at Waterbury's emergency department ("ED") according to Centers for Medicare & Medicaid Services ("CMS") measures, despite GWHN identifying the issue as a priority at the time of acquisition.[199] In 2016, the percentage of patients arriving at the ED and leaving before being seen stood at 4 percent.[200] By the end of 2022, the percentage had increased to 8 percent—much higher than the national average of 2 percent.[201] More recently, surveyors of Waterbury in 2023 found the ED was significantly understaffed—ranging from one to four registered nurses during 80 percent of the reviewed shifts.[202]

While the Connecticut hospitals were initially profitable for PMH, it was not long until the hospitals began losing money. According to financial documents produced to the Budget Committee, Rockville and Manchester combined produced a net income of $2.8 million in fiscal year 2017; however, this flipped to a net loss of $3.1 million in fiscal year 2018, beginning the hospitals' downward trend and leading to a net loss of $49.8 million in fiscal year 2023.[203] At Waterbury, the financial impacts came after LGP exited and the hospital suffered a $34.2 million

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requirements." The Centers for Medicare & Medicaid Services ("CMS") will terminate a hospital's Medicare provider agreement if the immediate jeopardy is not removed within 23 days. Ctrs. for Medicare & Medicaid Servs., Memorandum re: Revisions to Appendix Q, Guidance on Immediate Jeopardy (Nov. 21, 2024), at 2, https://www.cms.gov/files/document/qso-25-09-all.pdf; Ctrs. for Medicare & Medicaid Servs., *State Operations Manual* (June 19, 2020) at 34, https://www.cms.gov/files/document/qso-25-09-all.pdf.

[196] Ctrs. for Medicare & Medicaid Servs., *Statement of Deficiencies: Manchester Memorial Hospital, Survey ID VE9F11, Mar. 20, 2018.*

[197] Surveyors cited Rockville General Hospital for condition-level deficiencies related to physical environment once in 2018 and twice in 2019. Ctrs. for Medicare & Medicaid Servs., *Statement of Deficiencies: Rockville General Hospital, Mar. 22, 2018; June 5, 2019; and Aug. 4, 2019*. A condition-level deficiency means a hospital is in noncompliance with one or more Medicare conditions of participation, and the noncompliance "substantially limits a facility's capacity to furnish adequate care." CMS will terminate a hospital's Medicare provider agreement if the condition-level violation is not removed within 90 days. Ctrs. for Medicare & Medicaid Servs., State Operations Manual (Apr. 19, 2024), at 15, https://www.cms.gov/regulations-and-guidance/guidance/manuals/downloads/som107ap_a_hospitals.pdf; Ctrs. for Medicare & Medicaid Servs., State Operations Manual (Feb. 10, 2023), at 81-82, https://www.cms.gov/regulations-and-guidance/guidance/manuals/downloads/som107c05pdf.pdf.

[198] Ctrs. for Medicare & Medicaid Servs., *Statement of Deficiencies: Waterbury Hospital, Survey ID I6PM11, Apr. 24, 2018*; Ctrs. for Medicare & Medicaid Servs., *Statement of Deficiencies: Rockville General Hospital, Mar. 22, 2018; June 5, 2019; and Aug. 4, 2019*.

[199] PMH00002138, at PMH00002148.

[200] *Hospitals archived data snapshots*, CTRS. FOR MEDICARE & MEDICAID SERVS., https://data.cms.gov/provider-data/archived-data/hospitals (last visited Dec. 31, 2024).

[201] *Waterbury Hospital*, https://www.medicare.gov/care-compare/details/hospital/070005?city=Waterbury&state=CT&zipcode=&measure=hospital-timely-and-effective-care (last visited Dec. 31, 2024).

[202] Sujata Srinivasan, *Staffing problems persist at Prospect-owned Waterbury Hospital, union leader says*, CONN. PUB. RADIO (Sept. 26, 2024), https://www.ctpublic.org/news/2024-09-26/prospect-waterbury-hospital-staffing.

[203] MPT_PROSPECT_00007553, at "ECHN actual" sheet; PMH00023510, "ECHN actual" sheet.

net loss in fiscal year 2022 and a $54.9 million net loss in fiscal year 2023—the latter of which was a $59 million decrease from fiscal year 2021, LGP's last year as majority owner.[204]

PMH's 2016 loan was secured by all of PMH's fixed and working capital assets—meaning if PMH defaulted, then the lender could potentially seize the real estate occupied by PMH's hospitals to recoup the outstanding balance on the loan.[205] PMH's rapid expansion led to a fiscal year 2016 net loss of $16.1 million—its first negative financial result since LGP acquired its majority stake.[206] On the same day that the Connecticut hospital acquisitions were finalized, PMH closed Nix Community General Hospital in Dilley, Texas.[207] PMH had acquired it three years earlier but had struggled to maintain patient volume, leading to the permanent closure.[208]

PMH's EBITDA, Net Income, and Total Liabilities
FY2010 - FY2022[209] (*in $millions*)

Fiscal Year	EBITDA[210]	Net (loss) income	Total liabilities
FY10	55	10.3	298.4
FY11	41.6	0.99	323.9
FY12	93.2	26.2	517.4
FY13	98.9	33.3	610.9
FY14	89.7	19.1	762.5
FY15	142	34.6	746.4
FY16	102.5	(16.1)	1,409.8
FY17	176.6	34.3	1,794.9
FY18	51.9	(244)	2,440.9
FY19	94	(297)	2,836.4
FY20	95.6	(99.6)	3,102
FY21	33.3	(143)	3,089.5
FY22	25.9	(233)	3,282.8

Table 1. PMH's EBITDA, net income, and total liabilities from FY2010 to FY2022.

[204] MPT_PROSPECT_00007553, at "Waterbury actual" sheet; PMH00023510, at "Waterbury actual" sheet.
[205] MPT_PROSPECT_00007664, at MPT_PROSPECT_00007670.
[206] LGP-SBC-000000278, at LGP-SBC-000000284.
[207] PMH00035270.
[208] *See* discussion *infra* Section G(1).
[209] LGP-SBC-000001954, LGP-SBC-000001051, LGP-SBC-000002773, LGP-SBC-000000682, LGP-SBC-000000348, LGP-SBC-000000278, PMH00035235, LGP-SBC-000000620, LGP-SBC-000000743, LGP-SBC-000002038, MPT_PROSPECT_00010109, MPT_PROSPECT_00006267.
[210] The Budget Committee calculated EBITDA based on the traditional principle of adding together Operating Income and Amortization & Depreciation. PMH defined EBITDA "as net income (loss) plus (i) income (loss) from

Despite the sizable $625 million loan in the summer of 2016, PMH had a brief financial rebound in fiscal year 2017 with a positive net income of $34.3 million.[211] However, this would ultimately be the final year that PMH generated any income.

4. PMH ended its expansion spree by rewarding investors with $457 million in dividends, depleting its entire cash reserves.

Rather than focusing on improving patient-focused operations at its facilities, LGP and PMH decided that additional debt-financed dividends were in order. The payouts became a continuing pattern with PMH. Whenever PMH showed any signs of financial improvement, LGP and PMH seized the opportunity to take on even more debt to benefit its shareholders rather than investing in hospital operations to benefit its patients. LGP Directors have admitted as much.[212]

In January of 2018, PMH proposed a $1.2 billion loan to refinance its existing debt and fund a roughly $600 million dividend to shareholders.[213] Moody's announced this would result in a credit downgrade.[214] Consequently, PMH came up with a modified plan—$457 million in dividends financed by increasing the 2016 loan to $1.12 billion—from $625 million—and increasing its revolving credit facility's availability to $250 million.[215] On February 22, 2018, PMH's Board of Directors—those who would benefit from the very transaction—approved the dividend recapitalization.[216] As part of the dividend distribution, Ivy Holdings authorized "special cash payouts" of approximately $33 million in bonuses to stock option holders.[217]

PMH's aggressive acquisition strategy coupled with its hefty accumulation of debt—partially used to pay nearly half a billion in dividends—sent the company into a financial spiral. At the end of fiscal year 2018, PMH had only $7.7 million in cash and cash equivalents and $40 million available in revolving loan capacity.[218] By the end of calendar year 2018, PMH had no

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discontinued operations, (ii) provision for income taxes, (iii) interest expense, net (including amortization of deferred financing costs), (iv) depreciation, and (v) amortization." MPT_PROSPECT_00007007, at MPT_PROSPECT_00007008.

[211] PMH00035235, at PMH00035240.

[212] In a deposition given to the Rhode Island Attorney General regarding LGP's exit from PMH, a former LGP Director acknowledged that "[i]nstead 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." R.I. Att'y Gen., Decision Regarding Prospect Medical Holdings, Inc. Hospital Conversion Application, at 37 (Feb. 10, 2022), https://riag.ri.gov/sites/g/files/xkgbur496/files/documents/Prospect_Chamber_Ivy_AG_HCA_Decision.pdf.

[213] *Moody's downgrades Prospect Medical's CFR to B2; stable outlook*, MOODY'S INV. SERV. (Jan. 20, 2018), https://www.moodys.com/research/Moodys-downgrades-Prospect-Medicals-CFR-to-B2-stable-outlook--PR_3/78860.

[214] *Moody's downgrades Prospect Medical's CFR to B2; stable outlook*, MOODY'S INV. SERV. (Jan. 20, 2018), https://www.moodys.com/research/Moodys-downgrades-Prospect-Medicals-CFR-to-B2-stable-outlook--PR_3/78860.

[215] Over the next couple of months, PMH increased the maximum amount it could borrow from its revolving credit facility to $285 million. LGP-SBC-000000743, at LGP-SBC-000000784-85.

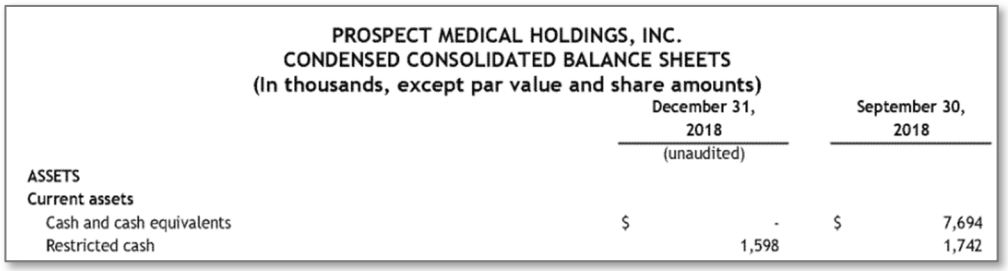
[216] PMH00040174, at PMH00040174–76.

[217] MPT_PROSPECT_00010109, at MPT_PROSPECT_00010156.

[218] MPT _PROSPECT _00009258, at MPT _PROSPECT _00009268.

cash left and only $20 million available in revolving loan capacity.[219] PMH was in desperate need of funds.

In January and February 2019, "LGP and other shareholders provided a loan … of $41 million" to PMH, which was used for "general corporate purposes."[220] It is unclear if the funds were used for hospitals, hospital employees, or patients. Although PMH contended that with the loan the company would "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,"[221] documents show that it was already in negotiations on a $1.55 billion sale-leaseback agreement, which was eventually executed in August 2019.[222] A sale-leaseback occurs when the owner of real estate sells the property to another party, and the buyer then leases back the same real estate to the seller.[223] Sale-leaseback transactions allow businesses to generate significant cash flow.[224]



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

Figure 5. PMH's Q1 FY2019 Management Discussion and Analysis showing the company had run out of cash by December 31, 2018.[225]

In March 2019, Moody's downgraded PMH's ratings, including its Probability of Default Rating.[226] At the time, Moody's assessed Prospect's adjusted debt-to-EBITDA ratio as being "approximately 7.3 times as of December 31, 2018," and estimated leverage to be "roughly 9.6 times."[227] The new ratings and estimations indicated that certain PMH hospital operations were

[219] *See* MPT_PROSPECT_00007591, at MPT_PROSPECT_00007594.
[220] LGP Response to the Budget Committee (Sept. 13, 2024).
[221] MPT _PROSPECT _00009258, at MPT _PROSPECT _00009268.
[222] PMH00040247, at PMH00040248; LGP-SBC-00000118, at LGP-SBC-00000120.
[223] *6.2 Sale and leaseback transactions: introduction*, PWC VIEWPOINT, https://viewpoint.pwc.com/dt/us/en/pwc/accounting_guides/leases/leases__4_US/chapter_6_sale_and_l_US/62_sale_and_leasebac_US.html (last visited Dec. 31, 2024).
[224] *6.2 Sale and leaseback transactions: introduction*, PWC VIEWPOINT, https://viewpoint.pwc.com/dt/us/en/pwc/accounting_guides/leases/leases__4_US/chapter_6_sale_and_l_US/62_sale_and_leasebac_US.html (last visited Dec. 31, 2024).
[225] *See* MPT_PROSPECT_00007591, at MPT_PROSPECT_00007594.
[226] *Moody's downgrades Prospect Medical Holdings, Inc.'s CFR to B3; outlook changed to negative*, MOODY'S INV. SERV. (Mar. 28, 2019), https://www.moodys.com/research/Moodys-downgrades-Prospect-Medical-Holdings-Incs-CFR-to-B3-outlook--PR_397518.
[227] *Moody's downgrades Prospect Medical Holdings, Inc.'s CFR to B3; outlook changed to negative*, MOODY'S INV. SERV. (Mar. 28, 2019), https://www.moodys.com/research/Moodys-downgrades-Prospect-Medical-Holdings-Incs-CFR-to-B3-outlook--PR_397518.

significantly underperforming and that the hospital system was still reeling from its debt-funded dividend payouts in 2018.[228] According to documents obtained by the Budget Committee, even Medical Properties Trust ("MPT"), the new business partner with whom PMH had been negotiating a sale-leaseback, was concerned about PMH's financial state. On May 20, 2019, MPT emailed PMH asking, "Based on Q1 2019 MDA [management discussion and analysis], Cash was $0 and Outstanding Checks [was] $21M … [w]hat is the current status of Cash and Outstanding Checks?"[229] Even after it executed a $1.55 billion sale-leaseback with MPT in August 2019, at the end of fiscal year 2019, PMH had total liabilities of $2.8 billion and a net income of negative $298 million.[230]

Throughout this time, as PMH's debt woes mounted, management of LGP and PMH reaped significant financial benefits—at the expense of the hospitals they owned. In 2020, all but one of PMH's hospitals were ranked in the bottom 17 percent of CMS' quality of care rankings.[231] Nonetheless, in many of the preceding years, LGP and PMH leadership collected payouts: from 2010 to 2018, LGP and PMH's senior executives received over $200 million[232] in dividends, prioritizing personal gain over addressing the worsening conditions of their facilities.[233] Lee, for example, has likely received over $112 million in dividends[234] and boasts an impressive portfolio of luxury properties, including million dollars homes in Aspen and Los Angeles valued collectively at over $20 million.[235] Notably, in 2022, as PMH closed emergency departments at Delaware County Memorial Hospital and Springfield Hospital in Pennsylvania due to financial strain, Lee invested heavily in upgrading his Aspen property, increasing its value.[236]

According to documents obtained by the Budget Committee, during LGP's majority ownership in PMH, LGP investors received $424 million in dividends and preferred stock redemption.[237]

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[228] *See Moody's downgrades Prospect Medical Holdings, Inc.'s CFR to B3; outlook changed to negative*, MOODY'S INV. SERV. (Mar. 28, 2019), https://www.moodys.com/research/Moodys-downgrades-Prospect-Medical-Holdings-Incs-CFR-to-B3-outlook--PR_397518.
[229] MPT_PROSPECT_00004475; MPT_PROSPECT_00004476.
[230] LGP-SBC-000000743, at LGP-SBC-000000747–48.
[231] Susanna Vogel, *MPT Installs New Leadership at Prospect Hospitals as System Continues to Miss Rent Payments*, HEALTHCARE DIVE (Nov. 21, 2024), https://www.healthcaredive.com/news/mpt-installs-new-leadership-at-3-prospect-hospitals-as-system-continues-to/733592/.
[232] Sum of Sam Lee, David Topper, and Dr. Jeereddi Prasad's dividends from 2011 to 2019 based on stock ownership in 2010. PMH00006439, at PMH00006511–12.
[233] *See* discussion on PMH's hospitals in Texas and Pennsylvania *infra* Sections G(1)–(2).
[234] Based on Lee's ownership percentage after LGP acquired a majority stake in 2010. *See* PMH00006439, at PMH00006511–12.
[235] *See* Website of the Assessor of Pitkin County, CO; Website of the Assessor of Los Angeles County, CA.
[236] *See* Website of the Assessor of Pitkin County, CO,
[237] Based on percentage ownership at time of acquisition in 2010. PMH00006439, at PMH00006511–12.

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

Figure 6. Document provided by LGP regarding dividends paid to LGP by PMH. Note, this does not include the preferred stock redemption of $88 million in 2012.[238]

Dividends Paid to PMH Executives
2011-2019
(Based on stock ownership in 2010)[239]

PMH Shareholders	TOTAL	% Common Stock Owned in 2010[240]	Share of $100M Dividend (2012)	Share of $457M Dividend (2018)
Sam Lee	**$112.4M**	20.18%	$20.1M	$92.2M
David & Alexa Topper Family Trust	**$83.2M**	14.94%	$14.9M	$68.3M
Dr. Jeereddi Prasad	**$6.7M**	1.20%	$1.2M	$5.5M

Table 2. Dividends distributed to PMH executives from 2011 to 2019.

[239] PMH00006439, at PMH00006511–12.

LGP's and PMH's financial decisions exemplify prioritization of profit over the well-being of hospitals and the communities they serve. By leveraging its hospitals as collateral, accumulating unsustainable debt, and distributing exorbitant dividends to shareholders, PMH created a financial crisis that jeopardized essential health care services. As liabilities mounted and cash reserves dwindled, the quality of patient care deteriorated, emergency departments were shuttered, and struggling hospitals were left to bear the consequences of corporate mismanagement.[241]

F. Documents obtained by the Budget Committee demonstrate that PMH's continued financial mismanagement led to multiple internal investigations as well as federal and state investigations and lawsuits.

By late 2018, PMH faced mounting financial and operational challenges, including internal investigations into financial practices, escalating long-term debt, and delays in critical audits that left the company in default with lenders. Despite securing temporary waivers, PMH's financial health continued to decline, raising concerns among stakeholders. At the same time, LGP pursued an exit strategy through a sale-leaseback transaction with Medical Properties Trust (MPT), which offloaded hospital real estate but saddled PMH with over $100 million in annual rent, exacerbating its financial strain.

1. PMH created three new committees during the height of its financial issues.

Beginning in 2018, PMH's and LGP's quick expansion strategy and dividend practices came to a head. PMH had paid out $457 million in dividends at the beginning of 2018 and increased its debt by $2.1 billion—from $298 million in fiscal year 2010 to $2.4 billion at the end of fiscal year 2018.[242] PMH secured the debt-financed dividends by using its hospitals as collateral.[243] LGP's seven years of majority control of PMH had resulted in the closure of its community hospital in Dilley, Texas, and several others losing money.[244] Around the same time that MPT confirmed LGP's interest in an MPT-financed recapitalization in November 2018, PMH's Board of Directors passed a resolution creating three new Board committees: the Audit and Compliance Committee ("ACC"), the Management Audit Committee ("MAC"), and the Executive Compliance Committee ("ECC")—with the latter two under the jurisdiction of the ACC, whose members were exclusively LGP Directors.[245]

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[239] PMH00006439, at PMH00006511–12.
[240] Based on ownership at the time of LGP's merger with PMH in 2010. PMH00006439, at PMH00006511–12.
[241] *See* discussion *infra* Sections E(3), G(1)–(2).
[242] LGP-SBC-000001954, at LGP-SBC-000001959; MPT _PROSPECT _00009258, at MPT _PROSPECT _00009262.
[243] *See* Connecticut discussion *infra* Section E(3).
[244] *See* discussion on PMH's hospitals in Texas and Pennsylvania *infra* Sections G(1)–(2).
[245] According to LGP, on November 14, 2018, the Board of Directors approved resolutions that "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

The creation of the committees came during PMH's worsening financial situation, which led to multiple internal investigations regarding PMH's accounting practices. The ACC, MAC, and ECC had oversight over PMH's finances and were responsible for hiring the outside auditing firm and ensuring PMH's compliance with regulations and laws.[246] LGP's move to secure greater control of PMH via the creation of these committees was a sign that PMH's financial and compliance issues were becoming increasingly serious.

a. LGP-appointed members of the Audit and Compliance Committee had oversight of PMH's financial statements.

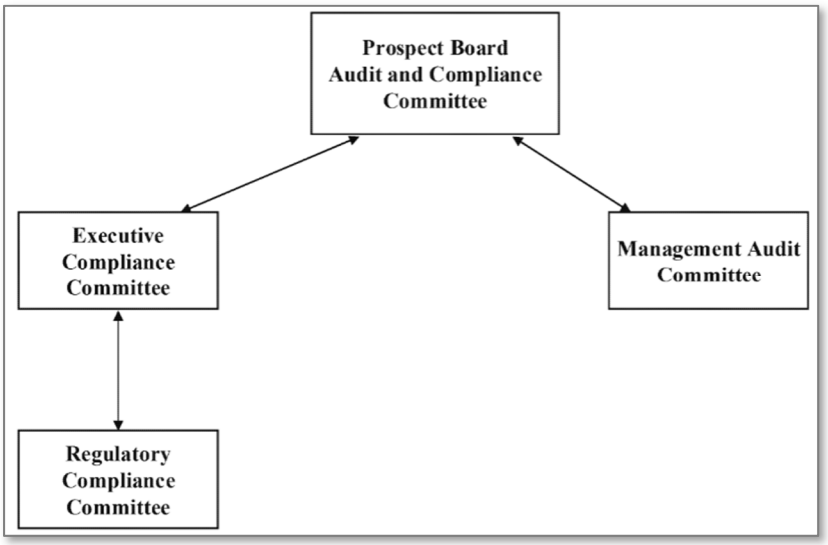


Figure 7 Document produced by LGP showing structure of PMH Board of Directors' committees.[247]

PMH's Board of Directors established the ACC on November 14, 2018.[248] Under the ACC Charter, this committee could form further subcommittees consisting of members of management.[249] The ACC was chartered to "serve as an independent and objective party to monitor [PMH's] financial reporting process and internal control system, and its compliance with laws and regulations and company polices."[250] As required by its charter, the ACC consisted of three "financially literate" members of the Board of Directors, with at least one member being a "financial expert."[251] The Board appointed Alyse Wagner, John Baumer, and Michael Solomon—all of whom were employed at LGP— to the ACC, with Wagner as Chair.[252]

investment in PMH." LGP Response to Budget Committee at 2 (Dec. 4, 2024); LGP-SBC-000002876, at LGP-SBC-000002876–77.
[246] *See* discussion *infra* F(1)(a)–(c).
[247] LGP-SBC-000002883.
[248] LGP-SBC-000002873; LGP-SBC-000002876, at LGP-SBC-000002876–82.
[249] LGP-SBC-000002884, at LGP-SBC-000002884–86.
[250] LGP-SBC-000002884.
[251] LGP-SBC-000002884, at LGP-SBC-000002885.
[252] LGP-SBC-000002876.

The purpose of the ACC included assisting in the Board's oversight responsibility related to the "integrity" of PMH's financial statements and PMH's internal audit function performance.[253] It also had the power to conduct investigations within the scope of its duties.[254] The ACC, with the Board's approval, created the MAC for financial oversight assistance, formed the ECC for compliance oversight assistance, and "delegated significant responsibilities" to the team.[255] Consequently, the ACC appointed all MAC and ECC members and oversaw the "activities" of both—which included "monitoring the performance of their respective responsibilities."[256] The ACC determined which MAC and ECC activities required ACC approval, including the "selection and retention of [an] independent auditor."[257]

b. The Management Audit Committee managed the external auditor process and established procedures for internal accounting complaints.

The purpose of the MAC was to assist the Board and the ACC in its oversight of financial and audit matters.[258] The MAC was directly responsible for appointing, retaining, and terminating PMH's external auditors (subject to ACC approval), with the external auditors reporting directly to the MAC.[259] The committee was also responsible for resolving disagreements among the external auditors and PMH management about financial reporting.[260]

While PMH's management was responsible for preparing its financial statements and overseeing internal accounting controls, the MAC's responsibilities included discussing with management, internal auditors, and external auditors the "sufficiency and effectiveness of the accounting and financial controls, including [PMH's] documented policies and procedures, to assess, monitor, manage business risk, and legal and ethical compliance programs."[261] Furthermore, the MAC was tasked with establishing "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," as well as attorneys' reports containing evidence regarding breaches of fiduciary duties.[262] In addition, the MAC was authorized to conduct investigations within its scope of duties and could retain independent counsel, consultants, and other experts and advisors.[263]

[253] LGP-SBC-000002884.
[254] LGP-SBC-000002884, at LGP-SBC-000002885.
[255] LGP-SBC-000002884, at LGP-SBC-000002885; LGP-SBC-000002876, at LGP-SBC-000002876–82.
[256] LGP-SBC-000002884, at LGP-SBC-000002886.
[257] LGP-SBC-000002884, at LGP-SBC-000002886.
[258] LGP-SBC-000002887, at LGP-SBC-000002887–92.
[259] LGP-SBC-000002887, at LGP-SBC-000002889.
[260] LGP-SBC-000002887, at LGP-SBC-000002889.
[261] LGP-SBC-000002887, at LGP-SBC-000002890.
[262] LGP-SBC-000002887, at LGP-SBC-000002891.
[263] LGP-SBC-000002887, at LGP-SBC-000002888.

According to its charter, the MAC was to consist of PMH management and have at least five members, each of whom was expected to be "financially literate," with at least one member being a "financial expert."[264] All MAC members served at the pleasure of the ACC, which could remove any member, with or without cause.[265] Seven people were appointed to the MAC, including George Pillari (Chairperson), Senior Vice President of Integration and Operations; Von Crockett, Senior Vice President of Corporate Development (current PMH co-CEO); Ellen Shin, General Counsel and Secretary; and a Compliance Counsel.[266]

c. The Executive Compliance Committee had oversight over PMH's legal compliance with federal health care programs.

The ECC's charter was part of PMH's overall Compliance Program Charter dated November 2018,[267] which stated that its primary focus was on "the requirements of Medicare, Medicaid and all other federal health care programs."[268] ECC's purpose was to support the Board and the ACC in overseeing compliance matters, and provide senior management-level oversight of PMH's compliance with federal health care program legal and regulatory requirements.[269] In addition, it monitored and advised on the effectiveness of the Ethics and Corporate Compliance Program, administered final review and approval of all PMH Compliance Program Work Plan policies, and reviewed the outcomes of compliance program audits.[270] Furthermore, the ECC monitored all compliance-related matters "that may have a material impact on the operations of PMH."[271] ECC's charter required the Chief Compliance Officer to chair the committee and, at a minimum, required the participation of the Chief Executive Officer, Chief Operating Officer, the Department Heads for the Quality, Law, Human Resources, Revenue Integrity, and Audit, and a representative from PMH Medical Services.[272] Thirteen people were appointed to the ECC, with the Compliance Counsel serving as chair.[273] Both Lee and Topper served on the committee.[274] The Budget Committee did not receive any minutes from this committee.

[264] LGP-SBC-000002887.
[265] LGP-SBC-000002887, at LGP-SBC-000002888.
[266] Other members included the Senior Vice President of Financial Reporting and Chief Accounting Officer; the CFO of the West Region; and the CFO of PMH Medical Systems. LGP-SBC-000002876, at LGP-SBC-000002876–82.
[267] LGP confirmed the execution date as November 14, 2018. LGP Response to Budget Committee at 2 (Dec. 4, 2024); LGP-SBC-000002893, at LGP-SBC-000002893–96.
[268] LGP-SBC-000002893.
[269] LGP-SBC-000002893, at LGP-SBC-000002895.
[270] LGP-SBC-000002893, at LGP-SBC-000002894.
[271] LGP-SBC-000002893, at LGP-SBC-000002894.
[272] LGP-SBC-000002893, at LGP-SBC-000002893–94.
[273] LGP-SBC-000002893, at LGP-SBC-000002893–96.
[274] LGP-SBC-000002893, at LGP-SBC-000002893–96.

2. PMH conducted a number of internal investigations related to its financial practices.

Lee's leadership as CEO, along with LGP's control over PMH's decision-making, had brought PMH to the point of financial crisis. PMH had run out of cash, employees were complaining about PMH's questionable financial practices, and PMH was on the brink of defaulting with its lenders. This state of affairs resulted in multiple complaints that gave rise to internal investigations.

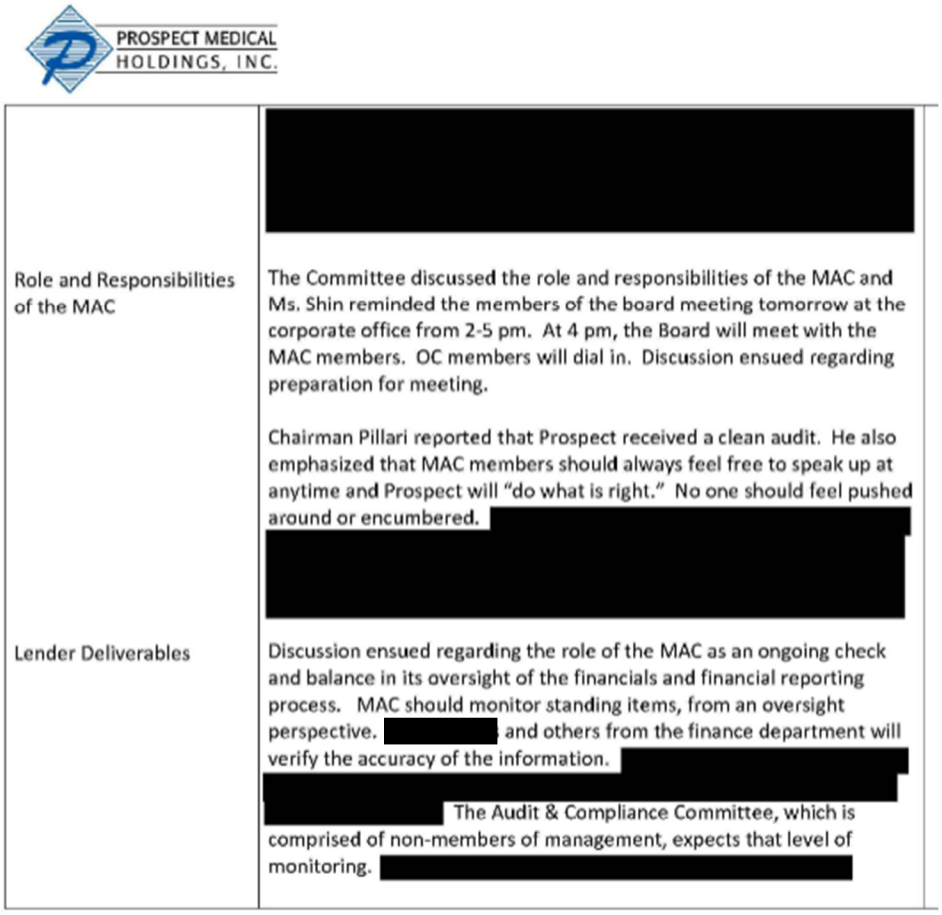
a. An internal investigation into Crozer's accounting practices revealed several issues and resulted in recommendations for remedial actions.

Documents produced to the Budget Committee show that, in 2018, employees at Crozer filed several complaints about PMH's financial practices, especially its accounting practices.[275] According to PMH, after each complaint was received, PMH's general counsel initiated an internal investigation.[276] PMH completed the internal investigations on January 22, 2019, with the participation of the MAC, the ACC, outside auditor BDO, and outside counsel.[277] While PMH stated at its January 31, 2019, Board of Directors' meeting that there was "no finding of fraud or illegal acts by management with an intent to deceive," there were several issues noted and remedial actions recommended as a result of the investigation.[278] The remedial actions included:

- Improving "governance and processes regarding management accountability";
- Implementing "improvements to internal controls – Finance and Treasury";
- Addressing "material weakness and significant deficiencies identified by BDO in their FY2018 audit wrap up presentation"; and
- Addressing "additional specific recommendations by Bird Marella/Ernst & Young."[279]

The plan also "identifie[d] the responsible party, a proposed due date, and the identified source of the issue."[280]

[275] PMH00040142, at PMH00040144.
[276] PMH00040142, at PMH00040144.
[277] PMH00040142, at PMH00040144.
[278] PMH00040142, at PMH00040144.
[279] PMH00040142, at PMH00040144.
[280] PMH00040142, at PMH00040144.


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]

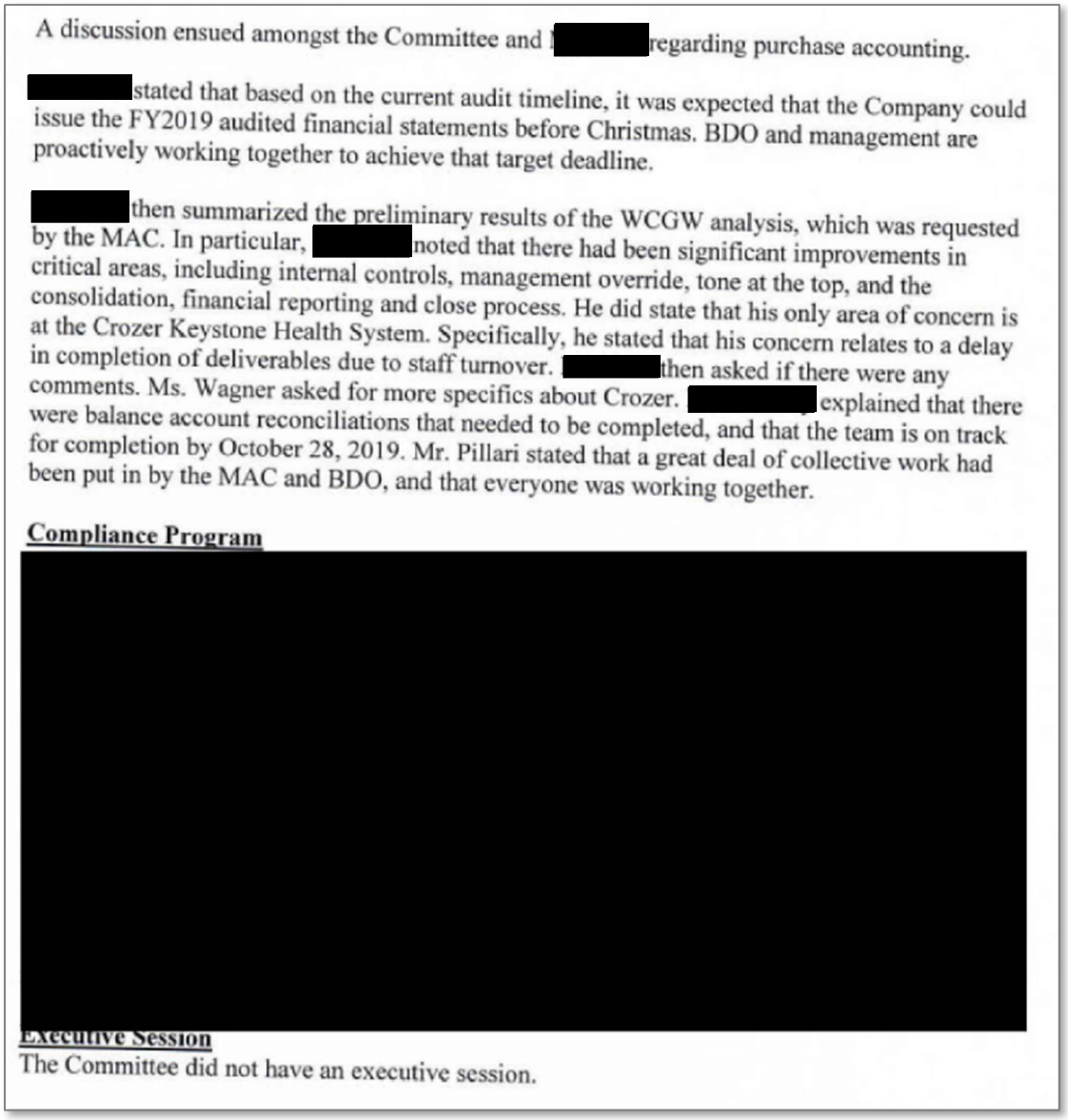
Figure 8. Document produced by PMH of minutes from January 30, 2019, meeting of PMH's Management Audit Committee.[281]

The MAC and PMH's internal audit department were responsible for overseeing the plan's implementation.[282] Documents show that statements made during a MAC meeting suggest that its members had felt pressured to keep certain things quiet: the MAC Chairman voiced that "MAC members should always feel free to speak up at any time and PMH will 'do what is right' [and that] no one should feel pushed around or encumbered."[283] Several other statements from the committee meeting were redacted for unknown reasons.[284]

After the conclusion of the investigation, PMH struggled with implementing the remedial plan. In October 2019, while preparing lender deliverables for the 2019 fiscal year, MAC members expressed concerns with Crozer's ability to complete financial reconciliation on time—as Crozer had "balance account reconciliations" not yet finished.[285] Due to staff turnover, PMH

[281] PMH00040148, at PMH00040150.
[282] PMH00040142, at PMH00040144.
[283] PMH00040148, at PMH00040150.
[284] PMH00040148, at PMH00040148–53.
[285] PMH00040269; PMH00040256, at PMH00040256–60; PMH00040261, at PMH00040261–63.

needed to hire temporary staff at Crozer to help with the financial work, but those temporary workers "were being deployed by hospital leadership to fill other positions against [corporate leadership's] direction."[286] PMH leadership raised concerns that the failure to complete the Crozer reconciliations on time had been a major deficiency in the BDO audits over the past two fiscal years.[287] PMH was ultimately able to get Crozer's reconciliations completed by the end of October with enhanced oversight.[288]



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.

Figure 9. Document produced by PMH of minutes from October 7, 2019, meeting of PMH's Audit and Compliance Committee.[289]

[286] PMH00040256, at PMH00040256–60; PMH00040261, at PMH00040261–63.
[287] PMH00040256, at PMH00040256–60.
[288] PMH00040269, at PMH00040269–70.
[289] PMH00040261, at PMH00040262.

b. An investigation into lender defaults and restricted account activity demonstrate the extent of PMH's financial issues and agreement breaches.

According to documents obtained by the Budget Committee, allegations of questionable accounting practices—on top of PMH's ongoing financial mismanagement—led to PMH facing legal noncompliance, including default on its loans. Fiscal year 2018 was marked by declining financial performance across a variety of metrics. PMH's net income for fiscal year 2018 was negative $187 million, and its net working capital surplus of nearly $28 million at the end of fiscal year 2017 had turned into a net *deficit* of nearly $139 million.[290] Between fiscal years 2017 and 2018, PMH nearly doubled its total long-term debt from $638 million to $1.1 billion.[291]

In addition to its declining financial position, PMH was on its way to breaching contractual covenants with its lenders. Covenants included providing certain "lender deliverables," such as audited fiscal year financial statements, EBITDA and revenue summaries, and the like.[292] If the covenants were breached and not cured within a certain amount of time, then PMH would be considered in default.[293] By January 2019, PMH had not finished its fiscal year 2018 audit and missed its deadlines to deliver certain financial information to its lenders—including its annual financial audit.[294] These missed deadlines landed PMH in default with two of its lenders.[295] To address its default, PMH secured a waiver with its lenders, which "clean[ed] up the past issues and [gave PMH] additional leeway for 60-90 days."[296]

Even so, late into January 2019, PMH was still struggling to complete its audit. On January 31, 2019, a law firm joined a Board meeting to give "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."[297] PMH leadership, including its general counsel, recognized the importance of getting it right, "remind[ing] the Board that there is also a heightened level of

[290] LGP-SBC-000000620, at LGP-SBC-000000625–26, 30.
[291] PMH00035235, at PMH00035276; LGP-SBC-000000620, at LGP-SBC-000000662.
[292] LGP-SBC-000002710, at LGP-SBC-000002712.
[293] LGP-SBC-000002684, at LGP-SBC-000002685.
[294] LGP-SBC-000002684, at LGP-SBC-000002684–85.
[295] LGP-SBC-000002684, at LGP-SBC-000002684–85.
[296] PMH00040148, at PMH00040148–53.
[297] PMH00040142, at PMH00040142–43.

governance given that the Company is a health care organization that provides day-to-day patient care and receives government program monies."[298]

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

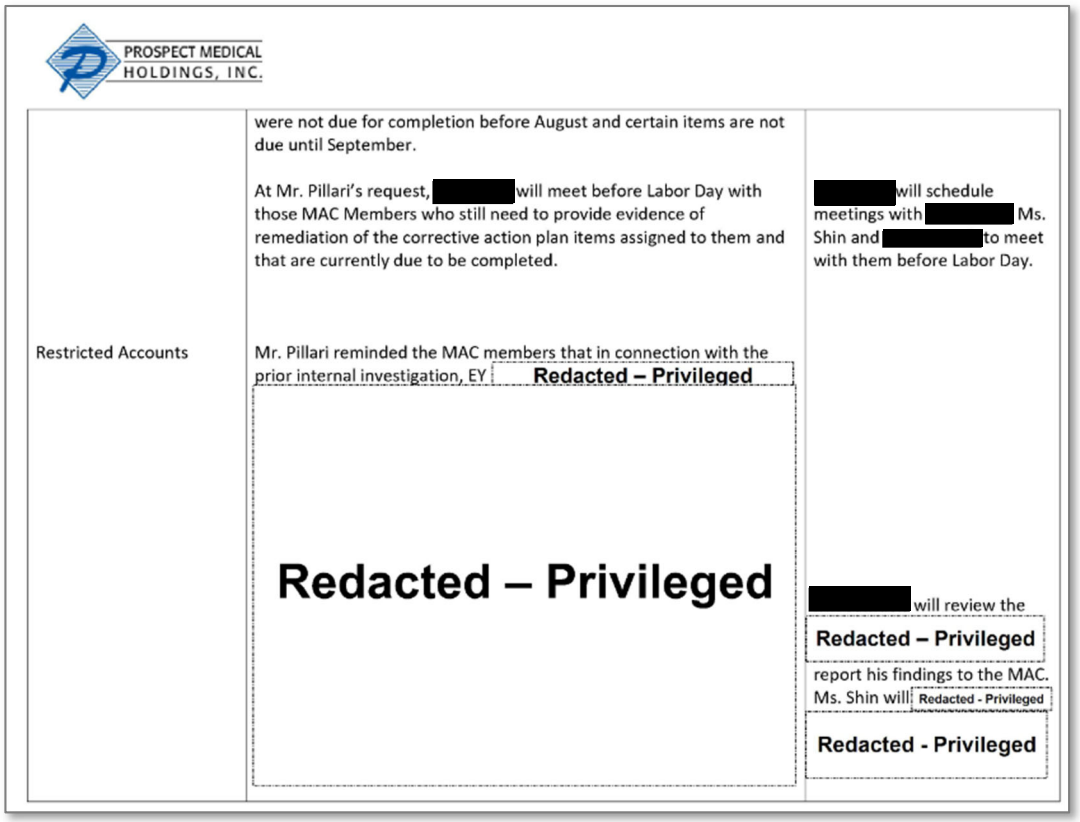
N/A

Figure 10. Minutes from February 7, 2019, meeting of Audit and Compliance Committee noting that LGP employees had reviewed the lender deliverables.[299]

Finally, on February 7, 2019, the ACC formally approved the lender deliverables for submission.[300] The adopted resolution noted that the lender deliverables had been reviewed by members of LGP.[301] According to PMH's general counsel, the 2018 audit cost PMH $4.79

[298] PMH00040142, at PMH00040143.
[299] LGP-SBC-000002710, at LGP-SBC-000002712.
[300] LGP-SBC-000002710, at LGP-SBC-000002710–12.
[301] LGP-SBC-000002710, at LGP-SBC-000002710–12.

million, which was higher than previous years due to PMH's "financial issues" and required assistance.[302]


PROSPECT MEDICAL HOLDINGS, INC.

	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 [redacted] Ms. Shin and [redacted] 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	[redacted] will review the Redacted – Privileged report his findings to the MAC. Ms. Shin will Redacted - Privileged Redacted - Privileged

Figure 11. Document produced by LGP of minutes from August 1, 2019, meeting of Management Audit Committee.[303]

In addition to breaching covenants with its lenders, PMH had issues managing its account funds. Documents received by the Budget Committee include many Board and PMH committee minutes with redacted sections relating to "restricted accounts"—accounts that were blocked and needed special permission to access.[304] In late January 2019, the MAC announced that any "restricted accounts" with deficits "w[ould] be restored once a reconciliation is performed by obtaining the source documents and tracking them from the inception to date."[305] Suspicious activity was noted in multiple PMH accounts, including the PMH Health Plan (PHP) Account and the account of the East Orange General Hospital.[306]

[302] PMH00040256, at PMH00040257.
[303] LGP-SBC-000002749, at LGP-SBC-000002750.
[304] LGP-SBC-000002749, at LGP-SBC-000002749–52; PMH00040148, at PMH00040148–53; PMH00040274, at PMH00040276.
[305] PMH00040135, at PMH00040137.
[306] PMH00040274, at PMH00040274–78; PMH00040165, at PMH00040165–68; PMH00040142, at PMH00040145.

In response to its financial investigations at the end of 2018 and beginning of 2019, PMH implemented a new process for reviewing and approving lender deliverables, which included enhanced MAC, ACC, and Board review.[307] Its general counsel explained that there were also "additional controls" implemented, such as requiring quarterly certifications by the CEOs and CFOs of PMH's subsidiaries and "a budget process throughout all of the business units."[308]

c. PMH terminated its CFO in 2019.

PMH terminated its CFO "for cause" not long after it wrapped up most of the internal investigations regarding its finances.[309] By May 2019, another PMH employee had been appointed interim CFO.[310] For-cause terminations of executive officers did not require a vote of PMH's Board of Directors.[311] In response to a Budget Committee inquiry regarding the CFO's departure from PMH, LGP stated that it "largely deferred to PMH on personnel decisions … [and] 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."[312]

Despite the overwhelming evidence of financial mismanagement, LGP told the Budget Committee that it "rejected any implication that PMH was operated in a financially irresponsible fashion during the Funds' (LGP) ownership period or the Funds have put their financial interests ahead of the interests of the hospital system and the communities they serve."[313]

3. While PMH conducted internal investigations into its finances, LGP and PMH were planning another major financial transaction known as a sale-leaseback.

PMH's significant financial mismanagement resulting in missing funds and breaches of its fiduciary duties seemed to have had no impact on Lee, Topper, or LGP as they continued to pursue yet another large financial transaction—a sale-leaseback.[314] Furthermore, after having received an extremely large dividend in early 2018, LGP—already having extended its initial time period for holding onto its investment in PMH—planned its exit.[315]

[307] PMH00040247, at PMH00040247–51.
[308] PMH00040247, at PMH00040247–51.
[309] According to Committee staff review of documents produced by PMH and LGP, Steve Aleman, PMH CFO, stopped appearing in Board and committee minutes, as well as emails, in March 2019. The last email he appeared in was dated March 21, 2019. PMH00034813. According to the complaint in a later filed employment lawsuit, the CFO was "terminated for cause" on August 26, 2019. Complaint at 5, *Aleman v. Prospect Med. Holdings, Inc.*, No. 208TCV06071 (Cal. Super. Ct. 2020).
[310] PMH00040200, at PMH00040200–04.
[311] PMH00006439, at PMH00006485–87.
[312] LGP Response to Budget Committee at 3 (Dec. 4, 2024).
[313] LGP Reponses to Budget Committee at 2 (Dec. 20, 2023).
[314] PMH00040274, at PMH00040277; PMH00040288, at PMH00040290; PMH00040142, at PMH00040145.
[315] LGP Response to Budget Committee at 5 (Jan. 19, 2024).

After nearly seven years of owning a majority stake in PMH and collecting millions in dividends, LGP contemplated its exit. In the summer of 2018, it considered using MPT, a real estate investment trust, to finance a "recapitalization to take out LGP's equity"—however, this did not ultimately come to fruition.[316] Consequently, three years later, LGP sold its approximately 61 percent stake in PMH for $11.9 million, less than 8 percent of the $151 million LGP paid for it, to PMH's Topper and Lee.[317] PMH had over $3 billion in liabilities when LGP exited.[318]

Before LGP's exit, the private equity firm helped facilitate a $1.55-billion transaction involving the sale and leaseback of PMH's hospitals with MPT, which saddled PMH with even more debt. LGP told the Budget Committee that the "primary advantage of sale-leaseback financing for a hospital is that it secures a stable 20- to 30-year financing relationship" and that it "allowed PMH to repay all of its existing term loan debt."[319] However, instead of providing a "stable financing relationship," the sale-leaseback only further worsened PMH's precarious financial situation. PMH structured its transaction with MPT to utilize both a successful and a "failed" sale-leaseback. In the case of a successful sale-leaseback, a seller recognizes the sale as a gain and the buyer takes ownership of the real estate.[320] The seller then pays rent to the buyer as part of a lease agreement to continue to use the real estate.[321] Sometimes, a buyer and seller will enter into what is known as "failed" sale-leaseback, where the seller will pay rent to the buyer, but the title reverts back to the seller or the seller has the option to repurchase the real estate at the end of the lease.[322] In this case, the sale-leaseback is recognized as a financing transaction, and the rent paid goes toward the principal and interest of the amount financed.[323]

Here, according to documents produced to the Budget Committee, PMH's properties with the biggest gains were structured as a "failed" sale-leaseback, while the rest were structured as a successful sale-leaseback.[324] PMH requested that MPT design it as such, so PMH could recognize a smaller amount of capital gains for tax purposes.[325] PMH noted at a Board meeting

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[316] MPT_PROSPECT_00004240, at MPT_PROSPECT_00004241.
[317] MPT_PROSPECT_00010109, at MPT_PROSPECT_00010156.
[318] LGP finalized its exit from PMH in June 2021, and, at the end of September 2021, PMH reported having nearly $3.1 billion in total liabilities. MPT_PROSPECT_00010109, at MPT_PROSPECT_00010114, MPT_PROSPECT_00010120
[319] LGP Response to the Budget Committee at 2 (Dec. 20, 2023).
[320] *6.4 When a sale and leaseback transaction qualifies as a sale*, PWC VIEWPOINT, https://viewpoint.pwc.com/dt/us/en/pwc/accounting_guides/leases/leases__4_US/chapter_6_sale_and_l_US/64_when_the_transact_US.html (last visited Dec. 31, 2024).
[321] *6.4 When a sale and leaseback transaction qualifies as a sale*, PWC VIEWPOINT, https://viewpoint.pwc.com/dt/us/en/pwc/accounting_guides/leases/leases__4_US/chapter_6_sale_and_l_US/64_when_the_transact_US.html (last visited Dec. 31, 2024).
[322] *6.4 When a sale and leaseback transaction qualifies as a sale*, PWC VIEWPOINT, https://viewpoint.pwc.com/dt/us/en/pwc/accounting_guides/leases/leases__4_US/chapter_6_sale_and_l_US/64_when_the_transact_US.html (last visited Dec. 31, 2024).
[323] *6.4 When a sale and leaseback transaction qualifies as a sale*, PWC VIEWPOINT, https://viewpoint.pwc.com/dt/us/en/pwc/accounting_guides/leases/leases__4_US/chapter_6_sale_and_l_US/64_when_the_transact_US.html (last visited Dec. 31, 2024).
[324] MPT_PROSPECT_00000009, at MPT_PROSPECT_00000052.
[325] *See* MPT_PROSPECT_00005770*;* LGP-SBC-000000823, at LGP-SBC-000000824.

that its sale-leaseback agreement with MPT contained "no restriction in the loan documents with regard to dividends."[326] And indeed, PMH used nearly a third of the sale-leaseback proceeds to repay debt the company incurred a year earlier to pay nearly $500 million in dividends to LGP and PMH's senior management.[327] Furthermore, the more than $100 million-per-year rent resulting from the sale-leaseback has sunk PMH even deeper into debt.[328] PMH's total liabilities increased by nearly $200 million from fiscal year 2021 to fiscal year 2022—after LGP exited.[329] PMH's net income loss also further increased between the two years from a loss of $143 million to a loss of $233 million.[330]

Based on documents received by the Budget Committee, LGP discussed a transaction involving PMH with MPT before PMH did—in as early as June 2018.[331] According to a July 2018 MPT slide deck about PMH, MPT stated that PMH's EBITDA was around $360 million—"per Leonard Green Partner during June meeting."[332] This is the earliest known communication to have taken place between MPT and either LGP or PMH regarding the REIT's involvement.

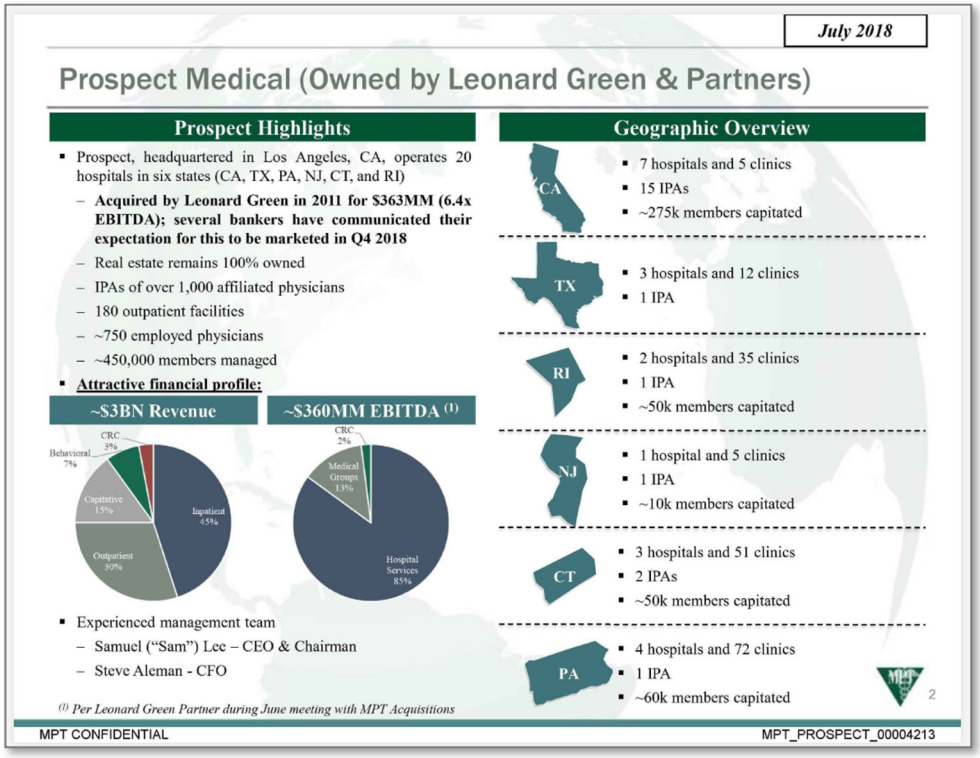
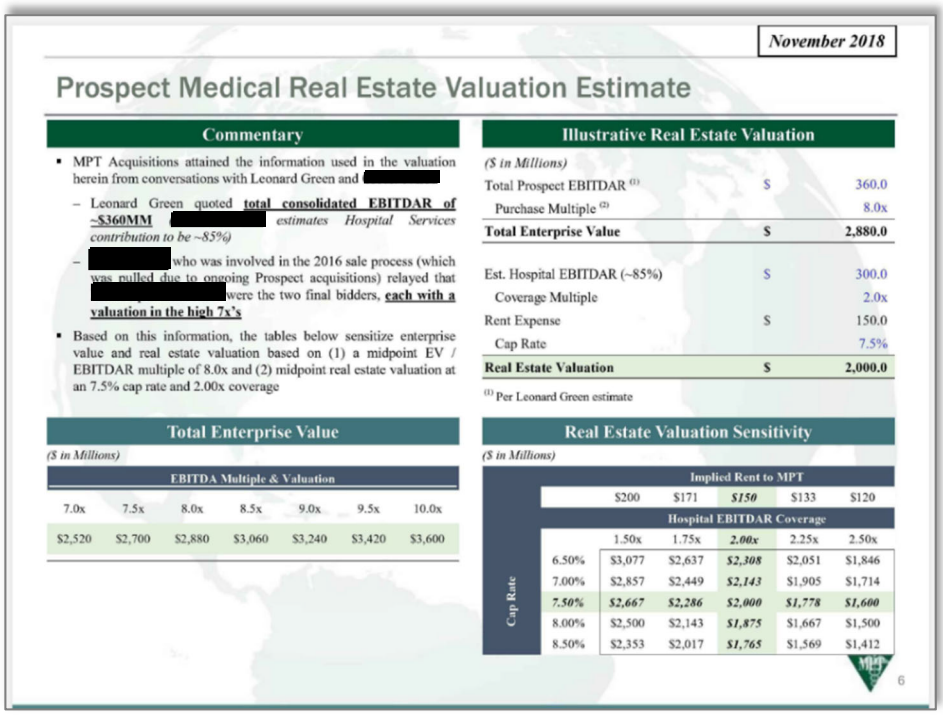


Figure 12. MPT slide referencing June 2018 meeting with LGP Partner dated July 2018.[333]

[326] LGP-SBC-000000823, at LGP-SBC-000000824.
[327] LGP-SBC-000000620, at LGP-SBC-000000667.
[328] MPT_PROSPECT_00000009, at MPT_PROSPECT_00000013, MPT_PROSPECT_00000027.
[329] MPT_PROSPECT _00006623, at MPT _PROSPECT _00006629.
[330] MPT_PROSPECT _00006623, at MPT _PROSPECT _00006629.
[331] MPT_PROSPECT_00004212, at MPT_PROSPECT_00004213–14.
[332] MPT_PROSPECT_00004212, at MPT_PROSPECT_00004213–14.
[333] MPT_PROSPECT_00004212, at MPT_PROSPECT_00004213.

On July 19, 2018, MPT's Executive VP and CFO emailed Lee and asked to set up a meeting to discuss "real estate financing" as MPT could "help hospital management teams maximize ownership in their operating companies when their private equity sponsors consider exits/IPOs."[334] He touted MPT's past work with hospital operators like Steward, Ernest, and Capella/RCCH and mentioned he had heard that PMH may "consider strategic transactions in the near term."[335]



November 2018

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** [redacted] *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

6

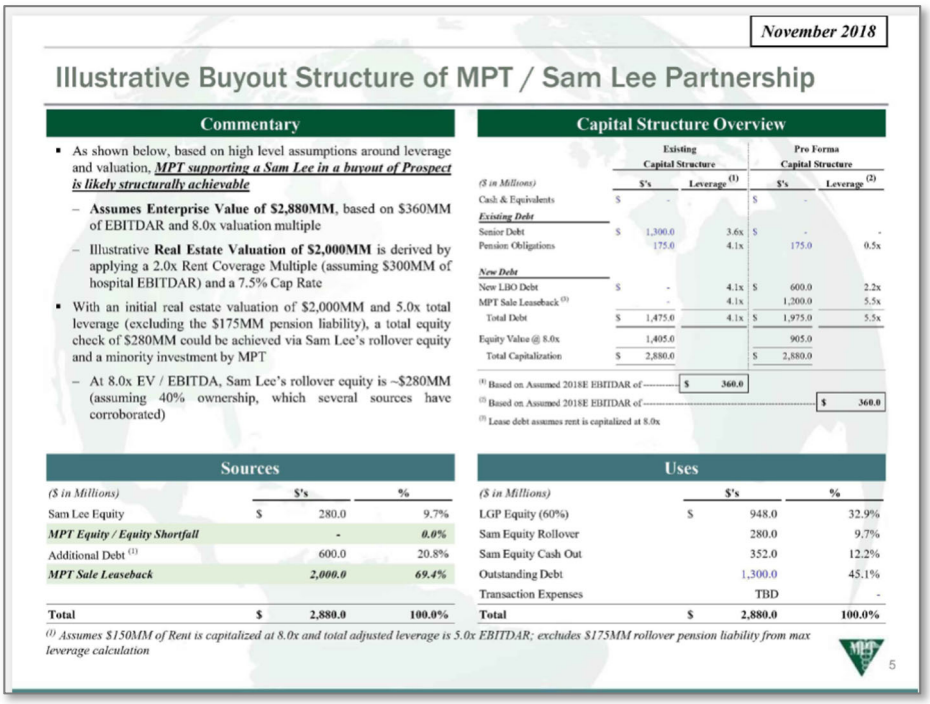
Figure 13. MPT slide referencing PMH's enterprise value and real estate valuation dated November 2018.[336]

[334] MPT_PROSPECT_00005660, at MPT_PROSPECT_00005660–62.

[335] MPT_PROSPECT_00005660, at MPT_PROSPECT_00005660–62. Notably, Apollo-owned RCCH acquired Capella from MPT in 2016 and was Ottumwa Regional Health Center's (ORHC) operator from 2016 to 2018, before Apollo merged RCCH with Lifepoint Health—ORHC's current operator. *See* Section ___. Previously private-equity owned, now for-profit Steward Health, once the operator of 30 hospitals, filed for Chapter 11 bankruptcy in May 2024 citing financial issues after its private equity investors and CEO took home hundreds of millions of dollars, while Steward's hospitals suffered staffing shortages and deteriorating quality of care. Jonathan Saltzman, *Embattled Steward Health Care CEO Ralph de la Torre to resign*, CBS NEWS (Sept. 28, 2024), https://www.cbsnews.com/news/steward-health-care-ceo-ralph-de-la-torre-to-resign/.

[336] MPT_PROSPECT_00004203, at MPT_PROSPECT_00004208.

Both PMH and MPT considered their options. In early November 2018, PMH and MPT's respective CFOs exchanged emails about an earlier meeting with PMH, noting that PMH was "evaluating a number of transactions scenarios ... and would like to get a better understanding on how Medical Properties Trust may factor into these scenarios."[338] MPT considered several different ways it could "assist" PMH with LGP's exit. In a November 8 MPT slide deck titled, "MPT / Sam Lee Acquisition of PMH Medical Analysis," MPT illustrated how it could partner with Lee in a buyout of PMH.[339] MPT also considered how a private equity leveraged buy-out of LGP's share would look.[340]



November 2018

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

($ in Millions)	Existing Capital Structure $'s	Existing Capital Structure Leverage (1)	Pro Forma Capital Structure $'s	Pro Forma Capital Structure 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

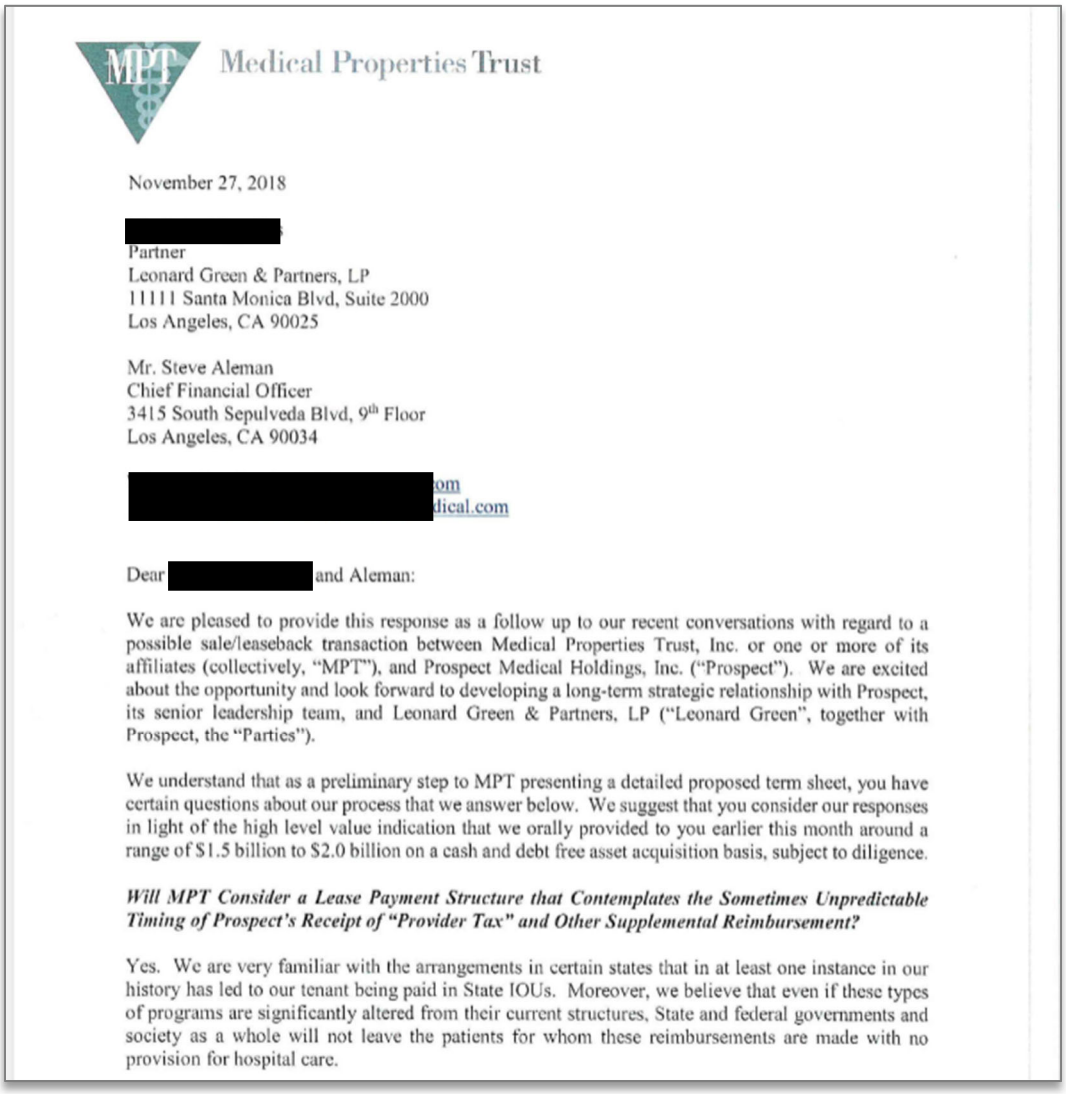
($ in Millions)	$'s	%
LGP Equity (60%)	$ 948.0	32.9%
Sam Equity Rollover	280.0	9.7%
Sam Equity Cash Out	352.0	12.2%
Outstanding Debt	1,300.0	45.1%
Transaction Expenses	TBD	-
Total	**$ 2,880.0**	**100.0%**

(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

5

Figure 14. MPT slide with illustrative buyout structure of an MPT/Sam Lee partnership dated November 2018.[337]

[337] MPT_PROSPECT_00004203, at MPT_PROSPECT_00004207.
[338] MPT_PROSPECT_00005673, at MPT_PROSPECT_00005673–75.
[339] MPT_PROSPECT_00004203, at MPT_PROSPECT_00004203–09.
[340] MPT_PROSPECT_00004202, at slide 2.



Medical Properties Trust

November 27, 2018

[redacted]
Partner
Leonard Green & Partners, LP
11111 Santa Monica Blvd, Suite 2000
Los Angeles, CA 90025

Mr. Steve Aleman
Chief Financial Officer
3415 South Sepulveda Blvd, 9th Floor
Los Angeles, CA 90034

[redacted]om
[redacted]dical.com

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.

Figure 15. MPT's letter of intent regarding sale-leaseback with PMH dated November 27, 2018.[341]

On November 27, 2018, MPT emailed its Letter of Intent ("LOI") to PMH and LGP.[342] MPT's LOI indicated its "high-level value indication" was around the "range of $1.5 billion to $2.0 billion on a cash and debt free asset acquisition basis."[343] The letter outlined MPT's due diligence requirements and timeline—which stated that MPT had done transactions of similar size with "comprehensive diligence processes" in less than 45 days.[344] As far as MPT's financing for the transaction, the company said it had "more than $2.0 billion in immediately

[341] MPT_PROSPECT_00005704.
[342] MPT_PROSPECT_00005703.
[343] MPT_PROSPECT_00005704.
[344] MPT_PROSPECT_00005704, at MPT_PROSPECT_00005706.

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**."[345]

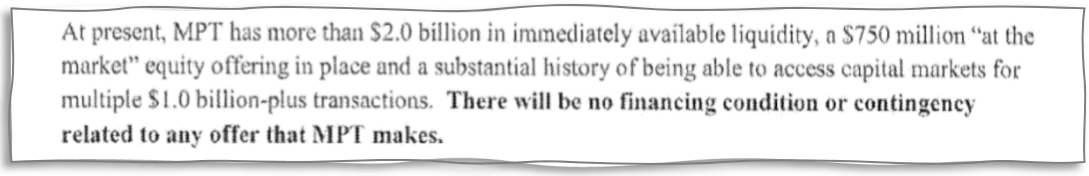
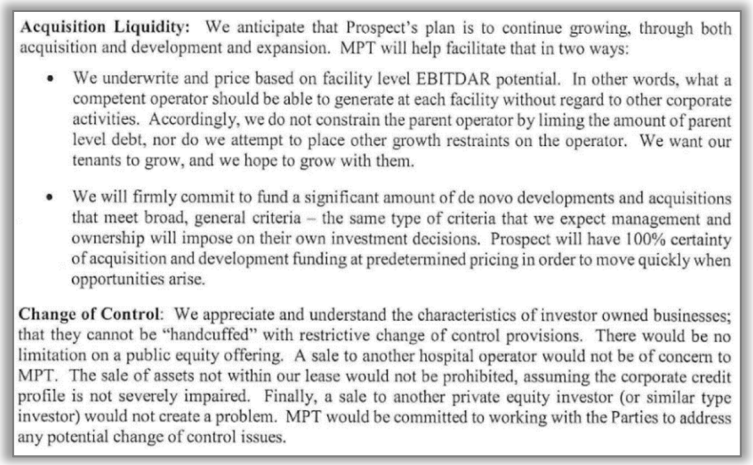

At present, MPT has more than $2.0 billion in immediately available liquidity, a $750 million "at the market" equity offering in place and a substantial history of being able to access capital markets for multiple $1.0 billion-plus transactions. **There will be no financing condition or contingency related to any offer that MPT makes.**

Figure 16. Paragraph from MPT's letter of intent for sale-leaseback regarding its liquidity dated November 27, 2018.[346]

The letter explained how MPT would underwrite and price the transaction. MPT stated that it priced "based on facility level EBITDAR [earnings before interest, tax, depreciation, amortization, and restructuring or rent costs] potential," meaning it does "not constrain the parent operator by limiting the amount of parent level debt."[347]


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.

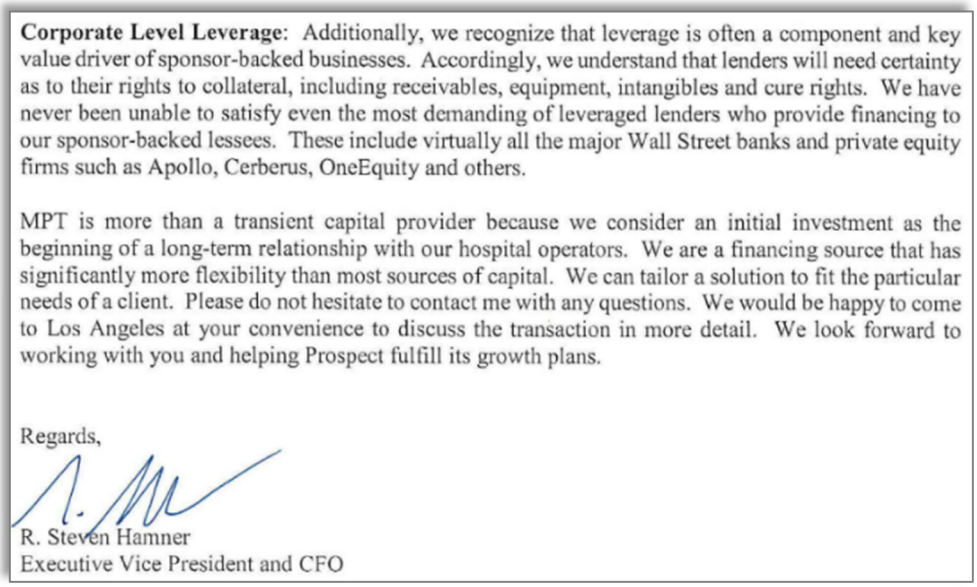
Change of Control: We appreciate and understand the characteristics of investor owned businesses; that they cannot be "handcuffed" with restrictive change of control provisions. There would be no limitation on a public equity offering. A sale to another hospital operator would not be of concern to MPT. 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.

Figure 17. Section from MPT's letter of intent for sale-leaseback regarding price and change of control dated November 27, 2018.[348]

Furthermore, PMH selling to another hospital operator "would not be of concern to MPT."[349] Regarding corporate-level leverage, MPT noted it has always satisfied leveraged lenders that financed private-equity backed lessees, including "major Wall Street banks and private equity firms such as Apollo Global Management, Cerberus, OneEquity, and others."[350]

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[345] MPT_PROSPECT_00005704, at MPT_PROSPECT_00005706.
[346] MPT_PROSPECT_00005704, at MPT_PROSPECT_00005706.
[347] MPT_PROSPECT_00005704, at MPT_PROSPECT_00005707 (emphasis added).
[348] MPT_PROSPECT_00005707.
[349] MPT_PROSPECT_00005704, at MPT_PROSPECT_00005707.
[350] Cerberus was the private equity sponsor of now-bankrupt Steward Healthcare and received around $800 million during its ownership of the company before it exited in 2020. Madeline Ashley, *Massachusetts Lawmakers Say Cerberus Got $800M Profit from Steward Exit*, BECKER'S HOSP. REV. (Apr. 3, 2024), https://www.beckershospitalreview.com/finance/massachusetts-lawmakers-say-cerberus-got-800m-profit-from-steward-exit.html. Apollo owns LifePoint Health, which is the current hospital operator for Ottumwa hospital. *See infra* Section II.



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.

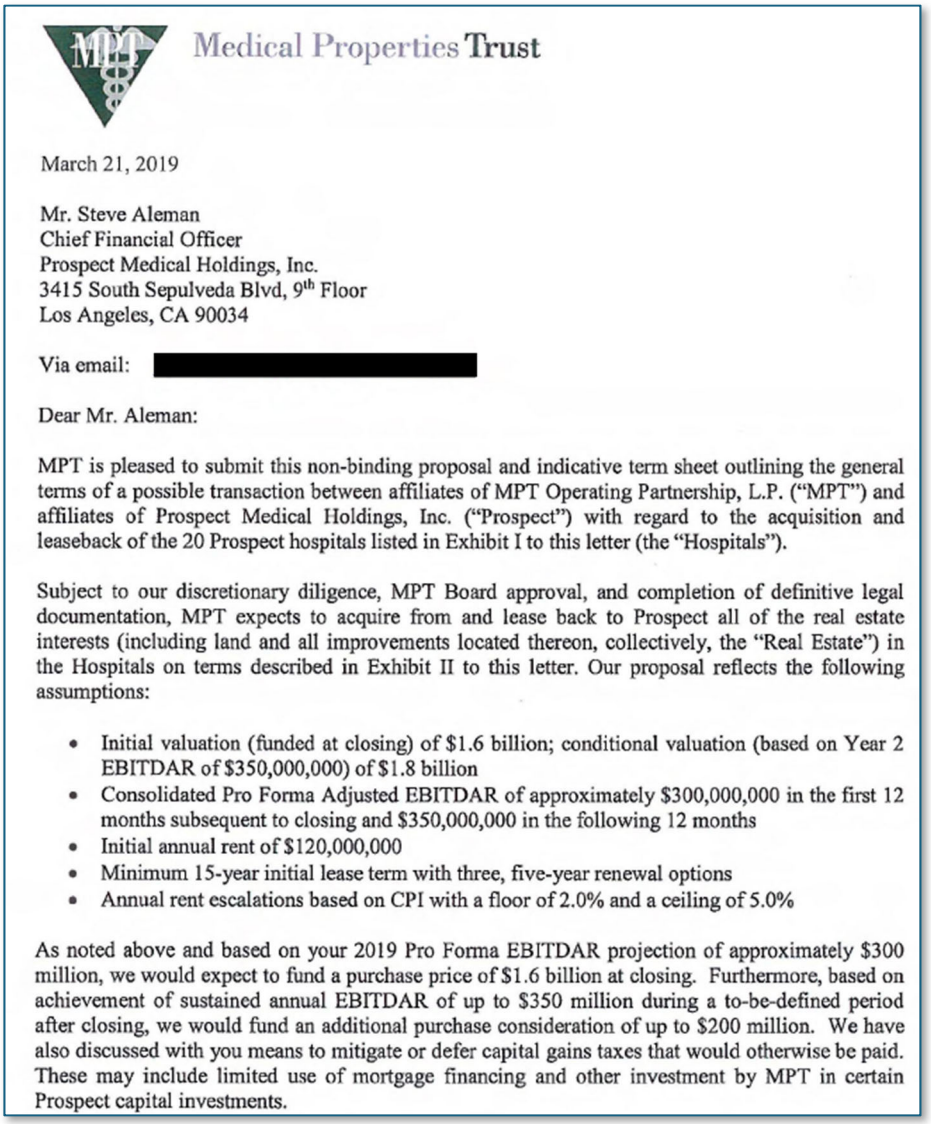
Regards,

R. Steven Hamner
Executive Vice President and CFO

Figure 18. Section from MPT's letter of intent for sale-leaseback regarding corporate level leverage dated November 27, 2018.[351]

On March 21, 2019, MPT sent its sale-leaseback proposal and term sheet to PMH, including an initial valuation of $1.6 billion and yearly rent of $120 million.[352]

[351] MPT_PROSPECT_00005707.
[352] PMH00002347.



Medical Properties Trust

March 21, 2019

Mr. Steve Aleman
Chief Financial Officer
Prospect Medical Holdings, Inc.
3415 South Sepulveda Blvd, 9th Floor
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%

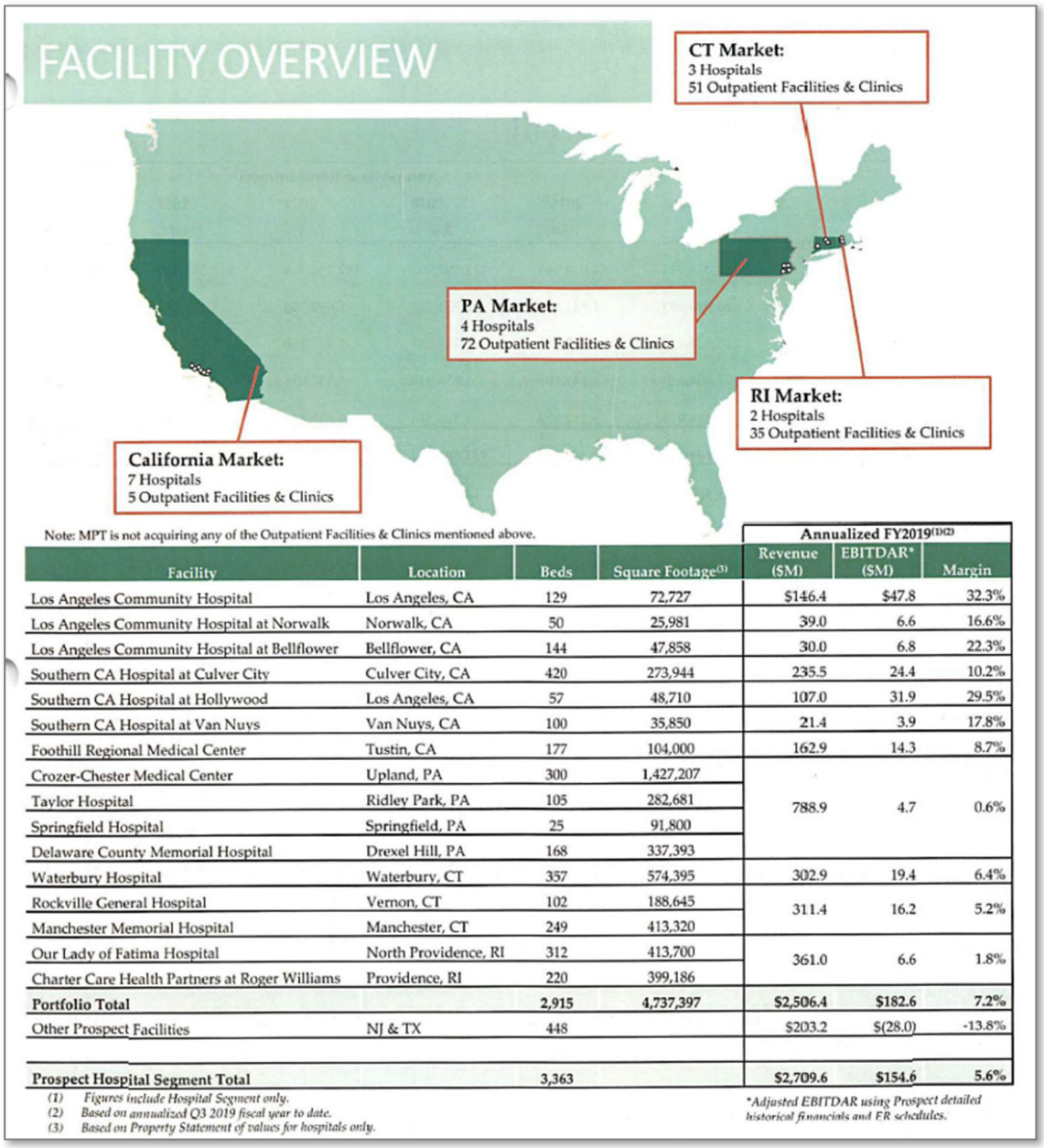
As noted above and based on your 2019 Pro Forma EBITDAR projection of approximately $300 million, we would expect to fund a purchase price of $1.6 billion at closing. Furthermore, based on achievement of sustained annual EBITDAR of up to $350 million during a to-be-defined period after closing, we would 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.

Figure 19. MPT's proposal and term sheet for the sale-leaseback with PMH dated March 21, 2019.[353]

Just two months later, MPT informed PMH that its analysis had concluded that PMH's projected earnings were expected to be less than its earnings in previous years.[354] MPT had analyzed PMH's EBITDAR projections and estimated that PMH's "next 12 months EBITDAR to approximate up to $270,000 … compared to the $300,000 estimate that [MPT's] $1.6 billion Letter of Intent was based on."[355] MPT outlined that the proceeds of the initial closing would be $1.5 billion instead of $1.6 billion, which would decrease PMH's initial yearly rent from $120 million to $112.5 million and the rent coverage from 2.5x to 2.4x.[356] However, MPT

[353] PMH00002347.
[354] MPT_PROSPECT_00005754.
[355] MPT_PROSPECT_00005754.
[356] MPT_PROSPECT_00005754.

emphasized that it would not reduce the "total potential proceeds of $1.8 billion" that it had initially proposed.[357]



Note: MPT is not acquiring any of the Outpatient Facilities & Clinics mentioned above.

Facility	Location	Beds	Square Footage(3)	Annualized FY2019(1)(2) 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.*

Figure 20. MPT's overview of PMH's facilities in its underwriting report of January 2020.[358]

[357] MPT_PROSPECT_00005754.
[358] MPT_PROSPECT_00000009, at MPT_PROSPECT_00000022.

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

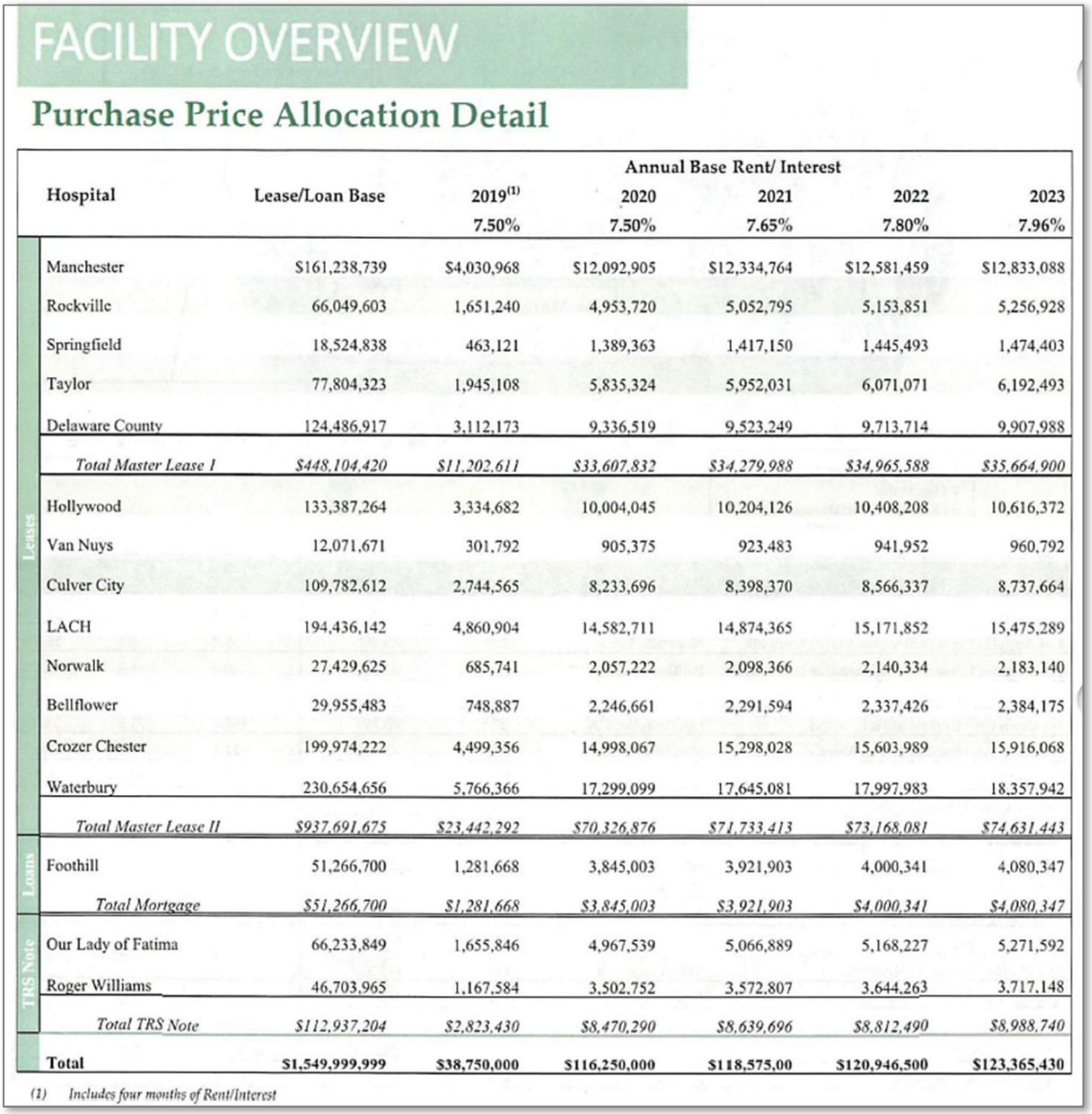
Figure 21. MPT's summary of the sale-leaseback transaction with PMH in MPT's underwriting report dated January 2020.[359]

In late August 2019, PMH completed the sale-leaseback with MPT.[360] The total value of the transaction was valued at $1.55 billion, which included the $1.38 billion sale-leaseback of all PMH properties except the two in Rhode Island and the one in Foothill, California; the mortgage loan of the Foothill hospital worth $51 million; and a loan of $112.9 million (which

[359] MPT_PROSPECT_00000009, at MPT_PROSPECT_00000024.
[360] PMH00040247, at PMH00040248.

MPT could convert to a sale-leaseback of the Rhode Island hospitals once the loan reached its maturity date of three years, provided regulatory approvals were received).[361] Around the same time as PMH paid back its cash infusion of $41 million (plus interest) and completed the sale-leaseback, PMH paid out $5 million in bonuses.[362]

[361] LGP's exit from PMH required regulatory approvals from each state where PMH operated hospitals. As part of receiving the Rhode Island Attorney General's approval, the maturity date of the loan was extended to April 30, 2026. LGP-SBC-00000118, at LGP-SBC-00000120; LGP-SBC-00000161; MPT_PROSPECT_00010109, at MPT_PROSPECT_00010155.
[362] PMH00022295.



FACILITY OVERVIEW

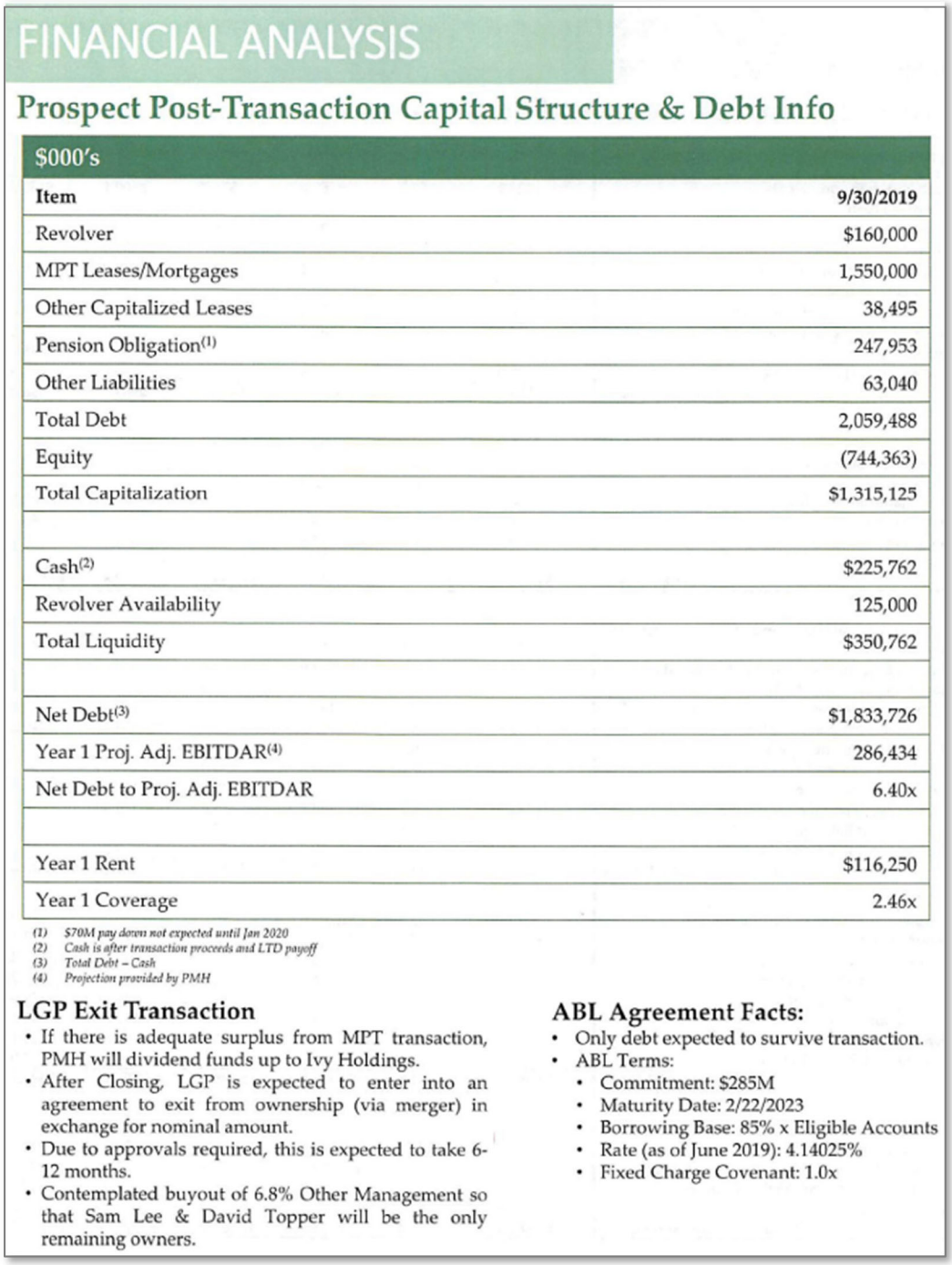
Purchase Price Allocation Detail

	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*

Figure 22. Purchase prices and rent amounts of PMH's hospitals per the sale-leaseback agreement as noted in MPT's underwriting report.[363]

[363] MPT_PROSPECT_00000009, at MPT_PROSPECT_00000023.



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

Figure 23. PMH's financials and debt information after the sale-leaseback with MPT as noted in MPT's underwriting report dated January 2020. Note that PMH would have distributed dividends if there would have been adequate surplus from the sale-leaseback. [364]

[364] MPT_PROSPECT_00000009, at MPT_PROSPECT_00000035.

4. Since LGP's exit, PMH has been hit with multiple DOJ investigations and lawsuits.

Since LGP's exit from PMH, state authorities and health-related foundations across multiple states have taken significant legal actions against PMH for the mismanagement of its hospitals.

a. Rhode Island

A state investigation in Rhode Island demonstrated how PMH, in the wake of LGP's ownership, has allowed specific hospitals to suffer both financial and patient care concerns while reaping profits for themselves.

In 2021, the Rhode Island Attorney General's Office approved PMH's acquisition of Our Lady of Fatima and Roger Williams hospitals, the final step that enabled LGP to divest its stake in PMH and sell it to Topper and Lee for approximately $12 million—well below a $50 million offer from Prime Health, which the PMH board had rejected in 2019.[365] Rather than using their own funds, Topper and Lee financed the deal using PMH's dwindling resources, securing co-ownership of PMH.[366] As part of its approval of the sale, the Rhode Island AG imposed strict conditions to safeguard the hospitals' financial stability, including the creation of an $80 million escrow fund to cover operational and capital expenses through 2026.[367] However, by October 31, 2023, PMH had accumulated over $24 million in overdue vendor payments, breaching the terms of the agreement and jeopardizing patient care.[368] In response, the Attorney General filed a lawsuit in November 2023 to enforce the terms of the 2021 deal.[369] These developments, combined with a history of financial mismanagement, raised serious concerns about PMH's ability to fulfill its obligations and maintain hospital care standards. In June 2024, the Rhode Island Superior Court ordered PMH to pay $17 million in overdue vendor bills, underscoring the company's ongoing financial struggles and mounting legal issues.[370]

In addition to their financial woes, hospitals in Rhode Island have also been cited for multiple health and safety violations. In March 2023, surveyors issued Our Lady of Fatima Hospital a condition-level citation for failure of nursing staff (specifically travel nurses) to follow medication administration policy resulting in patients receiving incorrect insulin types

[365] Howard Fine, *Prospect Fights Hostile Offer*, L.A. BUS. J. (Dec. 6, 2019), https://labusinessjournal.com/healthcare/prospect-fights-hostile-offer/.
[366] Decision on Initial Application of Chamber Inc. et al. at 22, R.I. Att'y Gen. (June 1, 2021), https://riag.ri.gov/sites/g/files/xkgbur496/files/documents/Prospect_Chamber_Ivy_AG_HCA_Decision.pdf.
[367] Press Release, Attorney General Imposes Significant Conditions on Proposed Hospital Ownership Change, R.I. Office of Att'y Gen. (June 20, 2024), https://riag.ri.gov/press-releases/attorney-general-imposes-significant-conditions-proposed-hospital-ownership-change.
[368] Attorney General's Petition to Enforce Decision Under the Hospital Conversion Act at 2, 7, *Neronha v. Prospect Med. Holdings, Inc.* (Nov. 2023), https://rhodeislandcurrent.com/wp-content/uploads/2023/11/Petition_Redacted-3.pdf.
[369] *State v. Prospect Med. Holdings, Inc.*, No. 23-05832 (R.I. Super. Ct. 2024), https://www.courts.ri.gov/Decisions/Superior-23-05832.pdf.
[370] *State v. Prospect Med. Holdings, Inc.*, No. 23-05832 (R.I. Super. Ct. 2024), https://www.courts.ri.gov/Decisions/Superior-23-05832.pdf.

and dosages.[371] In April of 2024, surveyors issued an immediate jeopardy at Roger Williams Medical Center for failing to maintain its physical environment due to the presence of rainwater leaking and pooling from multiple ceilings (including into light fixtures) in the hospital.[372]

b. Pennsylvania

At the same time as the legal actions in Rhode Island, Pennsylvania authorities and local foundations were also taking legal action against PMH, citing similar concerns about its management and financial stability. After Delaware County Memorial Hospital closed in November 2022 in violation of a court-imposed injunction requiring it to stay open, the Pennsylvania Attorney General intervened and asked the court to hold PMH in contempt for the closure as PMH had failed to "resolve its staffing shortages."[373] Detailed more thoroughly in Section G(2) below, in 2024, the Pennsylvania AG filed a lawsuit, intensifying the legal battle against PMH and accusing the company of violating state laws regarding financial responsibility and patient care standards.[374] PMH has been trying to offload Crozer for years and two deals have fallen apart, further damaging hospital operations.[375]

c. Connecticut

PMH has also come under intense scrutiny in Connecticut. Since 2022, nonprofit health care system, Yale New Haven Health Services (YNHHS), has been engaged in a legal dispute with PMH regarding YNHHS's potential acquisition of PMH's three Connecticut hospitals.[376] YNHHS's lawsuit accuses PMH of failing to uphold operational standards and engaging in financial mismanagement in violation of the asset purchase agreement they entered into in 2022.[377] Allegations include noncompliance with patient safety regulations, unpaid taxes, and failure to maintain basic operational conditions like sanitation and staff training.[378] According to

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[371] Ctrs. for Medicare & Medicaid Srvs., *Statement of Deficiencies: Our Lady of Fatima, Survey ID PHV611, Mar. 17, 2023.*

[372] Ctrs. for Medicare & Medicaid Srvs., *Statement of Deficiencies: Roger Williams Medical Center, Survey ID DPNL11, Apr. 2,2024.*

[373] John George, *Josh Shapiro intervenes in Delaware County Memorial Hospital dispute, wants Prospect held in contempt*, PHILA. BUS. J. (Nov. 15, 2022), https://www.bizjournals.com/philadelphia/news/2022/11/15/delco-memorial-prospect-crozer-josh-shapiro.html.

[374] Press Release, AG Henry Sues Prospect Medical Holdings Over Breach of Contract, Mismanagement of Crozer Health System Resulting in Closures, Disruptions of Services, Pa. Office of Att'y Gen. (Nov. 19, 2024), https://www.attorneygeneral.gov/taking-action/ag-henry-sues-prospect-medical-holdings-over-breach-of-contract-mismanagement-of-crozer-health-system-resulting-in-closures-disruptions-of-services/.

[375] *See* discussion *supra* Section G(2)(d).

[376] Madeline Ashley, *Prospect, Yale New Haven $435M Hospital Deal Issues Drag On*, BECKER'S HOSP. REV. (Oct. 24, 2024), https://www.beckershospitalreview.com/hospital-transactions-and-valuation/prospect-yale-new-haven-435m-hospital-deal-issues-drag-on.html.

[377] Eric Bedner, *Yale alleges Prospect Medical violated agreement over sale of three CT hospitals in lawsuit*, CT INSIDER (May 3, 2024), https://www.ctinsider.com/journalinquirer/article/ct-hospitals-yale-new-haven-health-prospect-19435786.php.

[378] Eric Bedner, *Yale alleges Prospect Medical violated agreement over sale of three CT hospitals in lawsuit*, CT INSIDER (May 3, 2024), https://www.ctinsider.com/journalinquirer/article/ct-hospitals-yale-new-haven-health-prospect-19435786.php.

the lawsuit, these failures have strained relationships with federal and state regulators and jeopardized Medicare contracts.[379]

The lawsuit was further amended in 2024 to include claims related to a cyberattack in August 2023, caused by PMH's inadequate IT protections.[380] YNHHS contends that PMH's financial instability and lack of reinvestment have rendered the hospitals unviable, breaching the terms of the APA.[381] Furthermore, PMH stopped paying rent for the three hospitals in October 2022 after the deal with YNHHS was announced, and, by May 2023, it had accrued $56 million in back rent.[382]

In November 2024, the Connecticut Department of Public Health ("CDPH") fined Manchester hospital $60,000 after inspectors found multiple health and safety violations during five unannounced inspections, which prompted CDPH to order the hospital to hire an independent monitor to oversee patient care.[383]

d. Federal

In addition to state-level actions, PMH has been the subject of several investigations by the U.S. Department of Justice ("DOJ") regarding its financial practices. On May 21, 2021, the DOJ served PMH's Southern California Healthcare System, Inc. with a Civil Investigative Demand relating to potential violations of the False Claims Act (31 U.S.C. §§ 3729-3733) beginning on October 1, 2014, and alleging PMH made "false claims to federal health care programs for services that were provided as a result of illegal kickbacks and/or that were medically unnecessary or not provided."[384] The allegations involved PMH's Culver City, Hollywood, and Van Nuys hospitals.[385] Additionally, in November 2023, the DOJ sent PMH a Civil Investigative Demand related to an investigation for potential "upcoding" of secondary

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[379] Complaint at 4, *Yale New Haven Health Servs. Corp. v. Prospect Med. Holdings, Inc.*, No. HHD-CV24-6184328-S (Conn. Super. Ct. D. Hartford filed May 3, 2024), https://civilinquiry.jud.ct.gov/DocumentInquiry/DocumentInquiry.aspx?DocumentNo=27421584.
[380] Janice Hur, *New allegations added to YNHHS' lawsuit against Prospect*, YALE DAILY NEWS (Sept. 18, 2024), https://yaledailynews.com/blog/2024/09/18/new-allegations-added-to-ynhhs-lawsuit-against-prospect/; Eric Bedner, *Yale alleges Prospect Medical violated agreement over sale of three CT hospitals in lawsuit*, CT INSIDER (May 3, 2024), https://www.ctinsider.com/journalinquirer/article/ct-hospitals-yale-new-haven-health-prospect-19435786.php.
[381] Janice Hur, *New allegations added to YNHHS' lawsuit against Prospect*, YALE DAILY NEWS (Sept. 18, 2024), https://yaledailynews.com/blog/2024/09/18/new-allegations-added-to-ynhhs-lawsuit-against-prospect/.
[382] Complaint at 2, *Yale New Haven Health Servs. Corp. v. Prospect Med. Holdings, Inc.*, No. HHD-CV24-6184328-S (Conn. Super. Ct. D. Hartford filed May 3, 2024), https://civilinquiry.jud.ct.gov/DocumentInquiry/DocumentInquiry.aspx?DocumentNo=27421584.
[383] Liese Klein, *Connecticut hospital owner owes $56 million in back rent, new court docs say*, N.H. REG. (Dec. 2, 2024), https://www.nhregister.com/business/article/waterbury-manchester-rockville-hospitals-prospect-19949362.php.
[384] Civil Investigation Demand to Southern California Healthcare System, Inc. at 1, U.S. Dep't of Justice (May 21, 2021) (Attachment A).
[385] Civil Investigation Demand to Southern California Healthcare System, Inc., U.S. Dep't of Justice (May 21, 2021) (Attachment A).

diagnoses on inpatient care claims submitted to federal health care programs starting January 1, 2020.[386]

Since LGP's exit from its majority ownership of PMH—during which time LGP contributed to saddling PMH with over $1 billion in debt—PMH has sought to divest most of its assets.[387] Negotiations to sell its hospitals in Connecticut, Pennsylvania, and Rhode Island have been underway since 2022.[388] Further, in November 2024, PMH announced the sale of key segments of its business to Astrana Health ("Astrana") for $745 million.[389] The transaction includes PMH's California-licensed health care service plan; medical groups in California, Texas, Arizona, and Rhode Island; its management services organizations; RightRx pharmacy; and the 177-bed Foothill Regional Medical Center in Tustin, California.[390] As part of a May 2023 restructuring agreement, MPT held a 49 percent equity interest in the segment sold to Astrana—PHP Holdings, LLC—which was acquired through the conversion of $112 million in unpaid rent and obligations resulting from the 2019 $1.55 billion sale-leaseback transaction.[391] The sale to Astrana is expected to generate approximately $200 million in cash proceeds for MPT.[392] The deal is scheduled to close by mid-2025, pending regulatory approval and customary closing conditions.[393]

[386] Civil Investigative Demand to Prospect Medical Holdings, Inc. at 3, U.S. Dep't of Justice (Nov. 3, 2023).
[387] Alan Condon, *California System Plans to Sell 10 Hospitals*, BECKER'S HOSP. REV. (Jan. 23, 2024), https://www.beckershospitalreview.com/hospital-transactions-and-valuation/california-system-plans-to-sell-10-hospitals.html.
[388] PMH00022906; PMH00023240, at PMH00023242.
[389] *Astrana Health Announces Definitive Agreement to Acquire Certain Businesses and Assets of Prospect Health System*, Astrana Health (Nov. 8, 2024), https://ir.astranahealth.com/news-events/press-releases/detail/249/astrana-health-announces-definitive-agreement-to-acquire-certain-businesses-and-assets-of-prospect-health-system.
[390] *Astrana Health Announces Definitive Agreement to Acquire Certain Businesses and Assets of Prospect Health System*, Astrana Health (Nov. 8, 2024), https://ir.astranahealth.com/news-events/press-releases/detail/249/astrana-health-announces-definitive-agreement-to-acquire-certain-businesses-and-assets-of-prospect-health-system.
[391] MPT_PROSPECT_00020198, at MPT_PROSPECT_00020203; MPT_PROSPECT_00031381, MPT_PROSPECT_00031386-7.
[392] *Medical Properties Trust Announces Prospect Medical Holdings Transaction*, YAHOO FIN. (May 24, 2023), https://finance.yahoo.com/news/medical-properties-trust-announces-prospect-130800150.html.
[393] *Astrana Health Announces Definitive Agreement to Acquire Certain Businesses and Assets of Prospect Health System*, Astrana Health (Nov. 8, 2024), https://ir.astranahealth.com/news-events/press-releases/detail/249/astrana-health-announces-definitive-agreement-to-acquire-certain-businesses-and-assets-of-prospect-health-system.

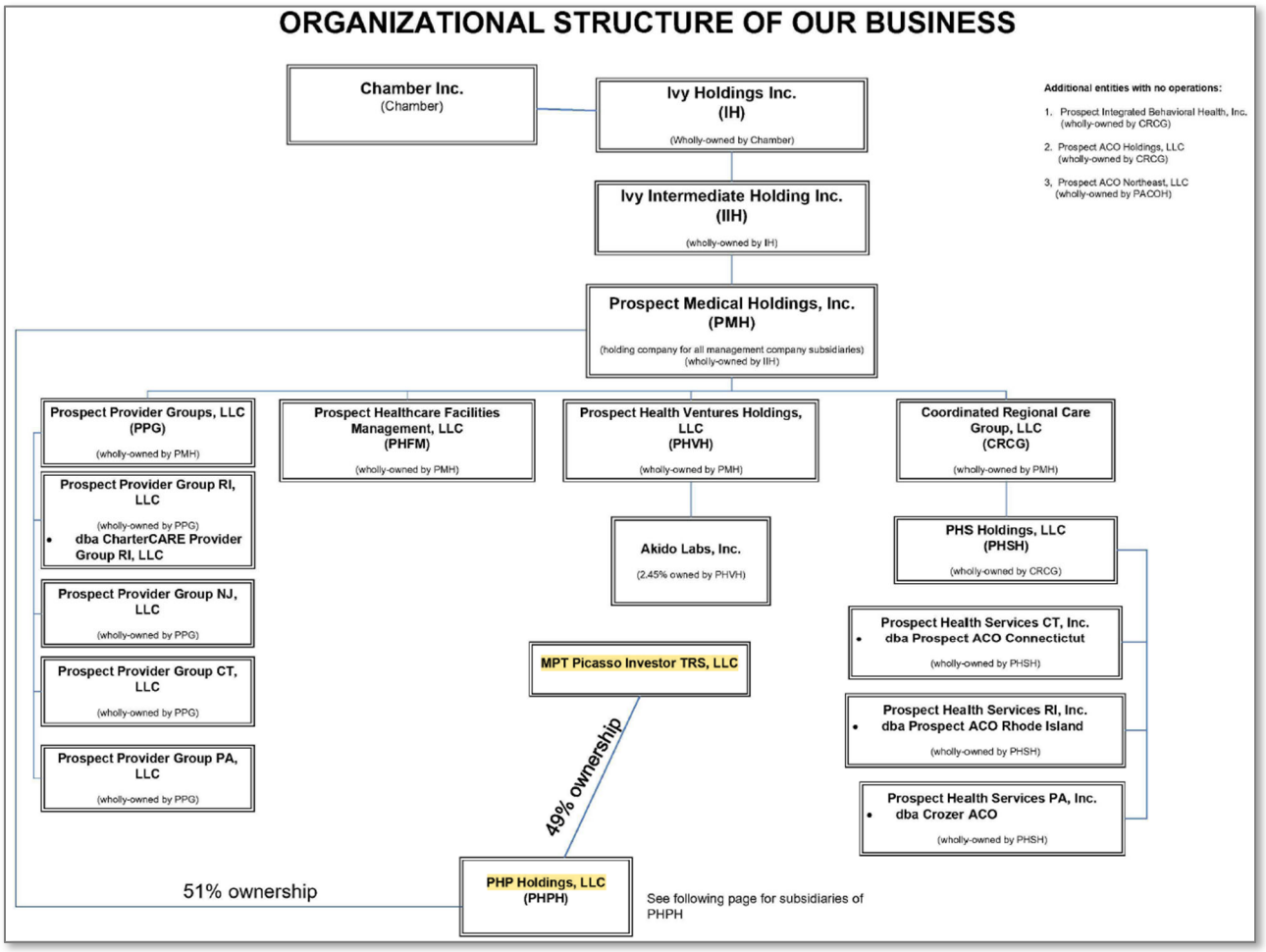


Figure 24. Document produced by PMH of its organizational structure after MPT acquired a 49 percent interest in PHP Holdings, LLC in 2023.[394]

[394] PMH00038675, at PMH00038679.

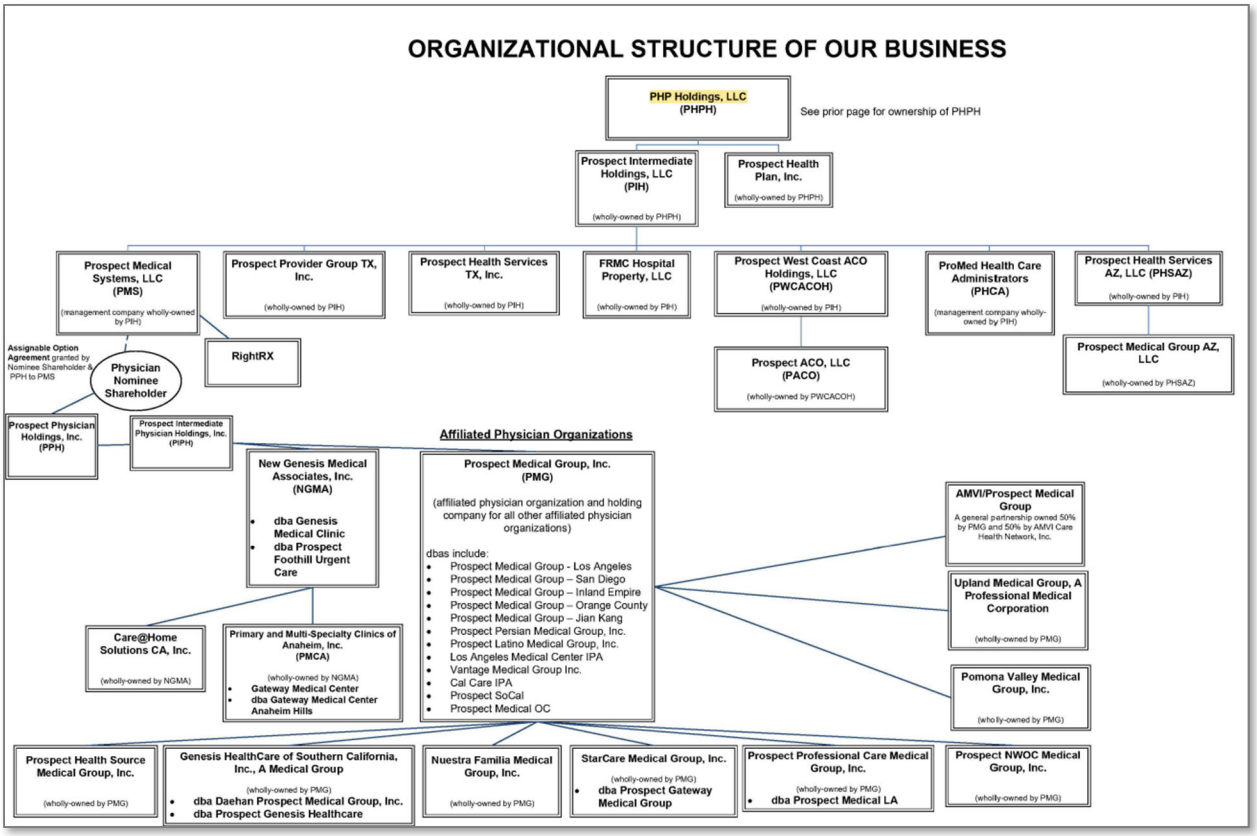


Figure 25. Document produced by PMH of organizational structure of PMH's managed care segment, PHP Holdings, LLC after MPT acquired its 49 percent equity interest in 2023.[395]

In addition to the restructuring agreement in 2023, MPT—PMH's landlord—took significant actions concerning PMH related to unpaid rent and financial instability in November 2024. Due to PMH's difficulty in completing the sales of its hospitals in Connecticut, Rhode Island, and Pennsylvania, the company has been failing to pay rent or making rent payments only on a cash basis for more than a year, leading to liquidity challenges.[396] In response, MPT has moved to take control of three of PMH's Southern California health care entities, citing defaults on debt obligations.[397] As part of this action, MPT has installed new "independent" leadership at these facilities to stabilize operations and ensure continuity of care.[398]

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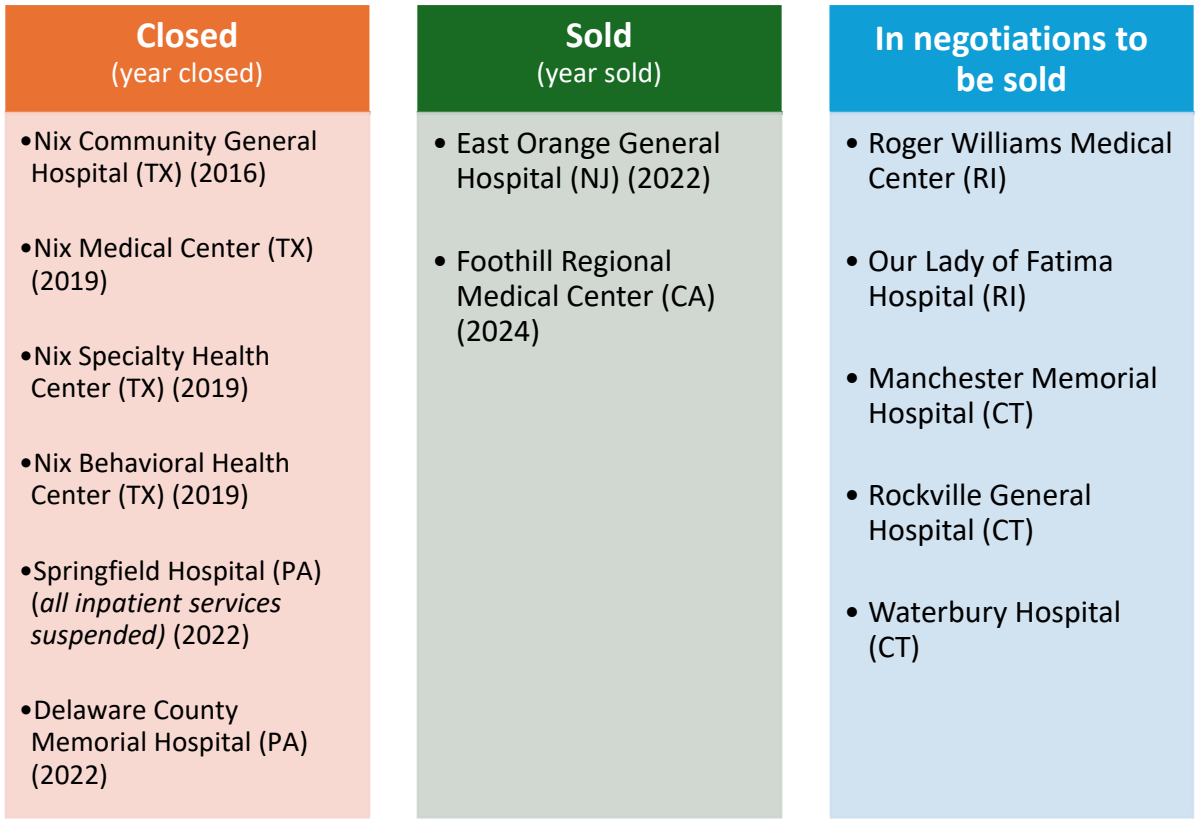
[395] PMH00038675.

[396] Susanna Vogel, *MPT Installs New Leadership at Prospect Hospitals as System Continues to Miss Rent Payments*, HEALTHCARE DIVE (Nov. 21, 2024), https://www.healthcaredive.com/news/mpt-installs-new-leadership-at-3-prospect-hospitals-as-system-continues-to/733592/.

[397] Reshmi Basu & Steven Church, *Hospital Landlord MPT Moves to Control Prospect Medical Entities*, BLOOMBERG (Nov. 19, 2024), https://www.bloomberg.com/news/articles/2024-11-19/hospital-landlord-mpt-moves-to-control-prospect-medical-entities.

[398] Susanna Vogel, *MPT Installs New Leadership at Prospect Hospitals as System Continues to Miss Rent Payments*, HEALTHCARE DIVE (Nov. 21, 2024), https://www.healthcaredive.com/news/mpt-installs-new-leadership-at-3-prospect-hospitals-as-system-continues-to/733592/.

Since LGP acquired a majority stake in PMH in 2010, six hospitals have closed—four of them permanently.[399] Two additional hospitals have been sold, and PMH is in negotiations to sell or is trying to sell all of its hospitals in Rhode Island, Connecticut, and Pennsylvania, as noted in the graphic below:



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[399] Springfield Hospital in Pennsylvania "temporarily suspended all hospital-based services" on January 14, 2022. Crozer Health, *Springfield Hospital*, https://www.crozerhealth.org/locations/springfield-hospital/ (last visited Dec. 31, 2024).

[400] In Connecticut, Yale New Haven Health Services has sued to get out of the binding deal to acquire the three hospitals, alleging breach of the asset purchase agreement the parties signed in 2022. Susanna Vogel, *MPT Installs New Leadership at Prospect Hospitals as System Continues to Miss Rent Payments*, HEALTHCARE DIVE (Nov. 21, 2024), https://www.healthcaredive.com/news/mpt-installs-new-leadership-at-3-prospect-hospitals-as-system-continues-to/733592/. In Rhode Island, the RI Attorney General announced in mid-November 2024 that he would amend five conditions of the sale to nonprofit The Centurion Foundation, paving the way for a January 2025 closing. Nancy Lavin, *Roger Williams, Fatima Hospital Sale Set to Close in January After License Application Approved*, YAHOO!NEWS (Nov. 26, 2024), https://www.yahoo.com/news/roger-williams-fatima-hospital-sale-152355944.html.

Trying to Sell (*two deals have fallen through*)	Adverse Action by MPT
• Crozer-Chester Medical Center (PA) • Taylor Hospital (PA) • Springfield Hospital (PA) *(hospital-based services closed)* • Delaware County Memorial Hospital (PA) *(closed)*	• Three unidentified Southern California hospitals

[401]

The financial and operational turmoil at PMH underscores the severe consequences of profit-driven mismanagement—by private equity investors and their willing enablers at the hospital systems—that prioritizes short-term financial gains over long-term sustainability at hospital operations. The sale-leaseback transaction with MPT, while offering immediate liquidity, ultimately deepened PMH's financial distress, burdening it with unsustainable annual rent obligations. LGP's decision to sell its stake in PMH after it had extracted substantial dividends from the company further highlights the precarious balance between private equity profit-maximizing objectives and the stability of essential health care services. These events serve as a cautionary tale about the risks inherent in aggressive financial engineering within critical public-facing sectors like health care.

G. Under the profits-over-patients model, PMH hospital systems suffered quality of care and financial issues.

Profit-driven management in health care can have disastrous consequences, as evidenced by the decline of Nix Health in Texas, once a profitable health system, and Crozer-Keystone Health System in Pennsylvania, an already struggling one. In both cases, PMH's pursuit of financial results overshadowed priorities like patient safety and sustainable business operations. This approach not only jeopardized quality of care but drove the hospital systems into financial turmoil.

[401] In Pennsylvania, deals with two possible buyers have fallen through since 2022, including deals with ChristianaCare and CHA Partners. Susanna Vogel, *Pennsylvania Attorney General Sues Prospect Medical Alleging 'Corporate Greed'*, HEALTHCARE DIVE (Oct. 31, 2024), https://www.healthcaredive.com/news/pennsylvania-attorney-general-sues-prospect-medical-leonard-green/731555/.

1. Under PMH's mismanagement, Nix Health Care System in Texas went from profitable to a financial disaster in just seven years.

PMH's ownership of Nix Health Care System ("Nix Health") in Texas illustrates how a profit-maximizing strategy and poor management can rapidly destabilize a hospital system—even one that was initially financially successful. PMH acquired Nix Health in San Antonio, Texas, from Merit Health Systems ("Merit")—a hospital operator that was backed by private equity firm Willis Stein.[402] Merit had acquired Nix Health in 2004 and, during its ownership, collected management fees and dividends from the hospital's cash flows.[403] In 2012, Merit decided to shut down its company because the Willis Stein fund that had provided Merit a $100 million investment a decade earlier was expected to provide a return to its limited partners by either selling Merit to another fund or selling Merit's assets.[404] Merit decided the best deal was the latter.[405] Subsequently, on February 1, 2012, PMH acquired Nix Health for approximately $48 million, which included the assumption of approximately $4 million in loans and capital leases.[406] In connection with the acquisition, PMH borrowed $15 million of its available loan commitment with Royal Bank of Canada.[407]

At the time of PMH's acquisition, Nix Health offered comprehensive services across multiple locations in San Antonio.[408] Among these was the 205-bed Nix Medical Center ("Medical Center"), which specialized in inpatient acute care and geriatric psychiatry.[409] Additionally, the 60-bed Nix Specialty Health Center ("Specialty Health") provided behavioral health and rehabilitation services for children and adults.[410] The purchase also included three orthopedic centers and assorted Nix doctor's clinics.[411]

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[402] *Prospect Medical Holdings Closes Asset Purchase of Nix Health*, BUS. WIRE (Feb. 1, 2012), https://www.businesswire.com/news/home/20120201006885/en/Prospect-Medical-Holdings-Closes-Asset-Purchase-of-Nix-Health; LGP Response to the Budget Committee at 3 (Nov. 8, 2024).
[403] Ed Green, *Merit Health getting out of hospital-management business*, LOUISVILLE BUS. FIRST (Feb. 10, 2012), https://www.bizjournals.com/louisville/print-edition/2012/02/10/merit-health-getting-out-of.html.
[404] Ed Green, *Merit Health getting out of hospital-management business*, LOUISVILLE BUS. FIRST (Feb. 10, 2012), https://www.bizjournals.com/louisville/print-edition/2012/02/10/merit-health-getting-out-of.html.
[405] Ed Green, *Merit Health getting out of hospital-management business*, LOUISVILLE BUS. FIRST (Feb. 10, 2012), https://www.bizjournals.com/louisville/print-edition/2012/02/10/merit-health-getting-out-of.html.
[406] LGP-SBC-000001051, at LGP-SBC-000001084–85.
[407] LGP-SBC-000002773, at LGP-SBC-000002818–19.
[408] LGP-SBC-000002773, at LGP-SBC-000002783.
[409] LGP-SBC-000002773, at LGP-SBC-000002783–84.
[410] LGP-SBC-000002773, at LGP-SBC-000002783–84.
[411] Patrick Danner, *Los Angeles group is planning to buy Nix Health system*, MYSA (Jan. 5, 2011), https://www.mysanantonio.com/business/article/los-angeles-group-is-planning-to-buy-nix-health-2444318.php.

After the acquisition of Nix Health, PMH paid a 100 percent debt-financed dividend to its owners.[412] The dividend was funded through a $100 million add-on to PMH's existing senior secured notes.[413] On November 8, 2012, S&P revised its outlook on PMH from positive to stable, affirmed its "B" corporate credit rating, and assigned a "B-" rating to the senior secured notes, reflecting the company's vulnerable business risk profile.[414] At the time, S&P opined that, with "the Nix acquisition completed, [S&P did] not expect PMH to make any additional acquisitions in the next year but believe[d] the company w[ould] focus on integrating Nix and on further improving the financial performance of [another California hospital]."[415]

However, on April 16, 2013, PMH further expanded Nix Health, acquiring Community General Hospital, an 18-bed acute care hospital located in Dilley, Texas—a town of less than 4,000 residents located about an hour outside of San Antonio.[416] This was PMH's first and last foray into the rural hospital market.[417] The acquisition cost approximately $3.75 million, including the assumption of $795,000 in liabilities.[418]

[412] *S&P Revises Prospect Medical 'B' Rtg Outlook To Stable From Pos*, REUTERS (Nov. 8, 2012), https://www.reuters.com/article/business/s-p-revises-prospect-medical-b-rtg-outlook-to-stable-from-pos-idUSWNA9242/.
[413] *S&P Revises Prospect Medical 'B' Rtg Outlook To Stable From Pos*, REUTERS (Nov. 8, 2012), https://www.reuters.com/article/business/s-p-revises-prospect-medical-b-rtg-outlook-to-stable-from-pos-idUSWNA9242/.
[414] *S&P Revises Prospect Medical 'B' Rtg Outlook To Stable From Pos*, REUTERS (Nov. 8, 2012), https://www.reuters.com/article/business/s-p-revises-prospect-medical-b-rtg-outlook-to-stable-from-pos-idUSWNA9242/.
[415] *S&P Revises Prospect Medical 'B' Rtg Outlook To Stable From Pos*, REUTERS (Nov. 8, 2012), https://www.reuters.com/article/business/s-p-revises-prospect-medical-b-rtg-outlook-to-stable-from-pos-idUSWNA9242/.
[416] *Prospect Medical Holdings Acquires Community General Hospital*, FIERCE HEALTHCARE (Apr. 16, 2013), https://www.fiercehealthcare.com/practices/cardinal-health-acquiring-integrated-oncology-network-11b; U.S. Census Bureau, *Dilley City, Texas Profile*, https://data.census.gov/profile?q=Dilley%20city,%20Texas%20Wintun-Wailaki (last visited Dec. 31, 2024).
[417] Ayla Ellison, *State-by-State Breakdown of 85 Rural Hospital Closures*, Becker's Hosp. Rev. (July 3, 2018), https://www.beckershospitalreview.com/finance/state-by-state-breakdown-of-85-rural-hospital-closures.html.
[418] LGP-SBC-000002773, at LGP-SBC-000002809–10.

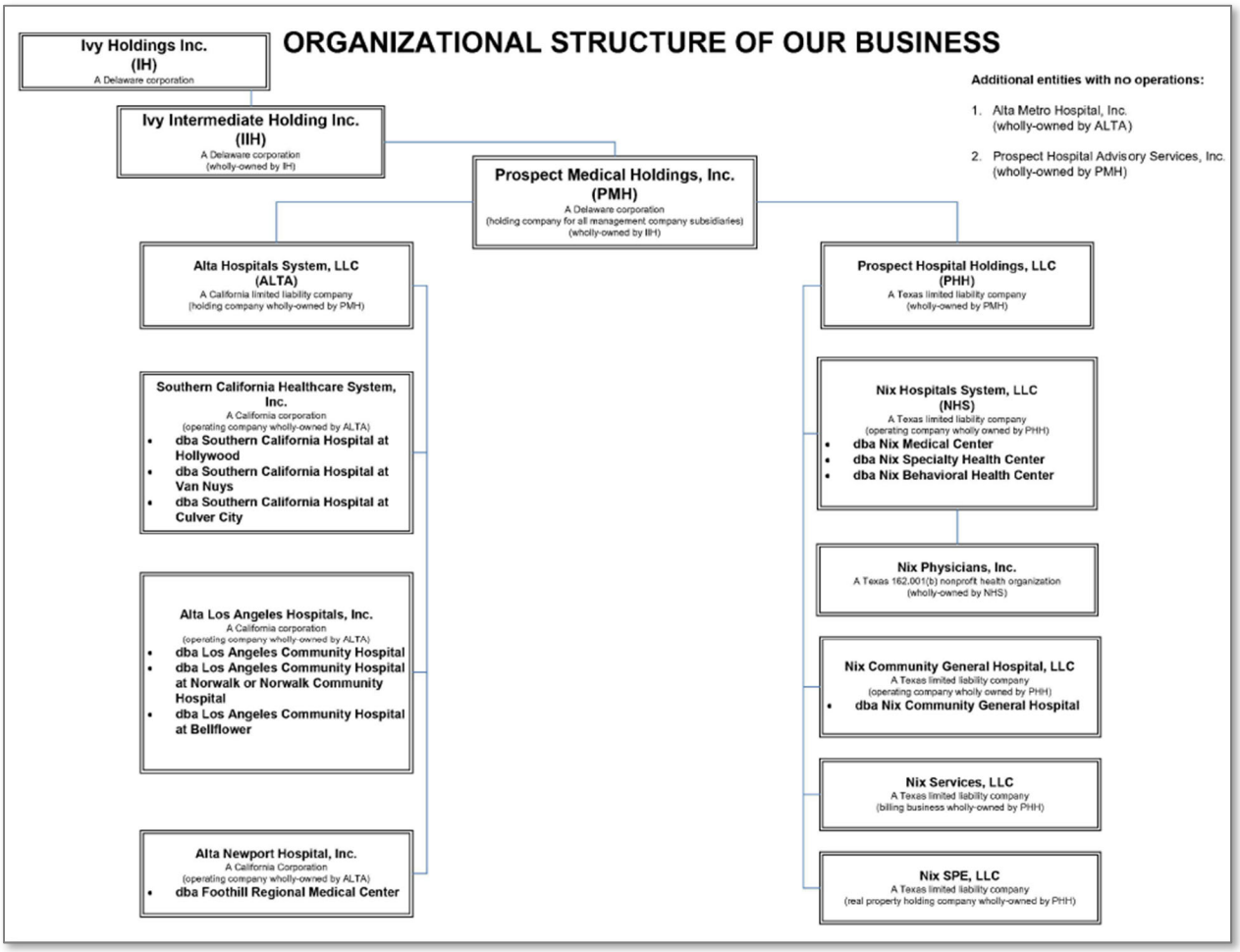


Figure 26. Document produced by PMH of organizational structure of PMH's California and Texas hospital services segment in 2016.[419]

a. PMH's plan for Nix Health was to further increase profits.

Documents obtained by the Budget Committee show that PMH's strategy with Nix Health was centered on driving increased profits by expanding services and patient volume—even at the expense of patients. At a March 2014 Board of Director's meeting, PMH noted that Nix Health brought in a healthy $14 million in fiscal year 2013, but that PMH's "management team expected a marked improvement due to the initiatives."[420] Unlike Lee and Topper's typical acquisitions of financially struggling hospitals, Nix was a profitable system at the time of acquisition. PMH saw Nix Health's success as an opportunity to further boost profits, making financial growth its primary focus.[421] During overviews of Nix Health at PMH's Board of Directors' meetings, the discussions among PMH senior management and LGP board members

[419] PMH00038344.
[420] LGP-SBC-000003115, at LGP-SBC-000003116.
[421] LGP-SBC-000003110, at LGP-SBC-000003110–12.

consistently revolved around the hospitals' finances, earnings, patient volume, and physician recruitment.[422] The minutes provided to the Budget Committee never mentioned quality of care or patient safety at Nix Health.[423]

> 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.

Figure 27. PMH Board of Directors minutes from September 3, 2014.[424]

PMH's plan involved increasing earnings by increasing patient volume, which led PMH to construct an emergency room and expand behavioral health services. The emergency room was expected to bring more patients and admissions; and consequently, in 2013, PMH turned the Medical Center's urgent care center into a full-service emergency room.[425] PMH invested millions in expanding behavioral health services across Nix Health. On July 18, 2013, PMH leased land and a building in San Antonio for $6.9 million, which was later turned into Nix Behavioral Health Center ("Behavioral Center")—a 73-bed behavioral health center that provided psychiatric emergency services (PES) and a crisis intervention unit (CIU).[426]

PMH leaned heavily on government funding for its behavioral health endeavors. It received nearly $10.5 million in Medicaid's Delivery System Reform Incentive Payment (DSRIP) program to support its development of an intensive outpatient program and a care transitions program and principally relied on government funding for its PES and CIU programs beginning in 2013—which was subcontracted to Nix by another hospital.[427] Nix Health also contracted with the Center for Health Care Services (CHCS) in Bexar County, Texas, which

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[422] LGP-SBC-000003066, at LGP-SBC-000003066–69; LGP-SBC-000003110, at LGP-SBC-000003110–12; LGP-SBC-000003060, at LGP-SBC-000003060–63; LGP-SBC-000001117, at LGP-SBC-000001117–21.
[423] LGP-SBC-000003124, at LGP-SBC-000003124–26.
[424] LGP-SBC-000001117, at LGP-SBC-000001119.
[425] LGP Response to the Budget Committee at 3 (Nov. 8, 2024).
[426] LGP-SBC-000000682, at LGP-SBC-000000694; Final Report, Bexar County Mental Health Systems Assessment at 50 (Sept. 2016), https://mmhpi.org/wp-content/uploads/2016/11/2016-Bexar-County-Mental-Health-Report_FNL.pdf.
[427] The funds came from the Texas Healthcare Transformation and Quality Improvement Program, which was approved by the Centers for Medicare and Medicaid as a Section 1115(a) waiver demonstration. Expenditure Proposal Fiscal Year 2022, Statewide Behavioral Health Coordinating Council (Sept. 2021), at C-33, https://www.hhs.texas.gov/sites/default/files/documents/hb1-behavioral-health-expenditure-proposal-fy22.pdf; Final Report, Bexar County Mental Health Systems Assessment at 22, 48 (Sept. 2016), https://mmhpi.org/wp-content/uploads/2016/11/2016-Bexar-County-Mental-Health-Report_FNL.pdf; Guidance for Potential Collaborators on Evaluating the 1115(a) Demonstration Waiver – Healthcare Transformation Quality Improvement Program, Texas

purchased several behavioral health beds from the Specialty Center in fiscal year 2015.[428] By early 2014, Nix Health's behavioral health expansions included the addition of 8 adult psychiatric beds, the opening of a 31-bed unit to service children and adolescents at Nix Behavioral Health Center (which included the consolidation of several Nix Health's child/adolescent units), and the expansion of geropsychiatric beds from 15 to 33.[429] From fiscal year 2013 through fiscal year 2018, Nix Health received $40.1 million from the DSRIP program to aid in its expansion endeavors.[430]

Nix Health's DSRIP Pool Payments
(in $millions)[431]

Fiscal Year	Amount
2013	7.1
2014	9.8
2015	11.4
2016	-
2017	12.7
2018	12.7

Table 3. Nix Health's DSRIP pool payments from FY2013 to FY2018.

b. PMH's plan led to decreased patient safety and financial disaster.

As PMH implemented its plan to increase profits at Nix Health, patient safety and quality of care suffered. In 2014, Nix Medical Center tied for the worst hospital in Texas on its HAC score according to the federal Hospital-Acquired Condition (HAC) Reduction Program.[432] It consequently received a one percent reduction in Medicare payments for hospital discharges

Health & Human Servs. Commission, at 4 (Nov. 7, 2013), https://www.hhs.texas.gov/sites/default/files/documents/laws-regulations/policies-rules/1115-docs/WaiverEvaluationGuidance.pdf.

[428] Final Report, Bexar County Mental Health Systems Assessment at 22 (Sept. 2016), https://mmhpi.org/wp-content/uploads/2016/11/2016-Bexar-County-Mental-Health-Report_FNL.pdf.

[429] PMH00008641, at PMH00008655.

[430] LGP-SBC-000000682, at LGP-SBC-000000701; LGP-SBC-000000348, at LGP-SBC-000000367; LGP-SBC-000000278, at LGP-SBC-000000297; MPT _PROSPECT _00009258, at MPT _PROSPECT_00009274.

[431] LGP-SBC-000002773, LGP-SBC-000000682, LGP-SBC-000000348, LGP-SBC-000000278, PMH00035235, LGP-SBC-000000620.

[432] Peggy O'Hare, *Two hospitals penalized for patient care*, SAN ANTONIO EXPRESS-NEWS (Dec. 30, 2014), https://www.expressnews.com/business/local/article/Three-San-Antonio-hospitals-penalized-for-patient-13764011.php.

during fiscal year 2015.[433] The program measured conditions that patients developed after admission to the hospital, including bedsores, sepsis, and surgical wound ruptures between July 2011 and June 2013.[434] It also recorded central-line associated bloodstream infections and catheter-associated urinary tract infections in 2012 and 2013.[435] Only hospitals that performed worse than 75 percent of other hospitals nationwide received such penalties.[436] With a worst-possible score of 10, the Medical Center received a 9.65 total score—earning 10s in both central-line associated bloodstream and catheter-associated urinary tract infections in 2012 and 2013—after PMH acquired Nix Health in February 2012.[437] Nix Health's dismal hospital-acquired conditions scores continued. For the evaluation period beginning January 1, 2014, to December 31, 2015, Nix Health yet again received 10s for both central-line associated bloodstream and catheter-associated urinary tract infections, leading to the issuance of another one percent reduction in Medicare payments in fiscal year 2017.[438]

c. Nix Health experienced significant financial issues.

Under PMH's ownership, Nix Health faced not only deteriorating patient safety but significant financial setbacks, as the expansion strategy meant to drive profits ultimately failed. After the acquisition, PMH's investment in Nix Health initially appeared successful.

[433] Peggy O'Hare, *Two hospitals penalized for patient care*, SAN ANTONIO EXPRESS-NEWS (Dec. 30, 2014), https://www.expressnews.com/business/local/article/Three-San-Antonio-hospitals-penalized-for-patient-13764011.php.
[434] Peggy O'Hare, *Two hospitals penalized for patient care*, SAN ANTONIO EXPRESS-NEWS, (Dec. 30, 2014), https://www.expressnews.com/business/local/article/Three-San-Antonio-hospitals-penalized-for-patient-13764011.php.
[435] Peggy O'Hare, *Two hospitals penalized for patient care*, SAN ANTONIO EXPRESS-NEWS, (Dec. 30, 2014), https://www.expressnews.com/business/local/article/Three-San-Antonio-hospitals-penalized-for-patient-13764011.php.
[436] Peggy O'Hare, *Two hospitals penalized for patient care*, SAN ANTONIO EXPRESS-NEWS, (Dec. 30, 2014), https://www.expressnews.com/business/local/article/Three-San-Antonio-hospitals-penalized-for-patient-13764011.php.
[437] Peggy O'Hare, *Two hospitals penalized for patient care*, SAN ANTONIO EXPRESS-NEWS, (Dec. 30, 2014), https://www.expressnews.com/business/local/article/Three-San-Antonio-hospitals-penalized-for-patient-13764011.php.
[438] Hospital Quarterly HAC Domain Hospital FY17, Ctrs. for Medicare & Medicaid Servs., https://data.cms.gov/provider-data/archived-data/hospitals (last visited Dec. 31, 2024).

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.

Figure 28 Document produced by PMH of minutes from meeting of PMH Board of Directors on August 24, 2015.[439]

Nix Health's EBITDA for fiscal year 2014 was $3.5 million more than the fiscal year prior to the acquisition—$18.4 million compared to $14.9 million.[440] However, from September 2011 (prior to PMH's acquisition of Nix) to December 2013 (less than two years after the acquisition) Nix Health's long-term debt rose from over $146 million to nearly $439 million.[441] By fiscal year 2015, the health system's EBITDA had plunged by over $10 million to just $8 million.[442] PMH had a multitude of excuses for the EBITDA decline, including decreased admissions, fewer emergency department ("ED") visits and admissions, medical staff turnover, the "loss of key admitting physicians," and the termination of several behavioral health beds.[443] According to Board documents, Lee provided more context as to the "causes" of the decreased admissions from 2014 to 2015, but his comments were redacted by PMH for unknown reasons.[444]

According to documents received by the Budget Committee, in the summer of 2014, three clinics closed—a loss of over 5,600 outpatient visits.[445] In fiscal year 2015, three more Nix clinics closed.[446] In 2016, it became evident that Nix Health's financial problems were

[439] LGP-SBC-000003078, at LGP-SBC-000003079.
[440] PMH00002138, at PMH00002150.
[441] PMH00016525, at PMH00016566 (Nix Health's long-term debt rose from $8,969 in Sept. 2010 to $146,415,000 in Sept. 2011 to $336,554,000 in Sept. 2012 to $438,134,000 in September 2013 to $438,744,000 in December 2013.).
[442] PMH00002138, at PMH00002150.
[443] PMH00002138, at PMH00002150; LGP-SBC-000003078, at LGP-SBC-000003079.
[444] LGP-SBC-000003078, at LGP-SBC-000003079.
[445] MPT_PROSPECT_00007157.
[446] PMH00021927.

becoming too challenging for PMH to handle. PMH decided to replace Nix Health's 30-year CEO.[447] Approximately seven months later, the newly appointed CEO resigned.[448]

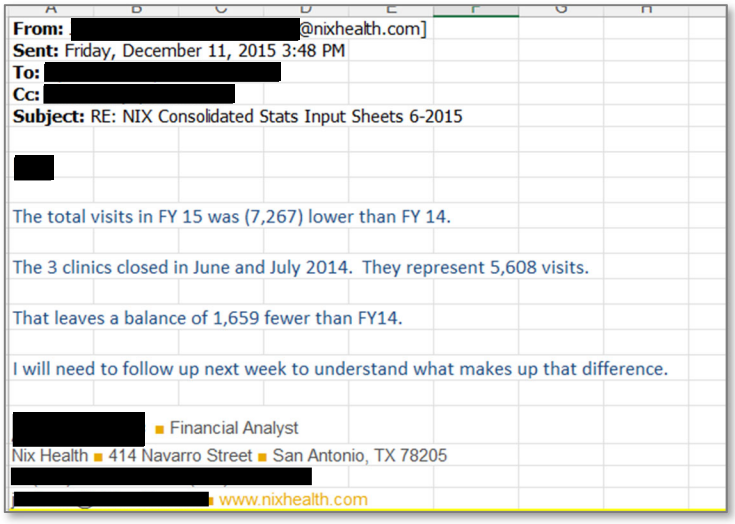


Figure 29 Email from financial analyst at PMH's Nix Health regarding clinic closures dated December 11, 2015.[449,450]

[447] Peggy O'Hare, *Fontenot resigns as Nix CEO after seven months*, MYSA (Nov. 6, 2015), https://www.mysanantonio.com/business/health-care/article/Fontenot-resigns-as-Nix-CEO-after-seven-months-6615294.php.
[448] Peggy O'Hare, *Fontenot resigns as Nix CEO after seven months*, MYSA (Nov. 6, 2015), https://www.mysanantonio.com/business/health-care/article/Fontenot-resigns-as-Nix-CEO-after-seven-months-6615294.php.
[449] PMH00021927.
[450] [Footnote intentionally removed.]

According to Board of Directors' minutes and financial notes received by the Budget Committee, PMH's struggles with the rural Dilley hospital began almost immediately after the acquisition. In May 2015, PMH's Senior Vice President of Corporate Development reported to the Board that it was a "transition year" for Nix, highlighting overall increases in admissions but "slight" declines in emergency department visits and "continued challenges in the rural market" at Nix's Dilley hospital.[451] By August 2015, PMH pointed to "recent developments" that had further impacted volume at Nix, specifically noting the ongoing poor performance of the Dilley hospital.[452] An LGP Director on the Board responded by asking about the financial "performance expectation" for the end of the fiscal year.[453] Patient volume declined annually at the Dilley hospital, which PMH attributed to the closure of a clinic and a population decrease tied to reduced oil field production.[454]

Admissions	FY16Q1 total admissions of 1981 were down (487) from 2468 in FY15Q1. The decrease consists of the following: (A) Behavioral Heath admissions for FY16Q1 1,033, down (362) from FY15Q1; (B) Acute Med/Surg FY16Q1 admissions of 903, down (95) from FY15Q1 *[CGH FY16Q1 of 16, down (18) from FY15Q1]* ; and (C) Rehab admissions of 45, down (31) from FY15Q1. ***125:*** *This is due primarily to decreased referrals, holidays and physicians taking vacations.* ***127:*** *Due to the decline in population due to the reduction of production in the* [redacted] *Shale Oil fields.*

Figure 30 Notes from PMH financial worksheet regarding Nix Health.[455]

Outpatient Visits	Outpatient Visits decreased in FY16Q1 for the following reasons: (A) 2 clinics closed in FY15: (CLD - Nix Heart Clinic, Dr. [redacted] Southside Clinic - Dr. [redacted] no longer with Nix). This accounted for a loss of (1573) visits (B) CGH is down (503): (17) are directly associated with the closure of the Neuro Clinic; the rest due to the downturn in the economy and population with the reduction of the [redacted] Shale Oil Production. (C) ER Visits are down (602) in total; most of that is due to the CGH economic and population decline (D) PES is down (89) due primarily to the retirement of Dr. [redacted] This is being addressed with the new locums and physicians being onboarded.

Figure 31 Notes from PMH financial worksheet regarding Nix Health.[456]

Unable to achieve profitability, PMH ultimately decided to close the Dilley hospital just over three years after its acquisition.[457] In January 2019, the City of Dilley took ownership of

[451] LGP-SBC-000003073, at LGP-SBC-000003073–77.
[452] LGP-SBC-000003078, at LGP-SBC-000003078–81.
[453] LGP-SBC-000003078, at LGP-SBC-000003078–81.
[454] PMH00021927.
[455] PMH00021927.
[456] PMH00021927.
[457] LGP-SBC-000002773, at LGP-SBC-000002783; LGP-SBC-000000278, at LGP-SBC-000000289.

the hospital building.[458] In 2016, PMH decided to pursue a sale-leaseback on one of its Texas properties.[459] PMH executed the sale-leaseback agreement for its Specialty Health Center building, selling it for $6.3 million to a third party, which then leased it back to PMH for 13 years with annual rent increases of 2 percent.[460] The transaction was recorded as a financing activity and added to PMH's long-term debt.[461]

Nix Health Systems Combined Annual Hospital Data[462]

	FY13	FY14	FY15	FY16	FY17	FY18
Licensed Beds	323	393	393	393	375	375
Staffed Beds[1]	180	257	257	257	244	244
Admissions	8,035	9,669	9,432	8,763	9,230	8,583
Surgeries	No data	5,064	3,574	3,592	3,620	3,489
Total Outpatient Visits	70,254	70,024	62,341	49,628	37,051	37,531
ED Visits	10,595	16,755	19,511	18,185	8,791	9,471

[1] As of the end of the fiscal year.

Table 4. Nix Health Systems combined annual hospital data from FY2013 to FY2018.

d. Due to continued financial difficulties, PMH ultimately decided to sell Nix Health.

When PMH acquired Nix, it inherited a profitable hospital system, but it ultimately failed to maintain that success. Only a few years into PMH's ownership, Nix Health's finances took a sharp turn for the worse. In fiscal year 2015, Nix Health's EBITDA was $8 million, but by fiscal year 2018, it had plummeted by nearly $40 million to -$30.1 million.[463] And the bleeding continued. In fiscal year 2019, Nix Health's EBITDA dropped to -$34.1 million.[464] In light of these poor numbers, the PMH Board of Directors approved a plan to sell Nix Health in March 2019.[465] PMH initially tried to sell Nix Health to another hospital operator, but no bids were received for either the entire system or the Medical Center.[466] Even though the behavioral health program attracted the interest of five buyers, the buyers could not garner guarantees from

[458] Frio County Appraisal District, *Parcel Information for Parcel ID 14217*, https://www.friocad.org/Home/Details?parcelId=14217&ownershipId=14178 (last visited Dec. 31, 2024).
[459] LGP-SBC-000000278, at LGP-SBC-000000329.
[460] LGP-SBC-000000278, at LGP-SBC-000000329.
[461] MPT_PROSPECT_00007157.
[462] MPT_PROSPECT_00007553; PMH00023510.
[463] PMH00002138, at PMH00002150; MPT_PROSPECT_00007550.
[464] MPT_PROSPECT_00007550.
[465] LGP-SBC-000000743, at LGP-SBC-000000777.
[466] LGP Response to the Budget Committee at 3 (Nov. 8, 2024).

agencies and insurance companies that the transfer would be seamless.[467] In the end, PMH failed to find a buyer for the once-profitable, now-insolvent Nix Health system.[468] By August 2019, PMH's plan for Nix Health shifted to selling the acute hospital building as a real estate transaction.[469] The Medical Center closed to new admissions in September 2019, and in December 2019, the building was sold for $27.2 million.[470]

Nix Health Systems, Inc. Financial Data[471]
(*in $millions)*

Statistics:	**FY2017**	**FY2018**	**FY2019**	**FY2020**
Total Operating Exp	124.2	125	123	26.1
EBITDA[1]	(7.2)	(30.9)	(34.2)	(19.6)
Net Income / (Loss)	(15.8)	(39.3)	(60.7)	(17.4)

1 Actual

Table 5. Nix Health Systems, Inc. financial data for FY2017 to FY2020.

On November 30, 2019, PMH fully shut down Nix Medical Center in San Antonio, along with its home health division, specialty health center, and behavioral health center.[472] Nix's two behavioral health businesses were also shut down in November 2019, and a long-term lease for one of the buildings was terminated in May 2020 for an early fee of $520,622.[473] This marked the closure of all remaining Nix facilities in San Antonio.[474] According to a Worker Adjustment and Retraining Notification (WARN) Act notice filed on November 6, 2019, the combined closures were expected to lead to a total of 972 layoffs, with affected employees set to be let go on January 4, 2020.[475] This closure signified the end of PMH's operations in San Antonio, bringing an abrupt conclusion to the company's presence in the area.

The impact of the closures on patients was significant and would be felt long after PMH's departure. As a safety-net hospital operator, PMH served a large number of low-income patients. In fiscal year 2018, 65 percent of PMH's consolidated net patient revenue came from

[467] LGP Response to the Budget Committee at 3 (Nov. 8, 2024).
[468] LGP Response to the Budget Committee at 3 (Nov. 8, 2024).
[469] MPT _PROSPECT _00009114, at MPT _PROSPECT _00009151–52.
[470] MPT _PROSPECT _00009114, at MPT _PROSPECT _00009151–52.
[471] MPT_PROSPECT_00007550; MPT_PROSPECT_00007553; PMH00023510.
[472] *Last remaining Nix facility in San Antonio to close at end of month*, NEWS S4SA (Nov. 6, 2019), https://news4sanantonio.com/news/local/last-remaining-nix-facility-in-san-antonio-to-close-at-end-of-month.
[473] MPT _PROSPECT _00009114, at MPT _PROSPECT _00009151–52.
[474] *Last remaining Nix facility in San Antonio to close at end of month*, NEWS S4SA (Nov. 6, 2019), https://news4sanantonio.com/news/local/last-remaining-nix-facility-in-san-antonio-to-close-at-end-of-month.
[475] Eileen O'Grady, *Raiding the Safety Net: Leonard Green & Partners Seek to Walk Away From Prospect Medical Holdings After Collecting $570 Million in Fees and Dividends*, Private Equity Stakeholder Project (Jan. 2020), at 4, https://pestakeholder.org/wp-content/uploads/2020/02/Raiding-the-Safety-Net-Leonard-Green-PESP-012920.pdf.

Medicare and Medicaid.[476] The health care facilities' closures hurt San Antonio communities already facing significant socioeconomic challenges.[477] According to a 2018 estimate, 28 percent of the 375,000 people living within five miles of the 205-bed Nix Medical Center were in poverty.[478] In addition, the Medical Center principally served minority patients, with nearly 80 percent identifying as Hispanic/Latino within a five-mile radius.[479] The closure of Nix Health, as a result of PMH's mismanagement, led to a high concentration of minority and low-income residents being left without a local hospital.[480]

2. PMH promised to revitalize a Pennsylvania hospital system, but its pursuit of profits over patient care left it deeper in crisis.

a. PMH made promises it would not keep in its acquisition of Crozer-Keystone.

What initially seemed like a promising investment from PMH into the Crozer-Keystone Health System ("Crozer") in Delaware County, Pennsylvania in 2016 has only led to the rapid decline of the hospital system and closure of two of its hospitals. PMH acquired Crozer in July 2016, converting it from a non-profit to a for-profit business.[481] Crozer was struggling prior to 2016, with operating losses of $32.9 million in 2014 and $8.4 million in 2015, and the health system hoped PMH's acquisition would serve as an opportunity to keep its hospitals' doors open and continue to serve local residents for years to come.[482]

In June 2016, a Delaware County judge approved the sale of Crozer's assets to PMH, and by July 2016, PMH had acquired all four of Crozer's hospitals, including Crozer-Chester Medical Center ("CCMC"), Delaware County Memorial Hospital ("DCMH"), Taylor Hospital, and Springfield Hospital.[483] Data shows that these hospitals serve communities facing significant socioeconomic challenges, with most areas experiencing high poverty rates and a large proportion of households with low incomes.[484] With the hospital system facing significant debt and the nearby communities in need of affordable care, the PMH investment was initially

[476] MPT _PROSPECT _00009114, at MPT _PROSPECT _00007098.
[477] *See* MPT_PROSPECT_00010684.
[478] MPT_PROSPECT_00010684.
[479] MPT_PROSPECT_00010684.
[480] MPT_PROSPECT_00010684.
[481] LGP-SBC-000003057.
[482] *New Prospect for Crozer-Keystone's future, as sale is final*, DELCO TIMES (Updated Aug. 19, 2021), https://www.delcotimes.com/2016/07/01/new-prospect-for-crozer-keystones-future-as-sale-is-final/.
[483] Patti Mengers, *Delco judge approves Crozer-Keystone sale to Prospect*, DAILY NAT'L NEWS (Updated Aug. 19, 2021), https://www.dailylocal.com/2016/07/01/delco-judge-approves-crozer-keystone-sale-to-prospect/.
[484] MPT_PROSPECT_00010681 (Most areas surrounding the Crozer hospitals reported poverty rates above 10 percent. For example, DCMH has 21 percent of the population living in poverty within a 10-mile radius, underscoring the socioeconomic struggles faced by many of its residents. Similarly, Taylor Hospital reports a poverty rate of 16 percent, while CCMC and Springfield Hospital show rates of 12 percent and 10 percent, respectively. The income distribution around these hospitals reveals a significant portion of households with low incomes. For instance, within a 10-mile radius of Springfield Hospital, 9 percent of households earn less than $10,000, while 10 percent of households near DCMH also fall below this threshold, highlighting the economic struggles faced by many residents.).

met with enthusiasm.[485] As a part of the purchase, PMH committed to investing at least $200 million in capital improvements and to keeping all inpatient hospitals open for at least 10 years.[486]

PMH's acquisition of Crozer included significant financial obligations.[487] The total sale price of Crozer was $300 million, and PMH assumed an additional $330 million in pension liabilities, $19 million in capital leases, and $25 million in other long-term liabilities.[488]

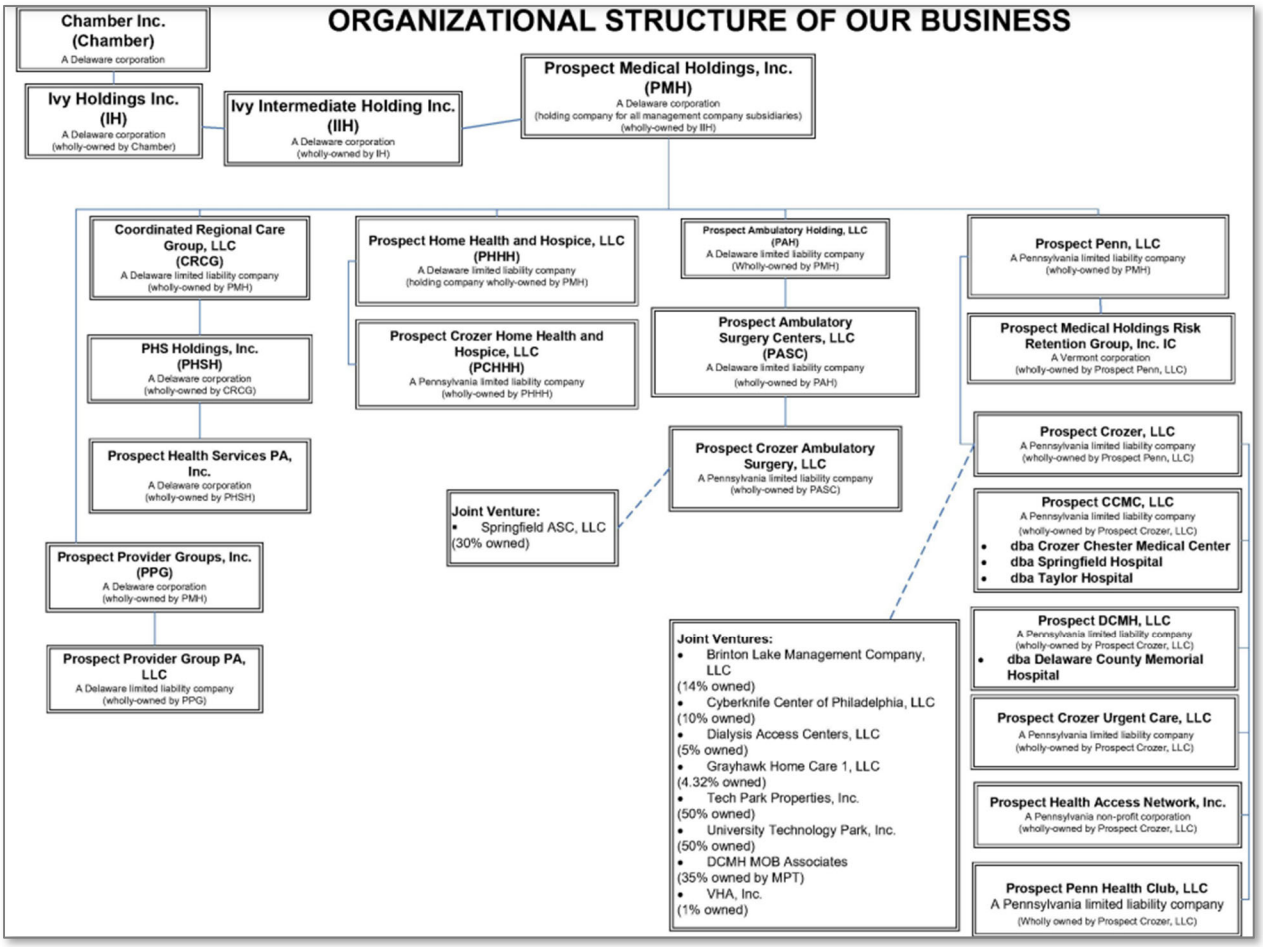


Figure 32. Document produced by PMH of organizational structure of PMH's Pennsylvania holdings in 2023.[489]

Despite its promises, PMH made a series of financial decisions after the acquisition—including the sale and leaseback of its real estate holdings, which saddled Crozer with unmanageable lease obligations and even higher levels of debt—that hindered PMH's ability to

[485] Susanna Vogel, *Prospect Medical to sell Crozer Health to real estate company CHA Partners*, HEALTHCAREDIVE (Aug. 9, 2024), https://www.healthcaredive.com/news/prospect-medical-sell-crozer-health-cha-partners/723715/#:~:text=Prospect's%20history%20with%20Crozer%20is,equity%20investors%2C%20according%20to%20Moody's.
[486] LGP-SBC-000000278, at LGP-SBC-000000316; PMH00007594, at PMH00007622–23.
[487] *See* LGP-SBC-000000278, at LGP-SBC-000000315–16.
[488] *See* LGP-SBC-000000278, at LGP-SBC-000000316.
[489] PMH00038866.

adequately fulfill its pledges to invest in the health system. The years that followed brought continued financial distress, mass layoffs, shuttered inpatient units, and the closure of two Crozer hospitals.

b. PMH's Board minutes show its prioritization of profits over patients.

PMH's Board appeared more focused on the benefits of transitioning Crozer to a for-profit model, reducing workforce numbers, cutting costs, and ensuring financial performance than it did on maintaining adequate staffing and improving quality of care. By September 12, 2016—only two months after the acquisition—the Board was discussing the "biggest opportunity moving [Crozer] from a non-profit entity to a for-profit entity…."[490]

Over the next three years, Board meeting minutes obtained by the Budget Committee contain several examples of staffing and patient care issues at Crozer. For example, on February 21, 2017, the Board reviewed discontent among nurses threatening a two-day strike at DCMH.[491] On May 15, 2017, the Board again discussed "labor challenges" across the Crozer system.[492] On May 23, 2018, the Board examined legislation being proposed that would help "address staffing ratios in Pennsylvania."[493] On May 23, 2019, the Board reviewed a "[full-time employee (FTE)] reduction plan" to decrease the number of full-time employees at Crozer.[494] By 2020, Crozer ultimately terminated 170 FTEs identified as "necessary reductions" and 25 positions within the physician practice groups—a measure that recognized $13 million in cost savings for the hospital system but left patients without numerous care providers.[495] Crozer also experienced a $12 million dollar "lift" from outsourcing emergency physicians and hospitalist services, an effort that was discussed by the Board on November 14, 2019.[496]

Board minutes similarly show regular discussions about internal investigations and other issues facing Crozer under PMH. In January 2019, the Board examined an internal investigation arising out of three complaints made by employees in 2018 "concerning certain accounting practices" centered at Crozer.[497] On August 20, 2020, the Board discussed the management team at Crozer, noting that the DCMH campus had "a new administrator and that the Crozer CFO [was] being supervised."[498]

Meanwhile, statistics show that Crozer health system suffered reductions in total admissions, net income, and labor metrics:

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[490] LGP-SBC-000003090, at LGP-SBC-000003090–91.
[491] LGP-SBC-000003100, at LGP-SBC-000003102.
[492] LGP-SBC-000003100, at LGP-SBC-000003102; LGP-SBC-000003060, at LGP-SBC-000003062.
[493] LGP-SBC-000002950, at LGP-SBC-000002951.
[494] LGP-SBC-000002950, at LGP-SBC-000002951.
[495] MPT_PROSPECT_00000029.
[496] MPT_PROSPECT_00000029; LGP-SBC-000002937, at LGP-SBC-000002939.
[497] PMH00040142, at PMH00040144.
[498] LGP-SBC-00000161, at LGP-SBC-00000162–63.

Crozer-Keystone Consolidated Statistics[499] *(in $millions – except for admits- which are in thousands)*						
Statistics	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**
Total Admits	25.3	26.2	23.9	22.8	21.3	16.5
Total Net Operational Revenue	807.2	746.6	772.6	749.9	743.2	642.7
Labor Subtotal	437.2	457.4	453.6	409.3	407.6	410.9
Total Operating Expenses	743.4	774.7	766.8	739.1	729.0	729.9
EBITDA[500]	**63.7**	**(28.1)**	**5.8**	**10.7**	**14.2**	**(87.2)**
Depreciation & Amortization	33.3	23.8	23.0	38.1	37.8	61.1
Interest/Grants	7.8	9.5	14.1	11.5	11.4	11.7
Total Other Expenses	41.1	33.3	37.1	49.6	49.2	72.8
Net Income (Loss)	**25.2**	**(56.4)**	**(36.5)**	**(37.0)**	**(29.1)**	**(155.6)**
Other Comprehensive Income (Loss)	-	-	-	7.1	(36.7)	41.5
Total Comprehensive Income (Loss)	**25.2**	**(56.4)**	**(36.5)**	**(29.9)**	**(65.8)**	**(114.0)**
Long-Term Pension Obligation	300.4	254.1	302.4	232	284.7	235.2

Table 6. Crozer-Keystone consolidated statistics for FY2017 to FY2022.

c. Crozer hospitals have seen an increase in serious hospital violations and a decrease in hospital volume under PMH's leadership.

Since PMH's acquisition of Crozer, its CCMC hospital has experienced a significant increase in health and safety violations issued by the Centers for Medicare & Medicaid Services ("CMS") for serious mismanagement. In the years preceding PMH's acquisition, from 2010 through 2016, there were no condition-level violations at CCMC.[501] In January 2017, CMS cited

[499] MPT_PROSPECT_00006481, at "Crozer – actual."
[500] Actual EBITDA, as provided by PMH's own calculations.
[501] Ctrs. for Medicare & Medicaid Servs., Surveys for CYs 2010-2016, Crozer-Chester Medical Center.

CCMC for failing to maintain sanitary conditions by not properly disinfecting endoscopes prior to reuse, potentially exposing patients to serious infections due to inadequate staff training and oversight.[502] In January 2018, CCMC was cited for failure to oversee and enforce facility policies, infection control, and high medical standards.[503] In November 2018, CMS reported that CCMC's failure to maintain a safe physical environment constituted an immediate jeopardy, with the potential to cause serious harm or death to patients.[504] The assessment detailed the hospital's failure to address multiple environmental safety risks—such as unsecured furniture, lack of tamper-resistant electrical outlets, and inadequate monitoring of high-risk areas—that placed patients, particularly in behavioral health units, in danger.[505] In March 2021, CCMC was cited for the medical staff's failure to respond in a timely manner to a patient in distress.[506] As recently as February 2024, CCMC was cited for failing to implement measures to prevent an incapacitated patient from eloping.[507]

Most recently, CCMC suffered two fires and flood in a matter of days. On December 26, 2024, a total of 15 EMS agencies and 24 units responded to a fire at the hospital.[508] According to CCMC's CEO, a water main burst, which resulted in the fire.[509] The fire broke out in the electrical room that controlled the ICU unit and, consequently, required the hospital to evacuate 38 patients—most of them ICU patients, including women in labor—to other hospitals.[510] The incident resulted in the hospital closing for two days.[511] The regional EMS director described the situation as "one of the top five of incidents" during his more than 40 years working in EMS services.[512] Just four days later, fire crews were called back to CCMC for another fire, this time in the mechanical room.[513] It was not until January 2, 2025, that all power had been restored and all sections of the hospital had been reopened.[514] The increase in violations at CCMC reflect a pattern of systemic management failures, including inadequate oversight of patient safety, poor implementation of policies, and a consistent inability to ensure timely and effective responses to

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[502] Ctrs. for Medicare & Medicaid Servs., Surveys for CY 2017, Crozer-Chester Medical Center.
[503] Ctrs. for Medicare & Medicaid Servs., Surveys for CY 2018, Crozer-Chester Medical Center.
[504] Ctrs. for Medicare & Medicaid Servs., Surveys for CY 2018, Crozer-Chester Medical Center.
[505] Ctrs. for Medicare & Medicaid Servs., Surveys for CY 2018, Crozer-Chester Medical Center.
[506] Ctrs. for Medicare & Medicaid Servs., Surveys for CY 2021, Crozer-Chester Medical Center.
[507] Ctrs. for Medicare & Medicaid Servs., Surveys for CY 2024, Crozer-Chester Medical Center.
[508] Taleisha Newbill et al., *Over 30 Patients Evacuated After Fire, Water Main Break at Pennsylvania Hospital, Police Say*, CBS NEWS (Dec. 27, 2024, 5:32 PM), https://www.cbsnews.com/philadelphia/news/water-main-break-crozer-chester-medical-center/.
[509] Alex Rose, *Questions linger on fire and flood at Crozer-Chester Medical Center*, DELCO TIMES (Dec. 27, 2024), https://www.delcotimes.com/2024/12/27/questions-linger-on-fire-and-flood-at-crozer-chester-medical-center/
[510] Taleisha Newbill et al*., Over 30 Patients Evacuated After Fire, Water Main Break at Pennsylvania Hospital, Police Say*, CBS NEWS (Dec. 27, 2024, 5:32 PM), https://www.cbsnews.com/philadelphia/news/water-main-break-crozer-chester-medical-center/.
[511] Pete Bannan, *Emergency crews return to Crozer-Chester for electrical fire [updated],* DELCO TIMES (Dec. 30, 2024), https://www.delcotimes.com/2024/12/30/firefighters-back-at-crozer-chester-for-electrical-fire/.
[512] Taleisha Newbill et al., Over 30 Patients Evacuated After Fire, Water Main Break at Pennsylvania Hospital, Police Say, CBS NEWS (Dec. 27, 2024, 5:32 PM), https://www.cbsnews.com/philadelphia/news/water-main-break-crozer-chester-medical-center/.
[513] Pete Bannan, *Emergency crews return to Crozer-Chester for electrical fire [updated],* DELCO TIMES (Dec. 30, 2024), https://www.delcotimes.com/2024/12/30/firefighters-back-at-crozer-chester-for-electrical-fire/.
[514] Pete Bannan, *Crozer-Chester Back on Full Power Following Fires*, DELCO TIMES (Jan. 2, 2025), https://www.delcotimes.com/2025/01/02/crozer-chester-back-on-full-power-following-fires/.

critical issues—all of which put patients at significant risk. And all of which occurred under PMH's leadership.

Hospital reports from the Pennsylvania Department of Health show that DCMH and CCMC have seen declines in admissions and staffed beds while under PMH's leadership. After the 2016 acquisition, DCMH experienced a steep reduction in admissions and staffed beds, with admissions dropping from 6,500 in 2016 to 4,700 in 2019; and staffed beds declining from 168 in 2016 to 95 in 2019.[515] CCMC saw notable declines in these metrics, with admissions dropping from approximately 18,500 in 2019 to 12,800 in 2023; and staffed beds declining from 368 in 2019 to 266 in 2023.[516] Overall, the post-acquisition period at both hospitals have led to reduced utilization and capacity.[517]

d. Crozer's financial troubles have compounded as PMH continues to profit.

Crozer faced a series of financial challenges in 2018, beginning when Moody's downgraded PMH's credit outlook to negative after the health system increased its loans from $625 million to $1.12 billion to pay a dividend to LGP and other investors,[518] while reducing the underfunded pension liability it assumed during the acquisition.[519] PMH's $1.55 billion sale-leaseback deal with MPT in 2019 provided liquidity but burdened Crozer facilities with steep rental costs, amounting to nearly $34 million in annual rental payments for the combined hospitals.[520]

By 2022, PMH had made a deal to offload Crozer. ChristianaCare, a non-profit hospital network, signed a definitive agreement to purchase Crozer, but the deal fell through in August 2022.[521] By September 2022, PMH revealed its intention to shut down DCMH, lay off its 334

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[515] Hospital Reports, Pa. Dep't of Health, https://www.pa.gov/en/agencies/health/health-statistics/health-facilities/hospital-reports.html#sortCriteria=%40copapwpyear%20descending (Last visited Dec. 31, 2024).
[516] Hospital Reports, Pa. Dep't of Health, https://www.pa.gov/en/agencies/health/health-statistics/health-facilities/hospital-reports.html#sortCriteria=%40copapwpyear%20descending (Last visited Dec. 31, 2024).
[517] Hospital Reports, Pa. Dep't of Health, https://www.pa.gov/en/agencies/health/health-statistics/health-facilities/hospital-reports.html#sortCriteria=%40copapwpyear%20descending (Last visited Dec. 31, 2024).
[518] Susanna Vogel, *Prospect Medical to sell Crozer Health to real estate company CHA Partners*, HEALTHCAREDIVE (Aug. 9, 2024), https://www.healthcaredive.com/news/prospect-medical-sell-crozer-health-cha-partners/723715/#:~:text=Prospect's%20history%20with%20Crozer%20is,equity%20investors%2C%20according%20to%20Moody's.
[519] Eileen O'Grady, *Raiding the Safety Net: Leonard Green & Partners Seek to Walk Away From Prospect Medical Holdings After Collecting $570 Million in Fees and Dividends*, PRIVATE EQUITY STAKEHOLDER PROJECT (Jan. 2020), at 2, https://pestakeholder.org/wp-content/uploads/2020/02/Raiding-the-Safety-Net-Leonard-Green-PESP-012920.pdf.
[520] *See* Lauren Coleman-Lochner and Steven Church, *Private Equity Is No Longer a Reliable Last Resort for Troubled Hospitals*, BLOOMBERG NEWS (Sept. 12, 2023), https://www.bloomberg.com/news/articles/2023-09-12/troubled-pennsylvania-hospital-reveals-failure-of-private-equity-deals; *Prospect Medical gains $1.5B from sale-leaseback*, DELCO TIMES (Updated Aug. 19, 2021), https://www.delcotimes.com/2019/07/16/prospect-medical-gains-15b-from-sale-leaseback/.
[521] Lauren Coleman-Lochner and Steven Church, *Private Equity Is No Longer a Reliable Last Resort for Troubled Hospitals*, BLOOMBERG NEWS (Sept. 12, 2023), https://www.bloomberg.com/news/articles/2023-09-12/troubled-pennsylvania-hospital-reveals-failure-of-private-equity-deals.

employees, and transform the hospital into an inpatient behavioral health unit, sparking a lawsuit from the state Attorney General and the Foundation for Delaware County for violating the asset purchase agreement.[522] In October 2022, the AG agreed to pause the lawsuit for 270 days while PMH searched for a new buyer for the Crozer facilities.[523] The Foundation for Delaware County argued that PMH was obligated to keep the hospital open until 2026 as promised in its asset purchase agreement.[524] At the time, PMH stated that Crozer incurred losses of approximately $12 million per month.[525] On November 4, 2022, the Pennsylvania Department of Health ordered DCMH to suspend emergency services and ban admissions due to a lack of adequate staffing.[526] In response, the AG filed a motion to hold PMH Crozer in contempt, seeking a $100,000 daily fine.[527] Nonetheless, PMH closed the facility in November 2022 due to "inadequate staffing."[528]

Staffing has remained a continuous problem at Crozer during PMH's ownership. Documents produced to the Budget Committee show that the number of Productive Full-Time Equivalents ("PFTEs") has decreased since LGP divested from PMH.[529] This is also the same period of time during which Crozer facilities had to pay substantial rent to MPT. The number of PFTEs for all Crozer hospitals combined averaged 2,312 in the first quarter of 2021, but just 1,893 by the third quarter of 2022.[530] In a matter of months, PMH had laid off hundreds of employees and suspended all inpatient services at one of its facilities.[531]

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[522] Susanna Vogel, *Prospect Medical to sell Crozer Health to real estate company CHA Partners*, HEALTHCAREDIVE (Aug. 9, 2024), https://www.healthcaredive.com/news/prospect-medical-sell-crozer-health-cha-partners/723715/#:~:text=Prospect's%20history%20with%20Crozer%20is,equity%20investors%2C%20according%20to%20Moody's.

[523] Kenny Cooper, *Prospect Medical Holdings reaches deal to halt litigation, opening 270-day window to sell Crozer Health*, WHYY NEWS (Oct. 19, 2023), https://whyy.org/articles/crozer-health-sale-prospect-delaware-county-foundation/.

[524] Dave Muoio, *Prospect Medical Holdings agrees to sell Crozer Health in 9 months*, FIERCE HEALTH CARE (Oct. 23, 2023), https://www.fiercehealthcare.com/providers/prospect-medical-holdings-agrees-sell-crozer-health-9-months.

[525] Dave Muoio, *Prospect Medical Holdings agrees to sell Crozer Health in 9 months*, FIERCE HEALTH CARE (Oct. 23, 2023), https://www.fiercehealthcare.com/providers/prospect-medical-holdings-agrees-sell-crozer-health-9-months.

[526] Alex Rose, *Pennsylvania Supreme Court to take up Delaware County Memorial closure case*, DELCO TIMES (Dec. 15, 2023), https://www.delcotimes.com/2023/12/15/pennsylvania-supreme-court-to-take-up-delaware-county-memorial-closure-case/.

[527] Alex Rose, *Pennsylvania Supreme Court to take up Delaware County Memorial closure case*, DELCO TIMES (Dec. 15, 2023), https://www.delcotimes.com/2023/12/15/pennsylvania-supreme-court-to-take-up-delaware-county-memorial-closure-case/.

[528] Dave Muoio, *Prospect Medical Holdings agrees to sell Crozer Health in 9 months*, FIERCE HEALTH CARE (Oct. 23, 2023), https://www.fiercehealthcare.com/providers/prospect-medical-holdings-agrees-sell-crozer-health-9-months.

[529] MPT_PROSPECT_00006483, at "productivity."

[530] MPT_PROSPECT_00006483.

[531] *Prospect Medical Holdings Continues to Sell Off Its Hospitals, Leaving Patient Care in Question*, Private Equity Stakeholder Project (Mar. 9, 2022), https://pestakeholder.org/news/prospect-medical-holdings-continues-to-sell-off-its-hospitals-leaving-patient-care-in-question/ (consolidating *The Philadelphia Inquirer*'s February 2022 reporting on PMH-Crozer).

PMH also struggled to pay its bills under its crushing debt and declining net income. In May 2023, it had several unpaid debts to Pennsylvania entities.[532]

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	[redacted] 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

Figure 33. List of PMH's uncured defaults in Pennsylvania as of spring 2023 per the Master Restructing Agreement dated May 2023.[533]

In only eight years, PMH saddled the Crozer system with substantially more debt than it had before acquisition and, subsequently, sought to divest the four-hospital system. On October

[532] MPT_PROSPECT_00020198.
[533] MPT_PROSPECT_00020198.

29, 2024, the Pennsylvania Office of Attorney General sued PMH alleging "neglect" and "mismanagement" of the Crozer hospitals.[534] In its filed complaint, the AG alleges that PMH breached its 2016 asset purchase agreement by shutting down DCMH and all inpatient services at another hospital while unjustly enriching itself by redirecting over $450 million to its investors.[535]

The following data, included in the AG's Complaint and sourced from a Pennsylvania Cost Containment Council Hospital Financial Report, illustrates the dire financial situation of CCMC and DCMH under PMH's ownership.[536]

YEAR	HOSPITAL	REVENUE ($M)	EXPENSES ($M)	LOSS ($M)
2023	Crozer-Chester	427	559	-132
2022	Crozer-Chester	429	520	-91
2021	Crozer-Chester	511	524	-13
2020	Crozer-Chester	499	508	-9
2019	Crozer-Chester	521	517	4
2018	Crozer-Chester	496	537	-41
2017	Crozer-Chester	542	527	15
2016	Crozer-Chester	488	490	-2
2023	DCMH	30	55	-25
2022	DCMH	56	113	-57
2021	DCMH	150	140	10
2020	DCMH	133	144	-11
2019	DCMH	141	154	-13
2018	DCMH	129	163	-34
2017	DCMH	157	168	-11
2016	DCMH	153	162	-9

Table 7. Revenue and Expenses of CCMC and DCMH Under PMH ownership

PMH has not lived up to the commitments it made to Crozer and the residents of Delaware County in 2016 to expand and protect access to affordable health care. Instead, PMH's mismanagement and diversion of funds to its private investors have made it extremely

[534] Complaint at 14, 16, 26, *Commonwealth v. Prospect Med. Holdings, Inc.*, (Pa. Ct. Com. Pl. Del. Cnty. 2024)
[535] Complaint at 14–18, *Commonwealth v. Prospect Med. Holdings, Inc.*, (Pa. Ct. Com. Pl. Del. Cnty. 2024)
[536] Complaint at 7–8, *Commonwealth v. Prospect Med. Holdings, Inc.*, (Pa. Ct. Com. Pl. Del. Cnty. 2024) (financials sourced from Pennsylvania Cost Containment Council Hospital Financial Reports).

challenging for the hospital system to find a buyer and return to a non-profit model. PMH's conduct with respect to Crozer-Keystone Health System is yet another stark example of private equity-backed hospital systems reaping profits while individual hospitals, physicians, and patients suffer the consequences.

II. CASE STUDY 2: APOLLO GLOBAL MANAGEMENT, LIFEPOINT HEALTH, AND OTTUMWA REGIONAL HEALTH CENTER

Ottumwa Regional Health Center ("ORHC") in Ottumwa, Iowa, has been operated by PE- owned, for-profit companies since 2010. ORHC is the only for-profit general acute care hospital in the state of Iowa. Since November 2018, Lifepoint Health, which is owned by funds affiliated with the PE firm Apollo has operated ORHC. Since 2010, a series of PE-owned companies has operated ORHC.[537,538]

Under PE ownership, egregious events occurred at ORHC. On October 15, 2022, a contracted nurse practitioner fatally overdosed on drugs that he diverted from the hospital. In the aftermath of the death, police discovered pictures and videos on the deceased's cell phone of him sexually assaulting multiple incapacitated female patients over a nearly two-year period.[539]

This event fueled an approximately two-year long bipartisan congressional investigation into how PE ownership could have contributed to an environment where this type of egregious behavior could go undetected or unaddressed for so long. As noted above, in March 2023, Ranking Member Grassley sent letters to four private companies that invested in ORHC.[540] A few months later, on December 6, 2023, Ranking Member Grassley joined with Chairman Whitehouse to pursue a joint, bipartisan investigation into the impact of PE ownership and related party transactions on the administration of healthcare throughout the United States.[541]

This section of the report summarizes the findings of the Senate Budget Committee's investigation at the effects of Apollo and Lifepoint's ownership of ORHC. It is based on numerous requests for information, reviews of thousands of pages of documents, analysis of publicly available data from the Centers for Medicare & Medicaid Services ("CMS"), and interviews with community members and academics. This chapter aims to show that this event may have occurred because of unfulfilled promises and underinvestment, which eroded the

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[537] See Findings, Section II.A.

[538] When Lifepoint Health was established in 1999, the letter P in its name was capitalized and the company was referred to as LifePoint Health. Lifepoint Health changed the p to a lower-case letter in 2022. For the purpose of this report, this report will use the current name with the lower-case p to refer to Lifepoint Health. *Lifepoint Health unveils symbolic new brand*, Business Wire (October 18, 2022), available at https://www.businesswire.com/news/home/20221018005917/en/Lifepoint-Health-Unveils-Symbolic-New-Brand.

[539] See Findings, Section I.

[540] Letter from Ranking Member Charles E. Grassley to Medical Properties Trust, Lifepoint Health, Warburg Pincus, Apollo Global Management, and ORHC Board of Trustees (Mar. 17, 2023), available at https://www.grassley.senate.gov/imo/media/doc/grassley_to_private_equity_reit_-_ottumwa_regional_health.pdf.

[541] *Senate Budget Committee Digs into Impact of Private Equity Ownership in America's Hospitals* (Dec. 7, 2023), available at https://www.budget.senate.gov/chairman/newsroom/press/senate-budget-committee-digs-into-impact-of-private-equity-ownership-in-americas-hospitals.

hospital's culture of safety.[542] While ORHC deteriorated, Apollo received millions of dollars a year.[543]

Apollo told Committee staff that rural hospitals "have faced challenges for decades, in part driven by underinvestment" and that it planned to do "the opposite by investing in and supporting companies, such as Lifepoint Health, that invest in these underserved communities to recruit physicians, expand service line offerings, and upgrade equipment in order to care for these communities."[544] However, under PE ownership, ORHC experienced underinvestment.

Apollo and Lifepoint Health have taken some steps to improve conditions at ORHC following this egregious event and the subsequent congressional investigation; however, there is still significant work to be done, including regaining the trust of the community.[545] Additionally, ORHC's first PE-owned hospital operator made promises to the community in 2010 that have gone unfulfilled; while Apollo and Lifepoint Health did not make those promises, they are still obligated to fulfill them.[546]

While this report does not examine the entirety of Apollo's hospital portfolio, news reports and other sources suggest similar situations may exist at other Apollo-owned hospitals throughout the country.[547] Apollo is currently the largest PE owner of hospitals in the United

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[542] See Findings, Sections II.D and II.E.
[543] See Findings, Section II.F.
[544] Letter from Apollo Global Management to Chairman Sheldon Whitehouse and Ranking Member Charles E. Grassley (November 15, 2024), at 1, ("Apollo November 15 letter").
[545] See Section Findings, Section II.G.
[546] See section IV of this chapter.
[547] Eileen O'Grady, *Apollo's Stranglehold on Hospitals Harms Patients and Healthcare Workers*, Private Equity Stakeholder Project (January 11, 2024), available at https://pestakeholder.org/reports/apollos-stranglehold-on-hospitals-harms-patients-and-healthcare-workers/. Katie Klingsporn, *Critics: Hospital's owner's actions exacerbated OB shortage*, Cap City News (December 14, 2023), available at https://capcity.news/community/health/2023/12/14/critics-hospital-owners-actions-exacerbated-ob-shortage/. Clair McFarland, *Lander Hospital Failed Safety Inspection After Eye-Gouging Incident*, Cowboy State Daily (May 13, 2022), available at https://cowboystatedaily.com/2022/05/13/lander-hospital-failed-safety-inspection-after-eye-gouging-incident/. Clair McFarland, *State gives $10 million for new hospital in Riverton*, Cowboy State Daily (November 17, 2022), available at https://cowboystatedaily.com/2022/11/17/state-gives-10-million-for-new-hospital-in-riverton/. Maureen Tkacik, *A Hospital in Deep Red Wyoming*, The American Prospect (April 27, 2022) available at https://prospect.org/health/community-hospital-in-deep-red-wyoming/. David Erickson, *'Dysfunctional': Workers describe poor morale, high turnover at Missoula hospital*, The Missoulian (February 1, 2024), available at https://missoulian.com/news/local/community-medical-center-hospital-workers-morale-turnover-burnout/article_2ab8e85c-aa5b-11ee-af1b-d72e3d350f6a.html. Darrell Ehrlick, *14 women who said Missoula doctor assaulted them claim hospital did not listen to them*, Daily Montanan (November 14, 2024), available at https://dailymontanan.com/2024/11/14/14-women-who-said-missoula-doctor-assaulted-them-claim-hospital-didnt-listen-to-them/. OPP/BE Private Equity Healthcare Workshop transcript, Federal Trade Commission (March 5, 2024), at 12-14 & 16-17, available at https://www.ftc.gov/system/files/ftc_gov/pdf/final-trancsript-ftc-opp-be-private-equity-healthcare-workshop-3-5-24.pdf. FTC and DOJ Host Listening Forum on Effects of Mergers in Health Care Industry transcript, Federal Trade Commission (April 14, 2022), at 2-4, available at https://www.ftc.gov/system/files/ftc_gov/pdf/FTC-DOJ-Listening-Forum-%20Health-Care-Transcript.pdf. Nash Jones, *AG investigates Las Cruces hospital accused of turning away low-income cancer patients*, KUNM (July 16, 2024), available at https://www.kunm.org/local-news/2024-07-16/ag-investigates-las-cruces-hospital-accused-of-turning-away-low-income-cancer-patients. Jonny Coker, *City of Las Cruces issues breach of lease notice to Memorial Medical Center* (August 30, 2024), available at https://www.krwg.org/krwg-news/2024-08-30/city-of-las-

States with about 220 hospitals owned by its funds.[548] If underinvestment in Ottumwa contributed to such egregious events, it could also be contributing to patient harm at other Apollo-owned hospitals.

The people of Ottumwa deserve a hospital where they do not have to worry about encountering abuse. The people of Ottumwa deserve a hospital where they do not have to worry about profits coming before patient care. Lifepoint Health has a chance to rebuild that trust and change the trajectory of ORHC and the rest of its hospitals, and Ranking Member Grassley and Chairman Whitehouse will be watching to make sure that they do. It is time for Lifepoint Health and Apollo to fulfill the promises that PE made to Ottumwa.



Figure 34. Photograph of Ottumwa Regional Health Center (ORHC).[549]

A. Under PE ownership, at least nine sexual assaults occurred at ORHC.

Before providing information on the hospital, how the hospital came to be under PE ownership, and the unfulfilled promises of PE, it is critical to detail the severity of the events that spurred this investigation. This chapter will then explain how the root causes of these events were unfulfilled promises and underinvestment, which contributed to the erosion of the hospital's culture of safety. This report refers to the now deceased nurse practitioner who committed these egregious acts by his initials, DMC.

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cruces-issues-breach-of-lease-notice-to-memorial-medical-center. Justin Garcia, *Memorial Medical Center criticized as city, county mull contract*, The Las Cruces Bulletin (June 12, 2024), available at https://www.lascrucesbulletin.com/stories/memorial-medical-center-criticized-as-city-county-mull-contract,83564. *Two patient deaths led to threat to cut off funding for Wilson hospital, records show*, The News & Observer (July 8, 2022), available at https://www.newsobserver.com/news/local/article263219678.html. Tyler Dukes, *NC attorney general latest to question patient care, access at Wilson*, The News & Observer (August 24, 2022), available at https://www.newsobserver.com/news/state/north-carolina/article264806789.html. Olivia Neely, *Commissioners will 'take all possible steps' to improve Wilson Medical Center's care*, The Wilson Times (April 13, 2023), available at https://restorationnewsmedia.com/articles/wilsontimes/commissioners-will-take-all-possible-steps-to-improve-care-at-hospital/. Maureen Tkacik, *The Moral Authority of Mark Rowan*, The American Prospect (October 21, 2023), available at https://prospect.org/power/2023-10-21-moral-authority-of-marc-rowan/.

[548] *PESP Private Equity Hospital Tracker*, Private Equity Stakeholder Project, (last updated February 8, 2024, accessed November 27, 2024), available at https://pestakeholder.org/private-equity-hospital-tracker/

[549] *ORHC Service Brochure,* ORHC (accessed November 27, 2024), available at https://www.ottumwaregionalhealth.com/sites/ottumwa/assets/uploads/ORHC-Service-Brochure_v6-2017b-FA.pdf

DMC died while working at ORHC in October 2022 and, because of the police investigation that was fielded in the wake of his death, the public is now aware that he sexually assaulted at least nine female patients at ORHC over a 1.5-year period and diverted large quantities of drugs from the hospital. The public is aware of these nine sexual assaults because DMC took photographs and videos of the acts on his phone.[550] The public is aware of the diversion because the police found a trove of diverted narcotic and anesthetic medications in his home.[551]

DMC was first hired by ORHC in December 2016 to work as a registered nurse ("RN") in the hospital's intensive care unit ("ICU").[552] In November 2020, DMC transferred to an RN position in the ORHC emergency department ("ED").[553] In both of these positions, he was employed directly by the hospital.[554]

The first known incidents of sexual abuse occurred in May 2021—DMC sexually assaulted three female patients that month, while working as an RN in the ED on the night shift.[555] One of the patients was unable to be identified, but the other two patients were minors who were receiving care in the ED for behavioral health concerns.[556] Both patients were assigned sitters and placed on 1:1 continuous direct observation, which means that the staff member assigned to the sitter role must be monitoring the patient at all times from an arm's length distance.[557] In both cases, DMC administered chemical restraints to the patients that were not clinically indicated.[558] While both patients were sleeping, likely very deeply as a result of chemical restraint, DMC sexually assaulted the patients and recorded videos and/or photographs.[559] It is unclear where the assigned sitters were at the time of both of these assaults. Investigations conducted at ORHC after DMC's death revealed that there was often not enough staff in the ED for each patient on 1:1 observation to have an in-room sitter.[560]

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[550] *Police: Man assaulted Iowa hospital patients before he died*, AP News (January 11, 2023), available at https://apnews.com/article/health-addiction-and-treatment-iowa-d6e6d5481504c2e2b8f48e87e97e5842.
[551] CMS, Statement of Deficiencies and Plan of Correction for ORHC from the Survey Completed on May 4, 2023, at 34, 46-48, available at https://dia-hfd.iowa.gov/Home/ViewReport?fileName=ScannedReport_494_2024-01-17_113334.pdf, ("CMS Statement of Deficiencies May 2023").
[552] CMS Statement of Deficiencies May 2023 at 33, 42.
[553] See footnote 552.
[554] See footnote 552.
[555] CMS, Statement of Deficiencies and Plan of Correction for ORHC from the Survey Completed on January 26, 2023, at 10-11, available at https://dia-hfd.iowa.gov/Home/ViewReport?fileName=ScannedReport_494_2024-01-17_112845.pdf, ("CMS Statement of Deficiencies January 2023"). CMS Statement of Deficiencies May 2023 at 16-20.
[556] See footnote 555.
[557] See footnote 555.
[558] See footnote 555. ACEP Now, *Chemical Restraint in the ED*, American College of Emergency Physicians (December 1, 2012), https://www.acep.org/siteassets/sites/acep/media/safety-in-the-ed/chemicalrestraintintheedacepnow.pdf.
[559] See footnote 555.
[560] CMS Statement of Deficiencies May 2023, at 26.

DMC's last sexual assault while working as an RN employed by ORHC was in August 2021.[561] This was another nighttime event in which a female ED patient was administered inappropriate chemical restraints and, once sufficiently sedated, was sexually assaulted by DMC.[562]

In September 2021, DMC began work at ORHC as a hospitalist nurse practitioner ("NP") and, in this role, he was an employee of the hospitalist provider group that ORHC contracts to staff its hospitalist program, Apogee Medical Management ("Apogee").[563,564] A hospitalist is a physician or an advanced practitioner, such as an NP, that only takes care of admitted hospital patients.[565] DMC graduated from an NP program in December 2020—his final semesters were likely largely virtual due to the COVID-19 pandemic—and received his NP license in June 2021.[566] Despite being new to NP practice, DMC was hired to work the night shift, a time in which he would be the only hospitalist provider in the facility.[567] For this role, DMC had privileges on the hospital's medical staff.[568,569]

While working as a nighttime hospitalist at ORHC through the hospital's contract with Apogee, DMC sexually assaulted five more female patients between February 2022 and October 2022—the last assault occurred on the same shift as DMC's death.[570] One of these patients was unable to be identified, but the other four were medically ill patients experiencing altered mental status, two of whom came from long-term care facilities and another of whom was terminally ill

[561] CMS Statement of Deficiencies January 2023, at 11-12 and CMS Statement of Deficiencies May 2023, at 21-22.
[562] See footnote 561.
[563] CMS Statement of Deficiencies January 2023, at 14 and CMS Statement of Deficiencies May 2023, at 20-21. Letter from ORHC to Chairman Sheldon Whitehouse and Ranking Member Charles E. Grassley (December 20, 2023), at 3, ("ORHC December 2023 Letter").
[564] Apogee advertises itself as the "largest entirely physician-owned and operated hospitalist group in the nation." ORHC has contracted with Apogee for hospitalist staffing services since 2014. Currently, Apogee is the exclusive provider of hospitalist staffing at a number of Lifepoint Health hospitals, although each hospital has its own contract with Apogee. Apogee Physicians website (accessed November 27, 2023), available at https://www.apogeephysicians.com/. Professional Services Agreement between RCHP-Ottumwa and Apogee Medical Management (August 1, 2014), at LP-CEG-001846-001847, ("Apogee agreement"). Letter from Lifepoint Health to Chairman Sheldon Whitehouse and Ranking Member Charles E. Grassley (November 8, 2024), at 8, ("Lifepoint November 8, 2024 letter"). Apogee Program Comparison, at LP-CEG-009113.
[565] Lola Butcher, *Nurses as hospitalists*, American Hospital Association ("AHA") Trustee Services (accessed November 27, 2023), https://trustees.aha.org/articles/1238-nurses-as-hospitalists.
[566] CMS Statement of Deficiencies May 2023 at 43.
[567] CMS Statement of Deficiencies January 2023, at 12 and CMS Statement of Deficiencies May 2023, at 35.
[568] CMS Statement of Deficiencies January 2023, at 14 and CMS Statement of Deficiencies May 2023, at 43.
[569] Privileges are a set of permissions that a hospital grants to the providers that practice there. According to CMS, "the hospital's Governing Body must ensure that all practitioners who provide a medical level of care and/or conduct surgical procedures in the hospital are individually evaluated by its Medical Staff and that those practitioners possess current qualifications and demonstrated competencies for the privileges granted." Memorandum from the Centers for Medicare & Medicaid Services to state survey directors regarding requirements for hospital medical staff privileges (November 12, 2004), available at https://www.cms.gov/Medicare/Provider-Enrollment-and-Certification/SurveyCertificationGenInfo/downloads/SCLetter05-04.pdf.
[570] CMS Statement of Deficiencies January 2023, at 12-13 and CMS Statement of Deficiencies May 2023, at 22-26.

and died within a day of the assault.[571] At least two of these assaults occurred in the ED when DMC was evaluating patients for admission.[572]

The hospital was able to access and review surveillance footage from the day of DMC's death and, based on the overt misconduct captured by these recordings, it is clear that DMC must have either felt that there was no oversight happening at the hospital or that no one would hold him accountable for his actions. On that last shift, he is seen on security camera going into the ORHC ED medication room—a place that he should not have been able to access with his badge, using a key that he should not have had to unlock the sharps/medical waste container, emptying the contents, placing items into his pants pocket, and dumping the remainder into the trash.[573] A few hours later, he sexually assaulted a patient only minutes after her friend left her bedside.[574] At the end of the shift, he was found unresponsive in the ORHC provider dictation room and was soon after pronounced dead.[575] Narcotic and anesthetic medications that he diverted from the hospital were found next to him, including an IV bag of Fentanyl that he inappropriately ordered for the patient whom he sexually assaulted a few hours earlier.[576]

In the aftermath of the investigation, it was uncovered that staff were concerned about DMC's behavior before his death and escalated at least some of these concerns to hospital leadership, but no substantive actions were taken in response. According to the report from the CMS investigation, these concerns included: "drug diversion and other legal issues, allegedly over sedated patients, worked long hours without going home, slept in the hospital for month-long stretches, took photographs of patients and medications against hospital policy, and was reportedly caught having sex in the cardiac rehabilitation room."[577] In May 2022, ED staff heard on the police scanner that DMC was involved in a high-speed motorcycle chase with the police.[578] ED staff members escalated this information to the ED medical director who escalated it to the ORHC chief nursing officer who escalated it to the ORHC chief executive officer ("CEO"). The CEO reportedly dismissed the issue.[579] Additionally, one nurse reported that she had once interviewed DMC regarding issues with Fentanyl vials and, after the interview, told the pharmacy department to "keep an eye on him."[580] Despite these concerns, DMC was allowed to work as the sole nighttime hospitalist at ORHC for month-long stretches of time.[581]

Multiple factors may have contributed to why ORHC allowed DMC to work despite these concerns, including financial factors. In ORHC's agreement with Apogee for hospitalist staffing, ORHC is responsible for covering many costs. To recruit a new hospitalist, ORHC would likely need to pay Apogee a recruitment fee, reimburse Apogee for travel arrangements

[571] See footnote 570.
[572] See footnote 570.
[573] CMS Statement of Deficiencies January 2023, at 15 and CMS Statement of Deficiencies May 2023, at 43-44.
[574] CMS Statement of Deficiencies May 2023, at 25-26.
[575] CMS Statement of Deficiencies May 2023, at 33, 44.
[576] CMS Statement of Deficiencies May 2023, at 33.
[577] CMS Statement of Deficiencies May 2023, at 34-35.
[578] CMS Statement of Deficiencies January 2023, at 4-5.
[579] See footnote 578.
[580] CMS Statement of Deficiencies May 2023, at 48.
[581] CMS Statement of Deficiencies May 2023, at 35.

incurred as part of the interview process, and pay for a sign-on bonus and relocation fee.[582] Based on the volume of shifts worked by DMC, the hospital would likely need two hospitalists to replace him. ORHC would likely have needed to increase its ongoing payments to Apogee as well. In the days following DMC's death, Apogee amended its contract with ORHC to increase the monthly guarantee amount for physicians and to establish a monthly guarantee amount for advanced practitioners; when Apogee's billing collections are less than the guarantee amount, ORHC must cover the difference.[583] Lifepoint Health explained that this amendment was in response to an increase in market wages following the pandemic.[584] Furthermore, finding someone to fill DMC's position on a long-term basis would take time and, in the interim, ORHC may have been responsible for paying for the excess costs of using short-term traveler providers.[585] Lastly, ORHC was likely already saving money as a result of the initial decision to hire DMC, as ORHC pays less when Apogee staffs advanced practitioners in lieu of physicians and ORHC likely did not need to pay for interview travel expenses or a relocation stipend for DMC as he already worked at the hospital.[586]

Financial factors may have also played a role in some of the other conditions that allowed DMC's behavior to go undetected, such as the lack of adequate staffing to appropriately monitor behavioral health patients in the ED, the decision to staff a new NP to a shift where he would have no supervision or peer support, and the failure to invest in rudimentary anti-diversion mechanisms.

ORHC may not be the only hospital in the Apollo portfolio where patients have been sexually assaulted by a medical provider. At Community Medical Center in Montana, a contracted physician has been accused of sexually assaulting at least 15 female patients while he treated them in the hospital's ED between 2017 and late 2023.[587] Reportedly, numerous women alleging that they were assaulted by the physician have claimed that they complained to the hospital in the immediate aftermath of their assaults, but the physician continued to practice at the hospital and to be alone with patients.[588]

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[582] Apogee agreement, at LP-CEG-001856-001857.
[583] Second amendment to Professional Services Agreement between RCHP-Ottumwa and Apogee Medical Management (October 24, 2022), at LP-CEG-001845.
[584] Lifepoint November 8, 2024 letter, at 8.
[585] Apogee agreement, at LP-CEG-001856.
[586] Apogee agreement, at LP-CEG-001856-001859.
[587] This physician is currently charged with multiple sexual related crimes and is facing more than 85 years to life in prison.
Kathryn Roley, *New developments in sexual assault case against former Missoula ER doctor*, 8KPAX (August 16, 2024), available at https://www.kpax.com/new-developments-in-sexual-assaults-case-against-former-missoula-er-doctor. Andrea Lutz, *Woman details sexual assault by her doctor and enlists Billings lawyer for help*, KTVQ (August 18, 2024), available at https://www.ktvq.com/woman-details-sexual-assault-by-her-doctor-and-enlists-billings-lawyer-for-help. Darrell Ehrlick, *14 women who said Missoula doctor assaulted them claim hospital did not listen to them*, Daily Montanan (November 14, 2024), available at https://dailymontanan.com/2024/11/14/14-women-who-said-missoula-doctor-assaulted-them-claim-hospital-didnt-listen-to-them/.
[588] Lawyers for the victims have suggested that "it's possible that CMC Hospital exhibited blatant negligence not only in failing to take decisive action after multiple complaints were raised against Dr. Hurst, but also in choosing to retain him in their employment…By overlooking these repeated allegations and allowing to continue practicing, CMC and its private equity-backed owners, may have demonstrated a profound disregard for patient safety and well-being." See source 3 at footnote 587.

While reading through the rest of this chapter, please consider how financial factors may have contributed to decisions made by ORHC's PE-owned parent companies. Figure 34 contains employee comments from ORHC's June 2022 employee satisfaction survey—a survey that was fielded a few months prior to DMC's death—that indicate how ORHC employees viewed decision-making at the hospital. These comments suggest that ORHC employees felt that Lifepoint Health's decisions were rooted in a reluctance to invest necessary resources in the hospital.

As far as our hospital being part of Lifepoint, it feels like we are a number, a budget, anything but a care giving institution. Many of our services are hired out, such as dietary, housekeeping, laundry. As a result, no one cares if they do a good job, no one cares if there is enough staff to do all the things that need done. Surrounding county or state medical facilities have increased wages across the board, but not us. Our staff leaves, and the rest are expected to pick up the slack, do more with less and not get paid more. Our management, and our corporate company need to increase pay, and staff, and be accountable for our building and the services we provide for our community.
We are asked to analyze budgets and line items repeatedly, searching for ways to decrease our annual spend d/t LifePoint budget cuts.
You might want to look beyond the money & FTE's. Nobody believes that LifePoint cares about them at all.

Figure 35. Selected Comments Regarding Lifepoint Health's Underinvestment in ORHC from the ORHC June 2022 Employee Satisfaction Survey[589]

B. ORHC serves a rural community and is owned by PE.

ORHC is the only hospital in Wapello County, Iowa and advertises itself as "extraordinary care, close to home."[590] As of the end of 2023, the hospital was licensed for 217 beds, but staffed 68.[591] The hospital is categorized by CMS as a sole community hospital and referral center and is the only non-critical access hospital within a 60-mile radius.[592] ORHC offers many services not available elsewhere in the region, including a cardiac catheterization lab, an adult psychiatric unit, inpatient physical rehabilitation, and obstetrics care from

[589] Comments made by hospital staff through the ORHC's June 2022 Culture of Safety survey, at LP-CEG-009115.
[590] See footnote 549 (ORHC Brochure). *Iowa Hospital Association Districts*, Iowa Hospital Association (accessed November 27, 2024), available at https://www.ihaonline.org/iowa-hospital-association-districts/.
[591] ORHC 2023 AHA Annual Submission (2024), at LP-CEG-008918, ("ORHC AHA 2023").
[592] Committee staff identified ORHC's status as a sole community hospital and referral center using CMS Inpatient Provider Specific data. Committee staff used the file titled IPSF_INP_2024_11-19 and filtered for a providerCcn of 160089 (ORHC) and an effectiveDate of 20241001 (January 1, 2024). The providerType was listed as 17. The data dictionary for the Inpatient Provider Specific Data file in the Medicare Claims Processing Manual lists 17 as "Re-based Sole Community Hospital/ Referral Center."CMS, Inpatient Provider Specific Data (October 2024), available at https://www.cms.gov/medicare/medicare-fee-for-service-payment/prospmedicarefeesvcpmtgen/downloads/inp-psf.zip. Medicare Claims Processing Manual, Chapter 3-Inpatient Hospital Billing, CMS (May 9, 2024), at 362, available at https://www.cms.gov/Regulations-and-Guidance/Guidance/Manuals/downloads/clm104c03.pdf. *Hospitals 101*, Iowa Hospital Association (2018), at 6, available at https://www.ihaonline.org/wp-content/uploads/2020/12/IHA-Hospitals-101-FINAL-.pdf.

obstetrician-gynecologists.[593] Additionally, the hospital provides ambulance services for the county.[594] The hospital predominately serves patients with government insurance: in 2023, 38 percent of the hospital's net patient revenue came from Medicare and 23 percent came from Medicaid.[595,596]

While ORHC does offer many services, Wapello County residents have always needed to go outside of the county for more specialized care. For example, the closest Level I trauma centers—which can emergently handle the most severe and complex injuries—are in Des Moines and Iowa City, which are 90 miles away.[597] Similarly, Wapello County residents need to go to Des Moines or Iowa City to find a primary or comprehensive stroke center or a neonatal intensive care unit.[598]

Wapello County is rural with the majority of its residents living in the city of Ottumwa.[599] Wapello County has a lot of local pride.[600] The city of Ottumwa website describes the

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[593] *ORHC to celebrate grand opening of new $4.6 million cardiac catherization lab*, Lifepoint Health, (July 26, 2023), available at https://lifepointhealth.net/news/ottumwa-regional-health-center-to-celebrate-grand-opening-of-new-46-million-cardiac-catheterization-lab. *Inpatient Psychiatric Bed Program - January 2024*, Iowa Department of Health and Human Services (accessed November 27, 2024), https://hhs.iowa.gov/media/11542/download?inline=. Letter from Lifepoint Health to Chairman Sheldon Whitehouse and Ranking Member Charles E. Grassley (September 27, 2024), at 6, ("Lifepoint September 27, 2024 letter"). Iowa Department of Health and Human Services – Community Access Division – Wellness and Preventive Health, *Access to Obstetrical Care in Iowa: A Report to the Iowa State Legislature*, Iowa State Legislature (January 2024), at 13, available at https://www.legis.iowa.gov/docs/publications/DF/1442205.pdf.

[594] *ORMICS Celebrates EMS Week, 40 Years at ORHC*, Ottumwa Post (May 21, 2021), available at https://ottumwapost.com/ormics-celebrates-ems-week,-40-years-at-orhc-p2033-188.htm. Letter from Lifepoint Health to Chairman Sheldon Whitehouse and Ranking Member Charles E. Grassley, (October 16, 2024), at 14, ("Lifepoint October 16, 2024 letter").

[595] ORHC AHA 2023, at LP-CEG-008922-008923.

[596] The predominance of government payers for this hospital illustrates the importance of this Senate Budget Committee investigation.

[597] *Trauma Care Facilities in Iowa*, Iowa Department of Health and Human Services (September 6, 2023), available at https://hhs.iowa.gov/media/10943/download?inline. *ORHC Provider Recruitment Book*, ORHC (November 13, 2018), available at https://www.ottumwaregionalhealth.com/sites/ottumwa/assets/uploads/Provider-Recruitment-Book-11-13-18.pdf. *Trauma Center Levels Explained*, American Trauma Society (accessed November 27, 2024), available at https://www.amtrauma.org/page/traumalevels.

[598] *Iowa Stroke Centers*, Brain Injury Alliance of Iowa (accessed November 27, 2024), available at https://biaia.org/iowa-stroke-association/. *Iowa*, Neonatology Solutions (accessed November 7, 2024), available at https://neonatologysolutions.com/iowa-nicus/.

[599] *List of Rural Counties and Designated Eligible Census Tracts in Metropolitan Counties*, Health Resources and Services Administration (September 1, 2021), available at https://data.hrsa.gov/Content/Documents/tools/rural-health/forhpeligibleareas.pdf. *Welcome to Ottumwa, Iowa*, City of Ottumwa (accessed November 27, 2024), *available at* https://www.ottumwa.us/about/home. *Our Changing Population: Wapello County, Iowa*, USA Facts (accessed November 27, 2024), *available at* https://usafacts.org/data/topics/people-society/population-and-demographics/our-changing-population/state/iowa/county/wapello-county/.

[600] As noted by the ORHC CEO, "I think Ottumwa is a fantastic place. I think it has so much to offer." The Greater Ottumwa Partners in Progress (GOPIP) is actively working to build up the area's economy and community. The city's Canteen Lunch in the Alley restaurant has been serving their famous loose-meat sandwich for nearly 100 years. During the holiday season, the city hosts a beautiful holiday lights display, Holiday Nights 'N Lights, that draws in visitors from across the region. The city's Bridge View Center hosts various events throughout the year including concerts, theatrical performances, and conferences. Ottumwa is home to Indian Hills Community College,

community as the "trade and economic center of Southeast Iowa."[601,602] Wapello's current population is approximately 35,000 people, down from a peak population of more than 47,000 in 1950.[603] However, the population size of the county has not changed much in the last decade.[604]

1. ORHC is operated by Lifepoint Health, which is owned by Apollo funds

ORHC is the only for-profit general acute care hospital in the state of Iowa; furthermore, it is the only general acute care hospital in the state operated by a PE-owned company (hereafter referred to as "PE hospital").[605] Iowa is also home to seven for-profit specialty hospitals: two psychiatric hospitals, two long-term acute care hospitals, and three rehabilitation hospitals.[606] Like ORHC, one of the psychiatric hospitals and two of the rehabilitation hospitals are PE

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which is ranked in the top 500 of community colleges nationwide. Ottumwa is known as the Video Game Capital of the World, hosting the first North American Video Olympics in 1982. A house in Eldon, a small city in Wapello County that is 20 minutes from Ottumwa, served as the inspiration for the famed painting *American Gothic* by Grant Wood. The American Gothic House still stands to this day and is viewed by thousands of people each year. Kyle Ocker, *Hospital CEO: ORHC is safe: stable*, Ottumwa Courier (December 13, 2024), available at https://www.ottumwacourier.com/news/hospital-ceo-orhc-is-safe-stable/article_747518ae-b8c8-11ef-aa8f-ab25e29e0e60.html. *About*, Greater Ottumwa Partners in Progress (accessed November 27, 2024), available at https://www.gopip.org/about. *Canteen Lunch In the Alley*, Meet Ottumwa (accessed November 27, 2024), available at https://www.meetottumwa.org/dining/canteen_lunch_in_the_alley/. *Holiday Nights 'N Lights*, Meet Ottumwa (accessed November 27, 2024), https://www.meetottumwa.org/events/holiday_nights_n_lights_32520/. Bridge View Center homepage (accessed November 27, 2024), available at https://www.bridgeviewcenter.com/. Indian Hills Community College homepage (accessed November 27, 2024), available at https://www.indianhills.edu/. *Ottumwa: Video Game Capital of the World*, Meet Ottumwa (accessed November 27, 2024), available at https://www.meetottumwa.org/explore/ottumwa_video_game_capital_of_the_world/. *The Painting*, American Gothic House (accessed November 27, 2024), available at https://americangothichouse.org/american-gothic. *American Gothic House Center*, American Gothic House (accessed November 27, 2024), available at https://americangothichouse.org/center.

[601] *About*, City of Ottumwa (accessed November 27, 2024), available at https://www.ottumwa.us/about/.

[602] Ottumwa's major industries are food and beverage processing, automotive supply chains, machinery manufacturing, and warehouses and distribution. *Wapello County*, Iowa South (accessed November 27, 2024) available at https://www.iowasouth.com/wapello/

[603] Resilient Communities Wapello County, *Community Needs Assessment 2021*, Greater Ottumwa Partners in Progress (2021), at 6, available at https://www.gopip.org/media/userfiles/subsite_155/files/childcare/RC-Needs%20Assessment%20Data%20Book%20Final%202.pdf

[604] From 2010 to 2022, the population of Wapello County shrank by 1.8%. See source 3 at footnote 599 (USA Facts for Wapello) .

[605] Private Equity Stakeholder Project, PESP Private Equity Hospital Tracker data file, Airtable (February 8, 2024), https://airtable.com/appS3bPswuh3UUbd6/shriHqbTTa1UlUAXp/tblTaNXie5psTTzoN. CMS, Hospital General Information Data (October 30, 2024), https://data.cms.gov/provider-data/dataset/xubh-q36u.

[606] See source 2 at footnote 605.

hospitals.[607] The two PE rehabilitation hospitals are operated by the same company as ORHC, Lifepoint Health.[608]

ORHC is currently operated by Brentwood, Tennessee-based Lifepoint Health, which is currently owned by the PE firm Apollo Global Management's ("Apollo") Investment Fund IX,[609] and its real estate is owned by the real estate investment trust ("REIT") Medical Properties Trust ("MPT").[610] Currently, ORHC is one of about 130 hospitals operated by Lifepoint Health and one of about 220 hospitals in Apollo's hospital portfolio, which includes both Lifepoint Health and ScionHealth.[611] Lifepoint Health is one of the largest hospital operators in the country.[612] Apollo funds currently own the majority of the hospitals nationwide being operated by PE-owned companies.[613,614] Apollo Fund IX was reportedly the world's largest-ever PE fund when it

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[607] The inpatient psychiatric facility, Eagle View, is owned by Summit Behavioral Healthcare, a Nashville area-based behavioral health system that is owned by funds affiliated with the private equity company Patient Square Capital. See source 1 at footnote 605. *Patient Square Capital to Acquire Summit BHC from FFL Partners and Lee Equity Partners*, PR Newswire (September 9, 2021), available at https://www.prnewswire.com/news-releases/patient-square-capital-to-acquire-summit-bhc-from-ffl-partners-and-lee-equity-partners-301371933.html. *Summit BHC Continues to Grow with Acquisition of Seven Psychiatric Hospitals from Strategic Behavioral Health*, Patient Square Capital (January 6, 2022), available at https://patientsquarecapital.com/summit-bhc-continues-growth-with-acquisition-of-seven-psychiatric-hospitals-from-strategic-behavioral-health/.

[608] Lifepoint operates Eastern Iowa Rehabilitation Hospital and MercyOne Clive Rehabilitation Hospital. *Locations, Rehabilitation Facilities*, Lifepoint Health, (accessed November 27, 2024), available at https://lifepointhealth.net/locations.

[609] Letter from Apollo Global Management to Ranking Member Charles E. Grassley (March 18, 2024), at 3-6, ("Apollo March 2024 letter").

[610] *ORHC part of $57 million transaction*, Ottumwa Courier (January 15, 2020), available at https://www.ottumwacourier.com/news/orhc-part-of-57m-transaction/article_4cca082c-37d7-11ea-bcad-8fd1e6598ff9.html. Letter from Medical Properties Trust to Ranking Member Charles E. Grassley (March 31, 2023), at 1-5, ("MPT March 2023 letter"). Letter from Apollo Global Management to Chairman Sheldon Whitehouse and Ranking Member Charles E. Grassley (December 20, 2023), at 4-5, ("Apollo December 2023 letter"). Letter from Lifepoint Health to Ranking Member Charles E. Grassley, (March 31, 2023), at 5-6, ("Lifepoint March 2023 letter"). Real Property Asset Purchase Agreement By and Between Lima Holdco, LLC and Lima Subsidiaries and MPT Properties (November 4, 2019), at LP-CEG-001023, LP-CEG-001033, LP-CEG-001311, LP-CEG-001186, ("MPT Purchase Agreement").

[611] See footnote 548 (PESP Tracker).

[612] W. Pete Welch, Lanlan Xu, Nancy De Lew, and Benjamin Sommers, *Ownership of Hospitals: An Analysis of Newly-Released Federal Data & A Method for Assessing Common Owners*, Assistant Secretary for Planning and Evaluation, (August 2023), at 6, available at https://aspe.hhs.gov/sites/default/files/documents/582de65f285646af741e14f82b6df1f6/hospital-ownership-data-brief.pdf.

[613] See footnote 548 (PESP Tracker).

[614] The Lifepoint Health/ScionHealth investment is Apollo's only traditional PE deal in the hospital space, but Apollo has reportedly played a role in at least two other transactions involving PE hospitals, Steward Health Care and Hahnemann Hospital. Mary Bugbee, *The Pillaging of Steward Health Care*, Private Equity Stakeholder Project (June 26, 2024), https://pestakeholder.org/reports/the-pillaging-of-steward-health-care/. Deborah Becker & Beth Healy, *In Steward hospital fight, a former Mass. lieutenant governor has an awkward seat*, WBUR (Aug. 23, 2024), available at https://www.wbur.org/news/2024/08/23/steward-hospital-apollo-kerry-healey. Deborah Becker, *St. Elizabeth's Medical Center's property owner sues state over eminent domain taking*, WBUR (November 1, 2024), available at https://www.wbur.org/news/2024/11/01/massachusetts-steward-hospital-eminent-domain-lawsuit. Madeline Ashley, *Mortgage lender declines Massachusetts $4.5M offer for Steward hospital*, Becker's Hospital Review (August 21, 2024), https://www.beckershospitalreview.com/finance/steward-landlord-declines-massachusetts-4-5m-offer-for-hospital.html. Elisabeth Harrison, Priyanka Dayal McCluskey, and Martha Bebinger,

closed to new investors in 2017—the fund contains $24.7 billion.[615] MPT is reportedly the second largest non-governmental owner of hospital property in the world.[616] The following bullets and Figure 36 provide general information regarding ORHC's ownership structure.

- The operations of ORHC are carried out by RCHP-Ottumwa, LLC, an indirect, wholly owned subsidiary of Lifepoint Health.[617] Through this model, RCHP-Ottumwa, LLC, not the parent company Lifepoint Health, "is responsible for liabilities resulting from delivery of care or operations, such as professional liability and other claims."[618]

- Apollo Fund IX owns 97.6 percent of Lifepoint Health's indirect parent company, DSB Parent, L.P., and the remaining 2.4 percent is owned by employees, executives, consultants, and directors of Lifepoint Health through equity awards.[619] According to Apollo, "Apollo Funds are not liable for activities that occur at Lifepoint hospitals in the same way that investors in other American companies are not liable for the activities of the companies in which they invest beyond their investments themselves."[620] Apollo Funds, such as Apollo Fund IX, "are ultimately controlled and/or managed by certain affiliates of Apollo Management Holdings, L.P…., which is an affiliate of Apollo Global Management, Inc."[621]

- Lifepoint Health has a long-term triple-net lease with MPT for ORHC, meaning that Lifepoint Health pays lease payments to MPT for use of the property, but is still responsible for paying for repairs and maintenance, taxes, and insurance coverage.[622]

Healey: State to take control of St. Elizabeth's, tentative deals reached for other Steward hospitals, WBUR (updated August 6, 2024), https://www.wbur.org/news/2024/08/16/healey-state-to-take-over-st-elizabeths-hospital-other-steward-hospitals-to-be-sold. Chris Pomorski, *The Death of Hahnemann Hospital*, The New Yorker (May 31, 2021), https://www.newyorker.com/magazine/2021/06/07/the-death-of-hahnemann-hospital.

[615] *Apollo Investment Fund IX Overview*, Pitchbook (accessed November 4, 2024), available at https://pitchbook.com/profiles/fund/15775-48F#overview. *From the archives: Apollo seeks to standardize*, Private Funds CFO (January 11, 2023), available at https://www.privatefundscfo.com/from-the-archives-apollo-seeks-to-standardize/.

[616] *Company Overview*, Medical Properties Trust (accessed November 27, 2024), https://www.medicalpropertiestrust.com/company.

[617] Lifepoint March 2023 letter, at 4.

[618] Letter from Lifepoint Health to Ranking Member Charles E. Grassley, (April 21, 2023), at 3, ("Lifepoint April 2023 letter).

[619] Annual report of Lifepoint Health, Inc. for the Fiscal Year Ended December 31, 2023 (2024), at LP-CEG-005818 and LP-CEG-005892, ("Lifepoint 2023 report"). Lifepoint November 8, 2024 letter, at 17.

[620] Letter from Apollo Global Management to Ranking Member Charles E. Grassley, (April 5, 2023), at 4, ("Apollo April 2023 letter").

[621] Annual report of Lifepoint Health, Inc. for the Fiscal Year Ended December 31, 2022 (2023), at LP-CEG-005712, ("Lifepoint 2022 report").

[622] According to MPT, "MPT does not operate or manage hospitals or other healthcare facilities (nor is it permitted to do so under applicable REIT tax rules, absent special circumstances). Accordingly, we have no involvement whatsoever in the day-to-day operational activities of any hospitals which are our tenants. Our leases with operators are triple-net, meaning that the lessees are responsible for all ongoing operating expenses of the facility, including the costs of repairs and maintenance, property taxes and property, casualty, general liability and other insurance

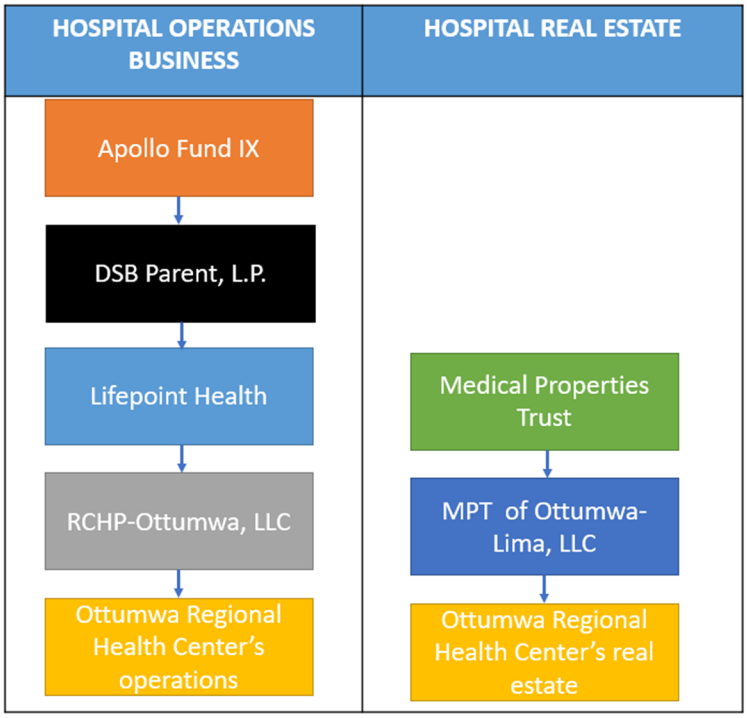


Figure 36. General Depiction of ORHC's Current Ownership Structure.[623]

ORHC has been a PE hospital since 2010.[624] Over the last 14 years, ORHC has been passed from one hospital operator to the next and those operators have been passed from one PE fund to the next.[625] The following bullets and Figure 37 provide a general timeline of these events.

coverages. Our leases consequently require lessees to indemnify us for any liabilities arising from activities that occur at the hospital." MPT March 2023 letter, at 5. See also footnote 610.

[623] Figure developed by Committee staff based on the sources in footnotes 609-620.

[624] Mark Newman, *Hospital Sale Finalized*, Ottumwa Courier (May 1, 2010), available at https://www.ottumwacourier.com/news/local_news/hospital-sale-finalized/article_00c03d50-9272-5bd4-b2dc-c2d2d6868b83.html.

[625] *RegionalCare Hospital Partners to Be Acquired by Funds Affiliated with Apollo Global Management*, Apollo (November 12, 2015), available at https://ir.apollo.com/news-events/press-releases/detail/284/regionalcare-hospital-partners-to-be-acquired-by-funds. *RegionalCare Hospital Partners and Capella Healthcare Announce Completion of Merger*, PR Newswire, (May 2, 2016), available at https://www.prnewswire.com/news-releases/regionalcare-hospital-partners-and-capella-healthcare-announce-completion-of-merger-300260668.html. Tina Reed, *Lifepoint Health leaves Nasdaq following completed merger with RCCH Health Partners*, Fierce Health (November 16, 2018), available at https://www.fiercehealthcare.com/hospitals-health-systems/Lifepoint-health-and-rcch-healthcare-partners-announce-completion-merger. Alia Paavola, *PE firm made $1.6B by selling LifePoint to fund it owns*, Becker's Hospital Review (July 29, 2021), available at https://www.beckershospitalreview.com/finance/pe-firm-made-1-6b-by-selling-lifepoint-to-fund-it-owns.html.

- In 2010, ORHC was the first hospital acquired by the start-up hospital company RegionalCare Hospital Partners ("RegionalCare") that was owned by funds affiliated with the PE firm Warburg Pincus.[626]

- In 2015, Apollo Fund VIII acquired then-eight hospital RegionalCare as its first hospital operations company investment.[627,628]

- In 2018, Apollo Fund VIII acquired publicly-traded hospital operations company Lifepoint Health in a $5.6 billion leveraged buyout and merged it with its existing hospital operations portfolio company, creating a consolidated private company operated under the Lifepoint Health name and under the direction of management from Lifepoint Health.[629,630]

- In 2021, Apollo Fund VIII sold Lifepoint Health to Apollo Fund IX.[631,632]

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[626] Letter from Warburg Pincus to Ranking Member Charles E. Grassley (April 7, 2023), at 2, ("Warburg Pincus April 2023 letter").
[627] See source 1 at footnote 625 (Apollo Press Release regarding RegionalCare).
[628] According to Warburg Pincus, Warburg Pincus funds sold RegionalCare to Apollo funds at a loss: "On December 3, 2015, Warburg Pincus exited its investment in RCHP by selling its shares in RCHP to Apollo. As previously mentioned, Warburg Pincus made a total investment of $265 million in RCHP. The sale of shares to Apollo was the only liquidity event associated with the Warburg Pincus investment in RCHP. In connection with the sale, Warburg Pincus received total proceeds of approximately $259.7 million, slightly less than the money it invested resulting in a slightly negative rate of return." Warburg Pincus April 2023 letter, at 3.
[629] Of the seven executive officers of the unified hospital system, six came from Lifepoint Health and one came from RCCH, Apollo's earlier hospital portfolio company. Annual Report of Lifepoint Health, Inc. for the Fiscal Year Ended December 31, 2018 Prepared in Accordance with Annual Report on Form 10-K (2019), at LP-CEG-005171-005172, ("Lifepoint 2018 report"). *Lifepoint Hospital, Inc. Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934*, United States Securities and Exchange Commission, (August 23, 2018), at 1, available at https://www.sec.gov/Archives/edgar/data/1301611/000104746918005753/a2236545zprem14a.htm. Also source 3 at footnote 625.
[630] Lifepoint Health was formed in 1999 as a spin-off from the hospital operator HCA Healthcare. Admin, *Columbia/HCA finishes spinoff of hospitals*, The Journal Record (May 12, 1999), available at https://journalrecord.com/1999/05/columbiahca-finishes-spinoff-of-hospitals/.
[631] See source 4 at footnote 625 (Paavola 2021).
[632] PE firms are increasingly handing portfolio companies off to their next funds. Julie Segal, *Private Equity Firms Used to Sell Half Their Companies to Their Competitors. Now They're Selling Them Back to Themselves*, Institutional Investors (March 19, 2021), available at https://www.institutionalinvestor.com/article/2bswwt2tgoa4kqiaxy0hs/portfolio/private-equity-firms-used-to-sell-half-their-companies-to-their-competitors-now-theyre-selling-them-back-to-themselves.

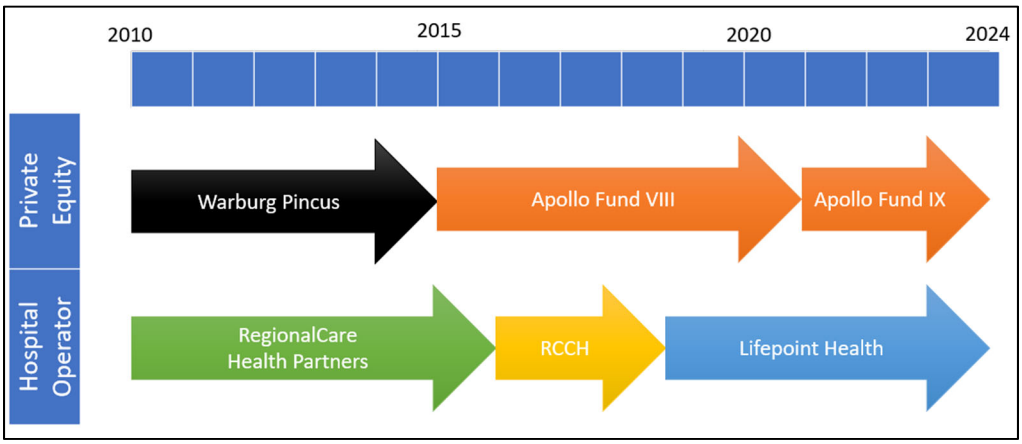


Figure 37. General Timeline of ORHC's Owners.[633]

Over the last nine years, the number of hospitals in the Apollo hospital portfolio has grown rapidly. Apollo has grown its hospital portfolio primarily through acquisitions of hospital companies, but also through de novo growth.[634] The acquired hospital companies have

[633] Figure developed by Committee staff based on the sources in footnote 625.

[634] See footnote 625. Melanie Blackman, *Lifepoint, ScionHealth CEOs Share Successful Acquisition and Launch*, Health Leaders, (January 20, 2022), https://www.healthleadersmedia.com/strategy/lifepoint-scionhealth-ceos-share-successful-acquisition-and-launch. Dave Muoio, *Lifepoint Health purchases post-acute services company Kindred Healthcare, commits to 3-year, $1.5B investment*, Fierce Healthcare (June 22, 2021), available at https://www.fiercehealthcare.com/hospitals/Lifepoint-health-purchases-post-acute-services-company-kindred-healthcare-commits-to. *Medical Properties Trust Announces Agreement for Lifepoint Health to Acquire Majority Interest in Springstone*, Medical Properties Trust (August 29, 2022), available at https://medicalpropertiestrust.gcs-web.com/news-releases/news-release-details/medical-properties-trust-announces-agreement-Lifepoint-health. *ScionHealth Completes Acquisition of Cornerstone Healthcare Group*, PR Newswire (January 23, 2023), available at https://www.prnewswire.com/news-releases/scionhealth-completes-acquisition-of-cornerstone-healthcare-group-301728275.html. *Lifepoint Rehabilitation Acquires Inpatient Rehabilitation Facility in San Antonio, Texas from Everest Rehabilitation Hospitals*, Lifepoint Health (April 16, 2024), available at https://lifepointhealth.net/news/lifepoint-rehabilitation-acquires-inpatient-rehabilitation-facility-in-san-antonio-texas-from-everest-rehabilitation-hospitals. *New Behavioral Health Hospital Serving Patients in McKinney, Texas*, Lifepoint Health (March 14, 2024), available at https://Lifepointhealth.net/news/new-behavioral-health-hospital-serving-patients-in-mckinney-texas. *Centra and Lifepoint Behavioral Health Announce Agreement to Build New Inpatient Behavioral Health Hospital*, Lifepoint Health (March 2, 2023), available at https://Lifepointhealth.net/news/centra-and-Lifepoint-behavioral-health-announce-agreement-to-build-new-inpatient-behavioral-health-hospital. *Mercy Health and Lifepoint Behavioral Health Break Ground on New Behavioral Hospital*, Lifepoint Health (April 17, 2024), available at https://Lifepointhealth.net/news/mercy-health-and-Lifepoint-behavioral-health-break-ground-on-new-behavioral-hospital. *Tampa General Hospital, Lifepoint Behavioral Health and USF Health Break Ground on New Behavioral Hospital, Expanding Access for Floridians to World-Class Mental Health Services*, Lifepoint (August 24, 2023), available at https://Lifepointhealth.net/news/tampa-general-hospital-Lifepoint-behavioral-health-and-usf-health-break-ground-on-new-behavioral-health-hospital-expanding-access-for-floridians-to-world-class-mental-health-services. *Baystate Health and Lifepoint Health Celebrate Opening of New Behavioral Health Hospital in Holyoke, Massachusetts*, Lifepoint Health (August 14, 2023), available at https://Lifepointhealth.net/news/baystate-health-and-Lifepoint-health-celebrate-opening-of-new-behavioral-health-hospital-in-holyoke-massachusetts. New Rehabilitation Hospital Serving Patients in Jacksonville, Lifepoint Health (May 16, 2024), available at https://Lifepointhealth.net/news/new-rehabilitation-hospital-serving-patients-in-jacksonville. *Baptist Health South Florida and Lifepoint Rehabilitation Begin Construction on State-of-the-Art Rehabilitation Hospital in South Miami,*

generally been for-profit with many having been owned or formerly owned by PE at the time of the acquisition.[635] The initial focus of Apollo's hospital portfolio was on rural general acute care hospitals, but has shifted to more diverse offerings, including behavioral health hospitals, rehabilitation hospitals, and long-term acute care hospitals in urban and suburban areas with many of these specialty hospitals operating as joint ventures with local non-profit hospitals or

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Lifepoint Health (July 23, 2024), available at https://Lifepointhealth.net/news/Baptist-Health-South-Florida-and-Lifepoint-Rehabilitation. *PeaceHealth and Lifepoint Rehabilitation announce agreement to build new inpatient rehabilitation facility,* Lifepoint Health (July 11, 2024), available at https://Lifepointhealth.net/news/peacehealth-and-Lifepoint-rehabilitation-announce-agreement-to-build-new-inpatient-rehabilitation-facility-1. *Lifepoint Rehabilitation and Loma Linda University Health announce joint venture partnership to build new inpatient rehabilitation facility,* Lifepoint Health (May 8, 2024), available at https://Lifepointhealth.net/news/Lifepoint-rehabilitation-and-loma-linda-university-health-announce-joint-venture-partnership-to-build-new-inpatient-rehabilitation-facility. *Northeast Georgia Health System and Lifepoint Rehabilitation Break Ground on New Inpatient Rehabilitation Facility,* Lifepoint Health (March 29, 2024), available at https://Lifepointhealth.net/news/northeast-georgia-health-system-and-Lifepoint-rehabilitation-break-ground-on-new-inpatient-rehabilitation-facility. *UCI Health and Lifepoint Rehabilitation Break Ground on New Inpatient Rehabilitation Hospital,* Lifepoint Health (February 16, 2024), available at https://Lifepointhealth.net/news/uci-health-and-Lifepoint-rehabilitation-break-ground-on-new-inpatient-rehabilitation-hospital. *UW Health, UnityPoint Health – Meriter and Lifepoint Rehabilitation to build new inpatient rehabilitation facility in Fitchburg,* Lifepoint Health (February 13, 2024), available at https://Lifepointhealth.net/news/uw-health-unitypoint-health-meriter-and-Lifepoint-rehabilitation-to-build-new-inpatient-rehabilitation-facility-in-fitchburg. *Duke Health, WakeMed and Lifepoint Health Break Ground on New Inpatient Rehabilitation Hospital,* Lifepoint Health September 22, 2023), available at https://Lifepointhealth.net/news/duke-health-wakemed-and-Lifepoint-health-break-ground-on-new-inpatient-rehabilitation-hospital. *ScionHealth Announces Lease Agreement with Upshot Capital Advisors for New Specialty Hospital in Orlando, Florida*, PR Newswire (July 13, 2022), available at https://www.prnewswire.com/news-releases/scionhealth-announces-lease-agreement-with-upshot-capital-advisors-for-a-new-specialty-hospital-in-orlando-florida-301586017.html. *ScionHealth Announces Lease Agreement with Upshot Capital Advisors for a Second Specialty Hospital to be Built in Orlando*, ScionHealth (November 18, 2022), available at https://www.scionhealth.com/News-Stories/scionhealth-announces-lease-agreement-with-upshot-capital-adviso0.

[635] RegionalCare was acquired from funds affiliated with Warburg Pincus. Capella Healthcare was formerly owned by funds affiliated with GTCR. Lifepoint Health was publicly-traded. Kindred Healthcare was acquired from funds affiliated with TPG Capital and Welsh, Carson, Anderson & Stowe. Springstone Health was formerly owned by funds affiliated with PE Welsh, Carson, Anderson & Stowe. Cornerstone was acquired from Highland Capital Management. Everest Rehabilitation Hospitals owner is co-founder and president of Timber Creek Capital. See footnote 630 (HCA 1999 article). Dan Bowman, *Industry Veterans Rash and Rutledge Launch RegionalCare Hospital Partners to Acquire and Operate Hospitals in Non-Urban Markets*, Fierce Healthcare (July 16, 2009), available at https://www.fiercehealthcare.com/healthcare/industry-veterans-rash-and-rutledge-launch-regionalcare-hospital-partners-to-acquire-and. *GTCR sells Capella Healthcare to Medical Properties Trust*, Private Equity Wire, (July 28,2025), *available at* https://www.privateequitywire.co.uk/gtcr-sells-capella-healthcare-medical-properties-trust/. *Investor spotlight: Kindred Healthcare*, Health Enterprises Network (December 2, 2020) available at https://www.healthenterprisesnetwork.com/2020/12/02/investor-spotlight-kindred-healthcare/. Jeff Byers, *Humana, private equity ink $4.1B deal for Kindred*, Healthcare Dive (December 18, 2017), available at https://www.healthcaredive.com/news/kindred-humana-deal/513300/. *Welsh, Carson, Anderson & Stowe Invests in Springstone: Leading Private Equity Firm Commits $100 Million to Development of Behavioral Healthcare and Psychiatric Hospitals*, WCAS (November 2, 2010), available at https://www.wcas.com/system/uploads/fae/file/asset/41/WCAS_Invests_in_Springstone_-_November_2010.pdf. Kathleen Steele Gaivin, *ScionHealth completes acquisition of Cornerstone Healthcare Group*, McKnight's Senior Living (January 25, 2023), available at https://www.mcknightsseniorliving.com/news/scionhealth-completes-acquisition-of-cornerstone-healthcare-group/. John Caulfield, *Repetitive, hotel-like design gives wings to rehab hospital chain's rapid growth*, Building Design and Construction (November 17, 2022) available at https://www.bdcnetwork.com/home/news/55165256/repetitive-hotel-like-design-gives-wings-to-rehab-hospital-chains-rapid-growth.

health systems.[636] In 2021, Lifepoint Health spun-off about 80 hospitals to a new company named ScionHealth, which is also owned by Apollo funds.[637] Currently, general acute care hospitals account for slightly less than 50 percent of hospitals operated by Lifepoint Health and for about 35 percent of hospitals in the Apollo portfolio.[638]

Figure 38 displays some of the key transactions involved in the rapid growth of Apollo's health portfolio and Figure 39 includes maps of the locations of Lifepoint Health and ScionHealth hospitals.

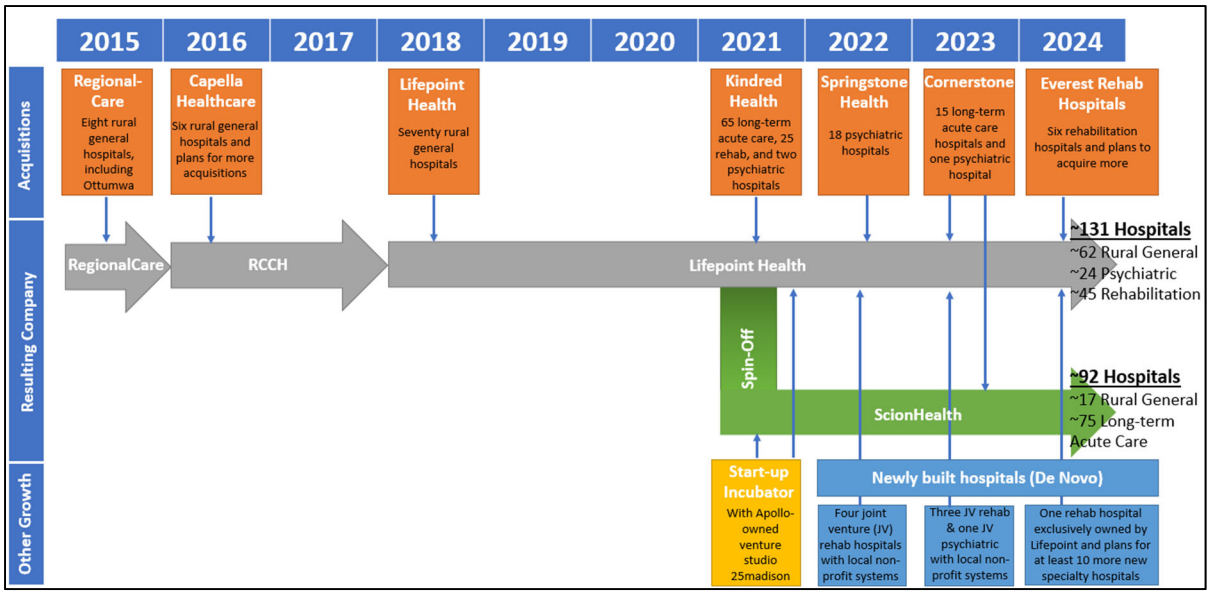


Figure 38. General Timeline Displaying the Growth of Apollo's Hospital Portfolio.[639]

[636] For example, Lifepoint Health currently has rehabilitation hospitals in Nashville, Austin, Indianapolis, Louisville, Knoxville, St. Louis, Dallas, Sacramento, and Tampa. Lifepoint Health currently has psychiatric hospitals in Columbus, Tucson, Raleigh, and Oklahoma City. ScionHealth has long-term acute care hospitals in Albuquerque, Chicago, Denver, Las Vegas, Los Angeles, Philadelphia, and Ft. Lauderdale. Lifepoint Health's joint venture partners for its psychiatric hospitals include Centra in Virginia, Mercy Health in Ohio, Tampa General Hospital in Florida, and Baystate Health in Massachusetts. Lifepoint Health's joint venture partners for its rehabilitation hospitals include PeaceHealth, Baptist Health South Florida, Loma Linda University Health, Northeast Georgia Health System (NGHS), UCI Health, UW Health/UnityPoint Health – Meriter, and Duke Health/Wake Health. See footnote 634. *Locations*, Lifepoint Health (accessed November 27, 2024), available at https://lifepointhealth.net/locations. *Find a Location*, ScionHealth, (accessed November 27, 2024), available at https://www.scionhealth.com/find-a-location.

[637] Rebecca Pifer, *Lifepoint, Kindred spinning off new 79-hospital entity at acquisition's close*, Healthcare Dive, (October 27, 2021), available at https://www.healthcaredive.com/news/Lifepoint-kindred-spinning-off-79-hospital-entity-acquisition-scionhealth/608932/.

[638] As of the November 27, 2024, the Lifepoint website lists 131 hospitals: 62 general acute care hospitals in predominantly rural areas, 45 rehabilitation hospitals, and 24 psychiatric hospitals. As of November 27, 2024, the ScionHealth website lists 92 hospitals: 17 general acute care hospitals in predominantly rural areas and 75 long-term acute care hospitals. *Locations*, Lifepoint Health (accessed November 27, 2024), available at https://lifepointhealth.net/locations. *About Us*, ScionHealth (accessed November 27, 2024), available at https://www.scionhealth.com/about-us.

[639] Figure developed by Committee staff based on the sources that follow. Footnotes 634, 637, 638. Lifepoint 2018 report, at LP-CEG-005147. Annual report of Lifepoint Health, Inc. for the Fiscal Year Ended December 31, 2019

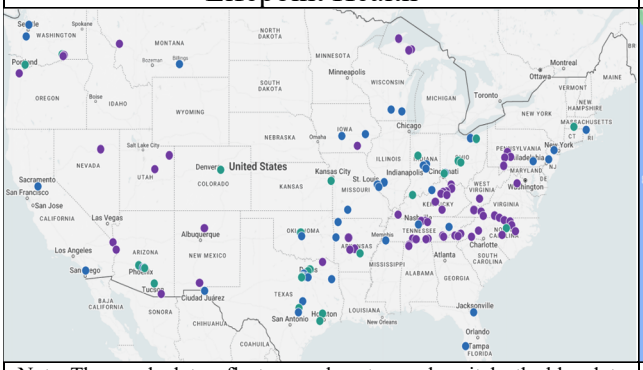
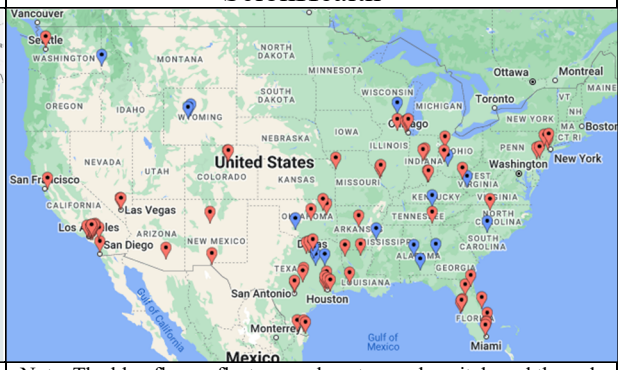
Lifepoint Health	ScionHealth
	
Note: The purple dots reflect general acute care hospitals, the blue dots reflect rehabilitation hospitals, and the green dots reflect psychiatric hospitals.	Note: The blue flags reflect general acute care hospitals and the red flags reflect long-term acute care hospital.

Figure 39. Map of Locations of Lifepoint Health and ScionHealth Hospitals.[640]

The growth of Apollo's hospital portfolio companies has been financed, in part, by debt and property sales. For example, the $5.6 billion buyout of Lifepoint Health in 2018 was funded with $1 billion of equity from Apollo Fund VIII and other investors, meaning that the remainder of the buyout was likely financed with debt.[641,642] In 2019, Lifepoint Health sold the real estate of

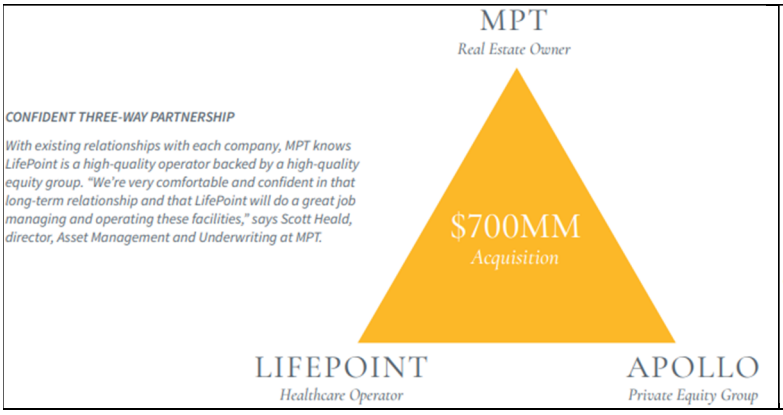
(2020), at LP-CEG-005273-005274, ("Lifepoint 2019 report"). Annual report of Lifepoint Health, Inc. for the Fiscal Year Ended December 31, 2020 (2021), at LP-CEG-005403, ("Lifepoint 2020 report"). Annual report of Lifepoint Health, Inc. for the Fiscal Year Ended December 31, 2021 (2022), at LP-CEG-005539, ("Lifepoint 2021 report"). Lifepoint 2022 report, at LP-CEG-00567. Lifepoint 2023 report, at LP-CEG-005819-005821.

[640] *Locations*, Lifepoint Health (accessed November 4, 2024), available at https://lifepointhealth.net/locations. *Find a Location*, ScionHealth, (accessed November 4, 2024), available at https://www.scionhealth.com/find-a-location.

[641] According to the Lifepoint press release regarding the buyout, "financing was provided by Barclays, Citigroup, RBC Capital Markets, Credit Suisse, Deutsche Bank Securities and UBS Investment Bank. PSP Investments Credit USA LLC and an affiliate of Qatar Investment Authority have also provided a portion of the debt financing. The financing also included an equity contribution from funds managed by Apollo and other co-investors." The Lifepoint 2019 annual report notes: "In connection with the LifePoint/RCCH Merger, the Apollo Funds, together with certain other co-investors investing through a coinvestment vehicle controlled by our Sponsor or its affiliates, indirectly contributed $1,000.0 million of newly invested capital to DSB Parent L.P., a Delaware limited partnership ("DSB Parent"), which is our indirect parent and is owned by the Apollo Funds, such co-investment vehicle and certain current or former directors, members of management, employees and consultants of the Company, and the $1,000.0 million of newly invested capital was further contributed to the Company to be used to partially fund the LifePoint/RCCH Merger. Concurrently with the closing of the LifePoint/RCCH Merger, the Company (1) issued $1,425.0 million principal amount of 9.750% Senior Notes due 2026 (the "9.75% Unsecured Notes"), (2) entered into a new senior secured asset-based revolving credit facility (the "ABL Facility") in an aggregate principal amount of $800.0 million with a maturity of five years, (3) terminated its existing senior secured asset-based revolving credit facility, entered into on April 29, 2016 (the "Prior ABL Facility"), (4) entered into a senior secured term loan credit facility (the "Term Loan Facility") in an aggregate principal amount of $3,550.0 million with a maturity of seven years, and (4) repaid in full its $150.0 million term loan facility, entered into on April 25, 2018 (the "Prior Term Facility")." *Lifepoint Health and RCCH HealthCare Partners Announce Completion of Merger*, Lifepoint Health (November 16, 2018), available at https://Lifepointhealth.net/news/Lifepoint-health-and-rcch-healthcare-partners-announce-completion-of-merger. Lifepoint 2019 report, at LP-CEG-005225-005226 and LP-CEG-005319.

[642] According to one study, "when an investment fund sponsored by a private equity firm buys an established, profitable company, it uses the company's assets as collateral for debt (or leverage) used to acquire the company — typically financing 70 percent of the purchase price with this debt, less in smaller companies with fewer assets. In this leveraged buyout model, the 30 percent equity stake is provided by the PE investment fund. The acquired company — not the PE fund that buys it or the PE firm that sponsors it — is responsible for repaying this debt."

ten hospitals, including ORHC, to MPT as part of a $700 million sale-leaseback transaction.[643,644] Lifepoint Health used some of the proceeds from the 2019 sale-leaseback transaction with MPT to pay a mandatory $400 million prepayment of the 2018 debt.[645] In addition to the transaction with MPT, Lifepoint Health and ScionHealth have reportedly executed sale-leaseback transactions with other REITs.[646]



MPT's emphasis on personalizing business relations helped produce the head-turning results in 2019, including the fourth quarter LifePoint acquisition. The 10-hospital purchase reflected the spirit of collaboration in the company that extends from the top executives down through the underwriting and asset management teams. "We got the hospitals we wanted, they got the financial resources they wanted, and we're dealing with people we've known for years," says Aldag.

Figure 40. Section from Medical Properties Trust's 2019 Annual Report Highlighting the Lifepoint Health Sale-Leaseback Transaction that Included ORHC.[647]

Eileen Appelbaum and Rosemary Batt, *Private Equity Buyouts in Healthcare: Who Wins, Who Loses?*, Working Paper No. 118, Institute for New Economic Thinking (March 15, 2020), at 6, available at https://www.ineteconomics.org/uploads/papers/WP_118-Appelbaum-and-Batt-2-rb-Clean.pdf.

[643] See footnote 610 (multiple documents regarding MPT transaction).

[644] A sale-leaseback transaction is an increasingly used financing mechanism that allows a "seller to convert equity in real property to cash immediately available for debt reduction or operations" and the "economic terms of the lease are structured to be economically similar to those of a secured loan." Margaret Peponis, Katherine Reaves, Daniel Reynolds, and Joseph Lanzkron, *Sale-Leasebacks: A Tool of the Times*, The Real Estate Finance Journal (Fall 2024), available at https://www.clearygottlieb.com/-/media/files/sale-leasebacks-a-tool-for-the-times-refj.pdf. Peter Fisch and Mitchell Berg, *Sale-Leaseback Transactions*, New York Law Journal (February 18, 2015), available at https://www.paulweiss.com/media/2799996/23feb15_nylj.pdf.

[645] Lifepoint March 2023 letter, at 5. Lifepoint 2019 report, at LP-CEG-005341. Letter from Lifepoint Health to Senator Charles Grassley, (May 12, 2023), at 3, ("Lifepoint May 2023 letter"). Letter from Apollo Global Management to Chairman Sheldon Whitehouse and Ranking Member Charles E. Grassley and Senator Sheldon Whitehouse, (January 19, 2024), at 3-4, ("Apollo January 2024 letter").

[646] *Sila Realty Trust, Inc. Completes Acquisition of Brownsburg Inpatient Rehabilitation Facility for $39.0 Million*, Sila Realty Trust (February 29, 2024), available at https://investors.silarealtytrust.com/news/press-releases/press-release-details/2024/Sila-Realty-Trust-Inc.-Completes-Acquisition-of-Brownsburg-Inpatient-Rehabilitation-Facility-for-39.0-Million/default.aspx. *Sila Realty Trust Inc., Completes $28.25 Million Acquisition of Fort Smith Inpatient Rehabilitation Facility*, Sila Realty Trust (July 29, 2024), available at https://investors.silarealtytrust.com/news/press-releases/press-release-details/2024/Sila-Realty-Trust-Inc.-Completes-28.25-Million-Acquisition-of-Fort-Smith-Inpatient-Rehabilitation-Facility/default.aspx. *Sila Realty Trust, Inc. Completes Acquisition of TGH Rehabilitation Hospital for $51.2 Million*, Sila Realty Trust (July 21, 2022), available at https://investors.silarealtytrust.com/news/press-releases/press-release-details/2022/Sila-Realty-Trust-Inc.-Completes-Acquisition-of-TGH-Rehabilitation-Hospital-for-51.2-Million/default.aspx. Erik Sherman, *Ventas Buys 5 Long-Term Acute Care Hospitals for $189M*, Globest (September 18, 2024), available at https://www.globest.com/2024/09/18/ventas-buys-5-long-term-acute-care-hospitals-for-189m/.

[647] *Medical Properties Trust 2019 Annual Report*, Medical Properties Trust (2020), at 29, *available at* https://medicalpropertiestrust.gcs-web.com/static-files/4dfc63bd-bff1-4238-ad6f-b29e5849d76e.

By its own assessment, Lifepoint Health is a "highly leveraged company."[648] Lifepoint Health's cash has declined since 2020 and Lifepoint Health has been using cash to fund its debt repayments as well as acquisitions and other growth activities.[649] For example, in 2023, Lifepoint Health's "consolidated interest expense was $679 million" and Lifepoint Health spent $313 million on acquisitions of specialty hospitals.[650] Lifepoint Health posted a net loss of $336 million in 2023.[651] Despite its recent unprofitability, Lifepoint Health has not closed any hospitals.[652] According to Lifepoint Health, "Lifepoint facilities have not fallen behind on paying their rents, loans, debts, contractors and vendors, payroll, or other types of bills."[653]

2. ORHC's decisional structure is controlled by Lifepoint Health, which is in turn controlled by Apollo.

Generally, ORHC is managed by a Lifepoint Health-appointed local management team who is overseen by both the ORHC Board of Directors and Lifepoint Health, while Lifepoint Health, at a corporate-level, is managed by an Apollo-appointed management team and is overseen by the Lifepoint Health Board of Directors, which is controlled by Apollo. Ultimately, according to the Lifepoint Health 2022 annual report, "Apollo has the power to control us and our affairs and policies, including the designation of a majority of the members of our Board and the appointment of management."[654] This structure is generally displayed in Figure 41.

[648] At the end of 2023, Lifepoint Health's total debt, excluding financial lease obligations, was $6.255 billion and its corresponding total Debt-to-Adjusted EBITDA ratio was 4.93x, which suggests that a significant portion of the company's cash flow may be tied up in debt repayments. When including financial lease obligations, Lifepoint Health's total debt at the end of 2023 was $7.503 billion. Lifepoint 2023 report, at LP-CEG-005798, LP-CEG-005829, and LP-CEG-005870.
[649] Lifepoint 2023 report, at LP-CEG-005825, LP-CEG-005830, and LP-CEG-005854. Lifepoint 2021 report, at LP-CEG-005572.
[650] Lifepoint 2023 report, at LP-CEG-005825 and LP-CEG-005830.
[651] Lifepoint 2023 report, at LP-CEG-005851.
[652] Letter from ORHC to Chairman Sheldon Whitehouse and Ranking Member Charles E. Grassley (February 2, 2024), at 5-7, ("ORHC February 2024 letter").
[653] Letter from Lifepoint Health to Chairman Sheldon Whitehouse and Ranking Member Charles E. Grassley (September 6, 2024), at 5, ("Lifepoint September 6, 2024 letter"). Apollo November 15, 2024 letter, at 4.
[654] Lifepoint 2022 report, at LP-CEG-005699.

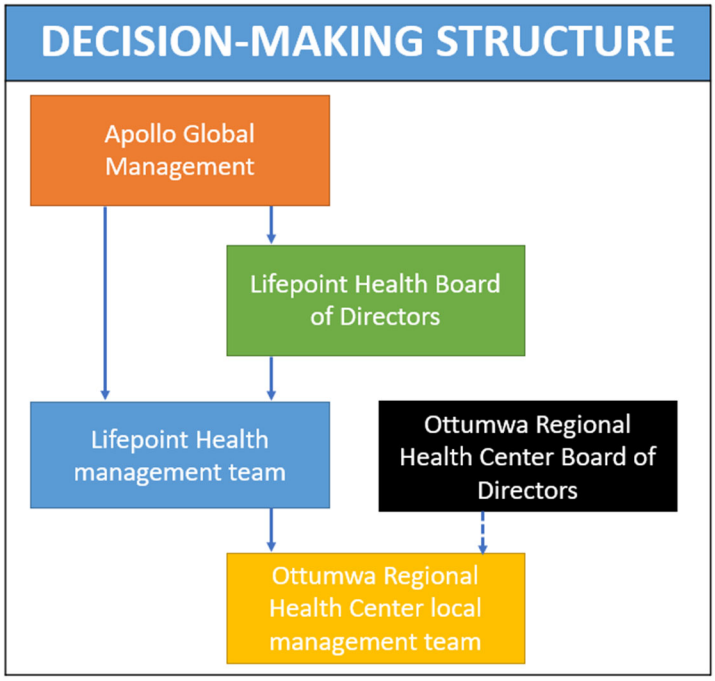


Figure 41. ORHC's General Decision-Making Structure.[655]

ORHC's local management team is selected by Lifepoint Health, directed by Lifepoint Health, and can be fired by Lifepoint Health.[656] ORHC's local management team is responsible for general clinical operations, human resources and administration, and other day-to day-matters.[657] The ORHC CEO "provides leadership and direction for the overall operation of the hospital" and "is responsible for achieving the organization's financial and non-financial goals."[658]

The ORHC Board of Directors is comprised of local community members, physicians, and the hospital's CEO—in 2023, the board had nine members, including three physicians and two other health care providers.[659] The ORHC board "oversees the overall quality and efficiency of patient care at Ottumwa Regional and the organization and governance of medical staff," but does not have authority to direct the operations of the hospital.[660] The ORHC board must

[655] Figure developed by Committee staff based on the following sources: Apollo April 2023 letter, at 3. Lifepoint March 2023 letter, at 4. Apollo December 2023 letter, at 3. Lifepoint 2022 report, at LP-CEG-005699.
[656] Managerial and Administrative Support Agreement between LifePoint Corporate Services, General Partnership and RCHP-Ottumwa, LLC (January 1, 2019), at LP-CEG-000002-000005, ("Lifepoint Management Agreement").
[657] Apollo April 2023 letter, at 3. Lifepoint March 2023 letter, at 4. Lifepoint April 2023 letter, at 2.
[658] ORHC Chief Executive Officer Job Description, at LP-CEG-002262.
[659] Apollo April 2023 letter, at 3. *Our Community Impact*, ORHC (2023), at 2, available at https://www.ottumwaregionalhealth.com/sites/ottumwa/assets/uploads/WF1048602-31%202023%20CBR%20Ottumwa%20Regional%20Health%20Center%20LP%20LORES.pdf.
[660] Lifepoint April 2023 letter, at 2.

approve the hiring of the ORHC CEO and gets to participate in the CEO's performance review process, but the ultimate decision to remove the CEO appears to come from Lifepoint Health.[661]

Lifepoint Health, at a corporate-level, ensures that ORHC's local management team conducts operations "in a business-like manner and in accordance with the decisions of the Company" and provides ORHC with corporate and consulting services.[662] Lifepoint Health decides the strategic plan and capital and operating budget for ORHC, but shares these plans with ORHC's board "to confirm their support."[663] Lifepoint Health controls the lease or purchase of all equipment and supplies and any contracts for services used at ORHC.[664]

Lifepoint Health's corporate-level management is appointed by Apollo.[665] As of February 2024, Lifepoint Health's corporate-level management team was comprised of five executive officers that came from the various hospital companies that were acquired and rolled-up into the current company.[666] Lifepoint Health's CEO has been with Lifepoint Health for nearly two decades.[667] Lifepoint Health's CEO also serves as chairman of the Lifepoint Health Board of Directors.[668] According to Apollo, the Lifepoint Health CEO is evaluated and thereby compensated "based on a combination of financial and quality metrics, including the Company's performance."[669] Committee staff asked Apollo to provide the specific metrics and goals used in this evaluation, but Apollo did not.[670]

The Lifepoint Health Board of Directors has command of Lifepoint Health's and its hospitals' finances as well as significant oversight and investigative authority of the hospitals' quality and patient safety. The Lifepoint Health board is responsible for facilitating "the effective management of the business and affairs of Lifepoint Health" and must approve "enterprise-wide strategic decisions, including the enterprise-wide process (which sets quality and financial goals for the full company), acquisitions and divestitures, settling material litigation, and the hiring of

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[661] Asset Purchase Agreement Among ORHC, Incorporated, Regional Retirement Living, Inc., Regional Enterprises, Inc., RCHP-Ottumwa, Inc., and RegionalCare Hospital Partners (April 30, 2010), at LP-CEG-000096, ("Asset Purchase Agreement"). Lifepoint Management Agreement, at LP-CEG-000002-000005.
[662] Lifepoint Health provides ORHC with corporate services such as negotiating reimbursement rates and setting charges, negotiating and managing contracts, maintaining group purchasing arrangements, providing standard formats and procedures, human resources, information systems management, and accounting and bookkeeping services. Although paid for by ORHC, Lifepoint Health arranges for the purchase or lease of all supplies and equipment. Lifepoint Health also provides ORHC with consulting services in areas that include long-range planning, quality assurance, risk management, facilities development, manpower utilization, physician recruiting, medical staff development, and performance appraisal systems. Lifepoint Management Agreement, at LP-CEG-000002-000004.
[663] Asset Purchase Agreement, at LP-CEG-000096. Lifepoint March 2023 letter, at 2.
[664] Lifepoint Management Agreement, at LP-CEG-000002-000003.
[665] Lifepoint 2022 report, at LP-CEG-005699.
[666] Lifepoint 2023 report, at LP-CEG-005840-LP-CEG-005841.
[667] See footnote 666.
[668] See footnote 666.
[669] Letter from Apollo Global Management to Chairman Sheldon Whitehouse and Ranking Member Charles E. Grassley (September 6, 2024), at 5, ("Apollo September 6, 2024 letter"). Lifepoint November 8, 2024 letter, at 5.
[670] See footnote 669.

and compensation for the senior management team."[671] The Lifepoint Health board approves the annual business plan and budget for Lifepoint Health and any business plans and/or budgets for Lifepoint Health subsidiaries that "are materially inconsistent" with the most recently adopted corporate-level plan and/or budget.[672] The board also approves capital expenditures greater than $2 million that are non-routine or unplanned.[673] The board is comprised of six standing committees who generally assist the board in its various functions.[674] For example, the board's quality committee is "responsible for monitoring and evaluating the adequacy and effectiveness of [Lifepoint Health's] quality of care and patient safety programs and initiatives" and "is authorized to investigate any matter within the scope of its duties and responsibilities."[675]

Apollo appears to have control of the members and actions of Lifepoint Health's Board of Directors. As of February 2024, there were twelve directors on the Lifepoint Health board, six of whom were Apollo employees and two of whom were indirectly controlled by Apollo: one of whom is the chairman of a lobbying firm used by Apollo and the other is the CEO of Lifepoint Health who is appointed by Apollo and whose compensation is determined by the board's compensation committee, which is entirely made up of Apollo employees.[676] Including the compensation committee, three of the board's six committees are exclusively comprised of Apollo employees; the other two committees are the nominating and governance committee and the executive committee.[677] Through its control of the nominating and governance committee—the committee which identifies individuals qualified to serve as members of the board, Apollo is essentially able to select all of the board's directors.[678] The Apollo-controlled nominating and governance committee also oversees the "self-evaluation process of the Board [and its] standing committees."[679] The Apollo-controlled executive committee's principal duties and responsibilities are "to advise and counsel the Chief Executive Officer regarding company matters" and "to take such actions as are necessary due to their urgent or highly confidential nature, or where convening the Board is impracticable, subject to certain limitations."[680] There

[671] Charter of the Executive Committee of the Board of Directors, Lifepoint Health, at LP-CEG-002042. Apollo January 2024 letter, at 3.
[672] DSB Parent L.P., Delegation of Authority and Corporate Policy (November 21, 2019), at LP-CEG-002064-002065.
[673] DSB Parent L.P., Delegation of Authority and Corporate Policy (November 21, 2019), at LP-CEG-002066 - 002067.
[674] Lifepoint 2023 report, at LP-CEG-005843.
[675] Lifepoint 2023 report, at LP-CEG-005844. Charter of the Quality Committee of the Lifepoint Health Board of Directors, at LP-CEG-002050.
[676] Lifepoint 2023 report, at LP-CEG-005840-LP-CEG-005844. *Lobbying Firm Profile: Brownstein, Hyatt et al*, Open Secrets (accessed November 27, 2024) available at https://www.opensecrets.org/federal-lobbying/firms/summary?cycle=2018&id=D000000724. Lifepoint 2022 report, at LP-CEG-005699.
[677] Lifepoint 2023 report, at LP-CEG-005840-LP-CEG-005844.
[678] Charter of the Nominating and Corporate Governance Committee of the Lifepoint Health Board of Directors, at LP-CEG-002046-002047.
[679] See footnote 678.
[680] Certain limitations include amending organizational documents of the company, entering "into or authoriz[ing] any mergers, amalgamation, consolidation, reorganization, recapitalization or other business combination," "any joint venture (or series of related joint ventures) involving an aggregate enterprise value in excess of $250,000,000," or "any acquisition or divestiture (or series of related acquisitions or divestitures) involving an aggregate enterprise value in excess of $250,000,000;" declaring certain dividends; issuing equity security; commencing "the termination, liquidation or dissolution of the Company;" proposing or instituting bankruptcy or liquidation

are no health care providers or health services scholars on the Lifepoint Health board.[681] The members of the board, their affiliations, and their committee assignments are shown in Table 8.

Board member name	Affiliations	Compensation	Nominating and Governance	Compliance and Enterprise	Quality	Audit	Executive
David M. Dill (Chairman)	Chief Executive Officer of Lifepoint Health						
Sen. Evan Bayh	Senior advisor to Apollo and former U.S. senator and governor of Indiana			M			
Heather Berger	Partner and Head of Global Product at Apollo						
Christine Cahill	Principal at Apollo		M				M
Maxwell David	Partner at Apollo	M	C		M		M
William M. Lewis, Jr.	Partner and member of the Management Committee at Apollo						
Matthew Nord	Partner and Co-Head of Equity at Apollo	C					C
Norman Brownstein	Chairman of law/lobbying firm Brownstein Hyatt Farber Schreck that has lobbied for Apollo and its portfolio companies				M		
Wendell Pritchett	Professor at the University of Pennsylvania			M		M	
Kenneth Shea	Co-founder and managing principal of a private real estate investment fund			M		C	
G. Rodney Wolford	Former health care industry executive			C		M	
Nell Buhlman	Chief Administrative Officer and Head of Strategy for Press Ganey Forsta, a company focused on optimizing health care experience				C	M	

Note: "C" represents committee chair and "M" represents committee member.

Table 8. Affiliations and Committee Assignments of Lifepoint Health Board Members as of February 2024.[682]

proceedings or winding up at the corporate or subsidiary level; "form[ing] or dissolv[ing] standing or director-only committees of the Board; "amend[ing] the charter of any committee of the Board," "tak[ing] any actions that have been expressly, by charter or resolutions, delegated to any other committee of the Board;" and "amend[ing] or repeal[ing] any resolution of the Board." Charter of the Executive Committee of the Lifepoint Health Board of Directors, at LP-CEG-002042-002043. Lifepoint 2023 report, at LP-CEG-005844.

[681] See footnote 677.

[682] Table developed by Committee staff based on the sources in footnote 676.

C. ORHC came under PE ownership when it was struggling to access capital and recruit physicians.

ORHC was once a thriving community hospital. Established in 1894, ORHC's origins are based in charity and community.[683] Community members told Committee staff that the hospital was once the place in southeastern Iowa where women would come to deliver their babies and a staple of the community.[684] In the mid-1990s, 750 to 800 babies were born at the hospital each year.[685] The average daily inpatient census was about 80 patients.[686] The hospital ran the largest home health agency in 10 counties—the agency cared for "about 400 patients at any given time, making 54,000 visits per year."[687] The hospital ran a respite unit for "weary families who need a place to bring loved ones with Alzheimer's disease and other ailments, but also supervised lodging for people rebounding from an illness or surgery."[688] The hospital had a profit margin of about six percent.[689]

However, by the late 2000s, the hospital was floundering. The hospital had long-term debt that it needed to pay off.[690] In 2005, inspectors found that ORHC had violated Medicare's conditions of participation and the hospital was in danger of being terminated from the Medicare program; the hospital ultimately was able to address the issues and avoid termination.[691] The hospital had been struggling to recruit and retain psychiatrists and had to close its inpatient psychiatric unit in 2009.[692] At that time, hospital board member and then-future mayor of Ottumwa Tom Lazio explained the hospital's situation as: "We've really been struggling. We're a small rural community in Iowa and we've been struggling with physician recruitment."[693] The

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[683] In the late 1800s, Mary Brooks Thrall, the wife of a key Ottumwa physician, realized and felt the need for a hospital in area. She was unable to accomplish this goal in her lifetime, but urged her friends at the time of her death to take up the work in her stead. She suggested that her friends form a Bible class, in which they would be able to both pursue religious studies and work towards the establishment of a hospital in Ottumwa. After Thrall's death, her friends organized the Mary Brooks Thrall Bible class and held weekly meetings. The women worked to raise money through food and entertainment fundraisers and donations from community groups. The women solicited input from physicians and business leaders for how to best establish the hospital. When the hospital opened as Ottumwa Hospital and Training School for Nurses in 1894, its first officers were women from the Bible class. Harrison Lyman Waterman, *History of Wapello County Iowa*, Internet Archive (1914), https://archive.org/stream/historyofwapello01inwate/historyofwapello01inwate_djvu.txt

[684] Notes from calls between Senator Charles E. Grassley's staff and Ottumwa community members (October 2024), on file with Committee.

[685] Kevin Lumsdon, *My Town, My Hospital*, Hospital & Health Networks (December 20, 1995), *available at* https://www.proquest.com/docview/215308423?parentSessionId=B6nEJZMahNbcvndrNqLYZfUgx929OFHYOLE4ub0%2FE1M%3D&sourcetype=Trade%20Journals.

[686] See footnote 685 (Lumsdon 1995).

[687] See footnote 685 (Lumsdon 1995).

[688] See footnote 685 (Lumsdon 1995).

[689] See footnote 685 (Lumsdon 1995).

[690] Richard Pizzi, *RegionalCare Hospital Partners acquires Iowa health center*, Healthcare Finance News (December 15, 2009), available at https://www.healthcarefinancenews.com/news/regionalcare-hospital-partners-acquires-iowa-health-center.

[691] *Iowa Hospital stays in Medicare*, Modern Healthcare (August 15, 2005), available at https://www.proquest.com/trade-journals/iowa-hospital-staysmedicare/docview/211944859/se-2?accountid=45340.

[692] See footnote 691. ORHC 2009 AHA Annual Submission (2010), at LP-CEG-008491, ("ORHC AHA 2009").

[693] *Tom Lazio: Board Member, ORHC*, RegionalCareHP Youtube Channel, (posted September 25, 2012), available at https://www.youtube.com/watch?v=iiqVlNndqU0. Leslie Santibanez-Molina, *Ottumwa Mayor Tom Lazio reflects*

hospital also needed capital to make improvements and expand its offerings.[694] Average daily inpatient census in 2009 was down to about 49 patients, but the hospital was still delivering more than 750 babies per year.[695]

In the late 2000s, the ORHC Board of Directors began looking for a bigger organization to acquire the hospital and unanimously decided to sell the hospital to the PE-owned hospital company RegionalCare Hospital Partners and thus be the first hospital in RegionalCare's portfolio.[696] In 2010, ORHC was an unaffiliated non-profit hospital that was owned by the community and managed by the hospital's board.[697] RegionalCare was a start-up health system owned by Warburg Pincus funds and led by veteran for-profit hospital company executives.[698] After the acquisition, ORHC became an affiliated for-profit PE hospital.[699]

By selling to RegionalCare, ORHC followed a trend common among rural hospitals, affiliation with a hospital system. Throughout the nation, small and rural independent hospitals have struggled to stay afloat due to difficulty raising capital and recruiting health care workers, high costs of overhead, and declining populations.[700] In the last few decades, many independent hospitals have chosen to be acquired by larger health systems in order to continue providing care.[701] From 2000 to 2020, the nationwide share of hospital beds under health system control increased from 58 percent to 81 percent.[702] In Iowa, this trend has typically occurred through affiliation with regional or national non-profit health systems, such as UnityPoint Health, Sanford Health, Avera Health, emplify Health, CommonSpirit Health—which owns CHI Health,

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on 8 years in office, KTVO (October 8, 2021), available at https://ktvo.com/news/local/ottumwa-mayor-says-goodbye-after-8-years-of-service.

[694] *Dr. Ted Haas: Chairman of the Board, ORHC*, RegionalCareHP Youtube Channel, (posted September 25, 2012), https://www.youtube.com/watch?v=IbQkjzTYJZo.

[695] ORHC AHA 2009, at LP-CEG-008481.

[696] See footnote 690. Staff, *For-Profit RegionalCare Hospital Partners Purchases Iowa Hospital*, Becker's Hospital Review (December 15, 2009), *available at* https://www.beckershospitalreview.com/news-analysis/for-profit-regionalcare-hospital-partners-purchases-iowa-hospital.html/

[697] See footnote 624 (Newman 2010).

[698] See source 1 at footnote 635 (Bowman 1999). Warburg Pincus April 2023 letter, at 1-3.

[699] See footnotes 624 (Newman 2010) and 698.

[700] Tu-Uyen Tran, *For independent hospitals, many small and rural, consolidation with a chain can be a lifesaver*, Federal Reserve Bank of Minneapolis (August 23, 2023), available at https://www.minneapolisfed.org/article/2023/for-independent-hospitals-many-small-and-rural-consolidation-with-a-chain-can-be-a-life-saver.

[701] See footnote 700.

[702] Elena Andreyeva, Atul Gupta, Catherine E. Ishitani, Malgorzata Sylwestrzak, and Benjamin Ukert, *The Corporatization of Independent Hospitals*, National Bureau of Economic Research ("NBER") (October 2023), at 6, https://www.nber.org/system/files/working_papers/w31776/w31776.pdf

and Trinity Health—which owns MercyOne.[703] Outside of Iowa, there are many rural hospitals affiliated with for-profit hospital systems.[704]

Figure 42 contains a quote from Dr. Ted Haas, former chairman of the ORHC Board of Directors and a long-time obstetrician at the hospital, explaining why ORHC pursued the acquisition and chose RegionalCare. [705]

> We realized that there were a number of changes going on in health care. To make an institution such as ours, which was just a private not-for-profit institution community hospital, to survive with the changes in health care, it would be very difficult. We looked at financing and the ability to get capital to make improvements, we looked at ability to network, and we looked at the difficulty that we had been having by ourselves in recruiting new physicians to our community. At the end of the day, it was really the culture of the organization that we had and the culture of the organization of RegionalCare that led us to that decision. They believed very strongly in quality of care. They also believed that the local hospital still would have some input in what they believed was important for their hospital in their community but yet have all the support of a bigger organization. The commitment to quality, the support to help get that quality in place, and the capital dollars to help us improve our physical plant at a much faster pace than we ever would have been able to do as a standalone organization. With the changes in health care, you can't just sit and wait. You have to move forward and pick the organization that you think is best to work with.

Figure 42. Explanation for the Acquisition Made by the Former Chairman of the ORHC Board.[706]

D. PE-owned companies made promises to ORHC that have been unfulfilled.

When RegionalCare bought ORHC, it made a lot of promises. Then-ORHC CEO Tom Siemers reported that "the scope of commitments RegionalCare has made to ORHC's future is extensive and will allow our hospital to continue to provide exceptional care and service to our patients."[707] Many promises were promoted in the media, some of which were written down in

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[703] *About UnityPoint Health*, UnityPoint Health (accessed November 27, 2024), available at https://www.unitypoint.org/about-unitypoint-health. *About Us*, Sanford Health (accessed November 27, 2024), available at https://www.sanfordhealth.org/about. *About Avera Health*, Avera (accessed November 27, 2024), available at https://www.avera.org/about/. *Meet emplify Health*, emplify Health (accessed November 27, 2024), available at https://emplifyhealth.org/about. *About CHI Health*, CHI Health (accessed November 27, 2024), available at https://www.chihealth.com/about-us. *About us*, MercyOne (accessed November 27, 2024), available at https://www.mercyone.org/about-us/.

[704] Sruthi Srinivasan, Kristie Thompson, and George Pink, *2018-23 Profitability of Rural Hospitals by Ownership and System Affiliation*, North Carolina Rural Health Research Program (June 2024) at 3, available at https://www.shepscenter.unc.edu/download/27342/?tmstv=1733195916.

[705] See footnote 694 (Haas video 2012). Jacqueline Schutte, *Local doctor retiring after 35 years of service to the same hospital,* KTVO (July 18, 2015), available at https://ktvo.com/news/local/local-doctor-retiring-after-35-years-of-service-to-same-hospital.

[706] See footnote 694 (Haas video 2012).

[707] See footnote 690 (Pizzi 2009).

an asset purchase agreement ("APA").[708] An APA is a legally binding document that outlines the terms and conditions for the sale of a business from a seller to a buyer.[709] In the case of ORHC, the non-profit foundation created with the proceeds from the sale, the Ottumwa Regional Legacy Foundation, became the party at the other side of the agreement.[710,711] Lifepoint Health assumed RegionalCare's legal commitments executed in the APA as the successor of RegionalCare.[712] RegionalCare's promises were not unique to ORHC; RegionalCare made numerous promises to the other hospitals that it acquired as well.[713]

In the case of ORHC, RegionalCare fulfilled many of its short-term promises outlined in the APA. For example, in its first two years of ownership of the hospital, ORHC built a new cardiac catherization lab and successfully recruited two cardiologists to the community.[714] The hospital also constructed a new cardiac catheterization lab in 2023.[715] There were several other specific capital improvement projects outlined in the APA that, according to Lifepoint Health,

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[708] See footnotes 624 (Newman 2010) and 690 (Pizzi 2009). Asset Purchase Agreement, at LP-CEG-000094-000100.

[709] Anthony Eugeni, *Nuts and Bolts of Asset Purchase/Sale Transactions*, University at Buffalo School of Law (April 20, 2023), at 3, available at https://www.law.buffalo.edu/content/dam/law/content/cle/23apr17-materials/materials.pdf.

[710] Asset Purchase Agreement, at LP-CEG-000102 and LP-CEG-000112. Lifepoint October 16, 2024 letter, at 6-7.

[711] The Ottumwa Regional Legacy Foundation is commonly referred to as the Legacy Foundation and will be referred to such in the report. The Legacy Foundation was established with an endowment of more than $60 million from the sale of the hospital to RegionalCare. The Legacy Foundation is focused on improving the well-being of Wapello County and distributes about $3 million in grants every year. Committee staff heard from multiple community members that the Legacy Foundation has done great things for the community. Ottumwa Regional Legacy Foundation webpage (accessed November 27, 2024), available at https://www.ottumwalegacy.org/ and https://www.ottumwalegacy.org/meet-your-foundation/foundation-faqs/. *Ottumwa Regional Legacy Foundation, Inc*., D & B Business Directory (accessed November 27, 2024), available at https://www.dnb.com/business-directory/company-profiles.ottumwa_regional_legacy_foundation_inc.d38dad6de8408aa05cfa4a71a290068e.html. See footnote 684 (Community member calls).

[712] Lifepoint October 16, 2024 letter, at 6-7.

[713] For example, RegionalCare made multiple promises to Clinton County, Ohio when it acquired Clinton Memorial Hospital: "In addition to the cash payment [of $82 million], RegionalCare has committed minimum capital expenditures of $60 million over a period of 10 years; minimum physician recruitment expenditures of $15 million over 10 years; $500,000 to the YMCA; $500,000 for community development; will pay property taxes estimated at $1 million per year; will pay sales taxes estimated at $1 million per year; and $200,000 per year was committed to provide care to uninsured prisoners in Clinton County." In its acquisition of Sierra Vista Regional Health Center in southeastern Arizona, now called Canyon Vista Medical Center, RegionalCare promised to "invest $11 million in various improvements and build a 100-bed replacement hospital" and to spend "$18 million over seven years to recruit more than 25 physicians." When it acquired three-hospital Essent Healthcare, it promised to "maintain the commitment to physician recruiting and retention and make appropriate capital investments at the individual hospitals." Greet De Lombaerde, *RegionalCare closes the deal in Ohio*, Nashville Post (May 20, 2010), available at https://www.nashvillepost.com/home/regionalcare-closes-the-deal-in-ohio/article_4e3e5ac0-ecda-558a-806b-3fcd9119767f.html. Staff Reports, *RegionalCare wraps up Arizona deal*, Nashville Post (May 1, 2013), available at https://www.nashvillepost.com/regionalcare-wraps-up-arizona-deal/article_82d0f29d-9b3c-51e8-a0db-15267f699bf0.html. *RegionalCare Hospital Partners to Merge with Essent Healthcare*, Fierce Healthcare (September 6, 2011), available at https://www.fiercehealthcare.com/healthcare/regionalcare-hospital-partners-to-merge-essent-healthcare.

[714] See source 1 at footnote 693 (Lazio video 2012). Asset purchase agreement, at LP-CEG-000097.

[715] *ORHC to Celebrate Opening of New $4.6 million Cardiac Catheterization Lab*, ORHC (July 26, 2023), available at https://www.ottumwaregionalhealth.com/news/grand-opening-cath-lab.

RegionalCare generally completed in the required timeframe, such as the construction of a new medical office building, the remodel of certain hospital units, and the purchase of certain new equipment.[716] Capital expenditures in the first three years after RegionalCare's acquisition averaged $8 million a year in comparison to the average of $2.5 million in the three preceding years.[717]

RegionalCare and its successor, Lifepoint Health, have also upheld some of the long-term commitments established in the APA. For example, the APA requires maintaining the hospital's board of directors with only local business and community leaders, physicians, and the CEO of the hospital.[718] This has occurred for as far back as Committee staff could review.[719] The APA requires ORHC's parent company to establish a nighttime hospitalist program.[720] Currently, the hospital has 24/7 hospitalist coverage through its contract with Apogee.[721]

However, Lifepoint Health and its predecessors have not fulfilled many of the short- and long-term commitments that were either publicized in the media or in the APA. RegionalCare's leaders reported to the media that their plan for ORHC was "growth."[722] As will be shown in the next section, rather than grow, ORHC's volume of patient care services significantly declined under PE ownership. RegionalCare and Lifepoint Health have failed to fulfill the promises that were legalized in the APA, including promises related to physician recruitment, capital expenditures, charity care, patient satisfaction, and service continuation. Some of these unfulfilled promises may have contributed to circumstances that allowed for the previously described egregious events to occur at the hospital.

1. Unfulfilled Promise #1: Growth

When RegionalCare acquired the hospital, it promised growth via the media,[723] but ORHC has not grown.[724] Then-RegionalCare CEO Marty Rash said to the media that "more

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[716] Second Amendment to the Asset Purchase Agreement Among ORHC, Incorporated, Regional Retirement Living, Inc., Regional Enterprises, Inc., RCHP-Ottumwa, Inc., and Regional Care Hospital Partners (November 25, 2024), at LP-CEG-009162-009165, ("Second Amendment to the Asset Purchase Agreement").
[717] ORHC AHA 2009, at LP-CEG-008485. ORHC 2010 AHA Annual Submission (2011), at LP-CEG-008513, ("ORHC AHA 2010"). ORHC 2011 AHA Annual Submission (2012), at LP-CEG-008543, ("ORHC AHA 2011"). ORHC 2012 AHA Annual Submission (2013), at LP-CEG-008574, ("ORHC AHA 2012"). ORHC 2013 AHA Annual Submission (2014), at LP-CEG-008601, ("ORHC AHA 2013").
[718] Asset Purchase Agreement, at LP-CEG-000096.
[719] See source 2 at footnote 659 (2023 Community Impact Report). *Our Community Impact*, ORHC (2019), at LP-CEG-000122. *Our Community Impact*, ORHC (2020), at LP-CEG-000124. *Our Community Impact*, ORHC (2021), at LP-CEG-000126. *Our Community Impact*, ORHC (2022), at LP-CEG-000128.
[720] Asset Purchase Agreement, at LP-CEG-000098.
[721] Apogee agreement, at LP-CEG-001848.
[722] See footnote 624 (Newman 2010).
[723] See footnote 624 (Newman 2010).
[724] ORHC AHA 2009, at LP-CEG-008481. ORHC AHA 2010, at LP-CEG-008509. ORHC AHA 2011, at LP-CEG-008539. ORHC AHA 2012, at LP-CEG-008570. ORHC AHA 2013, at LP-CEG-008597. ORHC 2014 AHA Annual Submission (2015), at LP-CEG-008624, ("ORHC AHA 2014"). ORHC 2015 AHA Annual Submission (2016), at LP-CEG-008651, ("ORHC AHA 2015"). ORHC 2016 AHA Annual Submission (2017), at LP-CEG-008676, ("ORHC AHA 2016"). ORHC 2017 AHA Annual Submission (2018), at LP-CEG-008704, ("ORHC AHA 2017").

services available here would mean a draw from a larger share of the region. And the fact that this part of Iowa is economically disadvantaged doesn't change the tremendous growth potential."[725] While under PE ownership, patient volumes—one metric to measure growth—declined considerably at ORHC, even though the population size of the local community stayed generally stable.[726] As ORHC passed from one operator to another and one PE owner to another, no entity was able to reverse its trajectory. The following subsection will describe the decline in patient volumes at ORHC and this subsection as well as the subsequent subsections will describe the factors that have contributed to the decline, including insufficient staffing, inadequate physician recruitment and retention, poor patient experience, and the hospital's reputation. The hospital's volumes have further declined since the death of DMC.

a. Patient volumes (2009-2019).

Within the first years of RegionalCare's ownership, ORHC experienced marked declines in almost all volume measures and these numbers generally continued to decline for the following decade. When comparing 2011 to 2009—the years before and after the acquisition, admissions decreased by 24 percent, births decreased by 23 percent, inpatient surgeries decreased by 23 percent, and outpatient surgeries decreased by 11 percent.[727] ED visits only decreased by five percent in that period,[728] which indicates that the decline in admissions and inpatient surgeries was either driven by a reduction in surgeons admitting patients to the hospital for elective surgeries or a reduction in incoming transfers to ORHC from neighboring hospitals.[729] Considering the county's population size was generally stable, the decline in births indicates that women were choosing to go elsewhere. The graphs in Figure 43 display ORHC's patient volumes over time. The graphs start at 2009, the year before the acquisition, and end at 2019 to avoid the confounding effect of the COVID-19 pandemic and the reputational harm from the death of DMC at the end of 2022 on the hospital's volumes.

ORHC 2018 AHA Annual Submission (2019), at LP-CEG-008736, ("ORHC AHA 2018"). ORHC 2019 AHA Annual Submission (2020), at LP-CEG-008768, ("ORHC AHA 2019").

[725] See footnote 624 (Newman 2010).

[726] See footnote 604 (USA Facts for Wapello).

[727] See footnote 724 (AHA survey data from multiple years).

[728] See footnote 724 (AHA survey data from multiple years).

[729] If incoming transfers declined, this could be attributed to a reduction in clinical staff available at ORHC to care for more complex patients or an increase in ability to care for complex patients at the neighboring critical access hospitals.

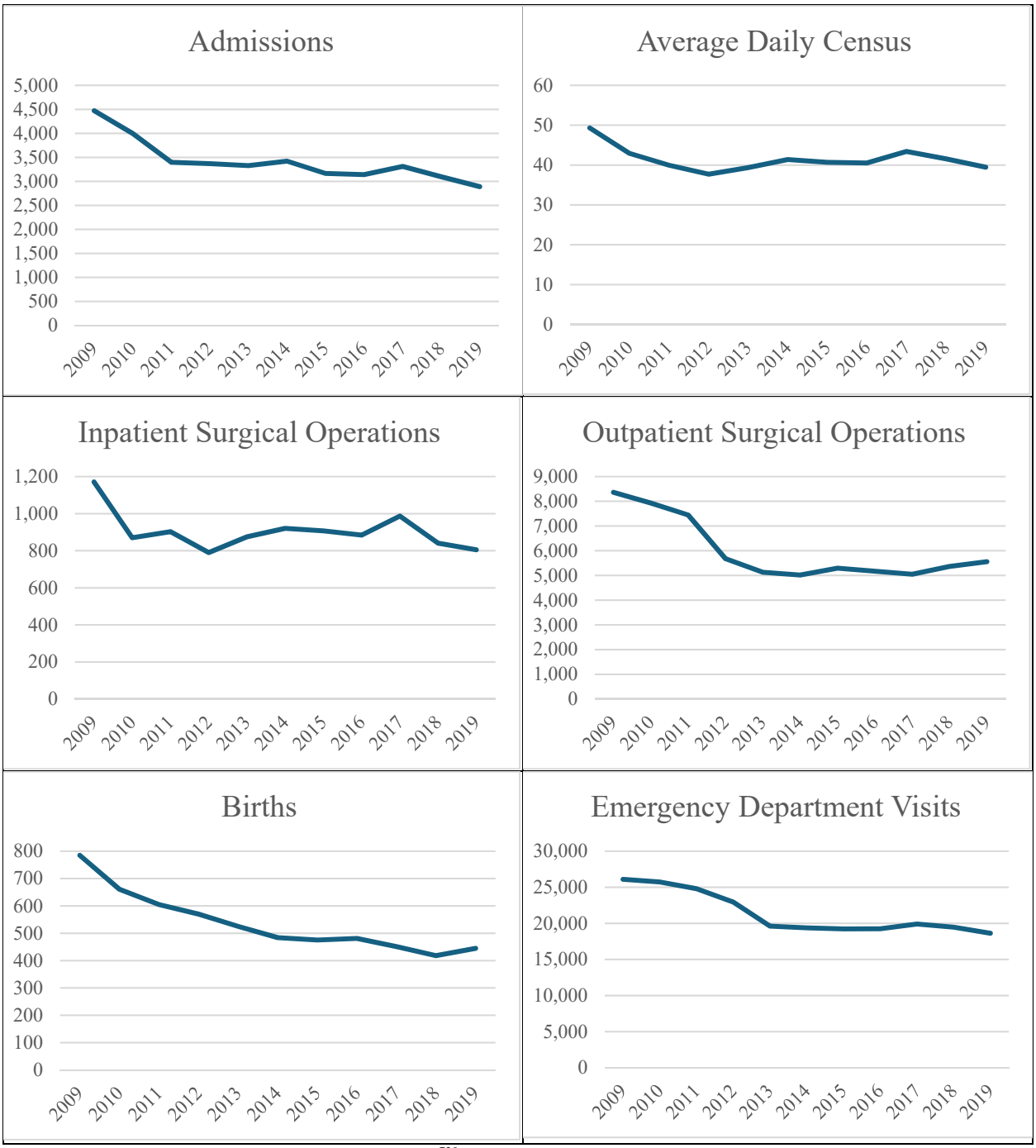


Figure 43. ORHC's Care Volumes from 2009 to 2019.[730]

[730] Figures developed by Committee staff based on the numbers contained in the sources noted in footnote 724 (AHA survey data from multiple years). Average daily census, which is the average number of inpatients at ORHC on a given day during that year, is calculated by dividing the total inpatient days for the year by 365.

b. Emergency department care (2009-2019).

Emergency department ("ED") volumes also declined after the acquisition. While ED visits only declined by five percent by 2011, the number of ED visits markedly declined in 2012 and 2013: by 2013, ED visits were down 25 percent as compared to 2009 and never subsequently rebounded.[731] This drop in ED visits may be related to increased availability of urgent care or walk-in clinics in the area or increased public awareness about appropriate use of the ED, but it also could be related to wait and boarding times at the ORHC ED.[732] Boarding time refers to the time that admitted patients spend in the ED awaiting an inpatient bed and longer boarding times can create crowded conditions and strain ED staffing resources.[733] CMS started collecting measures of ED timeliness in 2011, the year after the acquisition, and thus Committee staff could not identify what ED conditions were like prior to the acquisition.[734] However, since at least 2011, ORHC has had much longer ED wait and boarding times than the Iowa average.[735] From 2011 to 2019, while ORHC was operated by PE-owned RegionalCare and Lifepoint Health, ED timeliness measures worsened, and the gap between ORHC's performance and the Iowa average grew (see Table 9).[736] These long wait times may have played a role in the decline in ORHC's ED volumes beginning in 2012.

[731] See footnote 724 (AHA survey data from multiple years).
[732] This subsection of the report will later discuss how wait times and boarding times are likely related to staffing shortages.
[733] *Boarding of Admitted and Intensive Care Patients in the ED*, American College of Emergency Physicians (February 2023), available https://www.acep.org/patient-care/policy-statements/boarding-of-admitted-and-intensive-care-patients-in-the-emergency-department.
[734] Anna Marie Chang, Amber Lin, Rongwei Fu, K John McConnell, and Benjamin Sun, *Association of ED Length of Stay with Publicly Reported Quality-of-Care Measures*, Academic Emergency Medicine (February 2017), at 246, available at https://onlinelibrary.wiley.com/doi/epdf/10.1111/acem.13102.
[735] To conduct this analysis, committee staff filtered the hospital-level files for ORHC's CCN, which is 160089, and the state-level files for Iowa. CMS Hospital Compare ED quality measures hospital-level data for 2011 observation period and 2012 reporting period, NBER (2012), available at https://data.nber.org/compare/hospital/2012/12/dbo_vwhqi_hosp_ed.csv. CMS Hospital Compare ED quality measures state-level data for 2011 observation period and 2012 reporting period, NBER (2012), available at https://data.nber.org/compare/hospital/2012/12/vwhqi_hosp_ed_state.csv.
[736] See footnote 735 for methodology used. CMS Hospital Compare ED quality measures hospital-level data for 2019 observation period and 2020 reporting period, NBER (2020), available at https://data.nber.org/compare/hospital/2019/10/timely_and_effective_care_hospital.csv. CMS Hospital Compare ED quality measures state-level data for 2019 observation period and 2020 reporting period, NBER (2020), available at https://data.nber.org/compare/hospital/2019/10/timely_and_effective_care_state.csv. CMS Hospital Compare ED quality measures hospital-level data for 2018 observation period and 2019 reporting period, NBER (2019), available at https://data.nber.org/compare/hospital/2020/10/timely_and_effective_care_hospital.csv. CMS Hospital Compare ED quality measures state-level data for 2018 observation period and 2019 reporting period, NBER (2019), available at https://data.nber.org/compare/hospital/2020/10/timely_and_effective_care_state.csv.

	2011		2019	
	ORHC	Iowa	ORHC	Iowa
Average (median) time patients spent in the emergency department, before they were admitted to the hospital as an inpatient (ED_1b)	224 minutes	198 minutes	272 minutes*	192 minutes*
Average (median) time patients spent in the emergency department, after the doctor decided to admit them as an inpatient before leaving the emergency department for their inpatient room (ED_2b) – "Boarding"	85 minutes	55 minutes	98 minutes	60 minutes
Average (median) time patients spent in the emergency department before leaving from the visit (OP_18b) –"ED wait time"	127 minutes	108 minutes	168 minutes	114 minutes
*These numbers capture ORHC and Iowa average performance for the 2018 observation period as ED_1b results were not publicly reported for the 2019 observation period.[737]				

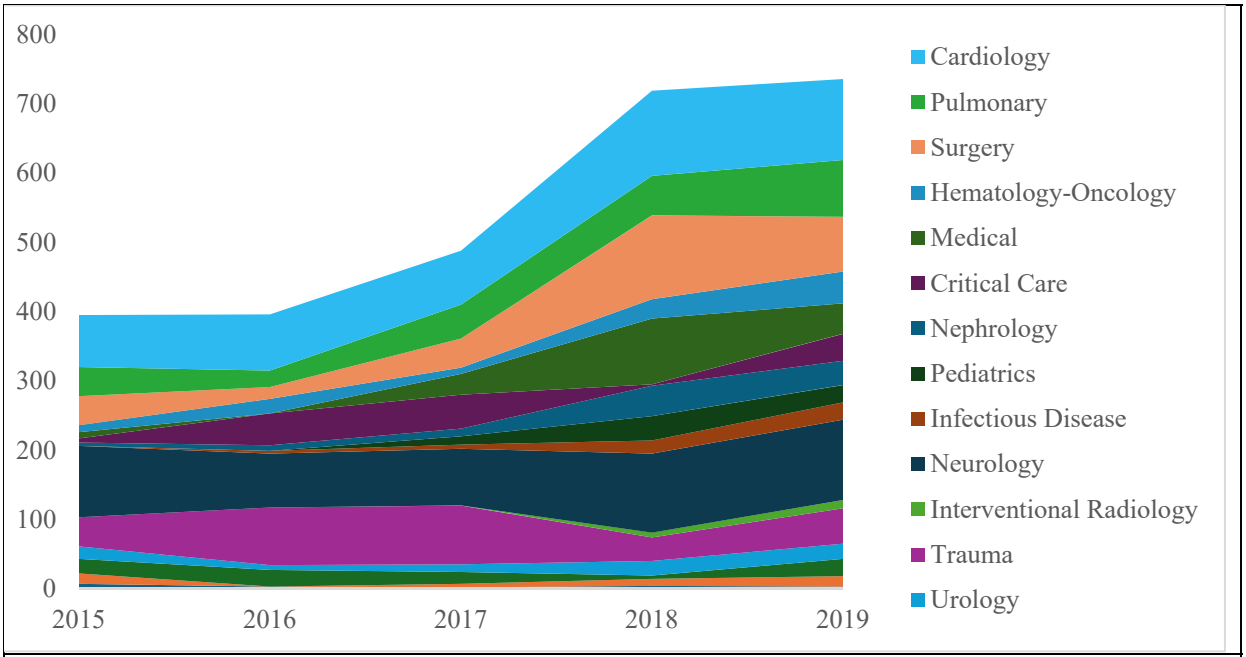
Table 9. ORHC's Performance on CMS Measures of ED Timeliness (2011 and 2019).[738]

c. Transfers out (2009-2019).

Instead of growing, ORHC's specialty service availability and care capacity declined under PE ownership as evidenced by the increase in transfers out of the ED to other hospitals. From 2015 to 2019, the number of non-psychiatric ED patients that ORHC transferred to other hospitals increased by 86 percent (see Figure 44).[739] The percentage of ED visits resulting in non-psychiatric transfers to other hospitals increased from 2 percent to 4 percent from 2015 to 2019.[740] A transfer from an ED to another hospital typically occurs when the originating hospital does not have the specialty care necessary to support the patient or does not have staffed beds available.[741] The capacity constraint at ORHC is staffing as the hospital always has more physical beds for patients.[742] Committee staff heard from community members that the high number of outgoing transfers contributes to the poor reputation of the hospital as patients want to go to a hospital that will care for them, not a waystation.[743,744] Inpatient transfers—transfers of patients admitted to ORHC to inpatient units at other hospitals—also increased from 7 percent of

[737] See footnote 736.
[738] Table developed by Committee staff based on the sources in footnotes 735 and 736.
[739] Data file received from Lifepoint Health containing counts of ED and inpatient transfers out of ORHC from 2015-2023, at LP-CEG-008274.
[740] Committee staff calculated these numbers using the transfer numbers from the ORHC transfer data file referenced in footnote 739 (LP-CEG-008274) and the ED visit numbers in the ORHC AHA 2015 file, at LP-CEG-008651 and ORHC AHA 2019 file, at LP-CEG-008768.
[741] Justine Augustine, *Interhospital Transfer Capabilities Still Pose Major Issues*, ACEP Now (June 14, 2024), available at https://www.acepnow.com/article/interhospital-transfer-capabilities-still-pose-major-issues/#:~:text=Transferring%20patients%20from%20one%20ED%20to%20another,the%20hospital%20has%20no%20available%20inpatient%20space.
[742] In 2023, the hospital was licensed for 217 beds, but had an average daily census of 27 patients. ORHC AHA 2023, at LP-CEG-008918.
[743] See footnote 684 (Community member calls).
[744] ORHC's CEO has acknowledged the reputational impact of the transfers: "I know that people have feelings about the helicopter…We are that middle-tier hospital. We have smaller regional hospitals that surround us, then there's us as a step up, and then there's the tertiary facilities in Des Moines and Iowa City…We will never be a tertiary center of care. We will never do cardiac open heart surgery. We will never do complex neuroradiological work. That is not what we're meant for. We don't have the population to support that type of provider in the community where we live." See source 1 at footnote 600 (Ocker 2024).

admissions in 2015 to 11 percent of admissions in 2019, which indicates that the hospital was not able to provide the same kind of specialized care that it could provide in the past. [745]



Note: This graph excludes psychiatric patients.

Figure 44. Non-psychiatric Transfers from the ORHC ED to Other Hospitals by Specialty (2015-2019).[746]

d. Post-pandemic volumes.

Like most hospitals, ORHC's volumes declined in the first year of the pandemic, but unlike other hospitals, ORHC's volumes did not rebound or only briefly rebounded (see **Error! Reference source not found.**).[747,748] This failure to rebound was likely driven by two things: 1) increasingly long ED wait times, which likely drove patients to seek urgent and emergent care elsewhere; and 2) declining ability to care for patients requiring admission or surgical intervention, which contributed to high rates of outgoing transfers.

[745] Committee staff calculated these numbers using the transfer numbers from the ORHC transfer data file referenced in footnote 739 (LP-CEG-008274) and the admission numbers in the ORHC AHA 2015 file, at LP-CEG-008651 and ORHC AHA 2019 file, at LP-CEG-008768.

[746] Figure developed by Committee staff based on the source referenced in footnote 739 (LP-CEG-008274).

[747] According to one study of California data, "total hospital volume (measured by total adjusted patient days [which combines inpatient plus outpatient services based on gross charges per day]) rebounded to pre-COVID levels by Q2 of 2021, continued to rebound, and, as of Q4 of 2022, exceeded pre-pandemic levels by 7%." Glenn Melnick and Susan Maerki, *Post-COVID trends in hospital financial performance: updated data from California paint an improved but challenging picture for hospitals and commercially insured patients*, Health Affairs Scholar (August 24, 2023), available at https://pmc.ncbi.nlm.nih.gov/articles/PMC11103726/.

[748] ORHC 2020 AHA Annual Submission (2021), at LP-CEG-008802, ("ORHC AHA 2020"). ORHC 2021 AHA Annual Submission (2022), at LP-CEG-008838, ("ORHC AHA 2021"). ORHC 2022 AHA Annual Submission (2023), at LP-CEG-008876, ("ORHC AHA 2022"). ORHC AHA 2023, at LP-CEG-008918.

	2019	2020	2021	2022	2023
Admissions	2,890	2,700	2,500	2,122	1,917
Average daily census	39	37	36	31	27
Births	445	455	400	356	297
Emergency department visits	18,635	15,580	15,736	15,750	13,624
Inpatient surgical operations	805	800	747	512	430
Outpatient surgical operations	5,557	4,601	5,282	4,900	4,703

Table 10. ORHC's Care Volumes (2019-2023).[749]

ORHC's ED wait times are currently among the longest in Iowa. ORHC has been struggling with ED timeliness since at least 2011—the year that CMS started collecting these measures. In 2023, the average length of time that non-admitted patients spent in the ORHC ED was 192 minutes—more than three hours.[750] This is an increase from 127 minutes in 2011 and 168 minutes in 2019 (see **Error! Reference source not found.**).[751] **In 2023, ORHC had the longest average ED time for non-admitted patients for low volume Iowa EDs—this time was 30 minutes greater than the next longest.[752]** Committee staff heard from community members that, aside from the nine sexual assaults, the largest factor driving dissatisfaction with the hospital in the community is the ED.[753] This dissatisfaction can clearly be seen by ORHC's 2023 left without being seen ("LWBS") rate—the percentage of patients who leave the ED prior to clinical evaluation—of four percent.[754]

This rate is much higher than ORHC's LWBS rate of one percent in 2019 and higher than Iowa's overall LWBS rate of three percent in 2023.[755] Among low volume EDs in Iowa, ORHC was tied with only one other for the highest LWBS rate.[756] ORHC has publicly acknowledged the long ED wait times and the community's frustrations with the ED.[757] Table 11 contains ED timeliness data for 2023 and compares ORHC to three surrounding hospitals and the Iowa average. It appears that Ottumwa residents would save time by driving 25 minutes to hospitals in neighboring communities versus choosing to seek care at ORHC.

[749] Table developed by Committee staff based on the numbers contained in the sources noted in footnote 748.
[750] To conduct this analysis, we filtered by the facility name. Timely and Effective Care measures – provider data (2023 observation period), CMS (October 10, 2024), available at https://data.cms.gov/provider-data/dataset/yv7e-xc69.
[751] See source 1 in footnote 735 and source 1 in footnote 736 (CMS Hospital Compare ED quality measures hospital-level data files).
[752] See footnote 750.
[753] See footnote 684 (Community member calls).
[754] To conduct the state-level analysis, we filtered by state. Timely and Effective Care measures – state data (2023 observation period), CMS (October 10, 2024), available at https://data.cms.gov/provider-data/dataset/apyc-v239. Alexander Janke, Edward Melnick, and Arjun Venkatesh, *Monthly Rates of Patients Who Left Before Accessing Care in US Emergency Departments, 2017-2021*, JAMA Network Open (September 30, 2022), available at https://jamanetwork.com/journals/jamanetworkopen/fullarticle/2796861.
[755] See footnote 750 and 751.
[756] See footnote 750.
[757] See source 1 at footnote 600 (Ocker 2024).

	2018	2023				
	Ottumwa Regional Health Center	Ottumwa Regional Health Center	Davis County Hospital (25 minutes away)	Jefferson County Health Center (25 minutes away)	Mahaska Health (34 minutes away)	Iowa Overall
Average (median) time patients spent in the emergency department before leaving from the visit (OP_18b) –"ED wait time"	168 minutes	192 minutes	99 Minutes	89 minutes	132 minutes	119 minutes
Left Without Being Seen (OP_22)	1%	4%	0%	0%	1%	3%

Table 11. Emergency Department Timeliness Measures (2023 observation period)[758]

The hospital's limited capacity to care for patients requiring inpatient admission following the COVID-19 pandemic is reflected in the hospital's increased rate of transfers out of the ED starting in 2020, increased number of ED boarding hours starting in 2020, and the significant decline in ICU patients in 2023 (see Table 12**Error! Reference source not found.**).[759]

	2019	2020	2021	2022	2023
Percentage of ED Visits Resulting in Non-Psychiatric Transfers[760]	4.0%	6.1%[a]	4.9%	4.7%	5.0%
Total ED Boarding Hours[761]	2,564	4,322	4,657	4,598	7,582
Total ICU Patients[762]	641	547	959	783	107
[a]The increase in outgoing ED transfers in 2020 could also have been related to employee illness at ORHC and the complex needs of patients with COVID-19.					

Table 12. Measures of ORHC's Post-Pandemic Capacity.[763]

At least partially due to the high number of outgoing transfers, the long ED wait times, and the poor reputation of the facility, the people of Ottumwa, Iowa are receiving their care elsewhere. In 2015, 69 percent of hospitalizations of Ottumwa residents with fee-for-service

[758] Table developed by Committee staff based on the sources referenced in footnote 755.
[759] See following table for support.
[760] These rates were calculated using the methodology described in footnote 740 and the data files cited in footnotes 739 (LP-CEG-008274) and 748 (LP-CEG-008802, LP-CEG-008838, LP-CEG-008876, LP-CEG-008918).
[761] Lifepoint November 8, 2024 letter, at 4-5.
[762] Letter from ORHC to Chairman Sheldon Whitehouse and Ranking Member Charles E. Grassley (March 4, 2024), at 6, ("ORHC March 2024 letter").
[763] Table developed by Committee staff based on sources cited in the following footnotes.

Medicare took place at ORHC.[764] In 2023, that number was down to 50 percent.[765] ORHC is supposed to be a referral center, but it appears to be becoming more of a "refer out center" (see Figure 45). It is notable that Ottumwa residents are opting to go to critical access hospitals ("CAH") when there is a referral center in their backyard.

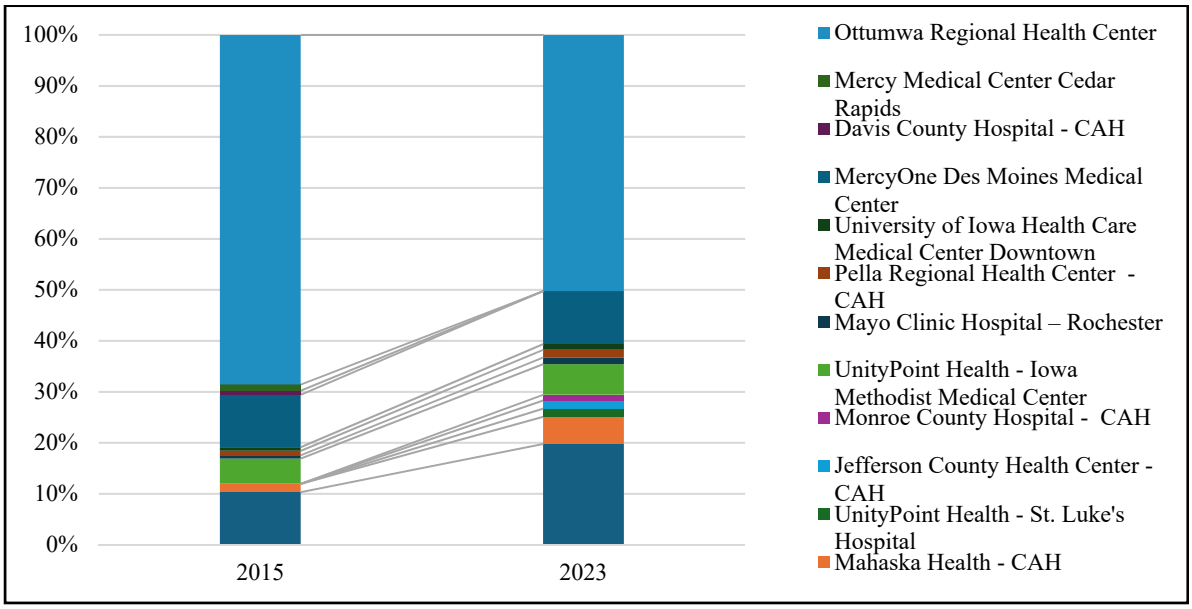


Figure 45. Location of Hospitalizations of Medicare Fee-for-Service Residents of Ottumwa, Iowa.[766]

[764] This analysis uses publicly available "Hospital Service Area" data from CMS. 2015 is the first year for which this data is available. To conduct this analysis, Committee staff selected 2015 from the year drop down and filtered by 52501 (Ottumwa, Iowa) for zip code of residence. Committee staff added the hospital names to this analysis by matching the providers number in the "Hospital Service Area file to provider numbers in the "Medicare Inpatient Hospitals – by Provider" file. Hospital Services Area data file for 2015 and zip code 52501, CMS (accessed November 27, 2024), available at https://data.cms.gov/provider-summary-by-type-of-service/medicare-inpatient-hospitals/hospital-service-area/data/2015?query=%7B%22filters%22%3A%7B%22list%22%3A%5B%7B%22conditions%22%3A%5B%7B%22column%22%3A%7B%22value%22%3A%22ZIP_CD_OF_RESIDENCE%22%7D%2C%22comparator%22%3A%7B%22value%22%3A%22%3D%22%7D%2C%22filterValue%22%3A%5B%2252501%22%5D%7D%5D%7D%5D%2C%22rootConjunction%22%3A%7B%22value%22%3A%22AND%22%7D%7D%2C%22keywords%22%3A%22%22%2C%22offset%22%3A0%2C%22limit%22%3A10%2C%22sort%22%3A%7B%22sortBy%22%3Anull%2C%22sortOrder%22%3Anull%7D%2C%22columns%22%3A%5B%5D%7D. Medicare Inpatient Hospitals – by Provider data file, CMS (accessed November 27, 2024), available at https://data.cms.gov/provider-summary-by-type-of-service/medicare-inpatient-hospitals/medicare-inpatient-hospitals-by-provider/data .

[765] Committee staff conducted this analysis using the methodology outlined in footnote 764, except that Committee staff selected 2023 from the year drop down on the "Hospital Service Area" webpage. Hospital Services Area data file for 2023 and zip code 52501, CMS (accessed November 27, 2024), available at https://data.cms.gov/provider-summary-by-type-of-service/medicare-inpatient-hospitals/hospital-service-area/data?query=%7B%22filters%22%3A%7B%22list%22%3A%5B%7B%22conditions%22%3A%5B%7B%22column%22%3A%7B%22value%22%3A%22ZIP_CD_OF_RESIDENCE%22%7D%2C%22comparator%22%3A%7B%22value%22%3A%22%3D%22%7D%2C%22filterValue%22%3A%5B%2252501%22%5D%7D%5D%7D%5D%2C%22rootConjunction%22%3A%7B%22value%22%3A%22AND%22%7D%7D%2C%22keywords%22%3A%22%22%2C%22offset%22%3A0%2C%22limit%22%3A10%2C%22sort%22%3A%7B%22sortBy%22%3Anull%2C%22sortOrder%22%3Anull%7D%2C%22columns%22%3A%5B%5D%7D..

[766] Figure developed by Committee staff using the data and methodology referenced in footnotes 764 and 765.

e. Insufficient staffing's contribution to the volume reduction.

A critical component of growth in health care is investing in staff. Staffing is necessary to grow or at least maintain a hospital's volumes. Without sufficient medical staff (physicians and advanced practitioners) and/or non-medical staff (nursing and support staff), a hospital may not be able to provide timely care to the patients that show up at its ED, admit patients who present to the ED, accept transfers from other facilities, or care for elective surgical patients. Insufficient staffing can directly impact patient experience, which could contribute to patients choosing to go to other hospitals in the future.[767] Figure 46 is a visual representation of how insufficient staffing may have contributed to the reduction in patient volume at ORHC.

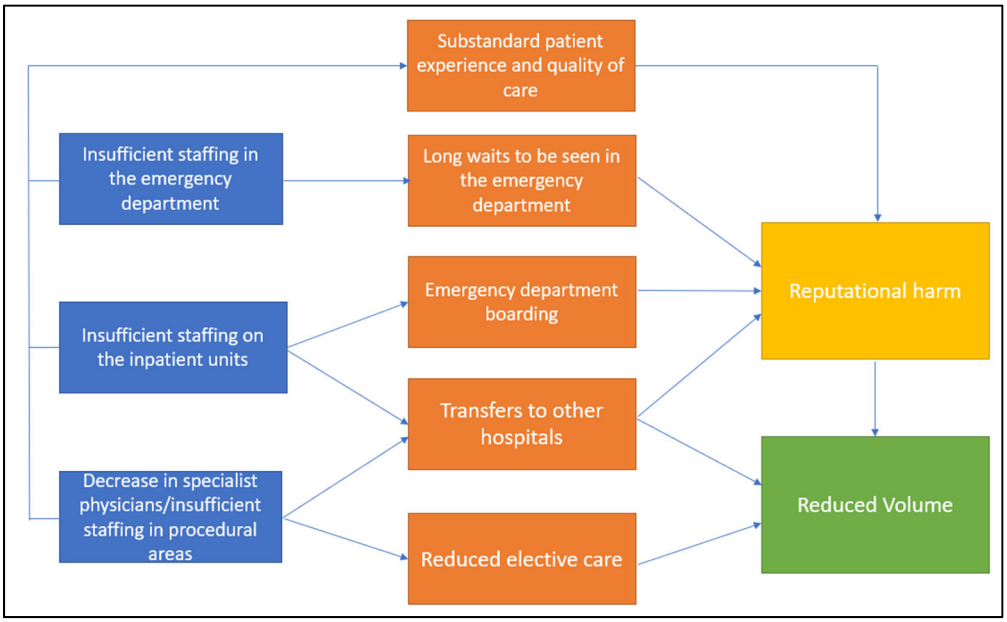


Figure 46. Conceptual Model of Potential Factors Contributing to Reduced Volumes.[768]

The long ED waits can be related to insufficient medical staff (physicians and advanced practitioners) and/or insufficient non-medical staff (nursing and support staff). ORHC is responsible for non-medical staffing in the ED. As noted previously, investigations conducted at ORHC after the death of DMC revealed that there was often not enough non-medical staff in the ED for each patient on 1:1 observation to have an in-room sitter.[769] ORHC has contracted the PE-owned medical staffing company TEAMHealth to exclusively provide medical staff to the ORHC ED since 2019.[770] The ORHC ED likely did not have sufficient medical staffing when

[767] Linda Aiken, et. Al., *Patient satisfaction with hospital care and nurses in England: an observational study*, BMJ Open (January 10, 2022), available at https://bmjopen.bmj.com/content/8/1/e019189.info.
[768] Figure developed by Committee staff in order to simply portray the relationship between the factors that may have contributed to reduced patient volumes at ORHC.
[769] CMS Statement of Deficiencies May 2023, at 26.
[770] According to Lifepoint Health, "Lifepoint has a Master Agreement with TeamHealth…which governs the overall relationship between Lifepoint and TeamHealth with certain decisions, such as the lines of service for which TeamHealth will provide services, made at the facility level." TeamHealth provides exclusive emergency medicine, hospitalist, and/or anesthesia provider staffing at many Lifepoint Health hospitals, but TEAMHealth only provides

TEAMHealth took over in 2019; however, medical staffing does not appear to have improved under TEAMHealth's tenure.[771,772] By having fewer ED medical providers, Lifepoint Health/ORHC is likely able to pay less money to TEAMHealth to provide this service. Lifepoint Health/ORHC is responsible for paying TEAMHealth a revenue-dependent subsidy based on the following formula: 110 percent of TEAMHealth's total cost to provide the service minus TEAMHealth's total net patient revenue from collections.[773] If revenues exceed 110 percent of costs, the facility does not have to pay the subsidy. By having fewer ED medical providers, TEAMHealth's costs would be lower and thus there would be less cost to pass onto Lifepoint Health/ORHC.

Lifepoint Health has acknowledged that ORHC's high transfer numbers, long boarding hours, and reduced ICU volumes are related to non-medical staffing challenges.[774] ORHC appears to have struggled with sufficient non-medical staffing since at least the time that its parent company was bought by Apollo. ORHC's non-medical staffing challenges are well-captured in the turnover, resignation, and vacancy numbers shown in Table 13.[775] The high number of transfers is likely also related to a lack of specialist physicians on the medical staff, which will be discussed in the next section.

emergency medicine staffing at ORHC. Lifepoint and ORHC's agreements with TEAMHealth are with TeamHealth's, Southeastern Emergency Physicians, LLC. Lifepoint November 8, 2024 letter, at 7. Amended and Restated Exclusive ED, Hospitalist Services, and Anesthesia Services Master Agreement between Lifepoint Corporate Services, General Partnership and Southeastern Emergency Physicians, LLC, a Tennessee limited liability company and TeamHealth subsidiary (January 18, 2023), at LP-CEG-002265-002337, ("Lifepoint TEAMHealth agreement"). Exclusive Professional Services Agreement between Southeastern Emergency Physicians, LLC and RCH-Ottumwa (March 1, 2019), at LP-CEG-002338-002357. ("ORHC TEAMHealth Agreement"). *TeamHealth to be Acquired by Blackstone*, PR Newswire (October 31, 2016), available at https://www.prnewswire.com/news-releases/teamhealth-to-be-acquired-by-blackstone-300353863.html.

[771] See Table 9 and Table 11.

[772] The Senate's Homeland Security and Governmental Affairs Committee (HSGAC) found that TEAMHealth severely understaffed ED providers at the Ascension St. John Hospital in Detroit. HSGAC found that "physicians reportedly have been responsible for over 20 beds at a given time and patients routinely had a 16-hour wait time in the ED." Ascension stopped using TEAMHealth in its Detroit hospitals at the end of August 2024. Letter from Chairman Gary Peters to Stephen A. Schwarzman, Chairman and Chief Executive Officer, Blackstone and Leif M. Murphy, Chief Executive Officer, TeamHealth (April 1, 2024), at 4, available at https://www.hsgac.senate.gov/wp-content/uploads/2024.04.01-HSGAC-Chairman-Peters-Letter-to-Blackstone-TeamHealth.pdf. Larry Beresford, *The ER Docs Strike Back*, ACEP Now (August 28, 2024), available at https://www.acepnow.com/article/the-er-docs-strike-back/.

[773] Lifepoint TEAMHealth agreement, at LP-CEG-002269-002270 and LP-CEG-002280-002284.

[774] ORHC March 2024 letter, at 5-6.

[775] See table below.

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Turnover rate for employed staff[776]	40%	15%	21%	21%	23%	22%	24%	37%	42%
Registered nurse vacancies[777]	32	14	24	35	30	35	42	74	84
Total employee vacancies (including nurses)[778]	76	37	64	67	53	70	86	136	131

Table 13. Measures of Staffing at ORHC (2015-2023).[779]

Descriptions of insufficient staffing were frequent among comments made by ORHC employees in the June 2022 satisfaction survey. Out of 672 comments, 61 comments were identified by Committee staff as describing insufficient staffing.[780] Figure 47 displays survey comments that convey the sentiment expressed.

Staffing is a real issue that impacts all of our abilities to effectively do our jobs well.	Due to staffing no one is able to have time to collaborate effectively
Staffing, we have to have unsafe nurse to patient ratios and support staff isn't close to enough. Nothing else matters till it gets fixed.	No team work between departments due to short staffing issues, no one has time to help or extra hands to help the next department due to no staffing and increased work loads.
We are constantly understaffed, underpaid, have to work crazy hours, and deal with multiple patients. Half of our equipment is old and does not work half the time.	CNAs all quit. I'm doing my job & CNA job (only get my salary though doing 2 people's jobs at once each day). People say I do a good job, but I'm exhausted & frustrated & receive really no reward for all the extra work.
My coworkers are all trying but we are all tired and worn out from lack of staff and lack of leadership.	Nurse to pt ratio very uneven, trying to find a nurse to explain what is going to happen, or to find a nurse to help with pt exam,, delays pt care

Figure 47. Selected Comments Regarding Insufficient Staffing from the ORHC June 2022 Employee Satisfaction Survey.[781]

In summary, instead of growing as promised under PE ownership, ORHC's volumes have shriveled. These volumes have declined likely because of insufficient staffing. Figure 48 is a Facebook post from July 2024 describing the impact of insufficient staffing on the hospital.

[776] According to Lifepoint Health, these are the rates for hospital and lab staff, excluding contract and clinic employees. Lifepoint November 8, 2024 letter, at 11-12.
[777] ORHC AHA 2015, at LP-CEG-008656. ORHC AHA 2016, at LP-CEG-008682. ORHC AHA 2017, at LP-CEG-008711. ORHC AHA 2018, at LP-CEG-008742. ORHC AHA 2019, at 008775. ORHC AHA 2020, at LP-CEG-008809. ORHC AHA 2021, at LP-CEG-008846. ORHC AHA 2022, at LP-CEG-008883. ORHC AHA 2023, at LP-CEG-008929.
[778] See footnote 777.
[779] Table developed by Committee staff based on sources cited in the following footnotes.
[780] See footnote 589 (LP-CEG-009115). Two Committee staff members reviewed the 672 comments submitted, categorized the concern identified, and then quantified the number of comments mentioning the concern.
[781] See footnote 589 (LP-CEG-009115).

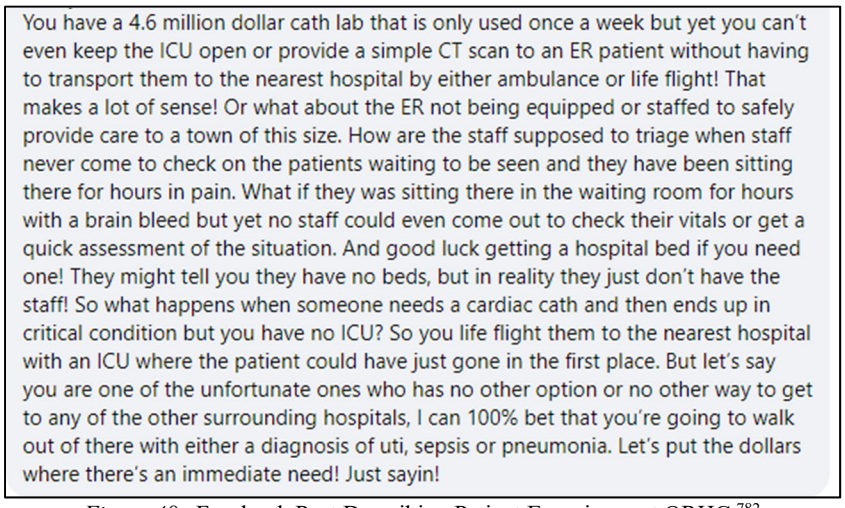


Figure 48. Facebook Post Describing Patient Experience at ORHC.[782]

2. *Unfulfilled Promise #2: Physician recruitment*

ORHC's parent companies have failed in their commitment to recruit physicians. ORHC sought acquisition because it was struggling with physician recruitment.[783] RegionalCare's leaders promised to change this in its statements to the media. In 2010, RegionalCare's CEO Martin Rash told the media that "we are also working with hospital and physician staff leaders to identify needs for physician recruitment. In order to best serve the needs of the region, we must have a medical staff that includes both primary care and a range of specialists. We will be very active in finding board-certified physicians who want to make Ottumwa their home."[784] RegionalCare also committed in the APA to "expend $7,500,000 in its efforts to recruit at least twenty-five physicians" and to further physician development at the hospital.[785] According to Lifepoint Health, ORHC's parent companies have only "expended $6 million in physician recruitment efforts."[786] In addition to being less than committed, this $6 million has clearly been insufficient as evidenced by the decline in volume detailed in the previous section.[787] ORHC's parent companies' failure to sufficiently invest in physician recruitment has resulted in a shortage of specialist providers at the hospital and primary care providers in the community.

a. Reduction in specialists.

The composition of specialists on the medical staff has declined under PE ownership. As of November 2024, the hospital did not have any general surgeons, oncologists, sleep specialists, dentists/oral surgeons, psychiatrists, or neurologists listed on its provider directory (see Table

[782] Facebook comment responding to ORHC's July 9, 2024 post about Iowa Senator Cherielynn Westrich's tour of the ORHC cardiac catheterization lab, Facebook (July 18, 2024), available at https://www.facebook.com/OttumwaRegionalHealthCenter/posts/pfbid02vR4A6pRTb548PKcZLRAhDFnGHqoxJn9UcqfNCpCYVw6RsDZYhBqsZg6GHh5Gdnwal?comment_id=985409129980075.
[783] See footnotes 624 (Newman 2010) and 694 (Haas video 2012).
[784] See footnote 624 (Newman 2010).
[785] Asset Purchase Agreement, at LP-CEG-000098.
[786] Second Amendment to the Asset Purchase Agreement, at LP-CEG-009159.
[787] See Figure 43 and Table 10.

14).[788,789] Committee staff heard from community members that the hospital's long-time general surgeon recently left to work at a neighboring critical access hospital.[790] According to Lifepoint Health, the hospital has been covering the vacancy with locum tenens physicians—short-term independent contractors—and a newly hired general surgeon will begin to practice at the hospital soon.[791] One of the hospital's two orthopedic surgeons left to work at a hospital 45-minutes away, leaving the hospital with only one orthopedic surgeon.[792] By Lifepoint Health's own assessment, the demand for surgical specialists in ORHC's physician service area is greater than the current supply, particularly the demand for otolaryngology, gastroenterology, general surgery, neurosurgery, orthopedics, obstetrics-gynecology, and plastic surgery.[793] Additionally, the hospital does not currently have any intensivist physicians either in-person or through telemedicine.[794,795] The ORHC ICU is covered by the Apogee hospitalists who have limited capability to care for patients with critical care needs.[796]

[788] Archived ORHC Provider Directory, Wayback Machine (May 19, 2014), available at https://web.archive.org/web/20140519015049/http://www.ottumwaregionalhealth.com/directory/. Archived ORHC, Wayback Machine (December 5, 2021), available at https://web.archive.org/web/20211205052629/https://www.ottumwaregionalhealth.com/provider-directory-pdf-download. Provider Directory, ORHC (November 18, 2024), available at https://www.ottumwaregionalhealth.com/provider-directory-pdf-download.

[789] ORHC can currently access neurology and psychiatry services via telemedicine. The hospital has also recently gained two nurse midwives. ORHC March 2024 letter, at 3, 5 and source 1 at footnote 600 (Ocker 2024).

[790] See footnote 684 (Community member calls), footnote 788, and Lifepoint November 8, 2024 letter, at 2.

[791] See source 1 at footnote 600 (Ocker 2024) and ORHC 3-year Recruitment Plan, at LP-CEG-007910.

[792] See footnote 790.

[793] ORHC 3-year Recruitment Plan, at LP-CEG-007911-007912.

[794] According to Lifepoint Health, "In 2017, Ottumwa Regional secured a grant to launch e-ICU services, where a team of tele-intensivists were available around the clock to provide ICU-level care to ICU patients through the use of advanced camera technology. These intensivists made rounds, or checked on patients, via telemedicine daily and were on-call for any patient needs." ORHC March 4, 2024 letter, at 5. "Ottumwa Regional discontinued its e-ICU program in the spring of 2022 following the expiration of the grant that funded the service." Lifepoint October 16, 2024 letter, at 11-12.

[795] Intensivists are physicians who are certified in critical care medicine. Mortality rates have been found to be significantly lower in hospitals with ICUs managed exclusively by board certified intensivists. Having intensivists available via telemedicine has also been shown to reduce mortality, but at a lower rate than having in-person intensivists. *Factsheet: ICU Physician Staffing*, Leapfrog Hospital Survey (April 1, 20222), available at https://ratings.leapfroggroup.org/sites/default/files/inline-files/2022%20IPS%20Fact%20Sheet_0.pdf.

[796] According to Lifepoint Health, "The hospitalists at Ottumwa Regional recommended discontinuing the e-ICU service due to concerns about patient safety and outcomes. Specifically, intensive care procedures such as central line placement, intubation, ventilator management, and chest tube placement require in-person execution by trained ICU providers. The lack of an on-site ICU-trained provider to perform these critical procedures limited the effectiveness of the e-ICU service." Additionally, one employee made the following comment in the June 2022 satisfaction survey: "we need to recruit hospitalists who will actually keep patients in our facility. We transfer so many patients to larger hospitals becomes they don't want to keep them here. We have a big hospital with a lot of possibilities, but we seem to only have the resources of a critical access facility." See Lifepoint October 16, 2024 letter, at 11-12 and footnote 589 (LP-CEG-009115).

	2014	2021	November 2024	Trend
Dentistry/Oral Surgery	2	2	0	×
Psychiatry	0*	2	0	×
General Surgery	1	1	0	×
Sleep Medicine	1	0	0	×
Neurology	1	0	0	×
Oncology	1	0	0	×
Obstetrics & Gynecology	5	4	2	↓
Podiatry	3	3	1	↓
Ophthalmology	2	2	1	↓
Orthopedics	2	2	1	↓
Dermatology	2	1	1	↓
Nephrology	1	1	1	—
Otolaryngology	1	1	1	—
Radiation Oncology	1	1	1	—
Urology	1	1	1	—
Wound Care & Hyperbaric Medicine	1	1	1	—
Gastroenterology	1	0	1	—
Pain Medicine	0	1	1	↑
Cardiology/Interventional Cardiology	2	3	7	↑

*ORHC did not have an inpatient psychiatric unit from 2009-2014.[797]

Table 14. Change in Availability of Specialist Physicians Listed on the ORHC Provider Directory (2014-November 2024).[798]

b. Primary care.

In addition to recruiting specialists, RegionalCare also made a commitment to recruit primary care physicians to Ottumwa. The APA notes the following: "Buyers initial focus after the Closing shall be the recruitment of three (3) to five (5) family practice physicians."[799] While this commitment may have been initially met, it is clear that ORHC's parent companies have not maintained this effort. The primary care physician to population ratio in Wapello County has been worse than Iowa and national averages since 2016, the year after Apollo acquired ORHC's parent company (see Figure 49**Error! Reference source not found.**).[800] Wapello County also has a higher rate of preventable hospital stays, a proxy measure of access to primary health care, than the average county in Iowa and the average U.S. county.[801] By ORHC's own assessment, the hospital's physician service area could support approximately eleven additional internal medicine physicians.[802]

[797] ORHC AHA 2009, at LP-CEG-008491. ORHC AHA 2014, at LP-CEG-008633.
[798] Table developed by Committees staff based on the numbers contained in the sources in footnote 788 (ORHC provider directories).
[799] Asset Purchase Agreement, at LP-CEG-000098.
[800] *Wapello, IA*, County Health Rankings & Roadmaps (accessed November 27, 2024), available at https://www.countyhealthrankings.org/health-data/iowa/wapello?year=2024.
[801] See footnote 800.
[802] ORHC 3-year Recruitment Plan, at LP-CEG-007911.

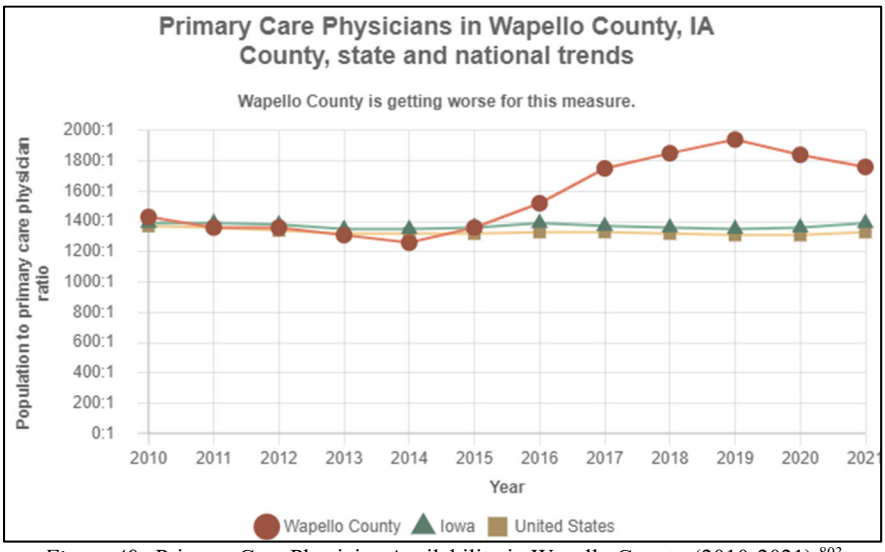


Figure 49. Primary Care Physician Availability in Wapello County (2010-2021).[803]

3. Unfulfilled Promise #3: Routine capital expenditures.

Another key feature of the APA is an ongoing commitment to make routine capital expenditures. Under the initial agreement, the buyer was supposed to make routine capital expenditures greater or equal to 2.5 percent of net patient revenue for the first five years of ownership in addition to a number of specific capital projects outlined in the agreement.[804] After those first five years, the buyer was supposed to spend an amount equal to or greater than five percent of net patient revenue on routine capital expenditures annually.[805] From 2011 to 2020, ORHC's parent companies did not fulfill the routine capital expenditures commitment for six of the ten years (see Table 15).[806] Most notably, this failure started in 2015, the year that Apollo acquired ORHC's parent company.[807] Lifepoint Health did not reverse course when it entered the picture at the end of 2018.[808] Committee staff estimated that ORHC's parent companies failed to make about $7.6 million in obligated capital expenditures from 2015 to 2020. [809]

[803] This graph presents the number of people per primary care physician and thus a higher number indicates less primary care physicians relative to the population and is worse. See footnote 800 (County Health Rankings).
[804] Asset Purchase Agreement, at LP-CEG-000097-000098.
[805] Asset Purchase Agreement, at LP-CEG-000097-000098.
[806] Lifepoint October 16, 2024 letter, at 9.
[807] See following table.
[808] See following table.
[809] Committee staff calculated net patient revenue by dividing the amount expended and the percent of revenue expended, which are numbers provided directly to the Committee by Lifepoint Health at Lifepoint October 16, 2024 letter, at 9. Committee staff multiplied the calculated net patient revenue by the required investment percentage outlined in the Asset Purchase Agreement at LP-CEG-000097-000098 to yield the amount that should have been expended in the calendar year. Staff subtracted the amount that should have been expended from the amount that was expended to identify the difference.

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Required investment percentage	2.5%	2.5%	2.5%	2.5%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Percentage of revenue expended	4.1%	7.5%	7.4%	4.7%	3.6%	3.4%	3.9%	2.3%	2.7%	4.2%
Actual amount expended	$3.2M	$5.4M	$5.5M	$3.3M	$2.6M	$2.5M	$3.0M	$1.8M	$2.2M	$2.9M
Amount that should have been expended	$2.0M	$1.8M	$1.9M	$1.8M	$3.6M	$3.7M	$3.8M	$3.9M	$4.1M	$3.4M

Table 15. Committed and Actual Routine Capital Expenditures.[810]

Not only did ORHC's parent companies fail to meet their contractual commitments, they also failed to make necessary investments in ORHC's infrastructure. During the first six years of Apollo's ownership of ORHC's parent company, capital expenditures at ORHC have been far less than depreciation. According to a recent report, the national median ratio of capital expenditures to depreciation for non-profit hospitals is about 105-110 percent each year.[811] At ORHC, the capital expenditures to depreciation ratio averaged about 50 percent from 2012 to 2020, far below the national median for non-profit hospitals.[812] This means that ORHC may not have replaced property, plant, and equipment as fast as it aged (see Table 16).[813]

	2015	2016	2017	2018	2019	2020
Actual amount expended	$2.6M	$2.5M	$3.0M	$1.8M	$2.2M	$2.9M
Depreciation	$5.9M	$4.6M	$4.9M	$4.8M	$5.0M	$5.2M
Capital expenditures to depreciation ratio (National median: 105-115%)	44%	54%	62%	38%	44%	56%

Table 16. Capital Expenditures to Depreciation Ratio[814]

[810] Table developed by Committee staff based on sources referenced and methodology described in footnote 809.
[811] According to the report, "These reference ranges were informed by Fitch Ratings national medians for more than 200 non-profit hospitals and health systems from 2013–2022 (most recent data available)." Sarah Kinsler, Peter Hayes, Christopher Romero-Gutierrez, and Michael Bailit, *Guide to Understanding Hospital Spending through Financial Analysis*, Peterson-Milbank Program for Sustainable Health Care Costs (April 2024), at 3, 7, and 13, available at https://www.bailit-health.com/publications/2024-Hospital-Financial-Analysis-Case-Studies.pdf.
[812] Committee staff calculated the capital expenditure to depreciation ratios using the capital expenditures figures from Lifepoint October 16, 2024 letter and the depreciation figures in ORHC's consolidated income statements. This table starts at 2012 due to data availability. ORHC Consolidated Income Statements for 2015-2020, at LP-CEG-007952-LP-CEG-007963.
[813] See footnote 811.
[814] Table developed by Committee staff based on sources referenced and/or methodology described in footnotes 811 and 812.

The impact of the failure to make committed capital expenditures over the years was well reflected by employee comments in ORHC's June 2022 satisfaction survey. Committee staff identified 33 comments related to poor conditions at the facility and 35 comments related to broken or old equipment.[815] Employee sentiment regarding the state of ORHC's equipment and facility is well-captured by the comments in Figure 50.

This facility is dirty and it is embarrassing to try and explain to patients and their family when you find something unclean. Tearing wallpaper on the walls and nasty carpeting are embarrassing. Leaking roof with spots on the tiles every time it rains is embarrassing.	Overall cleanliness of the hospital could be better, as well as prompt solutions to maintenance issues. It seems to take months and constant reminders to get anything fixed. I've had patients mention the broken appliances as well as how dirty the walls and floor appear. Frankly it is embarrassing to have to explain why there is no running water in some bathrooms and why the paint on the walls are chipping and visibly dirty. I feel as a nurse I clean what I can but I can't be scrubbing the floors and walls.
Forced to utilize outdated/end of life equipment due to no $ to replace what is needed. Corporate level issue.	Staff would feel more appreciated if they saw investments in the facility. Floors need cleaned and replaced and it feels like its always other places. Share more of the wealth. Paint would be great, cleaning would be great especially deep cleaning of unit room floors.
Our ambulances are garbage. They are constantly in the shop being worked on. We have rigs with 300,000 + miles on them, when the industry standard for replacement is 150,000 miles.	I think this hospital could use a lot of structural upgrades in order to improve patient care and safety. We have a lot of old equipment and a lot of spaces that are not conducive for safe, efficient care. I think efficiency and ease of use contributes to safety compliance.
Remodel, cleanliness, consistently receive negative comments and how dirty and unkempt our hospital is. Patients choose other facilities for care because of this.	An organization requires strong leadership from the highest level of the corporate structure, supported with budget dollars to improve poor functioning equipment and decrepit buildings, along with a positive morale installation in order to appropriately adjust the culture of an organizational structure at any level.

Figure 50. Selected Comments Regarding Equipment and Facility from the ORHC June 2022 Employee Satisfaction Survey[816]

[815] See footnote 780 (Committee member analysis of LP-CEG-009115).
[816] See footnote 589 (LP-CEG-009115).

In recent years, Lifepoint Health and the Legacy Foundation scaled back the routine capital expenditures commitment in the APA. In December 2020, Lifepoint Health and the Legacy Foundation amended the APA to allow ORHC's parent company's spending on "physician investments" to count towards the required investment percentage.[817,818] For example, the definition of physician investments includes "payments made under income guarantees."[819] Instead of Lifepoint Health needing to make annual expenditures equal to five percent of net patient revenue on capital improvements, Lifepoint Health now only needs to make expenditures equal to 3.75 percent, as long as its expenditures on physician investments are at least equal to 1.25 percent of net patient revenue.[820] The amended APA also revises the definition of routine capital expenditures to cover "operating and capital leases," which includes leases on equipment, generators, an off-site pharmacy dispenser, and a business hub.[821]

ORHC is not the only Lifepoint Health hospital with an ongoing capital expenditure commitment and it may be the case that Lifepoint Health has failed to fulfill its commitments to those hospitals as well.[822] At a system level, Lifepoint Health is also falling below the national median ratio of capital expenditures to depreciation. Lifepoint Health's average annual capital expenditures to depreciation ratio was 71 percent for 2019-2023, which is below the national median of 105-110 percent.[823] By Lifepoint Health's own acknowledgement, it has rigid criteria regarding when it will approve capital expenditures over a certain amount. Lifepoint Health noted the following in its 2023 annual report: "We have a formal and intensive review procedure for the authorization of capital expenditures that exceed an established threshold. One of the most important financial measures of acceptability for a discretionary capital project is whether

[817] Letter from Lifepoint to Chairman Sheldon Whitehouse and Ranking Member Charles E. Grassley (March 4, 2024), at 4-5, ("Lifepoint March 2024 letter"). First Amendment to the Asset Purchase Agreement among ORHC, Incorporated, Regional Retirement Living, Inc., Regional Enterprises, Inc., RCHP-Ottumwa, Inc., and Regional Care Hospital Partners (September 19, 2014), at LP-CEG-008279-008281, ("First Amendment to the Asset Purchase Agreement").

[818] When Senate Budget Committee asked Lifepoint Health to produce an executed copy of the 2021 amendment to the APA, according to Lifepoint Health, "Ottumwa Regional was not able to identify a fully executed copy of the 2021 amendment to the APA and therefore obtained a new fully executed version in September 2024." Lifepoint letter, October 16, 2024, at footnote 2 on page 9.

[819] The amendment defines physician investments as "expenditures for physician development and recruitment, physician retention costs, physician practice losses, and other investments in physicians, including, but not limited to, sign-on bonus, relocation costs, payments made under income guarantees, out of pocket costs, and payments for tangible and intangible assets related to the acquisition of physician practices." First Amendment to the Asset Purchase Agreement, at LP-CEG-008280.

[820] See footnote 817.

[821] Lifepoint letter, October 16, 2024, at 8-9 and footnote 817.

[822] According to Lifepoint's 2023 annual report, "At December 31, 2023, the Company estimated its total remaining capital expenditure commitments to be approximately $540 million. The majority of this amount represents long-term commitments that are computed as a percentage of revenues at the applicable facility." Lifepoint 2023 report, at LP-CEG-005833 and LP-CEG-005894.

[823] The "ratio of capital expenditure to depreciation expense" was listed as 89.3% for 2019, 45.3% for 2020, 79.7% for 2021, 70.3% for 2022, and 69.4% for 2023. See footnote 811 (Kinsler 2024). Lifepoint 2019 report, at LP-CEG-005286. Lifepoint 2020 report, at LP-CEG-005419. Lifepoint 2021 report, at LP-CEG-005550. Lifepoint 2022 report, at LP-CEG-005686. Lifepoint 2023 report, at LP-CEG-005831.

its projected discounted cash flow return on investment exceeds our projected cost of capital for that project."[824]

The hospital's failure to make routine capital expenditures may have directly contributed to DMC's ability to divert an arsenal of medications from the hospital. Prior to DMC's death, ORHC did not have the rudimentary technologies necessary to prevent diversion. For example, the ORHC ICU medication room was secured with a punch code lock.[825] According to one nurse, ORHC had not changed the punch code in 22 years.[826] Medication rooms should be secured with user-specific access mechanisms, which allow for tracking of unusual access activities and removing access when no longer indicated.[827] Notably, ORHC did have user-specific badge access mechanisms for some of its medication rooms at that time, such as the ED medication room. At the time of his death, DMC was able to access the ED medication room, even though he should have lost access to this room when he changed from an RN position to an NP position.[828] It is clear that access to those medication rooms was not audited, because DMC's unauthorized entries to the ED medication room do not appear to have been detected prior to his death. The failure to change his access levels and conduct audits may be linked to the lack of staff described previously. It is also unclear how DMC obtained a key to the sharps container in the ED; only a small number of designated staff should have access to the key(s) to those containers.[829] If the hospital identified that a sharps container key was missing, it should have made the expenditures necessary to rekey the boxes.

4. Unfulfilled Promise #4: Charity care.

ORHC's acquirers promised in the APA to maintain the hospital's charity care policy,[830] but the amount of charity care provided at ORHC has notably declined (see Figure 51). One news report from the time of the acquisition noted that "officials from the hospital said that no changes will occur in the hospital's charity care or community benefits as a result of the purchase."[831] Charity care refers to health services provided free of charge or at reduced rates to individuals who meet certain financial criteria and differs from bad debt, which consists of services for which hospitals anticipated but did not receive payment.[832] For 2008 and 2009, the hospital provided an annual average of about $1.4 million in financial assistance, including charity care.[833] From 2011 to 2019, the hospital provided an average of about $740,000 in

[824] Lifepoint 2023 report, at LP-CEG-005831
[825] CMS Statement of Deficiencies January 2023, at 15.
[826] CMS Statement of Deficiencies May 2023, at 48.
[827] John Clarke et al., *ASHP Guidelines on Preventing Diversion of Controlled Substances*, 79 American Journal of Health System Pharmacists 24 (December 15, 2022), at 2302, available at https://www.ashp.org/-/media/assets/policy-guidelines/docs/guidelines/preventing-diversion-of-controlled-substances.ashx.
[828] CMS Statement of Deficiencies January 2023, at 15-17.
[829] Michael Cohen and Judy Smetzer, *Partially Filled Vials and Syringes in Sharps Containers Are a Key Source of Drugs for Diversion*, 51 Hospital Pharmacy 7 (2016), available at https://pmc.ncbi.nlm.nih.gov/articles/PMC4981098/.
[830] Asset Purchase Agreement, at LP-CEG-000096-000097.
[831] See source 2 at footnote 696 (Beckers 2009).
[832] Uncompensated Hospital Care Cost Fact Sheet, AHA (February 2022), available at https://www.aha.org/system/files/media/file/2020/01/2020-Uncompensated-Care-Fact-Sheet.pdf.
[833] ORHC AHA 2009, at LP-CEG-008483.

financial assistance.[834] From 2021 to 2023, the annual average amount of financial assistance dropped to $145,000.[835] Failures to fulfill charity care commitments have also been alleged at other Lifepoint Health hospitals.[836]

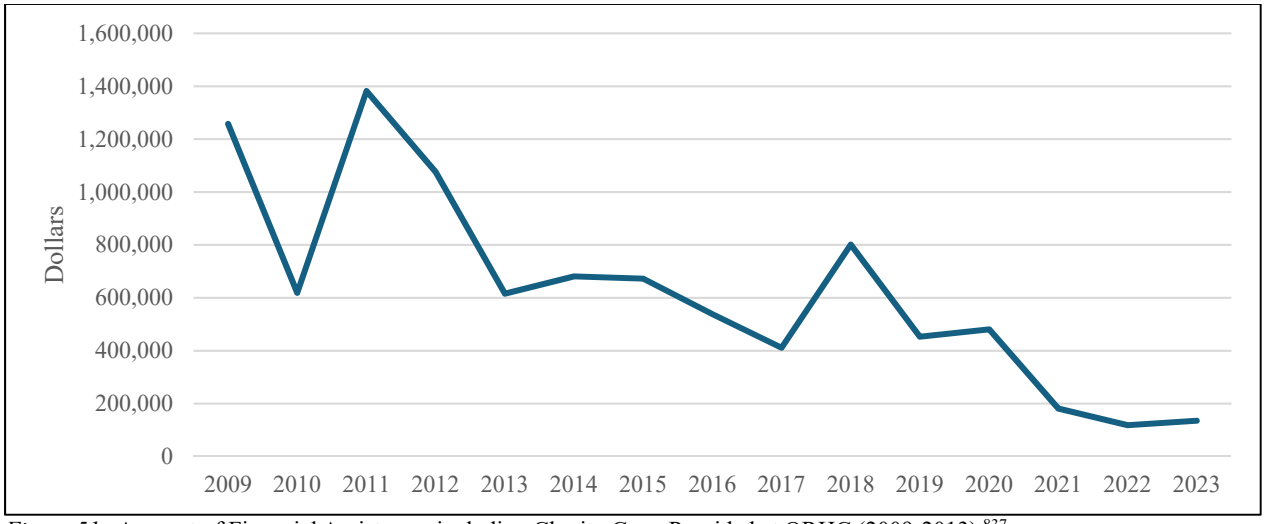


Figure 51. Amount of Financial Assistance, including Charity Care, Provided at ORHC (2009-2013).[837]

5. Unfulfilled Promise #5: Patient satisfaction.

ORHC's purchasers also promised in the APA to "strive to achieve patient satisfaction scores above national averages for similarly-situated hospitals,"[838] but ORHC's scores have generally been worse than the Iowa average since the acquisition and ORHC has some of the worst patient experience ratings in the country. Since the acquisition, the hospital's performance has generally declined on all of CMS' long-standing measures of patient experience, while

[834] ORHC AHA 2010, at LP-CEG-008511. ORHC AHA 2011, at LP-CEG-008541. ORHC AHA 2012, at LP-CEG-008572. ORHC AHA 2013, at LP-CEG-008599. ORHC AHA 2014, at LP-CEG-008626. ORHC AHA 2015, at LP-CEG-008653. ORHC AHA 2016, at LP-CEG-008678. ORHC AHA 2017, at LP-CEG-008706. ORHC AHA 2018, at LP-CEG-008737. ORHC AHA 2019, at LP-CEG-008770. ORHC AHA 2020, at LP-CEG-008804.
[835] ORHC AHA 2021, at LP-CEG-008841. ORHC AHA 2022, at LP-CEG-008878. ORHC AHA 2023, at LP-CEG-008921.
[836] Justin Garcia, *Memorial Medical Center criticized as city, county mull contract*, The Las Cruces Bulletin (December 20, 2022), available at https://www.lascrucesbulletin.com/stories/memorial-medical-center-criticized-as-city-county-mull-contract,83564. Gretchen Morgenson, *Cancer patients say this hospital turned them away*, NBC News (June 5, 2024), available at https://www.nbcnews.com/health/cancer/cancer-patients-say-new-mexico-hospital-turned-them-away-rcna147184. Nash Jones, *AG investigates Las Cruces hospital accused of turning away low-income cancer patients*, KUNM (July 16, 2024), available at https://www.kunm.org/local-news/2024-07-16/ag-investigates-las-cruces-hospital-accused-of-turning-away-low-income-cancer-patients. Letter from Llogan Walters, Assistant Attorney General, North Carolina Department of Justice to Wells Becket, K&L Gates LLP (August 23, 2023), available at https://www.documentcloud.org/documents/22186978-822-ago-letter-to-dlp#document/p2/a2142884.
[837] Figures developed by Committee staff based on the numbers contained in the sources noted in footnotes 833, 834, 835.
[838] Asset Purchase Agreement, at LP-CEG-000098.

average scores for the state of Iowa have stayed the same or improved.[839] ORHC's poor performance on these patient satisfaction scores is likely related to the factors described earlier: ED wait times and boarding, insufficient staffing, and an eroding facility. The impact of insufficient staffing is well-captured by the hospital's poor performance on a number of the patient experience measures shown in Figure 52, including staff response times and cleanliness. The current ORHC CEO has even acknowledged that when he arrived at ORHC at the end of 2022, he had "never walked into a dirtier health care facility."[840]

[839] Committee staff combined the top-box scores for eight Hospital Consumer Assessment of Healthcare Providers and Systems ("HCAHPS") for ORHC and Iowa across 16 data files. CMS Hospital Compare HCAHPS hospital-level data for observation periods from 2007-2022 and reporting periods from 2008-2023, NBER (2008-2023), available at https://data.nber.org/compare/hospital/2008/12/dbo_vwhqi_hosp_hcahps_msr.csv, https://data.nber.org/compare/hospital/2009/12/dbo_vwhqi_hosp_hcahps_msr.csv, https://data.nber.org/compare/hospital/2010/10/dbo_vwhqi_hosp_hcahps_msr.csv, https://data.nber.org/compare/hospital/2011/10/dbo_vwhqi_hosp_hcahps_msr.csv, https://data.nber.org/compare/hospital/2012/12/dbo_vwhqi_hosp_hcahps_msr.csv, https://data.nber.org/compare/hospital/2013/10/dbo_vwhqi_hosp_hcahps_msr.csv, https://data.nber.org/compare/hospital/2014/12/hqi_hosp_hcahps.csv, https://data.nber.org/compare/hospital/2015/12/hqi_hosp_hcahps.csv, https://data.nber.org/compare/hospital/2016/10/hqi_hosp_hcahps.csv, https://data.nber.org/compare/hospital/2017/10/hcahps_hospital.csv, https://data.nber.org/compare/hospital/2018/10/hcahps_hospital.csv, https://data.nber.org/compare/hospital/2019/10/hcahps_hospital.csv, https://data.nber.org/compare/hospital/2020/10/hcahps_%E2%80%93_hospital.csv, https://data.nber.org/compare/hospital/2021/10/hcahps_hospital.csv, https://data.nber.org/compare/hospital/2022/7/hcahps_hospital.csv, https://data.nber.org/compare/hospital/2023/10/hcahps_hospital.csv. CMS Hospital Compare HCAHPS state-level data for observation periods from 2007-2022 and reporting periods from 2008-2023, NBER (2008-2023), available at https://data.nber.org/compare/hospital/2008/12/dbo_vwhqi_state_hcahps_msr.csv, https://data.nber.org/compare/hospital/2009/12/dbo_vwhqi_state_hcahps_msr.csv, https://data.nber.org/compare/hospital/2010/10/dbo_vwhqi_state_hcahps_msr.csv, https://data.nber.org/compare/hospital/2011/10/dbo_vwhqi_state_hcahps_msr.csv, https://data.nber.org/compare/hospital/2012/12/dbo_vwhqi_state_hcahps_msr.csv, https://data.nber.org/compare/hospital/2013/10/dbo_vwhqi_state_hcahps_msr.csv, https://data.nber.org/compare/hospital/2014/12/hqi_state_hcahps.csv, https://data.nber.org/compare/hospital/2015/12/hqi_state_hcahps.csv, https://data.nber.org/compare/hospital/2016/10/hqi_state_hcahps.csv, https://data.nber.org/compare/hospital/2017/10/hcahps_state.csv, https://data.nber.org/compare/hospital/2018/10/hcahps_state.csv, https://data.nber.org/compare/hospital/2019/10/hcahps_state.csv, https://data.nber.org/compare/hospital/2020/10/hcahps_state.csv, https://data.nber.org/compare/hospital/2021/10/hcahps_state.csv, https://data.nber.org/compare/hospital/2022/7/hcahps_state.csv, https://data.nber.org/compare/hospital/2023/10/hcahps_state.csv. Patient Survey (HCAHPS)– hospital data (2023 observation period), CMS (October 18, 2024), available at https://data.cms.gov/provider-data/dataset/dgck-syfz#overview. Patient Survey (HCAHPS)– state data (2023 observation period), CMS, available at https://data.cms.gov/provider-data/dataset/84jm-wiui.

[840] See source 1 at footnote 600 (Ocker 2024).

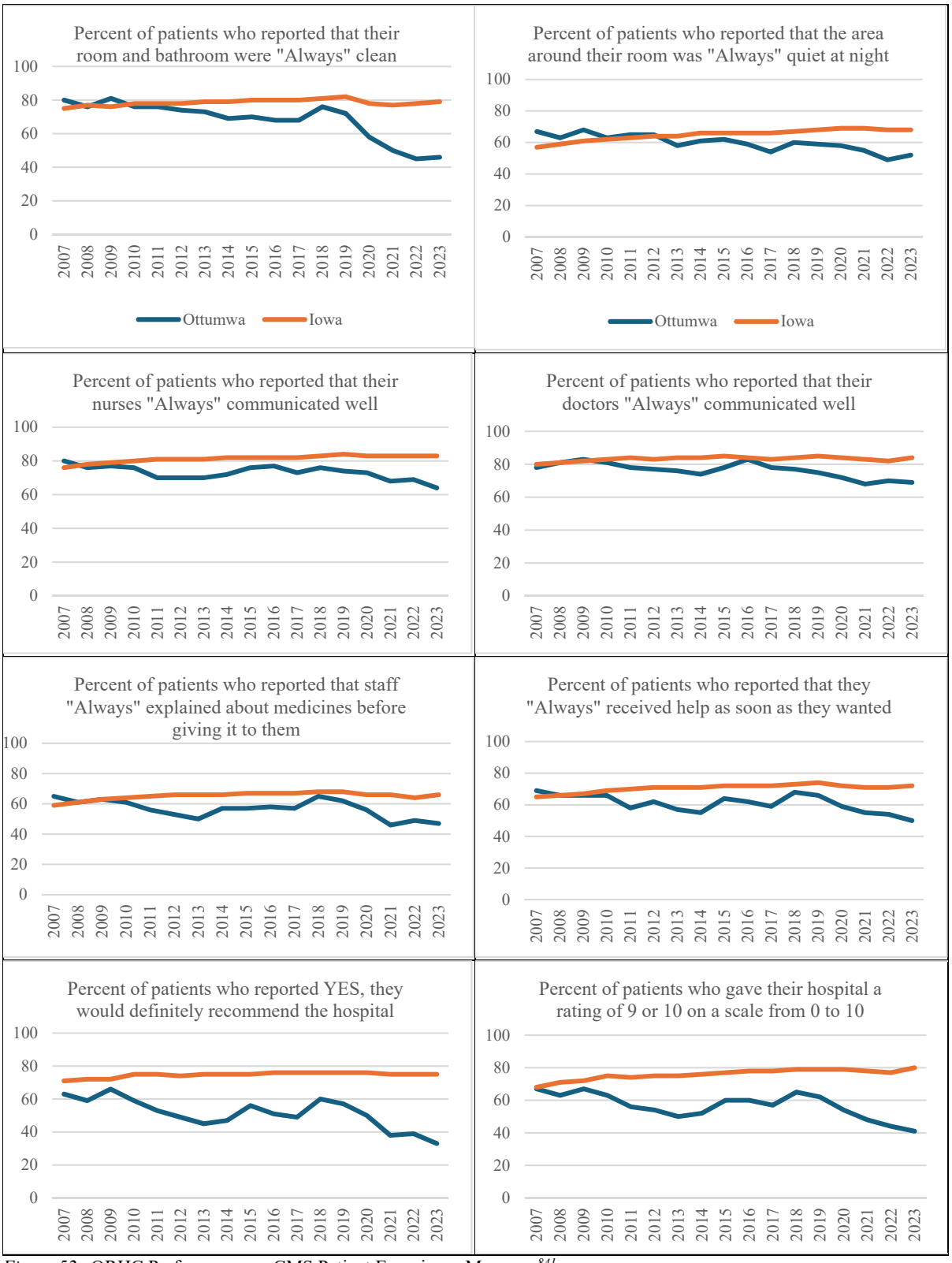


Figure 52. ORHC Performance on CMS Patient Experience Measures[841]

[841] Figures developed by Committee staff based on the sources and methodology described in footnote 839.

Patients who received inpatient care at ORHC in 2023 were among the least satisfied in the country. In 2023, only 33 percent of patients admitted to ORHC said that they would definitely recommend the hospital, while the Iowa average was 75 percent.[842] Based on these numbers, it is not surprising that community members told Committee staff that many patients in Ottumwa visit neighboring critical access hospitals or drive to Iowa City or Des Moines for care.[843] Patients who received care at these facilities in 2023 reported superior experiences than the patients who received care at ORHC (see **Error! Reference source not found.**).[844] Not only does ORHC perform worse than these Iowa hospitals, ORHC's score of 33 percent on the patient recommendation of the hospital measure makes it the **6th worst performing hospital** in the nation on this measure.[845] ORHC is joined by two other PE hospitals on the list of worst performers on this measure—the other two hospitals are owned by the PE-owned system Pipeline Health.[846]

	Ottumwa Regional Health Center	Davis County Hospital	Jefferson County Health Center	Mahaska Health Partnership	University of Iowa Hospital and Clinics	MercyOne Des Moines Medical Center	UnityPoint Health - Iowa Methodist Medical Center
Patients who gave their hospital a rating of 9 or 10 on a scale from 0 (lowest) to 10 (highest)	41%	78%	74%	79%	68%	64%	71%
Patients who reported YES, they would definitely recommend the hospital	33%	79%	66%	76%	72%	60%	72%

Table 17. Comparison of ORHC to Select Iowa Hospitals on Select Patient Experience Measures (2023).[847]

6. Other Unfulfilled Promises

The APA also promised the establishment of a resident rotation program, the establishment of an outpatient substance abuse treatment program, and the continuation of all services provided by ORHC at the time of the acquisition subject to the availability of qualified physicians.[848] These promises have not been kept.

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[842] Patient Survey (HCAHPS)– hospital data (2023 observation period), CMS (October 18, 2024), available at https://data.cms.gov/provider-data/dataset/dgck-syfz#overview. Patient Survey (HCAHPS)– state data (2023 observation period), CMS (October 18, 2024), available at https://data.cms.gov/provider-data/dataset/84jm-wiui.
[843] See footnote 684 (Community member calls).
[844] See source 1 at 842.
[845] See source 1 at 842.
[846] See source 1 at 842. *Our Locations*, Pipeline Health (accessed November 27, 2024), available at https://www.pipelinehealth.us/locations/. *How private equity raided safety net hospitals: Pipeline Health*, Private Equity Stakeholder Project (July 18, 2023), available at https://pestakeholder.org/reports/how-private-equity-raided-safety-net-hospitals-pipeline-health/.
[847] Table developed by Committee staff based on data from source 1 at 842. The comparator hospitals were selected based on proximity to ORHC (Davis, Jefferson, Mahaska) and volume of Ottumwa residents with fee-for-service Medicare receiving inpatient care at the hospital (University of Iowa, MercyOne Des Moine, and Iowa Methodist).
[848] Asset purchase agreement, at LP-CEG-000097, LP-CEG-000098, and LP-CEG-000100.

- **Never established.** ORHC does not have a resident rotation program, whereby physician trainees at Iowa residency programs could spend a period of time working at the hospital, or an outpatient substance abuse treatment program.[849]

- **Permanently discontinued.** Since the acquisition, the hospital has permanently discontinued four services: the pediatrics clinic in 2010, pulmonology in 2013, chemotherapy services in 2014, and home care in 2018.[850] These cuts all occurred prior to the merger with Lifepoint Health. Stakeholders told Committee staff that the discontinuation of the home care service has been problematic as home care service availability in Ottumwa is currently very limited.[851] Notably, home care is not a service that is dependent on physician availability.

- **Temporarily discontinued.** At least two other services are temporarily on hold. Since September 2023, ORHC has not had surgical coverage on weekdays after 3:15PM and all day on weekends, aside from cesarean-sections.[852] Historically, the hospital's surgical hours of operation were weekdays from 7AM to 3:15PM.[853] Surgical staff were on-call for all other hours: weekdays from 3:15PM to 7:00AM and weekends.[854] During on-call hours, surgical staff makes themselves available to come into the hospital when patients need immediate surgical intervention.[855] Because of the loss of surgeons, the director of the operating room, and an operating room nurse, ORHC has not been able to provide immediate surgical services on evening, nights, and weekends.[856] Separately, ORHC lost its only dialysis nurse in the summer of 2023 and dialysis services have been on hold since that time.[857] According to Lifepoint Health, "Ottumwa Regional intends to offer dialysis services again once a dialysis nurse is onboarded to the hospital."[858] Similar to home care, dialysis is not a service dependent on physician availability.

7. Unfulfilled Promises: Summary

Table 18 summarizes the status of the commitments in the APA as described in the section above.

[849] Lifepoint October 16, 2024 letter, at 11. Second Amendment to the Asset Purchase Agreement, at LP-CEG-009159.
[850] Lifepoint October 16, 2024 letter, at 12.
[851] See footnote 684 (Community member calls).
[852] ORHC February 2024 letter, at 5-7.
[853] See footnote 852.
[854] See footnote 852.
[855] See footnote 852.
[856] See footnote 852.
[857] Lifepoint October 16, 2024 letter, at 13.
[858] See footnote 857.

Commitment	Location	Text from Asset Purchase Agreement	Status
Board of Directors	10.3(a)	During the period that Buyer owns and operates the Hospital, Buyer agrees to maintain a board of directors for the Hospital Board of Directors consisting solely of local business and community leaders, physicians, and the Chief Executive Officer of the Hospital.	✓
Charity Care	10.4	Buyer agrees to adopt at the Closing and continue to abide by the charity care policy of the Hospital.	+
Continuation of Services	10.5	Following the Closing, Buyer will continue to operate the Hospital as a full service general acute care hospital and will continue to provide all services provided by ORHC as of the Closing Date in each case subject to the availability of qualified physicians.	+
Cardiac Catherization Lab	10.6(a)	Buyer shall…commence the design and construction of a permanent building to house a catheterization lab…, purchase equipment therefor, and recruit a cardiologist.	✓
Routine capital expenditures	10.7	In addition to the capital expenditures set forth in Section 10.6, during the first five 5 years following the Closing Date, Buyer shall make annual routine capital expenditures in connection with the operation of the Hospital equal to at least two and one-half percent (2.5%) of the Hospitals net patient revenue. Beginning in the sixth year after the Closing, during such time as Buyer owns and operates the Hospital, Buyer shall make annual routine capital expenditures equal to at least five percent (5%) of the Hospitals net patient revenue. This commitment was amended in December 2020.	+
Physician recruitment	10.8(a)	Buyer will commit to a physician recruitment plan based upon community need and input from the Hospitals medical staff and the Board of Directors. During the first five 5 years following the Closing Date, Buyer shall expend $7,500,000 in its efforts to recruit at least 25 physicians to the Hospital. Buyers initial focus after the Closing shall be the recruitment of three to five family practice physicians…Buyer also agrees to recruit an orthopedic surgeon, a general surgeon, and pediatricians and agrees to consider the recruitment of a psychiatrist.	+
Resident Rotation Program	10.9(a)	Buyer agrees, subject to applicable law and approval of the medical staff and the Board of Directors, to work with Iowa training programs to establish a resident rotation program at the Hospital.	+
Nighttime Hospitalist Program	10.9(b)	Buyer agrees…to either (i) develop within a reasonable time after the Closing Date a program for hospitalists to cover at a minimum weekday nights 7 pm-7am or (ii) subject to consultation of the Medical Staff and approval of the Board of Directors develop an alternative program to enhance call coverage.	✓
Patient Satisfaction	10.10	At least annually Buyer shall distribute and collect patient satisfaction surveys and strive to achieve patient satisfaction scores above national averages for similarly-situated hospitals.	+
Substance Use Clinic	10.16(f)	Buyer agrees to…, subject to applicable laws, establish and implement as soon as practical (but in no event more than 90 days following the Closing Date) an outpatient substance abuse treatment program in Ottumwa, Iowa affiliated with the Hospital.	+

Table 18. Summary of Status of Select Promises in the Asset Purchase Agreement.[859]

[859] Table developed by Committee staff to summarize the findings described in the preceding section.

8. New Promises

After the Senate Budget Committee started asking Lifepoint Health questions regarding the APA, Lifepoint Health obtained an amendment to the APA that waives some of the outstanding commitments, but also adds new commitments. The November 25, 2024 amendment waives ORHC's parent company of the commitment to establish a resident rotation program at the hospital, because, according to the amendment, "it is not feasible or practical at this time."[860] The amendment acknowledges that ORHC's parent companies only expended $6 million on physician recruitment and waives the $7.5 million commitment, but promises "good faith efforts to recruit physicians to the Hospital, including but not limited to one (1) to two (2) general surgeons, one (1) obstetrician/gynecologist, and one (1) to two (2) primary care providers within the next (3) to (5) years."[861] The amendment acknowledges that ORHC's parent companies never established an outpatient substance abuse clinic, but promises to "use good faith efforts to explore, support, and establish within two (2) years of the execution of this Letter Agreement a viable behavioral health service line for the treatment of adult behavioral health needs, substance use disorders, or other similar programs as determined by the Hospital, in consultation with ORHC based on community need."[862]

Moving forward, the Legacy Foundation has the ability to police Lifepoint Health's adherence to the commitments in the APA. The Legacy Foundation has the authority to monitor the commitments and take enforcement action if Lifepoint Health fails to comply.[863] This includes the right to regularly request documentation from Lifepoint Health to verify that the company is adhering to the commitments in the APA.[864] If a breach occurs, the Legacy Foundation can initiate mediation and, if unsuccessful, escalate the matter to litigation.[865]

E. The impact of unfulfilled promises and underinvestment has been damaging to ORHC.

RegionalCare's leaders emphasized that their plan for the hospital was geared towards growth, but, as previously shown, ORHC's parent companies' decisions to underinvest in the hospital have led to the opposite effect. In addition to shrinking the hospital's volume and eroding the hospital's workforce, facility, and reputation, the decisions by ORHC's leaders and parent companies to underinvest in the hospital also had negative impacts on the hospital's culture of safety and finances.

[860] Second Amendment to the Asset Purchase Agreement, at LP-CEG-009159.
[861] Second Amendment to the Asset Purchase Agreement, at LP-CEG-009159.
[862] Second Amendment to the Asset Purchase Agreement, at LP-CEG-009159.
[863] Asset Purchase Agreement, at LP-CEG-000102.
[864] Asset Purchase Agreement, at LP-CEG-000102.
[865] Asset Purchase Agreement, at LP-CEG-000110-000111.

1. Impact on ORHC's Culture of Safety.

In health care, a culture of safety is a commitment to safety at all levels of the organization, from frontline providers to managers and executives.[866] As shown in the past section, instead of making investments that would contribute to the safety of the organization, ORHC's PE-owned operators failed to sufficiently staffed the hospital, failed to maintain appropriate levels of operating capacity, failed to make committed capital expenditures while the facility and equipment degraded, and maintained a provider with questionable behaviors instead of incurring the expense of replacing him.

These underinvestment decisions by ORHC and its parent companies' leaders created dangerous conditions for patients. This report previously described how insufficient staffing, the lack of standard diversion prevention infrastructure, and the maintenance of a provider with questionable behaviors may have contributed to nine sexual assaults at ORHC. Insufficient staffing may have also been a contributing factor to the hospital's higher than average falls and falls with injury rates in 2021-2023.[867] The hospital's failure to maintain appropriate levels of operating capacity has contributed to the hospital's high rate of boarding in the ED and transfers to other facilities, which can contribute to delays in care.[868] For example, during an October 2023 survey, inspectors found that a patient had boarded in the ORHC ED for five days and during that time there were "multiple delays in examining and treating the patient's urinary tract infection, evaluating the kidney function, fluid balance, controlling the patient's high blood pressure, and rapid heart rate" and the patient did not receive "consultations from on-call specialties to provide further stabilizing examinations and treatment."[869] This patient died within two days of being in the inpatient unit.[870] During this survey, inspectors found another patient who boarded in the ED for two days and experienced similar delays in treatment and consultation.[871]

When hospital staff see that their leaders, such as their senior managers or parent company, are creating or are willing to accept these kinds of unsafe conditions in the workplace,

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[866] According to the Agency for Healthcare Research and Quality, the key features of a culture of safety include "acknowledgment of the high-risk nature of an organization's activities and the determination to achieve consistently safe operations, a blame-free environment where individuals are able to report errors or near misses without fear of reprimand or punishment, encouragement of collaboration across ranks and disciplines to seek solutions to patient safety problems, and organizational commitment of resources to address safety concerns." *Culture of Safety*, Agency for Healthcare Research and Quality, Patient Safety Network (September 7, 2019), available at https://psnet.ahrq.gov/primer/culture-safety.

[867] *ORHC*, Safety Problems, Leapfrog Hospital Safety Grade (Fall 2024 score, accessed November 27, 2024), available at https://www.hospitalsafetygrade.org/h/ottumwa-regional-health-center?findBy=hospital&hospital=Ottumwa+Regional+Health+Center&rPos=0&rSort=grade & https://www.hospitalsafetygrade.org/table-details/ottumwa-regional-health-center?findBy=hospital&hospital=Ottumwa%20Regional%20Health%20Center&rPos=0&rSort=grade.

[868] See Table 12.

[869] CMS, Statement of Deficiencies and Plan of Correction for ORHC from the Survey Completed on October 17, 2023, at 11-13, available at https://dia-hfd.iowa.gov/Home/ViewReport?fileName=ScannedReport_494_2024-04-03_100613.pdf, ("CMS Statement of Deficiencies October 2023").

[870] CMS Statement of Deficiencies October 2023, at 64.

[871] CMS Statement of Deficiencies October 2023, at 21-26.

the culture of safety erodes and this puts patients at risk for harm. According to independent patient safety non-profit ECRI, leadership support at all levels is essential for a culture of safety (see Figure 53).[872]

> As with any organization-wide initiative, leadership support is essential for a safety culture's success. Leadership— consisting of the governing body, senior management, and clinical leaders—should communicate a single vision of the organization's approach and expectations. Without sustained leadership support for a safety culture, where is the impetus for staff in an organization to embrace it? By some estimates, up to 80% of initiatives that require people to change behaviors fail in the absence of effective leadership to manage the changes. Leaders also play a key role in spreading "fluency" in safety. Lack of leadership support for a culture of safety could jeopardize patient safety. Experts say that a culture of safety is necessary before other patient safety practices can be successfully introduced. Indeed, failure to create an effective safety culture is a contributing factor to many types of adverse events. Why? Without a safety culture, staff may be insufficiently motivated to report events that could be used to identify and address the causes of patient safety breakdowns. Additionally, staff may be unconvinced of the value of event reporting if there is no feedback about how the reports are used.

Figure 53. Selection from ECRI Article Regarding Leadership's Contribution to Safety Culture.[873]

Culture of safety can be measured and, in the months leading up to the death of DMC, ORHC performed worse than the Lifepoint Health average on every measure of culture of safety.[874] The employee satisfaction survey discussed previously in this chapter was also a survey on culture of safety and engagement.[875] Quantitative results from this survey are shown in Figure 54.

[872] Victor Lane Rose, *A Culture of Safety: It Takes a Community*, Annals of Long-Term Care (December 2020), available at https://www.ecri.org/EmailResources/PSRQ/CaringComm/A%20Culture%20of%20Safety--It%20Takes%20a%20Community.pdf.
[873] See footnote 872.
[874] Glint, ORHC June 2022 Culture of Safety and Engagement Results, at LP-CEG-005028.
[875] See footnote 589 (LP-CEG-009115).



Name	Score ↓	vs Company	Change	Impact	% Favorable	Comments	Question
Resources	55	-8	--	Very High	44%	11	I have the resources I need to do my job well. Jun 15, 2022
Care	55	-10	--	Very High	49%	8	At work, I feel cared about as a person. Jun 15, 2022
Values	53	-11	--	Very High	35%	9	People at my organization live the company values. Jun 15, 2022
Growth	53	-10	--	Very High	41%	9	I have good opportunities to learn and grow within my organization. Jun 15, 2022
Recognition	52	-10	--	Very High	42%	10	I feel satisfied with the recognition or praise I receive for my work. Jun 15, 2022
Collaboration	52	-12	--	Very High	37%	10	Teams at my organization collaborate effectively to get things done. Jun 15, 2022
Continuous Improvement	45	-13	--	Very High	26%	11	My organization continually improves the way work gets done. Jun 15, 2022
Communication	41	-16	--	Very High	26%	11	My organization does a good job of communicating with employees. Jun 15, 2022
Action Taking	41	-11	--	Very High	27%	7	I believe meaningful action will be taken as a result of this survey. Jun 15, 2022

Figure 54. Quantitative Results from the June 2022 Employee Survey on Culture of Safety and Engagement.[876]

The following comments from the ORHC June 2022 culture of safety survey demonstrate how underinvestment from ORHC's leaders and parent companies may have eroded the culture of safety and created conditions that allowed for the egregious events to occur.[877] Figure 55 shows prompts that relate to key components of a culture of safety and the reaction to them by ORHC staff.

[876] See footnote 874.
[877] See footnote 589 (LP-CEG-009115).

Prompt	Comment
I can speak up about patient safety without fear of retaliation.	• Maybe won't be retaliated against but many times it falls on deaf ears. • I feel if I speak up it will be disregarded or treated poorly for voicing concerns regarding safety. • I personally never have spoke up about a safety issue because I have seen others speak up and get ignored. I do not fear retaliation, I just don't want to waste my breath on deaf ears.
Leadership's actions show that patient safety is a top priority.	• They say so but the bank account does not back it up. • Financial priorities seem to be on facility attractiveness rather than staffing and updated equipment requests • Local leadership's actions demonstrate this as a priority. Division leadership would rank a 1 as they don't make it a priority when they do not purchase the capital that is needed for our organization and they do not do anything to combat staffing issues, resulting in staff working unsafely either due to lack of staff, burnout, or fatigue.
At this organization, we seek to solve problems permanently rather than just come up with a 'quick fix.'	• I think that within my power I can safely take care of patients. If there is a group problem or facility wide problem or problem w a certain specialist such as cardiology nothing is going to get done to change it. • I only see quick fixes implemented and no plans that have been sustainable.
Employees who prioritize patient safety are appreciated here.	• I feel the mentality is "They are just doing their jobs." • I watch my peers advocate for patient safety, speak up when they have concerns, and listen to leadership be dismissive and judgmental. • There is no real appreciation for us as workers...
People at my organization live the company values.	• Not at all. Everyone from management to cleaning staff only do as little as they can to get by without being fired. There is no accountability, definitely no respect for others perspectives, no integrity to do the right thing, only the quick thing with the least effort, no empathy for the feelings and needs of others, and the organization as a whole does not take responsibility for the health care of the patients that they are entrusted with. This organization's management definitely does not lead by example.
I believe meaningful action will be taken as a result of this survey.	• I have lost faith in my organization. • I don't think this will matter for anything! • I feel like we do these every year and nothing changes. • There will absolutely not be a single action that comes out of this survey.
Where should we focus to make this organization a better place to work?	• Accountability. We will keep a warm body because we don't have enough staff. This drives off the good employees. I don't just mean low performers, I mean people that create conflict and are insubordinate. • Holding employees accountable for their attitudes to patients and coworkers. Raising pay for non-travel positions.

Figure 55. Select Staff Comments Related to Culture of Safety from the June 2022 Employee Survey on Culture of Safety and Engagement.[878]

[878] See footnote 589 (LP-CEG-009115).

2. Impact on ORHC's Finances.

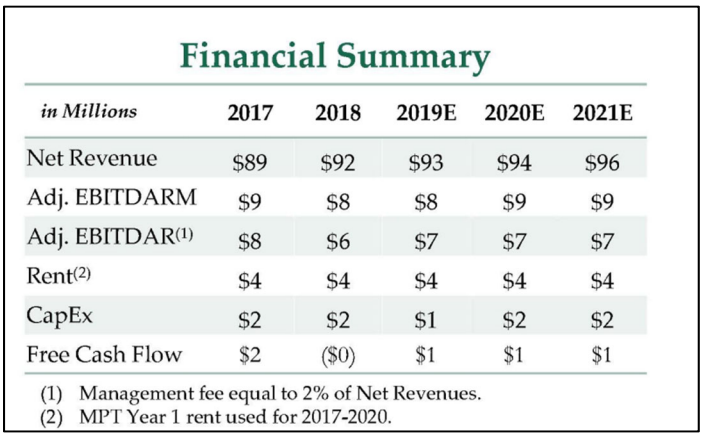
Underinvestment in ORHC has hurt the hospital's finances. As a result of the reputational harms that pushed patients away from the hospital, staffing shortages that limited the hospital's capacity to care for patients, and a failure to recruit and retain surgeons which contributed to a reduction in inpatient and outpatient surgeries, the hospital posted negative earnings in 2022 and 2023.[879] Lifepoint Health provided ORHC with a loan to cover its operating losses in 2022 and 2023.[880] If ORHC returns to profitability in the future, ORHC will be responsible for repaying this loan to Lifepoint Health.[881]

	2019	2020	2021	2022	2023
Revenue	$94,068,359	$83,457,744	$89,671,938	$80,663,209	$79,996,531
Operating Expenses	$84,768,714	$72,627,833	$85,934,033	$87,239,488	$88,986,052
Earnings[882]	$9,299,646	$10,829,911	$3,737,905	-$6,576,279	-$8,989,521
Management fees due to Lifepoint Health	$2,745,602	$2,695,282	$2,463,360	$2,610,011	$2,724,433

Table 19. ORHC's Earnings 2019-2023.[883]

ORHC's current earnings cannot support its rent obligations to Medical Properties Trust (MPT). When Lifepoint Health sold ORHC's property to MPT in the 2019 sale-leaseback transaction, ORHC had positive earnings.[884] Based on its 2019 earnings, ORHC would have had enough money to cover the first-year rent payment amount to MPT ($4,134,583) plus the management fee to Lifepoint Health (about $2.7 million), although there would have been little left to make capital expenditures and certainly not enough to fulfill the investment percentage required by the APA.[885] At the time of the sale to MPT, MPT projected that ORHC's earnings would increase in subsequent years and the rent expense would not be a problem for the hospital;[886] however, as previously described, that did not happen. Notably, in MPT's calculations from 2019, MPT failed to account for capital expenditures equating to five percent of net patient revenue, which was still in effect in the APA at the time.[887] If MPT was to have included anticipated capital expenditures that align with the required investment percentage in the then-version of the APA—five percent of net revenue, its annual estimated capital expenditures for 2019 to 2021 would have been $5 million, rather than the $2 million shown in Figure 56.[888]

[879] ORHC consolidated income statements for 2022 and 2023, at LP-CEG-009119 and LP-CEG-007966.
[880] Lifepoint November 8, 2024 letter, at 17.
[881] See footnote 880.
[882] The earnings shown in this table are EBITDA: earnings before interest, taxes, depreciation, and amortization or EBITDA.
[883] Table developed by Committee staff based on ORHC consolidated income statements for 2019-2023, at LP-CEG-007960-007963, LP-CEG-009120, LP-CEG-009119, and LP-CEG-007966.
[884] ORHC consolidated income statements for 2018 and 2019, at LP-CEG-007958-007961.
[885] The formula for calculating the first year's rent is lease base multiplied by 7.25%. ORHC Consolidated Income Statement for 2019, at LP-CEG-007960-007961. Asset Purchase Agreement, at LP-CEG-000097-000098. MPT Purchase Agreement, at LP-CEG-001311.
[886] The Book, Lifepoint Project Quartermaster, Medical Properties Trust, at MPT_LIFEPOINT_00000042.
[887] See footnote 886 (MPT_LIFEPOINT_00000042).
[888] See footnote 886 (MPT_LIFEPOINT_00000042).



Financial Summary

in Millions	2017	2018	2019E	2020E	2021E
Net Revenue	$89	$92	$93	$94	$96
Adj. EBITDARM	$9	$8	$8	$9	$9
Adj. EBITDAR(1)	$8	$6	$7	$7	$7
Rent(2)	$4	$4	$4	$4	$4
CapEx	$2	$2	$1	$2	$2
Free Cash Flow	$2	($0)	$1	$1	$1

(1) Management fee equal to 2% of Net Revenues.
(2) MPT Year 1 rent used for 2017-2020.

Figure 56. MPT's Financial Summary of ORHC in Relation to the Sale-Leaseback Transaction (2019).[889]

Instead of rent payments being affordable for ORHC, ORHC does not currently have the ability to pay its rent on its own, and its rent escalates each year.[890] According to Lifepoint Health, "Lifepoint remains ultimately and fully responsible for funding its facilities' rent obligations, including at Ottumwa Regional, which it does consistently."[891] If Lifepoint Health was ever to struggle financially and need to divest hospitals, it may be hard to find a new operator for ORHC as other operators may not want to absorb the rent payments in light of ORHC's earnings.

F. Apollo and Lifepoint Health's leaders have profited off of Apollo funds' investment in rural health care.

ORHC was already on a downward path when Apollo arrived in 2015 and when Lifepoint Health management arrived at the end of 2018, but they both could have done more to change the trajectory of this hospital. Apollo told the Committee that rural hospitals "faced challenges for decades, in part driven by underinvestment" and that its aim was to do "the opposite by investing in and supporting companies, such as Lifepoint Health, that invest in these underserved communities to recruit physicians, expand service line offerings, and upgrade equipment in order to care for these communities."[892] However, Apollo and Lifepoint Health have not made the investments in ORHC that would be necessary for the hospital to overcome its "challenges."

When Lifepoint Health arrived at the end of 2018, it should have been able to identify through its highly-touted National Quality Program, its enterprise risk management program, and its monthly operations meetings with the local management team that ORHC was heading in the

[889] See footnote 886 (MPT_LIFEPOINT_00000042).
[890] Rent payments escalate each year using the following formula: previous year's rent + (previous years rent * multiplier). The multiplier can range from two percent to four percent based on the annual change in the consumer price index. See footnote 879 (consolidated income statements). MPT Purchase Agreement, at LP-CEG-001311 and LP-CEG-001174.
[891] Lifepoint November 8, 2024 letter, at 16.
[892] Apollo November 15, 2024 letter, at 1.

wrong direction and investments to fix long-standing issues needed to be made.[893] In addition to the problems at ORHC previously described in this report, when Lifepoint Health was put in charge of ORHC, the hospital's Leapfrog Hospital Safety Grade was an F—the Leapfrog Hospital Safety Grade is a well-regarded metric for evaluating hospital safety that uses an A through F scoring system.[894] Lifepoint Health has even offered a strategy for how they could have found the capital to make those improvements; they could have engaged in a sale-leaseback transaction and used the proceeds to invest in the hospital. However, Lifepoint Health used the majority of the proceeds from the 2019 $700 million sale-leaseback transaction, which included $57 million for ORHC's real estate, to repay a portion of the debt incurred from the 2018 leverage buyout.[895] While some of the $57 million that Lifepoint Health received from MPT may have been reinvested in ORHC, it seems that the hospital could have benefitted from receiving all of it.[896] Additionally, as Lifepoint Health already sold off ORHC's real estate, they have taken this option away from ORHC in the future.

Apollo had plenty of opportunities over its almost decade of ownership of ORHC's parent companies to turn things around. When Apollo first bought RegionalCare in 2015, ORHC was only one of eight hospitals in the Apollo portfolio—not like today with 220 hospitals.[897] Based on Committee staff's analysis shown earlier, Apollo could have easily seen from readily available metrics that ORHC had been struggling since the initial acquisition and Apollo should have directed the company to take on the additional expenses needed to turn things around. Even as Apollo's hospital portfolio grew in size, it should have been able to identify problematic

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[893] *The LifePoint National Quality Program Provides Structured Framework for Reducing Patient Harm*, Agency for Healthcare Research and Quality, Patient Safety Network (January 5, 2021), available at https://psnet.ahrq.gov/innovation/lifepoint-national-quality-program-provides-structured-framework-reducing-inpatient-harm. Letter from Lifepoint Health to Chairman Sheldon Whitehouse and Ranking Member Charles E. Grassley (November 22, 2024), at 2, ("Lifepoint November 22, 2024 letter"). Lifepoint September 27, 2024 letter, at 5.

[894] Notably, Lifepoint Health did make some improvements in the hospital's ability to provide safe patient care prior to the death of DMC. Under Lifepoint Health's management, ORHC's Leapfrog score rose to a D and then to a C. Lifepoint September 6, 2024 letter, at 2. *About the Grade*, Leapfrog Hospital Safety Grade (accessed November 27, 2024), available at https://www.hospitalsafetygrade.org/your-hospitals-safety-grade/about-the-grade. *Fall 2024 Leapfrog Hospital Safety Grade Shows Significant Progress in Patient Safety Nationwide*, The Leapfrog Group (November 15, 2024), available at https://www.leapfroggroup.org/news-events/fall-2024-leapfrog-hospital-safety-grade-shows-significant-progress-patient-safety.

[895] See footnote 610 and 645

[896] According to Lifepoint Health, "As a result of the sale-leaseback transaction (which included hospitals in six markets, of which Ottumwa Regional was one), Lifepoint generated gross proceeds of approximately $700 million, $400 million of which was used to pay down debt and $300 million of which was added as cash to Lifepoint's balance sheet. This allowed Lifepoint to invest more in its hospitals, including Ottumwa Regional. Lifepoint regularly uses its cash to invest in its facilities, including Ottumwa Regional, and has invested in Ottumwa Regional before and after the sale leaseback transaction. A transaction like the sale-leaseback generates proceeds that bolster Lifepoint's abilities to invest in its facilities, including Ottumwa Regional. Lifepoint does not account for its expenditures by tying revenue from transactions such as the sales-leaseback to specific investments made in its facilities. Lifepoint cannot specify which revenue from the sales leaseback agreement was directly used for Ottumwa Regional developments. Nor is it possible to provide an exact dollar amount for the portion of the investment at Ottumwa Regional that is attributable to the sale leaseback transaction." Lifepoint September 6, 2024 letter, at 4.

[897] See Figure 38.

trends in ORHC's volumes, finances, and quality metrics and used its "power to control" Lifepoint Health and their "affairs and policies" to ensure ORHC received necessary investments.[898]

Based on news reports describing similar patterns of underinvestment at Apollo-owned rural general acute care hospitals throughout the country, ORHC may not be an outlier. A medical provider at Community Medical Center has been accused of sexually assaulting fifteen female patients.[899] The Apollo portfolio also contains a hospital that has been on immediate jeopardy status by CMS numerous times in recent years, a hospital that is being investigated by its state attorney general for failure to uphold contractual commitments, and a hospital that has such a poor reputation that community members are working to build their own.[900]

In Committee staff's correspondences with Lifepoint Health and Apollo, they have highlighted the difficulties involved in running rural hospitals, such as "resources, location, limited availability of human capital, and socioeconomic and demographic characteristics."[901] They have emphasized that "over the past decade, more than 100 rural hospitals across the nation have closed and another third of rural hospitals are currently at risk of closing because of the serious financial challenges facing health care delivery to rural communities" and that "nationwide, 53 percent of rural hospitals that have remained open have lost services over the past 2 years."[902] They stressed that "this problem is particularly acute in Iowa, where 75 percent of hospitals have lost services over the same period and where 30 percent of hospitals remain at risk of closing" and "as a result of these closures, the millions of Americans who live in rural communities no longer have access to a local emergency room, inpatient care, and many other hospital services that citizens in suburban and urban communities take for granted."[903]

They have emphasized that "contrary to national trends, Lifepoint Health has invested in rural communities, including Ottumwa, and is committed to ensuring that Ottumwa Regional, the only hospital in Wapello County, can continue to provide quality health care services to a community in need."[904] News reports combined with the findings of the Committee's investigation into ORHC suggest that their investments in rural hospitals have been insufficient thus far. They have highlighted that Lifepoint Health covered ORHC's losses in 2022 and 2023, but as shown in this report, those losses were the consequences of years of underinvestment from ORHC's parent companies.[905] Apollo and Lifepoint Health have suggested that ORHC would not be open today without Lifepoint Health's support (see Figure 57).

[898] Lifepoint 2022 report, at LP-CEG-005699.
[899] See footnotes 587-588.
[900] See footnote 547.
[901] Lifepoint November 8, 2024 letter, at 1.
[902] See footnote 901
[903] Lifepoint November 8, 2024 letter, at 2.
[904] See footnote 903.
[905] See footnote 903.

Lifepoint Health	Lifepoint has funded these losses, year over year, and remains committed to Ottumwa Regional and to the broader Wapello County. This commitment is further evidenced by Lifepoint's contributions of approximately $43 million in charity and uncompensated care services over the past five years to the Ottumwa community and investments of more than $15 million in Ottumwa Regional. That commitment—which we have described at length in our prior letters—has allowed Ottumwa Regional to remain open in the face of widespread national closures of rural and regional hospitals and notwithstanding consistent, historical financial losses, which are expected to continue at the same level for the near term.[906]
Apollo	Indeed, Lifepoint's commitment to ORHC enabled the hospital to provide crucial health care services to the Ottumwa community and the broader rural community in Wapello County at a time when other hospitals and hospital systems were substantially curtailing basic services and, in some cases, closing altogether.[907]

Figure 57. Comments from Lifepoint Health and Apollo Detailing their Commitment to ORHC.

Regardless of the challenges in running rural hospitals, Apollo has profited immensely from its ownership of the portfolio of hospitals that contains ORHC, while failing to make committed and necessary investments at ORHC. Apollo, the firm, has received and continues to receive significant amounts of money from its fund's ownership of its hospital portfolio. It has received money from Lifepoint Health and its predecessor companies, but more substantially, Apollo has received considerable amounts of money from the investors in its funds in relation to their investment in Lifepoint Health.

- **Fees Received from Lifepoint Health.** Lifepoint Health pays Apollo management fees, transaction fees, and fees related to loans.[908,909] Lifepoint Health currently pays Apollo a management fee of about $9.2 million per year.[910,911] Lifepoint Health also pays Apollo a one percent transaction fee each time it consummates an acquisition.[912] For example, Apollo received $55 million in fees from Lifepoint Health in relation to

[906] See footnote 903.
[907] Letter from Apollo Global Management to Chairman Sheldon Whitehouse and Ranking Member Charles E. Grassley and Senator Sheldon Whitehouse, (October 18, 2024), at 4, ("Apollo October 2024 letter").
[908] Lifepoint 2023 report, at LP-CEG-005845-005846.
[909] Some of these fees may be shared between the firm and the fund. Apollo declined to provide Committee staff with details regarding how it splits these fees. Andrew Metrick and Ayako Yasuda, *The Economics of Private Equity Funds*, Review of Financial Studies (2010), at 2314, available at https://academic.oup.com/rfs/article-abstract/23/6/2303/1569783. Letter from Apollo Global Management to Chairman Sheldon Whitehouse and Ranking Member Charles E. Grassley (December 11, 2024), at 2, ("Apollo December 11, 2024 letter"). Apollo counsel email to Senate Budget Committee staff on December 18, 2024, on file with Committee, ("Apollo December 18, 2024 email").
[910] Lifepoint 2023 report, at LP-CEG-005846.
[911] Apollo declined to provide Committee staff details regarding the management fees paid by ScionHealth to Apollo. Apollo December 11, 2024 letter, at 2 and Apollo December 18, 2024 email.
[912] Lifepoint 2023 report, at LP-CEG-005846.

the $5.6 billion buyout of Lifepoint Health in 2018.[913,914] Apollo explained that the "fees that Apollo receives from Lifepoint are associated with expert and advisory services, whether related to specific transactions or management consulting services, which have helped Lifepoint strengthen its financial footing and enhanced its ability to invest in facilities, people and quality of care across its network."[915] Apollo has purchased unsecured and secured notes from Lifepoint Health.[916] In relation to these purchases, Lifepoint Health pays commissions, fees, and interest payments to Apollo.[917] Apollo declined to provide Committee staff details regarding the amount of money it receives from Lifepoint Health as a result of these purchases.[918]

- **Cross-Fund Sale.** PE firms aim to make money by increasing the value of their portfolio companies and then selling or "exiting" them for more than the purchase price.[919] After investors recoup their original investment, the proceeds of the sale are typically shared by the fund and Apollo in an 80-20 split, respectively.[920] PE exits portfolio companies in multiple ways, including through initial public offerings, sales to corporations, sales to funds affiliated with other PEs, and sales across its funds.[921] Apollo already "exited" Lifepoint Health one time by selling Lifepoint Health from Apollo Fund VIII to Apollo Fund IX in 2021.[922] Reportedly, Apollo Fund VIII invested about $975 million in Lifepoint and sold Lifepoint to Fund IX for about $2.6 billion, meaning that Apollo and Apollo Fund VIII received about $1.6 billion in profit from Fund IX.[923] Based on the typical 80-20 division of proceeds, Apollo may have made about $325 million from investors in Fund IX from the deal. Furthermore, PE firms typically contribute about two percent of the capital in its funds and therefore Apollo may have received $26 million from investors in Fund IX through its role as an investor in Fund VIII.[924] Committee staff estimated these numbers based on

[913] Lifepoint 2021 report, at LP-CEG-005565. Tony Abraham, *LifePoint acquired by Apollo for $5.6B*, Healthcare Dive (July 23, 2018) available at https://www.healthcaredive.com/news/lifepoint-acquired-by-apollo-for-56b/528376/.
[914] Apollo declined to provide details regarding the transaction fees that it has received from Lifepoint Health, ScionHealth, and their predecessors. Apollo December 11, 2024 letter, at 2 and Apollo December 18, 2024 email.
[915] Apollo December 18, 2024 email.
[916] Lifepoint 2023 report, at LP-CEG-005846.
[917] Lifepoint 2023 report, at LP-CEG-005846.
[918] Apollo December 11, 2024 letter, at 2 and Apollo December 18, 2024 email.
[919] Congressional Research Service (CRS), *Private Equity and Capital Markets Policy*, (March 28, 2022), at 7-9, available at https://crsreports.congress.gov/product/pdf/R/R47053. Government Accountability Office (GAO), *Private Equity: Recent Growth in Leveraged Buyouts Exposed Risk that Warrant Continued Attention*, GAO-08-885, (2008) at 10-14, available at https://www.gao.gov/products/gao-08-885.
[920] Apollo's 2023 10-K states: "The general partners of the funds we manage are entitled to an incentive return of normally up to 20% of the total returns of a fund's capital, depending upon performance of the underlying funds and subject to preferred returns and high water marks, as applicable." Apollo 2023 10-K, at 70, available at https://www.sec.gov/ix?doc=/Archives/edgar/data/1858681/000185868124000031/apo-20231231.htm.
[921] See footnote 632 and 635. Apollo September 6, 2024 letter, at 6.
[922] See source 4 at footnote 625 (Paavola 2021).
[923] See source 4 at footnote 625 (Paavola 2021).
[924] According to one report, "Limited partners typically provide 98 percent of the equity in the PE fund and the PE firm, via the general partner, provides 2 percent (though a few PE firms provide as much as 10 percent)." See footnote 642 (Appelbaum & Batt 2020).

unconfirmed figures because Apollo declined to provide details on the amounts that they received from this transaction.[925]

- **Fees Received from Fund Investors.** PE firms typically collect management fees from investors in its funds, which are typically calculated as a percentage of committed capital.[926] For Apollo Fund VIII, Apollo's management fees for its investors were 1.5 percent during the investment period and 0.75 percent during the post-investment period.[927] If the investment period lasted three years and the post-investment period lasted three years, Apollo may have received about $46 million in investor management fees from the $975 million of capital in Fund VIII that was used for the investment in Lifepoint Health.[928] Using the same methodology, Apollo could receive approximately $123 million in management fees from Fund IX's $2.6 billion investment in Lifepoint Health.[929] Committee staff estimated these numbers based on unconfirmed figures because Apollo declined to provide this information.[930]

If Apollo can sell Lifepoint Health and ScionHealth for more than $2.6 billion at the next exit, it may be able to profit again. Committee staff estimated that, if the next exit is as profitable as the last, Apollo may be able to receive nearly a billion dollars in relation to its investment in this portfolio company;[931] a company that has at least one hospital, but likely two hospitals, where patients have been sexually assaulted by providers. While Apollo has profited, the employees back in Ottumwa have been struggling to make ends meet. Out of 672 comments on the June 2022 satisfaction survey, 131 comments were identified by Committee staff as being related to insufficient salary and benefits (see select comments in Figure 58).[932]

[925] Apollo December 11, 2024 letter, at 2 and Apollo December 18, 2024 email.
[926] Apollo's 2023 10-K states: "The significant growth of the assets we manage has had a positive effect on our revenues. Management fees are typically calculated based upon any of 'net asset value,' 'gross assets,' 'adjusted par asset value,' 'adjusted costs of all unrealized portfolio investments,' 'capital commitments,' 'invested capital,' 'adjusted assets,' 'capital contributions,' or 'stockholders' equity,' each as defined in the applicable limited partnership agreement and/or management agreement of the unconsolidated funds or accounts." Apollo Global Management, *Annual Report for the Fiscal Year Ended December 31, 2023,* United States Securities and Exchange Commission (2024), at 70, available at https://www.sec.gov/ix?doc=/Archives/edgar/data/1858681/000185868124000031/apo-20231231.htm, ("Apollo 2023 10-K"). See source 2 at footnote 919 (GAO-08-885, at 72) and source 1 at footnote 909 (Metrick and Yasuda, at 2310).
[927] Chris Witkowsky, *Apollo cuts fees on fund extension after LP pushback*, Buyout Insider (January 19, 2024), available at https://www.buyoutsinsider.com/apollo-cuts-fees-on-fund-extension-after-lp-pushback/.
[928] See source 4 at footnote 625 (Paavola 2021).
[929] See source 4 at footnote 625 (Paavola 2021).
[930] Apollo December 11, 2024 letter, at 2 and Apollo December 18, 2024 email.
[931] Committee staff developed this estimate based on internal estimates of aggregate past and future transaction fees, portfolio company management fees, fund management fees, performance fees. This estimate does not include the money that Apollo may receive through its ownership of notes in Lifepoint. See footnotes 908-929.
[932] See footnote 780 (Committee member analysis of LP-CEG-009115).

I've acquired a $1 raise off of my start rate in 6 years of working here. Inflation is destroying me. Help!	I'm eating 1 meal a day & working 12 hr shifts, in order to pay all my bills via inflation. I'm trying my best & have since Covid started. Please... I love my job, help.
I would not recommend this employer because of the lack of merit and/or cost of living increases and the fact that the 401k match is pitiful. How do you expect employees to have a nest egg to retire with?	Place value on retaining your employees who show up and work hard every day. Replacing a pizza party with ice cream or candy to show appreciation does not work. That should not be done in place of properly compensating employees. We worked the pandemic. Calling us heroes does not feed our families in this economy.
We lost the sick bank. Only contributes up to certain amount in 401 K. My scale has been capped for years. not adjusted for cost of living expense. Only get up 500.00 bonus a year for raises that are given. Not giving raises.	I feel that we really need to look at wages for the clinics. It is bad that you can go to a fast food place and make more money than you can as a front receptionist, the 1st person our patients see when they walk in the door.
We are very low paid employees regardless of our time with the organization. We are expected to do a lot of work for a little pay and work not in the scope of our job description or credentials so we have a lot of turn over and employees that don't value their jobs or really care if they work for ORHC. We have college educations and are paid less than department store employees	First thing, we need to raise the pay. When paramedics can go work in fast food, and make nearly what they make as paramedics, it is disturbing. When staff members have to work an incredible amount of overtime, to make up the difference, it's dangerous.

Figure 58. Selected Comments Regarding Wages from the ORHC June 2022 Employee Satisfaction Survey [933]

Although nominal in comparison to what Apollo makes, Lifepoint Health's leaders have also made a tremendous amount of money in relation to the company's PE ownership. Lifepoint Health executives received a substantial amount of money from the 2018 buyout. Although voted down by Lifepoint Health's stockholders, Lifepoint Health's board allowed Lifepoint Health's top four executives to receive golden parachute packages totaling $120 million following the buyout based on Lifepoint Health's existing compensation plan and program, including reportedly more than $25 million for Lifepoint Health's current CEO.[934] Lifepoint Health's leaders also received significant compensation when Lifepoint Health was sold from Apollo Fund VIII to Apollo Fund IX. Certain Lifepoint Health "employees, executives, consultants, and directors" received $93 million in connection with this sale.[935] This money came

[933] See footnote 589 (LP-CEG-009115).

[934] Lifepoint Health, Inc. Form 8-K, Current report, United States Securities and Exchange Commission (October 29, 2018), at Item 5.07., available at https://www.sec.gov/Archives/edgar/data/1301611/000119312518310664/d626974d8k.htm. Tara Bannow, *Lifepoint board OK with $120 million pay plan despite shareholder rejection*, Modern Healthcare (November 3, 2018), available at https://www.modernhealthcare.com/article/20181103/NEWS/181109996/Lifepoint-board-ok-with-120-million-pay-plan-despite-shareholder-rejection. Beth Jones Sanborn, *Lifepoint Health, RCCH HealthCare Partners merger finalized*, Healthcare Finance (November 19, 2018), *available at* https://www.healthcarefinancenews.com/news/Lifepoint-health-rcch-healthcare-partners-merger-finalized.

[935] According to Lifepoint Health, "Certain of Lifepoint's employees and directors hold capital units and/or profits interest units in Lifepoint's indirect parent, DSB Parent, L.P. (DSB Parent). DSB Parent is a wholly owned Apollo subsidiary, which is authorized to issue Lifepoint stock to employees, executives, consultants, and directors of

from Lifepoint Health's cash and could have been used for improvements at ORHC and other Lifepoint Health hospitals.[936]

G. There have been some positive changes at ORHC, but more action is needed.

There have been some positive changes at ORHC since the death of DMC and since the start of this Committee's investigation, Lifepoint Health invested resources to strengthen ORHC's drug diversion prevention system—the hospital now has over 100 additional surveillance cameras, new pharmacy software, new diversion prevention surveillance software, a new sharps disposal system, and new locks and doors in the pharmacy.[937] They have increased compensation for RNs with at least eight years of experience to be in alignment with national market rates.[938] Lifepoint Health claims they will evaluate other positions for compensation increases in 2025.[939] They have renovated the hospital's reception area and patient rooms and have claimed that they will be making more enhancements to the campus, including the installation of a new MRI machine in 2025.[940] However, it is disappointing that it took at least nine sexual assaults, the theft of an arsenal of anesthetic and narcotic medications, and a congressional investigation for this to happen.

After the death of DMC, Lifepoint Health swiftly replaced the ORHC local management team with leaders from elsewhere in the company.[941] According to Lifepoint Health, the new leaders have implemented a number of strategies aimed to promote the culture of safety such as executive rounding, department meetings, town halls, a CEO newsletter, the inclusion of front line staff and patient representatives on quality of care committees, and a forum for the medical staff to communicate with one another across service lines and with the administrative team.[942] ORHC's new leaders escalated "concerns about the quality and performance of the TeamHealth providers working in Ottumwa Regional's Emergency Department" to Lifepoint Health and ORHC's leaders have told the public that they are working with TEAMHealth "to increase accountability."[943] Lifepoint Health provided the Committee with the action plan that ORHC is

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Lifepoint. When these employees or directors leave Lifepoint, DSB Parent may repurchase their equity. To fund such repurchases, Lifepoint makes distributions of cash to DSB Parent. These amounts are reflected in "distributions to parent" in the Lifepoint financial statements. The most significant payments occurred in 2021, when Apollo sold its Lifepoint investment to a new Apollo fund, which triggered an accelerated vesting event for holders of equity in DSB Parent. Because Lifepoint, a private company, must compete for senior and executive talent at market rates, the profit units structure provides a method of compensation comparable to compensation structures common among public companies." Lifepoint November 8, 2024 letter, at 17. Lifepoint 2021 report, at LP-CEG-005550.

[936] Lifepoint 2021 report, at LP-CEG-005550.

[937] Letter from Lifepoint to Chairman Sheldon Whitehouse and Ranking Member Charles E. Grassley (January 17, 2024), at 3, ("Lifepoint January 2024 Letter"). Lifepoint May 2023 letter, at 2.

[938] Lifepoint November 8, 2024 letter, at 12.

[939] State of the Hospital Update presentation from December 2024, at LP-CEG-009217.

[940] State of the Hospital Update presentation from December 2024, at LP-CEG-009206 and LP-CEG-009220.

[941] Lifepoint March 2023 letter, at 8-9.

[942] Lifepoint January 2024 letter, at 3. ORHC February 2024 letter, at 3.

[943] Lifepoint November 8, 2024 letter, at 8. Source 1 at footnote 600 (Ocker 2024).

using to address TEAMHealth's performance and, based on these documents, this effort appears to have started in September 2024 and a great deal of work needs to be done.[944]

Lifepoint Health's actions thus far have yielded some positive results. ORHC improved on every measure in its February 2024 culture of safety survey as compared to the prior year, although ORHC still performed worse than the Lifepoint Health average on all measures.[945] There were many staff comments made in the February 2024 survey noting positive changes at the hospital since the death of DMC, including about the hospital's new leadership (see Figure 59).[946] Of note, it is not clear if these leaders plan to stay in Ottumwa for the long-term or will only remain until the end of the crisis period.

The leadership and my coworkers. I feel this is the best, most invested senior leadership team we have had since I started working here years ago and it's motivating. Looking forward to the continued positive change.	The new administration is very engaged, the most I have seen in almost 6 years of working here. It helps create a positive, comfortable work environment.
Our culture is changing for the better every day. It makes me proud to work here.	I feel I have the support to make the ORHC building more safer and look better to public,
Our patients. Our team care about our patients. It isn't just clinical staff that care. Our CEO cares, our Plant Ops team, the housekeepers. They all look out for our patients and their needs.	I think the new administration team we have is more invested in making connections in my community, where the previous administration was more stagnate in that area. Although we have lost many long time staff members, we have also retained some long time staff members and that is reassuring and provides some connection. I think at this time, we do have the best administration team that I have ever experienced here.
Here recently the recognition has been vastly improved upon and it has made working here better than it used to feel.	
I love the actual job and helping the patients. I'm embarrassed when people of the community ask why I still would work here.	I have been with ORHC for 27 years, I feel the admin team we have in place has made a big difference in the hospital setting.

Figure 59. Select Positive Comments from the February 2024 Culture of Safety and Employee Engagement Survey.[947]

However, there were also many comments made by respondents to the 2024 survey indicating that some staff still hold a perception that the hospital's leaders and Lifepoint Health are underinvesting in the hospital (see Figure 60).[948]

[944] Lifepoint Health provided the most recent Emergency Department scorecard for ORHC, at LP-CEG-009235, and the ORHC and TeamHealth action tracker, at LP-CEG-009236.
[945] Glint, ORHC February 2024 Culture of Safety and Engagement Results, at LP-CEG-005080.
[946] Comments made by hospital staff through the ORHC's February 2024 Culture of Safety survey, at LP-CEG-005074.
[947] See footnote 946 (LP-CEG-005074).
[948] See footnote 946 (LP-CEG-005074).

I still feel there is huge disconnect between corporate management and the real patient care that happens here. It still feels like corporate is only about making a dollar or saving a dollar, at the expense of our patient care and safety. This has turned our previously thriving regional health center into a shell of our former providership.	We need to work on getting more staff. I understand we don't have the best reputation but we have a cath lab that's brand new that we don't get to use. We have an OR that again doesn't see the traffic we use to see. I do see med surg is keeping more patients but we use to have a fully functioning ICU. I do know were giving sign on bonuses but I feel there is more that can be done.
#1: Get it cleaned. The physical building is filthy. The public areas are filthy. I am ashamed 2# Our hardware is failing. Replacement is crisis management. Situation existent prior to COVID-19 3# Use vendors that don't create more work with less efficacy. I'm not unrealistic in believing that contracting hospital services will go away. That said, contracting services in this institution has generally degraded quality.	I feel like more needs to be done to invest in the facilities, updated units but more importantly updated tools so that we can do our job the best that we can. I have heard talk in the community about how people like to go to Pella or Osky because the facilities are better. I also feel as though there needs to be done for employee retention. The sign on bonuses are nice for new hires, however you have employees that have stuck by the organizations side through covid and everything else and they are getting paid pretty much the same as new hires. This makes it hard to stay especially when one can go to another hospital or clinic and get paid more.
Updating equipment and the environment within the departments. If the hospital looked better perhaps we could attract more permanent staff and physicians. Having old equipment and even some of the materials in the environment such as wallpaper and carpet can hold germs and not be cleaned as easily. Old equipment can lead to work injuries for employees and patients.	I believe first and foremost, have to come up with a means to staff this building. We, in my opinion, are at a tipping point that has already started typing the wrong way. Hospitals are competing with each other and staffing agencies for nurses. There aren't enough to go around it seems…Our hospital has had staffing issues well before COVID and COVID really just exposed the pre-existing issue.
Re=open the ICU. We manage ICU patients on the MedSurg floor, with nurses who are not ICU trained. This puts the patients and the nurses at risk. Nurses are often caring for patients with critical needs with 4-5 other patients. This is not SAFE.	Hire more local staff that care about the community. Stop keeping bad help (coming in late, lack of caring of phone usage, facetime, don't care about how many call offs they have) because they know they won't get fired and it's hard for the good help that shows up and is ready for work daily.

Figure 60. Select Negative Comments from the February 2024 Culture of Safety and Employee Engagement Survey.[949]

[949] See footnote 946 (LP-CEG-005074).

The hospital is still struggling with its reputation in the community and the hospital will need to do a great deal of work to win back patients. At the end of December 2024, a video was shared on Facebook of a nursing assistant at ORHC flossing her teeth directly over a mechanically ventilated patient who tries unsuccessfully to get her attention.[950] Based on the Facebook comments, the video appears to have been recorded on a cell phone camera by a friend of the patient that was close to the patient's bedside. The video is extremely unsettling to watch. This video is also reminiscent of the last day of DMC's life when his overt reckless behavior was captured on security camera.[951] The comments made in response to the video indicate that this event is characteristic of the impression that community members have regarding the hospital (see Figure 61).[952]

[950] Video first posted on Facebook on December 25, 2024 with the comment "This is the care that my bestfriend [NAME REDACTED] received at ottumwa regional health center. Help us get this out there for the world to see.." Facebook, available at https://www.facebook.com/groups/700406340153689/search/?q=ottumwa%20regional%20health%20center.
[951] See section I of this chapter.
[952] See footnote 950.

Ottumwa Regional should just give it up and let the developers turn that place into an apartment complex. It is unfit for humans.
I feel sorry for those who have no choice but to go to Ottumwa hospital.
Ottumwa hospital is a joke..
I can't believe that they have not been shut down yet!
I would go to the vet for emergency care, before I went to this place
Not surprised they offer the worst care I've ever seen.
Ottumwa Regional Health Center this is disgusting you should be closed down !!!
How disgusting. I never trusted that hospital.
Please go to Bloomfield people
And right there is the reason NOT to go to Death Regional....
As a medically complex person myself I'd request to be transferred. Not sure what's wrong with him but I think iowa city would be way better. Since I moved here I was told never to go to the ORHC. It's sad that the community can even trust or use a facility like the hospital!
Hmmm. Do they still not have their drugs under control there? Disappointing hospital honestly.
That's Ottumwa Hospital for u all !!
Worst service ever. That's why we go to Oskaloosa or Pella. Never go here, they just don't care about people's health at all.
I'm not even the least bit surprised. Honestly the place needs shutdown. They don't care about anyone out there. It's sad when 90% of our own hometown refuse our own hospital and go somewhere else. It's literally known as the place to go if you want to die.
I think that hospital is going to shut down because they let few people died this month and they didn't do anything or help them
I ues to brag about ottumwa hospital, they ues to be good , now I'm scared to even have to go out there , it ain't like it ues to be
Can't say I'm surprised. Never known myself or anyone to have a good experience at this hospital. I always say I'd rather die anywhere else but here, because then I'll at least die with dignity.

Figure 61. Select Facebook Comments Responding to the Video of an ORHC Health care Worker Flossing Over a Patient.[953]

[953] See footnote 950.

Lifepoint Health told Committee staff that it has no plans to close or sell this hospital and that they are committed to improving it.[954] Additionally, Lifepoint Health, through the APA, appears to be contractually obligated to keep the hospital open (see Figure 62).[955] As seen by the above comments from members of the community in December 2024, there is still a lot of work to be done.[956] In addition to the commitments made in the November 2024 amendment to the APA, which includes good faith efforts to recruit certain physicians to the hospital and to establish additional adult behavioral health services, Lifepoint Health has documented a number of additional plans to build-up the hospital in ORHC's 2025 strategic growth plan.[957] Lifepoint Health is working to open an inpatient adolescent behavioral health unit at ORHC in the third quarter of 2025, which, according to Lifepoint Health, is greatly needed in the region.[958] In 2025, Lifepoint Health also plans on remodeling the hospital's inpatient rehabilitation unit.[959] As Lifepoint Health plans for a stronger future for ORHC, it is critical that community members, such as Facebook commenters, play a role in the planning process. Moreover, Lifepoint Health may have plans, but the real test of change is whether these plans are actually implemented and that it's done the right way.

10.5 Continuation of Services. Following the Closing, Buyer will continue to operate the Hospital as a full service, general acute care hospital and will continue to provide all services provided by ORHC as of the Closing Date, in each case subject to the availability of qualified physicians. No service may be discontinued without the prior approval of the Board of Directors.

Figure 62. Continuation of Services Provision from the Asset Purchase Agreement.[960]

Apollo has also committed to improving ORHC. Apollo made a commitment to rural hospitals when it bought RegionalCare and Lifepoint Health and strengthened that commitment when it sold Lifepoint Health across its funds. Apollo emphasized this commitment in its correspondence with the Committee by stating that "Apollo Fund VIII sold Lifepoint to Apollo Fund IX in 2021 to provide the Apollo Funds with a longer time horizon to support Lifepoint's mission of investing in community health care and underserved markets."[961] Through Fund IX's ownership of Lifepoint Health, Apollo can exercise its power to control Lifepoint Health's "affairs and policies" to ensure that the company is successful in its efforts "to recruit physicians, expand service line offerings, and upgrade equipment in order to care for [rural] communities."[962] It can also work to ensure that Lifepoint Health has the right senior leadership and members of the board of directors, such as members with different points of view, direct

[954] Letter from Lifepoint to Chairman Sheldon Whitehouse and Ranking Member Charles E. Grassley (February 2, 2024), at 1. Lifepoint September 27, 2024 letter, at 6.
[955] Asset Purchase Agreement, at LP-CEG-000097.
[956] See footnote 950.
[957] Second Amendment to the Asset Purchase Agreement, at LP-CEG-009159.
[958] ORHC Strategic Growth Plan 2025 (August 12, 2024) at LP-CEG-009256.
[959] ORHC Strategic Growth Plan 2025 (August 12, 2024) at LP-CEG-009270.
[960] Asset Purchase Agreement, at LP-CEG-000097.
[961] Apollo September 6, 2024 letter, at 6. Apollo November 15, 2024 letter, at 1.
[962] Lifepoint 2022 report, at LP-CEG-005699. Apollo November 15, 2024 letter, at 1.

experience in caring for patients—possibly at hospitals within the portfolio, and expertise in the health care challenges facing rural communities.[963]

At nearly 80 predominantly rural general acute care hospitals, Apollo's influence on rural health care in America is significant. If Lifepoint Health or ScionHealth were to hit financial difficulties, the impact on rural health care could be catastrophic. Many of the hospitals in the Lifepoint Health and ScionHealth systems are hours away from the next hospital. When a hospital closes, physicians tend to leave the town as well.[964] The closure of these hospitals and the accompanying departure of physicians could cut off access to care for rural older adults that may not have the ability to travel.[965] The American people are counting on Apollo, Lifepoint Health, and ScionHealth to implement a long-term strategy for success and, as shown at ORHC, long-term success requires investment. Apollo, Lifepoint Health, and ScionHealth must take steps to ensure that the rural hospitals in their portfolios have the reserves necessary to withstand future challenges, so that they can continue to serve and be trusted by rural communities for the next hundred years.

[963] Jared Landaw, *Maximizing the Benefits of Board Diversity: Lessons Learned from Activists Investing*, Harvard Law School Forum on Corporate Governance (July 14, 2020), available at https://corpgov.law.harvard.edu/2020/07/14/maximizing-the-benefits-of-board-diversity-lessons-learned-from-activist-investing/. Ge Bai and Ranjani Krishnan, *Do Hospitals Without Physicians on the Board Deliver Lower Quality of Care?* American Journal of Medical Quality (January 10, 2014), available at https://journals.sagepub.com/doi/abs/10.1177/1062860613516668.

[964] Haley Drew Germack, Ryan Kandrack, and Grant Martsolf, *When Rural Hospitals Close, The Physician Workforce Goes*, Health Affairs (December 2019), available at https://www.healthaffairs.org/doi/10.1377/hlthaff.2019.00916?url_ver=Z39.88-2003&rfr_id=ori%3Arid%3Acrossref.org&rfr_dat=cr_pub++0pubmed.

[965] *GAO-23-106651: Accessing Health Care in Rural America*, Government Accountability Office (May 2023), available at https://www.gao.gov/products/gao-23-106651.

CONCLUSION

The results of this bipartisan investigation—including the documents released publicly today for the first time—highlight significant concerns regarding the impact of PE ownership on the quality of care, patient safety, and financial stability at hospitals across the United States. By focusing on two prominent private equity firms, LGP and Apollo, and their associated hospital operators, Prospect and Lifepoint Health, the Committee has uncovered troubling patterns of prioritizing profits over patients and of unfulfilled promises. While not every PE firm operates in an identical fashion, the evidence highlights systemic issues with PE investment in health care, including underinvestment in critical hospital infrastructure, understaffing, and the pursuit of financial gains through leveraged buyouts and dividend extractions—often to the detriment of patients and hospital operations.

With respect to LGP and PMH, new documents uncovered during the investigation demonstrate that LGP's majority ownership of PMH benefited LGP while harming the hospitals it owned and the patients they served. LGP and PMH leadership prioritized cost-cutting, labor reductions, and profit maximization over hospital operations and patient safety. This approach resulted in understaffing, unsafe building conditions, and the closure of six hospitals—all of which occurred during or shortly after LGP's majority ownership. Despite its mismanagement, LGP extracted over $424 million in dividends, forced PMH to take on unsustainable debt, and left the company with over $3 billion in liabilities.

Similarly, at PE-owned ORHC, hospital operator Lifepoint Health and its predecessors have failed to fulfill at least seven promises made to ORHC. Their underinvestment in the hospital has resulted in declining conditions and quality of care that allowed egregious events to occur and the hospital's financial situation to suffer. As conditions at ORHC deteriorated, Apollo reaped benefits to the tune of millions of dollars annually from its fund's investment. As one nurse working at a hospital in Apollo's portfolio said: "You know how you wring out a washcloth three or four times and the last time you squeeze it, you've got to squeeze really hard for maybe just a drop or two of water. . . . [Apollo] just never stops going back and trying to squeeze a little more."[966] ORHC should be a cautionary tale about the ability of rural hospitals to sustain themselves and serve their patients in the face of underinvestment by their PE owners. Both Lifepoint Health and Apollo have committed to make the necessary investments in ORHC so that it can provide the highest quality health care to the people of Ottumwa. Actions speak much louder than words, and the Senators behind this report will be watching to ensure that necessary investments are made not only at ORHC but also throughout Apollo's portfolio of hospitals.

In sum, the findings of the investigation call into question the compatibility of private equity's profit-driven model with the essential role hospitals play in public health. The consequences of this ownership model—reduced services, compromised patient care, and even complete hospital closures—potentially pose a threat to the nation's health care infrastructure, particularly in underserved and rural areas. This Report serves as a call to action for greater oversight, transparency, and reforms to ensure that PE-driven financial strategies in health care

[966] Maureen Tkacik, *The Moral Authority of Mark Rowan*, The American Prospect (October 21, 2023), available at https://prospect.org/power/2023-10-21-moral-authority-of-marc-rowan/.

do not come at the expense of patient well-being or the sustainability of critical hospital services. The American public deserves more when it comes to health care.