

Attached as Exhibit 36 are:

- (a) December 12, 2012 email sent by Ed Santos to Sam Lee and Thomas Reardon with copies to Joseph Distefano, Ken Belcher, Von Crockett, and Barbara Groux, which bears the bates stamps APS_PRIV_0000435 to APS_PRIV_0000436 and was produced by APS; and
- (b) a January 14, 2013 APS invoice that was produced by APS.

Attached as Exhibit 37 is a December 28, 2012 email sent by Joseph D'Allesandro to Richard Beretta. This document bears the bates stamp APS_PRIV_0000440 and was produced by APS.

Attached as Exhibit 38 is a February 7, 2013 APS invoice that was produced by APS.

Attached as Exhibit 39 is a January 31, 2013 email sent by Ken Belcher to Ed Santos and Joseph DiStefano, with attachments. This document bears the bates stamps APS_PRIV_0000716 to APS_PRIV_0000752 and was produced by APS.

Attached as Exhibit 40 is a February 7, 2013 email sent by Richard Beretta to Pat Rocha, with attachments. This document bears the bates stamps APS_PRIV_0000792 to APS_PRIV_0000809 and was produced by APS.

Attached as Exhibit 41 is an April 26, 2013 email sent by Hans Lundsten to Joseph DiStefano with copies to Pat Rocha and Sally Dowling. This document bears the bates stamp APS_PRIV_0000963 and was produced by APS.

Attached as Exhibit 42 is a July 11, 2013 APS invoice that was produced by APS.

Attached as Exhibit 43 are:

- (a) July 9, 2013 email sent by Hans Lundsten to Joseph DiStefano, which bears the bates stamp APS_PRIV_0002188 and was produced by APS; and
- (b) a December 9, 2013 APS invoice that was produced by APS.

Attached as Exhibit 44 are three emails produced by APS:

- (a) a July 10, 2013 email sent by Pat Rocha to Richard Beretta and Robert Brooks, bearing the bates stamps APS_PRIV_0002406 to APS_PRIV_0002407;
- (b) a July 10, 2013 email sent by Pat Rocha to Robert Brooks and Richard Beretta, bearing the bates stamps APS_PRIV_0002389 to APS_PRIV_0002390; and
- (c) a May 2, 2014 email sent by Christopher Vitale to Mark Russo, Pat Rocha, and Robert Brooks, bearing the bates stamp APS0152907.

Attached as Exhibit 45 is a December 5, 2013 email sent by Pat Rocha to Debbie Humm.

This document bears the bates stamps APS_PRIV_0019825 to APS_PRIV_0019826 and was produced by APS.

Attached as Exhibit 46 is a December 6, 2013 email sent by Brenna Force to Pat Rocha.

This document bears the bates stamp APS_PRIV_0019872 and was produced by APS.

Attached as Exhibit 47 is a December 6, 2013 email sent by Brenna Force to Pat Rocha, with attachment. This document bears the bates stamps APS_PRIV_0019874 to APS_PRIV_0019877 and was produced by APS.

Attached as Exhibit 48 is a December 13, 2013 email sent by Hans Lundsten to Pat Rocha. This document bears the bates stamps APS_PRIV_0020749 to APS_PRIV_0020750 and was produced by APS.

Attached as Exhibit 49 is a December 20, 2013 email from Hans Lundsten to Joseph Distefano with copy to Pat Rocha and with attachment. This document bears the bates stamps APS_PRIV_0022472 to APS_PRIV_0022495 and was produced by APS.

Attached as Exhibit 50 is a January 15, 2014 APS invoice that was produced by APS.

Attached as Exhibit 51 is a March 7, 2014 email from Joseph DiStefano to Pat Rocha. This document bears the bates stamp APS_PRIV_0029546 and was produced by APS.

Attached as Exhibit 52 is an April 7, 2014 APS invoice that was produced by APS.

Attached as Exhibit 53 is an April 2, 2014 email sent by Hans Lundsten to Pat Rocha, with handwritten annotations by Pat Rocha. This document bears the bates stamp APS0091573 and was produced by APS.

Attached as Exhibit 54 is an April 3, 2014 email sent by Pat Rocha to Kimberly O'Connell. This document bears the bates stamp APS_PRIV_0030842 and was produced by APS.

Attached as Exhibit 55 is an April 10, 2014 email sent by Ken Belcher to Pat Rocha. This document bears the bates stamp APS_PRIV_0031982 and was produced by APS.

Attached as Exhibit 56 is an April 14, 2014 email sent by Hans Lundsten to Pat Rocha. This document bears the bates stamps APS_PRIV_0032607 to APS_PRIV_0032608 and was produced by APS.

Attached as Exhibit 57 is an April 25, 2014 bench decision by Justice Michael A. Silverstein in the action *Prime Health Services v. State of Rhode Island et al.*, PB-2014-1992. This document bears the bates stamps APS0074173 to APS0074194 and was produced by APS.

Attached as Exhibit 58 is a May 28, 2014 APS invoice that was produced by APS.

Attached as Exhibit 59 are revised consolidated financial statements of Prospect Medical Holdings, Inc. for the year ended September 30, 2019. This document bears the bates stamps CIIH16-006630 to CIIH16-006692 and was submitted by APS to the Rhode Island Attorney General's office, which posted it on its website.

Attached as Exhibit 60 are revised consolidated financial statements for Prospect Chartercare, LLC for the year ended September 30, 2019. This document bears the bates stamps CIIH16-006535 to CIIH16-006563 and was submitted by APS to the Rhode Island Attorney General's office, which posted it on its website.

Respectfully submitted,

Thomas S. Hemmendinger, as Liquidating Receiver
of CharterCARE Community Board,
St. Joseph Health Services of Rhode Island, and
Roger Williams Hospital

/s/ Thomas S. Hemmendinger

Thomas S. Hemmendinger, Esq. (#3122)

Brennan, Recupero, Cascione,

Scungio & McAllister, LLP

362 Broadway

Providence, RI 02909

Tel. (401) 453-2300

Fax (401) 453-2345

themmendinger@brdsm.com

Stephen Del Sesto as Receiver of the St. Joseph
Health Services of Rhode Island Retirement Plan,
By his Attorney,

/s/ Max Wistow

Max Wistow, Esq. (#0330)

Stephen P. Sheehan, Esq. (#4030)

Benjamin Ledsham, Esq. (#7956)

WISTOW, SHEEHAN & LOVELEY, PC

61 Weybosset Street

Providence, RI 02903

401-831-2700 (tel.)

mwistow@wistbar.com

spsheehan@wistbar.com

bledsham@wistbar.com

Dated: September 11, 2020

CERTIFICATE OF SERVICE

I hereby certify that, on the 11th day of September, 2020, I filed and served the foregoing document through the electronic filing system on the following users of record:

Thomas S. Hemmendinger, Esq.
Sean J. Clough, Esq.
Lisa M. Kresge, Esq.
Ronald F. Cascione, Esq.
Brennan, Recuperero, Cascione, Scungio &
McAllister, LLP
362 Broadway
Providence, RI 02909
themmendinger@brscm.com
sclough@brscm.com
lkresge@brscm.com
rcascione@brscm.com

Jessica Rider, Esq.
Special Assistant Attorney General
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Providence, RI 02903
jrider@riag.ri.gov

Joseph Avanzato
John A. Tarantino
Patricia K. Rocha
Joseph Avanzato
Leslie D. Parker
ADLER POLLOCK & SHEEHAN P.C.
One Citizens Plaza, 8th Floor
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Tel: 401-274-7200
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Steven J. Boyajian, Esq.
Robinson & Cole LLP
One Financial Plaza, Suite 1430
Providence, RI 02903
sboyajian@rc.com

Giovanni La Terra Bellina
Orson and Brusini Ltd.
144 Wayland Avenue,
Providence, RI 02906
Tel: 401-223-2100
jlaterra@orsonandbrusni.com

The document electronically filed and served is available for viewing and/or downloading from the Rhode Island Judiciary's Electronic Filing System.

/s/ Benjamin Ledsham

Exhibit 34

From: Beretta, Richard </O=APS/OU=PROVIDENCE/CN=RECIPIENTS/CN=RICHARD BERETTA>
To: Rocha, Pat
Sent: 8/24/2012 9:47:44 PM
Subject: Re: Prospect Health

Potential purchaser of chartercare

To comply with IRS regulations, we advise that any discussion of Federal tax issues in this e-mail is not intended or written to be used, and cannot be used, (i) to avoid any penalties imposed under the Internal Revenue Code or (ii) to promote, market or recommend to another party any transaction or matter addressed herein.

This e-mail message is confidential and is intended only for the named recipient(s). It may contain information that is subject to the attorney client privilege or the attorney work-product doctrine or that is otherwise exempt from disclosure under applicable law. If you have received this e-mail message in error, or are not the named recipient(s), please immediately notify the sender and delete this message from your computer and destroy all copies. Thank you.

----- Original Message -----

From: Rocha, Pat
Sent: Friday, August 24, 2012 05:46 PM
To: Beretta, Richard
Subject: Re: Prospect Health

What is this?

To comply with IRS regulations, we advise that any discussion of Federal tax issues in this e-mail is not intended or written to be used, and cannot be used, (i) to avoid any penalties imposed under the Internal Revenue Code or (ii) to promote, market or recommend to another party any transaction or matter addressed herein.

This e-mail message is confidential and is intended only for the named recipient(s). It may contain information that is subject to the attorney client privilege or the attorney work-product doctrine or that is otherwise exempt from disclosure under applicable law. If you have received this e-mail message in error, or are not the named recipient(s), please immediately notify the sender and delete this message from your computer and destroy all copies. Thank you.

----- Original Message -----

From: Beretta, Richard
Sent: Friday, August 24, 2012 05:45 PM
To: DiStefano, Joseph; Rocha, Pat
Subject: Prospect Health

Let's meet Mon 10am

To comply with IRS regulations, we advise that any discussion of Federal tax issues in this e-mail is not intended or written to be used, and cannot be used, (i) to avoid any penalties imposed under the Internal Revenue Code or (ii) to promote, market or recommend to another party any transaction or matter addressed herein.

This e-mail message is confidential and is intended only for the named recipient(s). It may contain information that is subject to the attorney client privilege or the attorney work-product doctrine or that is otherwise exempt from disclosure under applicable law. If you have received this e-mail message in error, or are not the named recipient(s), please immediately notify the sender and delete this message from your computer and destroy all copies. Thank you.

ADLER POLLOCK & SHEEHAN P.C.

Adler Pollock & Sheehan P.C.
 One Citizens Plaza, 8th Floor
 Providence, RI 02903-1345
 Telephone (401) 274-7200
 Fax (401) 751-0604

175 Federal Street
 Boston, MA 02110
 Telephone (617) 482-0699
 Fax (617) 482-0604

EI # 05-0343749

CharterCARE Community Board
 c/o David Hirsch
 951 North Main Street
 Providence, RI 02904

Invoice Date: September 11, 2012
 Invoice Number: 413916
 Client Number: 402920

For Professional Services Rendered:

001 - General - CharterCARE

<u>Date</u>	<u>Timekeeper</u>	<u>Description</u>	<u>Hours</u>	<u>Value</u>
08/27/12	Rocha, P K	Meeting with Ken Belcher and firm attorneys (J. DiStefano and R. Beretta).	1.00	\$ 400.00
08/27/12	Rocha, P K	Conference call with Jonathan Savage and firm attorney (R. Beretta); Communication to Ken Belcher re same.	0.50	200.00
08/27/12	Beretta, R R	Meeting with K. Belcher re Prospect; Follow-up telephone call re same.	1.50	562.50
Total Professional Services			3.00	\$ 1,162.50

<u>Timekeeper Summary</u>	<u>Hours</u>	<u>Rate</u>	<u>Total</u>
Beretta, R R	1.50	\$ 375	\$ 562.50
Rocha, P K	1.50	400	600.00
Total Professional Services	3.00		\$ 1,162.50

Total Professional Services and Disbursements for this Matter \$ 1,162.50

Exhibit 35

ADLER POLLOCK & SHEEHAN P.C.

Adler Pollock & Sheehan P.C.
 One Citizens Plaza, 8th Floor
 Providence, RI 02903-1345
 Telephone (401) 274-7200
 Fax (401) 751-0604

175 Federal Street
 Boston, MA 02110
 Telephone (617) 482-0699
 Fax (617) 482-0604

EI # 05-0343749

CharterCARE Community Board
 c/o David Hirsch
 951 North Main Street
 Providence, RI 02904

Invoice Date: December 10, 2012
 Invoice Number: 417516
 Client Number: 402920

For Professional Services Rendered:

001 - General - CharterCARE

Date	Timekeeper	Description	Hours	Value
11/01/12	Beretta, R R	Telephone call to K. Belcher; Attention status of Prime/Landmark transaction.	0.50	\$ 187.50
11/05/12	Beretta, R R	Attention to progress of Prime purchase of Landmark.	0.50	187.50
11/27/12	Beretta, R R	E-mails to/from K. Belcher; Telephone call to firm attorney (J. DiStefano).	0.50	187.50
11/29/12	Rocha, P K	Meeting with Ken Belcher and firm attorneys (J. DiStefano and R. Beretta) re status and strategy issues.	1.00	400.00
11/29/12	Beretta, R R	Meeting with K. Belcher and follow-up calls and e-mails re same.	2.25	843.75
Total Professional Services			4.75	\$ 1,806.25

Timekeeper Summary

	<u>Hours</u>	<u>Rate</u>	<u>Total</u>
Beretta, R R	3.75	\$ 375	\$ 1,406.25
Rocha, P K	1.00	400	400.00
Total Professional Services	4.75		\$ 1,806.25

Exhibit 36

From: edsantos@cox.net
To: 'Sam Lee'; 'Thomas Reardon'
CC: DiStefano, Joseph; kbelcher@chartercare.org; 'Sam Lee'; 'Von Crockett'; 'Barbara Groux'
Sent: 12/20/2012 5:50:47 PM
Subject: RE: CharterCARE/Prospect

Sam and Tom,
Thank you for reaching out. We, too, are excited about the opportunity, especially after meeting with you and your team in Providence.

Tom's right; the first thing is to agree on the organizational/joint venture structure and governance. After that, the progress that Ken and the team have made operationally at CharterCARE along with a capital infusion from Prospect should make for some exciting conversations about vision and strategies.

I look forward to our next conversation. Enjoy the holiday season.
Sincerely,
Ed

-----Original Message-----

From: Sam Lee [mailto:slee@altacorp.com]
Sent: Wednesday, December 19, 2012 10:41 PM
To: Thomas Reardon
Cc: edsantos@cox.net; jdistefano@apslaw.com; kbelcher@chartercare.org; Sam Lee; Von Crockett; Barbara Groux
Subject: Re: CharterCARE/Prospect

Gentlemen:

Thank you for your confidence in us, as we embark on a meaningful journey together. We look forward to serving Providence together with you.

Warm Regards, Sam

On Dec 19, 2012, at 8:01 AM, "Thomas Reardon"
<Thomas.Reardon@prospectmedical.com> wrote:

>
> Ed, Joe and Ken:
>
> I just got off the phone with Ken a short time ago and I want to tell you how excited we at Prospect are to have the opportunity to partner with CharterCARE. We recognize that we have to work out the terms of an LOI and that all this is subject to a CharterCARE Board vote. Having said that, I am confident that we will be able to come to terms. We did not correspond with you directly after our meeting a couple of weeks ago because we didn't want to be seen as interfering with your process. However, I can say that all of us very much enjoyed our meeting; believe we have a common culture and goals; and, as prosaic as it may sound, believe that, together, we really can make a difference for the people of RI.
> It is my belief that Prime will now exit RI leaving Landmark at the altar once again. I know that Vivek Garapalli (the owners of Bayonne and Christ in NJ) and his team have visited and made a pitch to back up Prime. However, I also believe that if CharterCARE, with Prospect as its partner, makes a bid on Landmark in the coming weeks that the regulators will cheer. As we discussed, other hospitals are not essential to our model. Nevertheless, because Landmark and Fatima share secondary service areas and a number of physicians, it makes logical sense.
> First things first. We will revise the draft LOI to more fully embrace the joint venture model we discussed. If, at any point during the exchange of draft LOIs, there is any issue that you would like to discuss, we would be delighted to meet face-to-face and work out terms.

> Again, we are thrilled to be moving to the next step.
> Best regards.

>
>
>

> Tom

>
>
>
>
>

> This electronic message transmission, including any attachments,
> contains information from Prospect Medical Holdings, Inc. and/or any
> of its Affiliates which may be confidential or privileged. The
> information is intended to be for the use of the individual or entity
> named above. If you are not the intended recipient, be aware that any
> disclosure, copying, distribution or use of the contents of this
> information is prohibited. If you have received this electronic
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>

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Fax (401) 751-0604

175 Federal Street
Boston, MA 02110
Telephone (617) 482-0699
Fax (617) 482-0604

EI # 05-0343749

CharterCARE Community Board
c/o David Hirsch
951 North Main Street
Providence, RI 02904

Invoice Date: January 14, 2013
Invoice Number: 418499
Client Number: 402920

For Professional Services Rendered:

001 - General - CharterCARE

<u>Date</u>	<u>Timekeeper</u>	<u>Description</u>	<u>Hours</u>	<u>Value</u>
12/20/12	Lundsten, E H	Discuss with firm attorney (J. DiStefano) and research issues on underfunded plan.	1.00	\$ 425.00
12/21/12	Lundsten, E H	Discuss with firm attorney (J. DiStefano) proposed transfer; Review outline.	0.75	318.75
12/31/12	Lundsten, E H	Review structuring issues on sale; Call from Peter Karlson.	1.75	743.75
Total Professional Services			<u>3.50</u>	<u>\$ 1,487.50</u>

<u>Timekeeper Summary</u>	<u>Hours</u>	<u>Rate</u>	<u>Total</u>
Lundsten, E H	<u>3.50</u>	\$ 425	<u>\$ 1,487.50</u>
Total Professional Services	<u>3.50</u>		<u>\$ 1,487.50</u>

Total Professional Services and Disbursements for this Matter \$ 1,487.50

Exhibit 37

From: DAlessandro, Joseph <JDAlessandro@chartercare.org>
To: Beretta, Richard
CC: Souza, Darleen
Sent: 12/28/2012 4:30:33 PM
Subject: St. Joseph Health Services of Rhode Island Retirement Plan Document
Importance: High
Attachments: SJH Pension Plan Document, Restatment, Sign Copy, AUG11.pdf

Mr. Beretta,

Joe Di Stefano wanted a copy of the SJHS Retirement Plan forwarded to you...attached, please find that document. Should you require additional information, please do not hesitate to contact me.

Regards,

Joseph P. D'Alessandro

Joseph P. D'Alessandro
Director
Compensation, Benefits & HRIS

CharterCARE Health Partners

200 High Service Avenue
No. Providence, RI 02904
Phone: (401) 456-3202
Fax: (401) 752-8172
jdalessandro@chartercare.org

Exhibit 38

ADLER POLLOCK & SHEEHAN P.C.

Adler Pollock & Sheehan P.C.
 One Citizens Plaza, 8th Floor
 Providence, RI 02903-1345
 Telephone (401) 274-7200
 Fax (401) 751-0604

175 Federal Street
 Boston, MA 02110
 Telephone (617) 482-0699
 Fax (617) 482-0604

EI # 05-0343749

CharterCARE Community Board
 c/o David Hirsch
 951 North Main Street
 Providence, RI 02904

Invoice Date: February 7, 2013
 Invoice Number: 419154
 Client Number: 402920

For Professional Services Rendered:

001 - General - CharterCARE

Date	Timekeeper	Description	Hours	Value
01/02/13	Rocha, P K	Review analysis re church pension and receivership; Meeting with Ken Belcher, Kim O'Connell, Mike Conklin, Darlene Sousa, representatives of Angell Pension, Mark Russo and firm attorneys (J. DiStefano, R. Beretta).	2.30	\$ 966.00
01/02/13	Beretta, R R	Meeting at Chartercare re pension/mastership issues following meeting with Attorney M. Russo.	2.30	920.00
01/04/13	Beretta, R R	Review pension documents from D. Souza.	0.50	200.00
Total Professional Services			5.10	\$ 2,086.00

Timekeeper Summary

	<u>Hours</u>	<u>Rate</u>	<u>Total</u>
Beretta, R R	2.80	\$ 400	\$ 1,120.00
Rocha, P K	2.30	420	966.00
Total Professional Services	5.10		\$ 2,086.00

Total Professional Services and Disbursements for this Matter \$ 2,086.00

Exhibit 39

From: Belcher, Ken <kbelcher@chartercare.org>
To: 'edsantos@cox.net'; DiStefano, Joseph
Sent: 1/31/2013 12:57:49 PM
Subject: FW: Letter of Intent Draft
Attachments: CCHP-Prime LOI Term Sheet 013113.docx; CCHP-Prospect LOI Term Sheet 013113.docx

FYI and review.

From: Andrew Labovitz [mailto:alabovitz@cainbrothers.com]
Sent: Wednesday, January 30, 2013 9:56 PM
To: Belcher, Ken; Carsten Beith
Cc: Conklin, Jr, Michael; Brown, Otis; O'Connell, Kimberly A
Subject: RE: Letter of Intent Draft

Ken –

Attached please find revised term sheets, reflecting this afternoon's conversation. The primary differences between this version and the prior version are the inclusion of the list of planned capital projects in paragraph 6, and the elimination of all references to exclusivity. Let me know if there are any further comments to these documents.

Please note that I do not have the date of the confidentiality agreement with Prime, so there are two bracketed blank spots where that date should go.

If these versions do not require any further edits, please print them on CharterCARE letterhead, have them signed and returned to me and Carsten, and we will present them to Prospect and Prime tomorrow.

Thanks and regards,
Andy

Andrew Labovitz | Senior Vice President
Cain Brothers & Company, LLC
360 Madison Avenue, New York, NY 10017 | T: 212.981.6940 | F: 646.607.7862 | M: 973.534.7980
alabovitz@cainbrothers.com | www.cainbrothers.com

From: Belcher, Ken [mailto:kbelcher@chartercare.org]
Sent: Wednesday, January 30, 2013 5:38 PM
To: Andrew Labovitz; Carsten Beith
Cc: Conklin, Jr, Michael; Brown, Otis; O'Connell, Kimberly A
Subject: FW: Letter of Intent Draft

Gentlemen:

Here are the top 10 major capital items for inclusion:

- .Cancer Center Expansion (RWMC)
- .ED Expansion (RWMC)
- .ED Renovation/Reconfiguration (OLF)
- .Renovation of Operating Rooms (RWMC)
- .All Private Rooms (OLF and RWMC)
- .Renovation of Ambulatory Care Center (OLF)
- .New Windows (OLF and RWMC)
- .New Generator (OLF)
- .Face Lifts Facades (OLF and RWMC)
- .HP Access front Entrances (OLF and RWMC)

Since prices are so variable I have not included at this time.

Thank you,

Ken

From: Belcher, Ken
Sent: Wednesday, January 30, 2013 9:06 AM
To: Conklin, Jr, Michael; O'Connell, Kimberly A
Cc: Capobianco, Sheila M; Andrew Labovitz; 'Carsten Beith'
Subject: FW: Letter of Intent Draft

Kim and Mike,

I have not yet reviewed but will be doing so later this morning. Please do same. I will ask Sheila via this email to contact Andy and Carsten shortly to schedule time to review with them today. I would like you to join me in this review. If needed, I will use SLT time.

Thank you,

Ken

From: Andrew Labovitz [<mailto:alabovitz@cainbrothers.com>]
Sent: Wednesday, January 30, 2013 8:35 AM
To: Belcher, Ken
Cc: Carsten Beith
Subject: RE: Letter of Intent Draft

Ken –

Attached please find a markup of the proposed term sheet, reflecting most of the comments received from the group. Please let us know when you have some time to review.

Regards,
Andy

Andrew Labovitz | Senior Vice President
Cain Brothers & Company, LLC
360 Madison Avenue, New York, NY 10017 | T: 212.981.6940 | F: 646.607.7862 | M: 973.534.7980
alabovitz@cainbrothers.com | www.cainbrothers.com

From: Carsten Beith
Sent: Tuesday, January 29, 2013 12:52 PM
To: Belcher, Ken
Cc: O'Connell, Kimberly A; Andrew Labovitz
Subject: RE: Letter of Intent Draft

Thanks. We will turn them overnight and have drafts to you in the morning. Perhaps we have a call mid-day tomorrow to discuss and sign-off?

CB

From: Belcher, Ken [<mailto:kbelcher@chartercare.org>]
Sent: Tuesday, January 29, 2013 12:47 PM
To: Carsten Beith; Andrew Labovitz
Cc: O'Connell, Kimberly A
Subject: FW: Letter of Intent Draft

Kim's comments/suggestions. I should have all comments from others by the end of today.

Thanks,

Ken

From: O'Connell, Kimberly A
Sent: Tuesday, January 29, 2013 12:42 PM
To: Belcher, Ken
Subject: RE: Letter of Intent Draft

Section 5: SJHSRI Pension Plan Discharge

In (a), we should probably strike the language concerning "initiate court proceedings that would provide the court's imprimatur to a . . ." since we are not sure this is the appropriate way to go. Maybe substitute "Seller will work diligently to freeze the SJHSRI pension obligations in an amount equal to \$100 million (the "Final Balance")."

Section 8: Governance Structure

With regard to (b), I recall Carsten saying that he had a list of possible additions to the "major decisions" list. I looked through my emails, but could not find one. Should we inquire about adding others to this list?

Section 33: Costs of Dispute

I recommend that binding arbitration take the place of a lawsuit relating to the Bonding Provisions.

From: Belcher, Ken
Sent: Monday, January 28, 2013 11:47 AM
To: 'edsantos@cox.net'; DiStefano, Joseph; Jones, Elaine C; 'McQueen, Donald C'; dryan@kahnlitwin.com; 'Smith, Sheri'; Conklin, Jr, Michael; O'Connell, Kimberly A; Souza, Darleen
Cc: Capobianco, Sheila M; 'Carsten Beith'; Andrew Labovitz
Subject: Letter of Intent Draft

Folks,

I have reviewed the January 2013 Letter of Intent (LOI) draft prepared by Cain Brothers re: the Prospect Response. As discussed during our CharterCARE Executive Committee meeting on Friday, January 25th, we agreed to release this LOI draft with changes to Prospect and Prime (and perhaps LHP) as soon as possible. I would like to release it by mid week this week. We have also agreed to empower Cain to assist us with the negotiations.

Below are some suggested changes to the Prospect draft LOI document . Please review and add your changes so we can finalize the document internally by Tuesday pm. This will allow Cain Brothers to make final adjustments and release to Prospect and have a somewhat similar document ready specific to Prime (and perhaps LHP).

Thank you again for your assistance in this very important initiative.

Sincerely,

Ken

CHANGES:

LETTER OF INTENT:

.With a simultaneous copy to:

Kimberly O'Connell
CharterCARE General Counsel
825 Chalkstone Avenue
Providence, RI 02908

TERM SHEET:

.Purchase Price Section:

- .Increase purchase price from \$49m to \$75m (or higher) if possible.
- .Cash from buyer to:
 - .extinguish \$34m long term debt
 - .fund additional \$14m of pension liability to strengthen cash position of pension.
- .Eliminate cash contribution from Seller
- .Buyer to commit \$50m in capital over first 3 years of NEWCO. This \$50m will be in addition to the \$10m of routine capital normally budgeted by the Seller annually.
- .Value of split to remain 85% Buyer and 15% Seller

.Purchased Assets and Liabilities Assumed Section:

- .Change bullet #7 to indicate "Sellers long term debt will be extinguished by Buyer at time of transaction."

.SJHSRI Pension Plan Discharge Section:

- .Include language that the "intent of this action is to maintain the pension plan as a "Church Plan."

.Capitalization of NEWCO Section:

- .Change bullet #1 to remove Sellers contribution of \$14m. Also increase Prospects \$35m Contribution to NEWCO to reflect \$75m (or greater) purchase price.
- .Change bullet #2 to reflect \$50m in capital contribution by Prospect.
- .Change bullet #6 from 5% to 15%.

.Governance Structure Section:

- .First bullet, insert 5 members from Seller and 5 members from Prospect.
- .3rd bullet:
 - .Under Growth and Development of Clinical Centers of Excellence Add:
 - .Bariatrics
 - .Diabetes
 - .Under Pursuit of Opportunities in Add:
 - .Orthopedics

.Medical Staff Matters Section:

- .First bullet to note "some of these physicians will be appointed by Seller and some by Prospect."
- .Expand 2nd bullet to state "Prospect will invest heavily in Medical Staff to retain existing staff

And recruit new staff. In addition, Prospect will drive ACO development to properly
Position system to compete in RI (and regionally as necessary).

.Employee Matters Section:

.6th bullet: Can we say this?

.Capital Expenditure Commitments Section:

-

.Add: Current annual capital budget is \$10m.

.ERD Section:

.Change to note: "At all SJHSRI locations."

.Costs of Dispute Section:

.Kim or Joe to comment on binding arbitration question.

CharterCARE Letterhead

January 31, 2013

Prem Reddy
Chairman, President & Chief Executive Officer
Prime Healthcare Services
10780 Santa Monica Blvd., Suite 400
Los Angeles, CA 90025

LETTER OF INTENT

Dear Mr. Reddy:

The purpose of this letter of intent (the "Letter") is to set forth certain non-binding understandings and certain binding agreements by and between CharterCARE Health Partners ("Seller") and Prime Healthcare Services ("Prime") with respect to the creation of a joint venture ("Newco") whereby Seller will sell certain assets and operations of Seller to Newco, as more particularly described in the attached term sheet (the "Term Sheet"), incorporated herein by reference.

Paragraphs 1 through 24 of the Term Sheet (the "Non-Binding Provisions") reflect our mutual understanding of the matters described in them, but each party acknowledges that the Non-Binding Provisions are not intended to create or constitute any legally binding obligation between Seller and Prime, and neither Seller nor Prime shall have any liability to the other party with respect to the Non-Binding Provisions until a definitive agreement and other related documents (the "Definitive Agreement") are prepared, authorized, executed and delivered by and between all parties. If the Definitive Agreement is not prepared, authorized, executed, or delivered for any reason, no party to this Letter shall have liability to any other party to this Letter based upon or relating to the Non-binding Provisions.

Upon execution by all parties of this Letter, Paragraphs 25 to 32 of the Term Sheet (collectively, the "Binding Provisions") will constitute the legally binding and enforceable agreement of the parties in recognition of the significant costs to be borne by the parties in pursuing the transaction and further in consideration of the mutual undertakings as to the matters described herein.

The Binding Provisions may be terminated only by mutual written consent; provided, however, that the termination of the Binding Provisions shall not affect the liability of a party for breach of any of the Binding Provisions prior to the termination. This Letter shall be construed and enforced in accordance with the laws of the State of Rhode Island. No signatory hereto shall assign this Letter to any party, other than to an affiliate of such party.

Notwithstanding the foregoing, this letter is intended to evidence the understandings which have been reached regarding the proposed transactions and the mutual intent of the parties to negotiate in good faith a Definitive Agreement in accordance with the terms contained in the Term Sheet.

Mr. Prem Reddy
January 31, 2013
Page 2

The term of this Letter of Intent shall commence as of the Execution Date and shall continue in effect until signing of the Definitive Agreement or the agreement of the parties that , as defined in the term sheet.

Each party recognizes that it is a party to that certain Confidentiality Agreement dated as of [], 2012, and that such agreement remains in full force and effect.

The rights and remedies of the parties to this Letter of Intent are cumulative and not alternative. Neither the failure nor any delay by any party in exercising any right, power, or privilege under this Letter of Intent shall operate as a waiver of such right, power, or privilege, and no single or partial exercise of any such right, power, or privilege shall preclude any other or further exercise of such right, power, or privilege or the exercise of any other right, power, or privilege. A waiver shall be applicable only in the specific instance for which it is given. To the maximum extent permitted by law (i) no claim or right arising out of this Letter of Intent can be discharged by one party, in whole or in part, by a waiver or renunciation of the claim or right unless in writing signed by the other party; (ii) no waiver that may be given by a party shall be applicable except in the specific instance for which it is given; and (iii) no notice to or demand on one party shall be deemed to be a waiver of any obligation of such party or of the right of the party giving such notice or demand to take further action without notice or demand as provided in this Letter of Intent.

The invalidity or unenforceability of any provision of this Letter of Intent shall not affect the validity or enforceability of any other provisions of this Letter of Intent, which shall remain in full force and effect. If any provision of this Letter of Intent is determined to be unenforceable by reason of its extent, duration, scope or otherwise, then the parties contemplate that the court making such determination shall reduce such extent, duration, scope or other provision and enforce them in their reduced form for all purposes contemplated by this Letter of Intent.

This Letter of Intent may be executed in two or more counterparts, each of which shall be deemed to be an original copy of this Letter of Intent, and all of which, when taken together, shall be deemed to constitute one and the same agreement.

All notices, requests, demands or other communications required or permitted to be given under this Letter of Intent shall be in writing and shall be delivered to the Party to whom notice is to be given, to the notice addresses set forth below, either (i) by personal delivery (in which case such notice shall be deemed given on the date of delivery), (ii) by next business day courier service (e.g., Federal Express, UPS or other similar service) (in which case such notice shall be deemed given on the business day following the date of deposit with the courier service), or (iii) by United States mail, first class, postage prepaid, certified, return receipt requested (in which case such notice shall be deemed given on the third (3rd) day following the date of deposit with the United States Postal Service).

If to CCHP: CharterCARE Health Partners
825 Chalkstone Avenue
Providence, RI 02908

With a simultaneous copy to:
Kimberly O'Connell
CharterCARE General Counsel
825 Chalkstone Avenue
Providence, RI 02908

Mr. Prem Reddy
January 31, 2013
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If to Prime:

Prime Healthcare Services
3300 E. Guasti Road, 3rd Floor
Ontario, CA 91761
Attn.: Prem Reddy, Chairman, President & Chief Executive Officer

With a simultaneous copy to counsel for Prime:

Prime Healthcare Services
3300 E. Guasti Road, 3rd Floor
Ontario, CA 91761
Attn.: Michael Sarrao, Vice-President & General Counsel

This Letter of Intent represents an expression of intent only with respect to the consummation of the proposed transaction. Accordingly, unless and until the Definitive Agreement are executed and all other conditions to closing have been satisfied or waived; no party shall be obligated to consummate the proposed transaction. As a result, in the absence of the Definitive Agreement with respect to the proposed transaction, and subject to the Binding Provisions, the failure by either Party to agree to the Definitive Agreement shall not, in and of itself, give rise to any legally enforceable right or claim for damages or injunctive relief or any other form of judicially recognized award or right with respect to the proposed transaction or the consummation thereof. No past or future action, course of conduct, or failure to act relating to the proposed transaction, or relating to the negotiations of the terms of the Definitive Agreement, will give rise to or serve as a basis for any obligation or other liability on the part of any party. The parties acknowledge and agree that this Letter of Intent is an expression made in good faith by Seller regarding Seller's intentions. The omission of certain terms from this Letter of Intent shall not be construed so as to diminish the importance or the materiality of such term, and the parties acknowledge that, in addition to the proposed terms contained in this Letter of Intent, additional material terms remain to be resolved. It shall remain in the sole and absolute discretion of each party whether or not to enter into any definitive agreements or transactions with the other party, or parties, and no party shall have any liability or obligation for failing to do so except as expressly provided in this Letter of Intent.

Mr. Prem Reddy
January 31, 2013
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If the terms herein are acceptable, please sign and date this Letter in the space provided below to confirm the mutual agreements set forth in the Binding Provisions and return a signed copy to the undersigned.

Sincerely:

CHARTERCARE HEALTH PARTNERS

By: _____
Kenneth H. Belcher
President and CEO

Date: _____

By: _____
Edwin J. Santos
Chairman of the Board

Date: _____

ACKNOWLEDGED AND AGREED:

PRIME HEALTHCARE SERVICES

By: _____
Prem Reddy
Chairman, President & Chief Executive Officer

Date: _____

CharterCARE Health Partners
Term Sheet for a Transaction with Prime Healthcare Services
January 31, 2013

Non-Binding Provisions	
1. Form of Transaction	<p>a) CharterCARE Health Partners, a Rhode Island 501(c)(3) corporation (“Seller”), operates two acute care hospitals and certain related health care businesses in Providence, Rhode Island and surrounding communities (the “Business”).</p> <p>b) A newly established limited liability company (“Newco”), to be owned 85% by Prime Healthcare Services (“Prime”), and 15% by Seller, will purchase substantially all of the assets, liabilities and operations of the Business, other than the Excluded Assets and Excluded Liabilities (the “Purchased Assets”) from Seller.</p> <p>c) Prime shall serve as the manager of Newco.</p> <p>d) In addition to operating the Business, Prime’s intent is to support the growth of Newco through regional development, the deployment of ambulatory locations of care, recruitment and integration of physicians, safety and quality improvement initiatives, efforts to improve financial performance, and building and expanding Newco’s care capabilities.</p> <p>e) Prime will guarantee all of the pre-closing obligations, covenants, representations, and warranties of Newco and 85% of the post-closing obligations and covenants of Newco.</p> <p>f) The purchase of the Purchased Assets is referred to herein as the “Transaction”.</p>
2. Commitment to Quality, Safety and Patient Satisfaction	<p>Subsequent to the Transaction, Prime shall operate Newco consistent with a not-for-profit purpose and with a commitment to quality, safety and patient satisfaction including maintaining appropriate accreditations necessary to receive reimbursement under CMS and state Medicaid programs as well commitments to certain minimum measures of quality to be defined.</p>
3. Purchase Price	<p>a) In exchange for the Purchased Assets, Newco shall</p> <ul style="list-style-type: none"> i) Pay to Seller \$75 million in cash at closing, \$34 million of which will be applied to extinguish Seller’s existing long-term debt, and \$14 million of which will be earmarked to strengthen the cash position of St. Joseph Health Services of Rhode Island’s (“SJHSRI”) pension plan; ii) Grant Seller 15% of the equity of Newco; iii) Pay to Seller or receive from Seller the amount by which the net book value of Net Working Capital (as defined in Paragraph 4(b) hereof) is greater or less than the average net working capital (excluding cash and current portion of long term debt) of the Seller for the twelve month period prior to the close of the transaction. <p>b) Seller will obtain tail insurance coverage for all of Seller’s liabilities prior to the closing date, including malpractice and worker’s compensation. Seller shall be solely responsible for the cost of such coverage.</p>

CharterCARE Health Partners
Proposed Term Sheet – Prime Healthcare Services
Page 2

	<p>c) Subsequent to the execution of the Letter of Intent, Newco shall not propose any reduction of, or other direct or indirect change to, the Purchase Price, except for the determination of Net Working Capital or in the event that Prime discovers, during confirmatory due diligence, a fact or circumstance, of which Prime was previously unaware, directly related to the operation of the Business that may reasonably result in a material adverse effect on the value of the Purchased Assets or future ongoing operation of the Business.</p>
<p>4. Purchased Assets and Liabilities Assumed</p>	<p>Newco shall purchase the following:</p> <p>a) All of the assets of Seller, excluding certain financial assets identified as “Excluded Assets”, including: any associated owned clinical care buildings; ancillary services land and buildings; real property used in connection with the operation of the Business, or acquired for the benefit of the Business, including any other buildings, leaseholds, improvements or fixtures, free and clear of all liens and encumbrances except for those that are typically permitted encumbrances (e.g., easements for utilities) or that Newco otherwise chooses to assume; equipment; patient, medical, personnel and other records of the Business; licenses, permits; and trade names; certain assumable contracts and leases related to the operations of the Business; interests in all property arising or acquired in the ordinary course of the operation of the Business between the date of the Letter and the closing; all other property, whether tangible or intangible, of every kind, character or description owned by the Seller and used or held for use in the operation of the Business; and any other assets owned by Seller which are necessary for the operation of the Business.</p> <p>b) The net working capital (“Net Working Capital”) that is comprised of usable inventory and supplies, patient accounts receivable, pledges and grants receivable, other receivables, prepaid expenses and deposits that have continuing value to the operations of the Business, less trade accounts payable, accrued expenses, and employee benefit accruals (including vacation and sick time).</p> <p>c) Seller’s interest in Rhode Island PET Services, LLC.</p> <p>d) Seller’s interest in Roger Williams Radiation Therapy.</p> <p>e) Newco will not purchase, and Seller will retain ownership of, SJHSRI Retirement Plan assets, cash and investments, funds held by the bond trustee under the bond indenture, charitable restricted assets, assets of St. Joseph Health Services Foundation, Inc., funds held by trustee for insurance, board designated investments, restricted interests in perpetual trusts, donor restricted funds, or funds restricted by spending policy (the “Excluded Assets”).</p> <p>f) Newco will assume all liabilities of Seller, with the exception of the Excluded Liabilities. Assumed liabilities include: long-term capital leases, deferred gain on joint venture investments, asset retirement obligations.</p> <p>g) Newco will not assume, and Seller will remain liable for, Seller’s long-term debt, pension liability, insurance reserves and other reserves (the “Excluded Liabilities”).</p> <p>h) Newco shall assume all obligations arising after closing under the assigned contracts and leases, including capital leases.</p> <p>References to classes of assets and liabilities in this Term Sheet refer to assets and liabilities categorized under such headings as shown in the balance sheet</p>

CharterCARE Health Partners
Proposed Term Sheet – Prime Healthcare Services
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	analysis attached hereto as Exhibit A.
<p>5. SJHSRI Pension Plan Discharge</p>	<p>a) Seller will work diligently to freeze the SJHSRI pension obligations in an amount equal to \$100 million (the “Final Balance”). This process may include creation of a separate fund, and appointment of a small board and investment CEO to manage the Final Balance. The intent of this action is to maintain the pension plan as a “Church Plan”.</p> <p>b) The gap between current SJHSRI Retirement Plan assets and the Final Balance will be funded by contributions from the Seller.</p>
<p>6. Capitalization of Newco</p>	<p>a) At closing, Prime shall contribute \$75 million to Newco. Each party shall also contribute, in proportion to their respective ownership interests, an amount equal to expenses payable by Newco at or in connection with closing, and any expenses incurred by Prime for inspections, studies, tests, review and analysis of the Business and the Purchased Assets for the benefit of Newco.</p> <p>b) Prime commits to make \$50 million in additional capital contributions over three years pursuant to the capital commitment contained in the Definitive Agreement. The Board of Newco (the “Board”) shall determine the timing of such additional capital contributions by making a formal request to Prime for such additional capital contributions. Each additional capital contribution made pursuant to this Paragraph 6(b) will reduce Seller’s ownership interest in Newco proportional to the sum of the Purchase Price plus prior capital contributions. Under no circumstances shall the Seller’s interest be diluted to less than 15% as a result of the provisions of this Paragraph 6(b).</p> <p>c) It is expected that the funds contributed to Newco pursuant to the capital commitment made in Paragraph 6(b) above will be spent on projects that include the following:</p> <ul style="list-style-type: none"> • Expansion of cancer center at Roger Williams Medical Center (“RWMC”) • Emergency Department Expansion at RWMC • Emergency Department Renovation/Reconfiguration at Our Lady of Fatima Hospital (“OLF”) • Renovation of operating rooms at RWMC • Conversion of all patient rooms to private rooms at RWMC and OLF • Renovation of ambulatory care center at OLF • New windows at RWMC and OLF • New generator at OLF • Face lift for facades at RWMC and OLF • HP access at front entrances of RWMC and OLF <p>d) Capital calls approved by the Newco Board shall be funded via the following sources in the order listed:</p> <ol style="list-style-type: none"> i. First, by free cash flow generated by the earnings of Newco; ii. Second, from debt incurred in such amounts as determined by Prime, except that any borrowings in excess of a specified amount of the

CharterCARE Health Partners
Proposed Term Sheet – Prime Healthcare Services
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	<p>projected EBITDA of Newco shall require the approval of the Newco Board. Borrowings may be from third party lenders or from Prime or its affiliates. Any borrowings from Prime or its affiliates will be at market rates, based upon terms that would be generally available from unaffiliated third party lenders.</p> <p>iii. Third by contributions from equity owners, in proportion to their respective ownership interests</p> <p>e) Each party shall have a right not to meet any capital calls. In such event, should the other party provide additional capital to Newco (excluding the commitments made in a) and b) above), proportional ownership interest will be adjusted based on the fair market value of Newco at the time such dilution occurs. Fair market value shall be determined using the average of the median revenue multiple and median EBITDA multiple of publicly traded hospital management companies, as measured over the most recent 12 month period of publicly available financial results, applied to Newco’s revenues and EBITDA, as measured over the most recent 12 month period, times 90%. In the event Prime is publicly traded, fair market value shall be determined using Prime’s Revenue and EBITDA multiples applied to Newco’s revenues and EBITDA times 90%.</p> <p>f) Under no circumstances shall the Seller’s interest in Newco be diluted to less than 5%.</p>
<p>7. Put Option/Tag Along Rights</p>	<p>a) Commencing on the fifth anniversary of closing, Seller shall have a right to put its entire interest in Newco to Prime using the valuation methodology described in Paragraph 6(e). Such put must be exercised by Seller within 90 days after the fifth anniversary and settled 90 days thereafter. At any time, Seller shall have a right to put its interest in Newco to Prime, using the valuation methodology described in Paragraph 6(e), if necessary to protect Seller’s tax-exempt status.</p> <p>b) Upon the earlier of 3 years after Closing, Prime undertaking an IPO or upon a change in control of Prime, Seller will have the right to convert all or part of its interests in Newco to common equity interest in Prime.</p>
<p>8. Governance Structure</p>	<p>a) So long as Seller holds its interest in Newco, Newco will establish a Board of Directors (the “Newco Board”) composed 50% of members appointed by Seller (the “Seller Block”) and 50% by Prime (the “Prime Block”), to ensure that a strong local presence is in place to navigate the RI healthcare landscape. Regular distributions of Newco’s profits will be made on a pro rata basis, reflecting the percentage ownership interest in Newco at the time of each distribution. The Newco Board will be structured to allow the Seller’s distributions from Newco to be tax-exempt while allowing Prime to consolidate the financial results of Newco with the other financial results of Prime in accordance with generally accepted accounting principles.</p> <p>b) Most of the issues that the Newco Board will address will require a majority of votes for approval; however, certain Major Decisions will require the affirmative vote of a majority of both the Seller Block and the Prime Block. “Major Decisions” will include:</p> <ul style="list-style-type: none"> • Amendments to the governing documents of Newco; • Development of a strategic plan for Newco;

CharterCARE Health Partners
Proposed Term Sheet – Prime Healthcare Services
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	<ul style="list-style-type: none">• Adopting a corporate vision, mission and values statement and developing policies and monitoring progress toward strategic goals;• Approval of the appointment of, and continuing employment recommendations of Newco’s CEO;• Capital calls;• Certificate of Need filings• Changes to charity care policy and community benefits standards <p>c) Immediately following the closing of the Transaction, the Newco Board shall collaboratively examine Seller’s existing strategic initiatives, with consideration given to:</p> <ul style="list-style-type: none">i. Growth and development of clinical centers of excellence<ul style="list-style-type: none">a. Cancerb. Geriatric continuumc. Behavioral Healthd. Digestive Diseasee. Bariatricsf. Diabetesii. Pursuit of opportunities in<ul style="list-style-type: none">a. Neurological Sciencesb. Dermatology and Wound Carec. Orthopedicsiii. Clinical Integrationiv. Medical Staff – System Alignment/Engagement <p>Within the first 180 days of joint venture operations, the Newco Board will prepare a three to five year strategic plan addressing the short-term and long-term priorities for Newco, its facilities, and strategic objectives.</p> <p>d) Subject to limitations ensuring that Prime may consolidate the financial results of Newco as provided above, the Newco Board’s responsibilities will include, but not be limited to, oversight, but not necessarily approval, of:</p> <ul style="list-style-type: none">• Newco’s hospitals Board of Trustees (see (g));• Periodic evaluations of the CEO;• Operating and capital budgets and facility planning;• Conducting periodic evaluations of the CEO and making recommendations regarding that individual’s employment;• Assuring Newco facilities compliance with Joint Commission accreditation and criteria;• Fostering community relationships and identifying service and education opportunities. <p>e) The parties will negotiate in good faith a mechanism to break Newco board deadlocks.</p> <p>f) A change of control of Prime will not require a vote of the Newco Board.</p> <p>g) Newco will establish a Board of Trustees for each of its hospitals. The Board of Trustees, generally comprised of ½ physicians and ½ community leaders</p>
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CharterCARE Health Partners
Proposed Term Sheet – Prime Healthcare Services
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	<p>and the local Chief Executive Officer, will be responsible for medical staff credentialing, quality assurance and accreditation of the hospital. The Board of Trustees reviews strategic and capital plans and makes strategic recommendations for the hospital; it also provides guidance and support on local market and community concerns, considerations, strategies, issues and politics. The Trustees will serve terms of three years.</p> <p>h) Newco will seek advice from the current Seller for the Hospital Boards of Trustees and would also consider having members of the Board of Seller on the Hospital Boards of Trustees.</p>
<p>9. Management Agreement</p>	<p>a) Newco shall execute a management services agreement (“MSA”) with Prime. The MSA shall provide for a management fee equal to 2% of Newco’s Net Revenues, paid monthly. Under the MSA, Prime shall provide all corporate services customarily provided to Prime’s wholly or majority owned subsidiaries</p> <p>b) For purposes of the MSA, “Net Revenues” shall mean total operating revenues of Newco reduced by revenue deductions, which deductions shall be comprised of contractual allowances, discounts and charity care amounts (but not bad debt expense) as determined in accordance with generally accepted accounting principles.</p> <p>c) Prime shall not charge corporate overhead costs to Newco other than those variable costs directly attributable to services provided to Newco and not part of ordinary corporate services provided under the MSA.</p>
<p>10. Preservation of Name</p>	<p>After the closing, Newco will continue operating using the current names of the Business entities.</p>
<p>11. Maintenance of Services</p>	<p>Newco will contractually agree to maintain the two existing acute care hospitals and the full complement of essential clinical services (“Essential Services”). Essential Services shall be defined by the parties in the Definitive Agreement and shall include continued choice and access to hospital and non-acute health care service providers. In the event that Newco sells the Business, Newco will require the party that acquires the Business to assume this obligation.</p>

CharterCARE Health Partners
Proposed Term Sheet – Prime Healthcare Services
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<p>12. Charity Care and Community Obligations</p>	<p>a) Newco acknowledges that Seller has historically provided significant levels of care for indigent and low-income patients and has also provided care through a variety of community-based health programs. Subject to a review of Seller’s policies and procedures during confirmatory due diligence and to changes in legal requirements or governmental guidelines or policies, Newco will adopt, maintain, and adhere to Seller’s current policy on charity care or adopt other policies and procedures that are at least as favorable to the indigent and uninsured as Seller’s policies and procedures.</p> <p>b) Newco will continue to provide care through sponsorship and support of community-based health programs, including cooperation with local organizations that sponsor healthcare initiatives to address identified community needs and improving the health status of the elderly, poor, and at-risk populations in the community.</p> <p>c) Newco shall continue to support nursing and staff education.</p> <p>d) Newco shall maintain a senior executive compliance officer whose responsibilities shall include regulatory compliance, organizational compliance and shall be responsible for establishing and overseeing an ethics committee to include community board members.</p>
<p>13. Medical Staff Matters</p>	<p>a) Physicians shall comprise up to 50% of each Newco hospital’s Board of Trustees. Some of these physicians will be appointed by Seller and some by Prime.</p> <p>b) Prime will work with the Business’s medical staff at both hospital campuses to ensure that physicians maintain an active presence at the Business and are kept informed and provided with necessary assistance during the transition planning phase, and are encouraged to maintain their medical practices within the community. Prime will invest heavily in the medical staff to retain existing staff and recruit new staff. In addition, Prime will commit to properly position system to compete in Rhode Island (and regionally as necessary), consistent with emerging health care regulatory and reimbursement environments.</p> <p>c) Newco intends to involve physicians in the strategic and capital planning process for each of Newco’s hospitals, insuring the critical needs of the medical staff are met and that strategic initiatives and investment into the facility can be prioritized to better meet the needs of physicians practicing in the hospitals.</p> <p>d) Newco will recognize the medical staffs of the hospitals, and agrees for a period of 2 years there will be no change or modification to current medical staff privileges for physicians on staff at the Business or to such Business facility’s medical staff by-laws, rules, and regulations.</p> <p>e) Prime will also recognize and sustain as currently configured the medical staff leadership structures including all officers, directors, and chiefs of service, both sitting and elected, at the Business.</p>
<p>14. Employee Matters</p>	<p>a) Newco will offer at-will employment, at base salaries and wages equal to their base salaries and wages as of the closing date, to all employees of the Business, including management, who are actively employed and in good standing on the closing date.</p> <p>b) Employees will retain their current seniority for purposes of benefits and their</p>

CharterCARE Health Partners
Proposed Term Sheet – Prime Healthcare Services
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	<p>salaries as of the closing date will provide the base for future increases.</p> <p>c) Employees terminated within the first twelve months after closing will be offered a severance package whose terms are comparable to those of the Seller’s existing severance package.</p> <p>d) Employees will retain their current seniority with regard to eligibility to participate in Newco qualified retirement plans and vesting in vacation and sick time.</p> <p>e) Newco will provide eligible employees with vacation, sick leave, holidays, health insurance, life insurance, a 401(k) plan, and other employee benefits consistent with market terms.</p> <p>f) Newco will recognize the existing unions at SJHSRI.</p>
15. Capital Expenditure Commitments	<p>Newco will make available sufficient resources to meet the capital needs of the Business, which shall be at least equal to Newco’s average annual depreciation expense. Seller’s current annual capital budget is \$10 million.</p>
16. Ethical and Religious Directives and Catholic Identity	<p>Newco shall comply with requests regarding Ethical and Religious Directives for Catholic Health Care Services at all SJHSRI locations and shall maintain the Catholic identity at all SJHSRI locations.</p>
17. Pastoral Care	<p>a) Newco will maintain pastoral care programs at all hospital facilities owned by Newco.</p> <p>b) Newco will provide pastoral care education curriculum sufficient to meet the needs of the hospitals owned by Newco.</p> <p>c) Newco will maintain chapels in all Newco hospital facilities indefinitely.</p>
18. Medical Education	<p>Newco will, at a minimum, continue the current medical education and research programs in place at the Business.</p>
19. No Sale	<p>a) Prime will agree not to sell its interest in Newco to an unaffiliated third party for a period of five years after closing. The foregoing will not prevent Prime from transferring its interest to an affiliate or from pledging its interest in Newco to Prime’s lenders. The foregoing restriction shall not apply to a change of control (including merger or consolidation) of Prime.</p> <p>b) In the event that Prime agrees to sell its interest in Newco to an unaffiliated third party after the five year period set forth in a) above expires, then Seller shall have the option to sell its interest in Newco to such buyer under the same terms and conditions. If such buyer is not willing to purchase all of the interests offered for sale by the parties, each party will be able to sell a portion of the interest to be sold to the buyer equal to its percentage interest in Newco. The terms of the sale of any party’s interest in Newco or any other consolidation, merger or like transaction, shall require such purchaser to expressly assume the Definitive Agreements or such successor to reaffirm the respective party’s obligations under the Definitive Agreements.</p>

CharterCARE Health Partners
Proposed Term Sheet – Prime Healthcare Services
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<p>20. Right of First Refusal</p>	<p>The Seller or its designee will maintain a right of first refusal to purchase Prime’s interest in Newco under essentially the same terms and conditions provided to Prime if Prime agrees to sell or transfer its interest in Newco to an unaffiliated third party. Seller shall have 60 days to exercise its right and 180 days to close. The foregoing restriction shall not apply to a change of control (including merger or consolidation) of Prime.</p>
<p>21. Medicare Cost Settlement</p>	<p>To the extent necessary, Newco will provide information to Seller and assist the Seller in the preparation and filing of a terminating cost report. In addition, Newco will provide information to Seller regarding any open cost report matter that relates to a pre-closing time period. Seller will hold Newco and Prime harmless from any liability arising from or related to this provision.</p>
<p>22. Contracts</p>	<p>Newco shall accept assignment of and assume all obligations arising after closing under contracts, operating leases, physician arrangements and other operating obligations of the Business, with no offset against the Purchase Price; provided, however, that Newco shall not be obligated to assume commercially unreasonable contracts or contracts that raise regulatory concerns.</p>
<p>23. Indemnification</p>	<ul style="list-style-type: none"> a) Seller shall indemnify Newco and Prime against losses arising from a breach of Seller’s representations, warranties and covenants. b) Prime shall indemnify Seller against losses from breach of Prime and Newco’s representations and warranties. c) Neither party shall be entitled to indemnification for breaches of representations or warranties unless and until the aggregate amount of losses that otherwise would be payable exceeds certain baskets to be agreed upon by the parties. d) Newco will not assume and Seller will remain responsible for, and indemnify Newco and Prime against, any and all liabilities, indebtedness, commitments or obligations of any kind whatsoever that relate to Seller’s operation of the Business prior to the closing, including without limitation, environmental claims or claims associated with alleged violations of environmental laws for acts prior to closing, liabilities for funding any employee benefit plan (including any defined benefits pension plan), cost report liabilities, tax matters and medical malpractice or general liability claims. e) Newco and Prime shall be responsible for, and indemnify Seller against, any and all liabilities, indebtedness, commitments, or obligations of any kind whatsoever that relate to Prime’s operation of Newco after the closing, including without limitation, environmental claims or claims associated with alleged violations of environmental laws for acts after closing, liabilities for funding any employee benefit, cost report liabilities, tax matters and medical malpractice or general liability claims. Prime’s liability for such losses shall be limited to 85% of the amount for which Seller is entitled to indemnification.
<p>24. Conditions</p>	<ul style="list-style-type: none"> a) This Term Sheet is subject to and contingent upon execution by the Seller and Newco of a definitive purchase and sale agreement and other related documents (the “Definitive Agreement”). The Definitive Agreement shall contain i) provisions outlined herein and ii) representations, warranties, and other terms and conditions consistent herewith and otherwise customary in this

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	<p>type of transaction and acceptable to the parties hereto, including, without limitation, governance and regulatory approvals, including IRS, anti-trust, hospital licensure, and state attorney general and favorable opinions of counsel acceptable to the parties.</p> <p>b) The representations and warranties to be contained in the Definitive Agreement, the survival of such representations and warranties, and the duration of such survival shall be subject to the mutual agreement of the parties.</p> <p>c) Each party agrees to negotiate in good faith and consistent with this Term Sheet with a view toward signing a Definitive Agreement as soon as practicable after approval by both parties.</p> <p>d) Execution of the Definitive Agreement and the closing of the Transaction shall be subject in all respects to approval by the respective Boards of Prime and Seller and any sponsors of Seller prior to execution of the Definitive Agreement, and all relevant legal and regulatory approvals and other customary conditions prior to closing, provided that closing will not be conditioned on the absence of a material adverse change in the Purchased Assets or the financial condition of the Business.</p>
Binding Provisions	
25. Entire Agreement	<p>Except for the Mutual Nondisclosure and Confidentiality Agreement dated as of August 2, 2012 (the “Confidentiality Agreement”), this Letter of Intent and Term Sheet constitutes the full and complete agreement and understanding between the parties hereto concerning the subject matter hereof and supersedes any prior written and oral agreements with regard to such subject matter. This Letter of Intent and Term Sheet may be modified or waived only by a separate written agreement signed by the parties hereto.</p>
26. Transition	<p>a) Prime shall be afforded the opportunity to provide limited input to significant activities of the Business after execution of Definitive Agreements including, but not limited to:</p> <ul style="list-style-type: none"> • Capital expenditures exceeding \$250,000 • New contracts exceeding \$500,000 <p>b) After closing, Newco will administratively assist Seller, at no additional cost, to dispose/discharge those assets and liabilities retained by Seller.</p>
27. Ordinary Course	<p>Until the earlier of the closing of the proposed Transaction or termination of this Letter of Intent and Term Sheet, Seller and its affiliates shall conduct business in the ordinary course of business and shall not sell or dispose of any asset other than in ordinary course.</p>
28. Confidentiality	<p>Information provided by Seller and Prime in connection with this proposed Transaction, and the existence of this Letter of Intent and Term Sheet, are subject to the terms and requirements of the Confidentiality Agreement between the parties dated as of [], 2012.</p>

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<p>29. Due Diligence, Access to Information and Facilities</p>	<p>The parties agree and acknowledge that Prime’s confirmatory due diligence requires access to additional information and Seller’s facilities above and beyond that which has been provided to Prime prior to the execution of this Letter of Intent. Seller and its affiliates will provide Prime with reasonable access to (i) information and materials related to the Business, the Seller, its affiliates and their respective related assets as requested by Prime from time to time, and (ii) all real property, facilities and equipment that are part of the proposed transaction. Prime shall provide Seller with all data, materials and information that Seller may reasonably require from time to time as part of the due diligence process conducted by Seller.</p>
<p>30. Expenses</p>	<p>a) Prime and Seller shall each bear their respective legal, accounting and other expenses (including the expense of any brokers, agents or finders) in connection with the Transaction contemplated herein whether or not the Transaction is consummated.</p> <p>b) Newco will pay for title costs, title insurance, recording fees, and transfer and other taxes arising from the Transaction contemplated herein.</p> <p>c) Newco will pay for any inspections, studies, tests, review and analysis of the Assets Purchased.</p>
<p>31. Dispute Resolution</p>	<p>All disputes, controversies or claims that may arise among the parties hereto, including, without limitation, any dispute, controversy or claim arising out of this agreement, or any other relevant document, or the breach, termination or invalidity thereof (a “Dispute”), shall be settled solely and finally pursuant to the procedures set forth in this Paragraph.</p> <p>The parties shall attempt in good faith to resolve any Dispute of whatever nature arising between the parties, promptly by negotiation. If the Dispute has not been resolved within 30 days after delivery of a notice of a Dispute has been provided by one party to the other party, any of such parties may initiate arbitration of the Dispute as provided below.</p> <p>If the Dispute has not been resolved by negotiation as provided above, then, the parties agree that the Dispute shall be submitted to, and determined by, binding arbitration. Such arbitration shall be conducted pursuant to the CPR Rules for Non-Administered Arbitration, by one neutral arbitrator, which shall be selected from a list of 10 potential candidates provided by CPR. The award made by the arbitrator shall be final and binding upon the parties thereto and the subject matter, and judgment upon the award rendered by the arbitrator may be entered by any court having jurisdiction thereof. Unless otherwise agreed by the parties, the arbitration shall be held in Providence, Rhode Island. The arbitrator shall not have the authority to award punitive or exemplary damages. The costs and fees of the arbitration shall be borne equally by the parties to the arbitration, except that each party shall be solely responsible for its own attorneys’ fees; provided, however, that the prevailing party in any such arbitration shall be entitled to recover its reasonable attorneys’ fees, expert witness fees, costs and expenses (including, without limitation arbitration fees) incurred in connection with the arbitration to the extent such recovery is permitted by the law(s) governing the claim(s) asserted.</p>

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32. Press Release	Except as required by law, it is understood that all press releases or other public communications of any sort relating to this letter of intent and the method of the release for publication thereof, will be subject to the prior approval of both parties.
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CharterCARE Letterhead

January 31, 2013

Sam Lee
Chief Executive Officer
Prospect Medical Holdings
10780 Santa Monica Blvd., Suite 400
Los Angeles, CA 90025

LETTER OF INTENT

Dear Mr. Lee:

The purpose of this letter of intent (the "Letter") is to set forth certain non-binding understandings and certain binding agreements by and between CharterCARE Health Partners ("Seller") and Prospect Medical Holdings, Inc. ("Prospect") with respect to the creation of a joint venture ("Newco") whereby Seller will sell certain assets and operations of Seller to Newco, as more particularly described in the attached term sheet (the "Term Sheet"), incorporated herein by reference.

Paragraphs 1 through 24 of the Term Sheet (the "Non-Binding Provisions") reflect our mutual understanding of the matters described in them, but each party acknowledges that the Non-Binding Provisions are not intended to create or constitute any legally binding obligation between Seller and Prospect, and neither Seller nor Prospect shall have any liability to the other party with respect to the Non-Binding Provisions until a definitive agreement and other related documents (the "Definitive Agreement") are prepared, authorized, executed and delivered by and between all parties. If the Definitive Agreement is not prepared, authorized, executed, or delivered for any reason, no party to this Letter shall have liability to any other party to this Letter based upon or relating to the Non-binding Provisions.

Upon execution by all parties of this Letter, Paragraphs 25 to 32 of the Term Sheet (collectively, the "Binding Provisions") will constitute the legally binding and enforceable agreement of the parties in recognition of the significant costs to be borne by the parties in pursuing the transaction and further in consideration of the mutual undertakings as to the matters described herein.

The Binding Provisions may be terminated only by mutual written consent; provided, however, that the termination of the Binding Provisions shall not affect the liability of a party for breach of any of the Binding Provisions prior to the termination. This Letter shall be construed and enforced in accordance with the laws of the State of Rhode Island. No signatory hereto shall assign this Letter to any party, other than to an affiliate of such party.

Notwithstanding the foregoing, this letter is intended to evidence the understandings which have been reached regarding the proposed transactions and the mutual intent of the parties to negotiate in good faith a Definitive Agreement in accordance with the terms contained in the Term Sheet.

Mr. Sam Lee
January 31, 2013
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The term of this Letter of Intent shall commence as of the Execution Date and shall continue in effect until signing of the Definitive Agreement or the agreement of the parties that , as defined in the term sheet.

Each party recognizes that it is a party to that certain Confidentiality Agreement dated as of August 2, 2012, and that such agreement remains in full force and effect.

The rights and remedies of the parties to this Letter of Intent are cumulative and not alternative. Neither the failure nor any delay by any party in exercising any right, power, or privilege under this Letter of Intent shall operate as a waiver of such right, power, or privilege, and no single or partial exercise of any such right, power, or privilege shall preclude any other or further exercise of such right, power, or privilege or the exercise of any other right, power, or privilege. A waiver shall be applicable only in the specific instance for which it is given. To the maximum extent permitted by law (i) no claim or right arising out of this Letter of Intent can be discharged by one party, in whole or in part, by a waiver or renunciation of the claim or right unless in writing signed by the other party; (ii) no waiver that may be given by a party shall be applicable except in the specific instance for which it is given; and (iii) no notice to or demand on one party shall be deemed to be a waiver of any obligation of such party or of the right of the party giving such notice or demand to take further action without notice or demand as provided in this Letter of Intent.

The invalidity or unenforceability of any provision of this Letter of Intent shall not affect the validity or enforceability of any other provisions of this Letter of Intent, which shall remain in full force and effect. If any provision of this Letter of Intent is determined to be unenforceable by reason of its extent, duration, scope or otherwise, then the parties contemplate that the court making such determination shall reduce such extent, duration, scope or other provision and enforce them in their reduced form for all purposes contemplated by this Letter of Intent.

This Letter of Intent may be executed in two or more counterparts, each of which shall be deemed to be an original copy of this Letter of Intent, and all of which, when taken together, shall be deemed to constitute one and the same agreement.

All notices, requests, demands or other communications required or permitted to be given under this Letter of Intent shall be in writing and shall be delivered to the Party to whom notice is to be given, to the notice addresses set forth below, either (i) by personal delivery (in which case such notice shall be deemed given on the date of delivery), (ii) by next business day courier service (e.g., Federal Express, UPS or other similar service) (in which case such notice shall be deemed given on the business day following the date of deposit with the courier service), or (iii) by United States mail, first class, postage prepaid, certified, return receipt requested (in which case such notice shall be deemed given on the third (3rd) day following the date of deposit with the United States Postal Service).

If to CCHP: CharterCARE Health Partners
825 Chalkstone Avenue
Providence, RI 02908

With a simultaneous copy to:
Kimberly O'Connell
CharterCARE General Counsel
825 Chalkstone Avenue
Providence, RI 02908

Mr. Sam Lee
January 31, 2013
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If to Prospect:

Prospect Medical Holdings, Inc.
10780 Santa Monica Blvd., Suite 400
Los Angeles, CA 90025
Attn.: Sam Lee

With a simultaneous copy to counsel for Prospect:

Prospect Medical Holdings, Inc.
10780 Santa Monica Blvd., Suite 400
Los Angeles, CA 90025
Attn.: Ellen Shin, General Counsel

This Letter of Intent represents an expression of intent only with respect to the consummation of the proposed transaction. Accordingly, unless and until the Definitive Agreement are executed and all other conditions to closing have been satisfied or waived; no party shall be obligated to consummate the proposed transaction. As a result, in the absence of the Definitive Agreement with respect to the proposed transaction, and subject to the Binding Provisions, the failure by either Party to agree to the Definitive Agreement shall not, in and of itself, give rise to any legally enforceable right or claim for damages or injunctive relief or any other form of judicially recognized award or right with respect to the proposed transaction or the consummation thereof. No past or future action, course of conduct, or failure to act relating to the proposed transaction, or relating to the negotiations of the terms of the Definitive Agreement, will give rise to or serve as a basis for any obligation or other liability on the part of any party. The parties acknowledge and agree that this Letter of Intent is an expression made in good faith by Seller regarding Seller's intentions. The omission of certain terms from this Letter of Intent shall not be construed so as to diminish the importance or the materiality of such term, and the parties acknowledge that, in addition to the proposed terms contained in this Letter of Intent, additional material terms remain to be resolved. It shall remain in the sole and absolute discretion of each party whether or not to enter into any definitive agreements or transactions with the other party, or parties, and no party shall have any liability or obligation for failing to do so except as expressly provided in this Letter of Intent.

Mr. Sam Lee
January 31, 2013
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If the terms herein are acceptable, please sign and date this Letter in the space provided below to confirm the mutual agreements set forth in the Binding Provisions and return a signed copy to the undersigned.

Sincerely:

CHARTERCARE HEALTH PARTNERS

By: _____
Kenneth H. Belcher
President and CEO

Date: _____

By: _____
Edwin J. Santos
Chairman of the Board

Date: _____

ACKNOWLEDGED AND AGREED:

PROSPECT MEDICAL HOLDINGS, INC.

By: _____
Sam Lee
Chief Executive Officer

Date: _____

CharterCARE Health Partners
Term Sheet for a Transaction with Prospect Medical Holdings, Inc.
January 31, 2013

Non-Binding Provisions	
1. Form of Transaction	<p>a) CharterCARE Health Partners, a Rhode Island 501(c)(3) corporation (“Seller”), operates two acute care hospitals and certain related health care businesses in Providence, Rhode Island and surrounding communities (the “Business”).</p> <p>b) A newly established limited liability company (“Newco”), to be owned 85% by Prospect Medical Holdings, Inc. (“Prospect”), and 15% by Seller, will purchase substantially all of the assets, liabilities and operations of the Business, other than the Excluded Assets and Excluded Liabilities (the “Purchased Assets”) from Seller.</p> <p>c) Prospect shall serve as the manager of Newco.</p> <p>d) In addition to operating the Business, Prospect’s intent is to support the growth of Newco through regional development, the deployment of ambulatory locations of care, recruitment and integration of physicians, safety and quality improvement initiatives, efforts to improve financial performance, and building and expanding Newco’s care capabilities.</p> <p>e) Prospect will guarantee all of the pre-closing obligations, covenants, representations, and warranties of Newco and 85% of the post-closing obligations and covenants of Newco.</p> <p>f) The purchase of the Purchased Assets is referred to herein as the “Transaction”.</p>
2. Commitment to Quality, Safety and Patient Satisfaction	<p>Subsequent to the Transaction, Prospect shall operate Newco consistent with a not-for-profit purpose and with a commitment to quality, safety and patient satisfaction including maintaining appropriate accreditations necessary to receive reimbursement under CMS and state Medicaid programs as well commitments to certain minimum measures of quality to be defined.</p>
3. Purchase Price	<p>a) In exchange for the Purchased Assets, Newco shall</p> <ul style="list-style-type: none"> i) Pay to Seller \$75 million in cash at closing, \$34 million of which will be applied to extinguish Seller’s existing long-term debt, and \$14 million of which will be earmarked to strengthen the cash position of St. Joseph Health Services of Rhode Island’s (“SJHSRI”) pension plan; ii) Grant Seller 15% of the equity of Newco; iii) Pay to Seller or receive from Seller the amount by which the net book value of Net Working Capital (as defined in Paragraph 4(b) hereof) is greater or less than the average net working capital (excluding cash and current portion of long term debt) of the Seller for the twelve month period prior to the close of the transaction. <p>b) Seller will obtain tail insurance coverage for all of Seller’s liabilities prior to the closing date, including malpractice and worker’s compensation. Seller shall be solely responsible for the cost of such coverage.</p>

CharterCARE Health Partners
Proposed Term Sheet – Prospect Medical Partners, Inc.
Page 2

	<p>c) Subsequent to the execution of the Letter of Intent, Newco shall not propose any reduction of, or other direct or indirect change to, the Purchase Price, except for the determination of Net Working Capital or in the event that Prospect discovers, during confirmatory due diligence, a fact or circumstance, of which Prospect was previously unaware, directly related to the operation of the Business that may reasonably result in a material adverse effect on the value of the Purchased Assets or future ongoing operation of the Business.</p>
<p>4. Purchased Assets and Liabilities Assumed</p>	<p>Newco shall purchase the following:</p> <p>a) All of the assets of Seller, excluding certain financial assets identified as “Excluded Assets”, including: any associated owned clinical care buildings; ancillary services land and buildings; real property used in connection with the operation of the Business, or acquired for the benefit of the Business, including any other buildings, leaseholds, improvements or fixtures, free and clear of all liens and encumbrances except for those that are typically permitted encumbrances (e.g., easements for utilities) or that Newco otherwise chooses to assume; equipment; patient, medical, personnel and other records of the Business; licenses, permits; and trade names; certain assumable contracts and leases related to the operations of the Business; interests in all property arising or acquired in the ordinary course of the operation of the Business between the date of the Letter and the closing; all other property, whether tangible or intangible, of every kind, character or description owned by the Seller and used or held for use in the operation of the Business; and any other assets owned by Seller which are necessary for the operation of the Business.</p> <p>b) The net working capital (“Net Working Capital”) that is comprised of usable inventory and supplies, patient accounts receivable, pledges and grants receivable, other receivables, prepaid expenses and deposits that have continuing value to the operations of the Business, less trade accounts payable, accrued expenses, and employee benefit accruals (including vacation and sick time).</p> <p>c) Seller’s interest in Rhode Island PET Services, LLC.</p> <p>d) Seller’s interest in Roger Williams Radiation Therapy.</p> <p>e) Newco will not purchase, and Seller will retain ownership of, SJHSRI Retirement Plan assets, cash and investments, funds held by the bond trustee under the bond indenture, charitable restricted assets, assets of St. Joseph Health Services Foundation, Inc., funds held by trustee for insurance, board designated investments, restricted interests in perpetual trusts, donor restricted funds, or funds restricted by spending policy (the “Excluded Assets”).</p> <p>f) Newco will assume all liabilities of Seller, with the exception of the Excluded Liabilities. Assumed liabilities include: long-term capital leases, deferred gain on joint venture investments, asset retirement obligations.</p> <p>g) Newco will not assume, and Seller will remain liable for, Seller’s long-term debt, pension liability, insurance reserves and other reserves (the “Excluded Liabilities”).</p> <p>h) Newco shall assume all obligations arising after closing under the assigned contracts and leases, including capital leases.</p> <p>References to classes of assets and liabilities in this Term Sheet refer to assets and liabilities categorized under such headings as shown in the balance sheet</p>

CharterCARE Health Partners
Proposed Term Sheet – Prospect Medical Partners, Inc.
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	analysis attached hereto as Exhibit A.
<p>5. SJHSRI Pension Plan Discharge</p>	<p>a) Seller will work diligently to freeze the SJHSRI pension obligations in an amount equal to \$100 million (the “Final Balance”). This process may include creation of a separate fund, and appointment of a small board and investment CEO to manage the Final Balance. The intent of this action is to maintain the pension plan as a “Church Plan”.</p> <p>b) The gap between current SJHSRI Retirement Plan assets and the Final Balance will be funded by contributions from the Seller.</p>
<p>6. Capitalization of Newco</p>	<p>a) At closing, Prospect shall contribute \$75 million to Newco. Each party shall also contribute, in proportion to their respective ownership interests, an amount equal to expenses payable by Newco at or in connection with closing, and any expenses incurred by Prospect for inspections, studies, tests, review and analysis of the Business and the Purchased Assets for the benefit of Newco.</p> <p>b) Prospect commits to make \$50 million in additional capital contributions over three years pursuant to the capital commitment contained in the Definitive Agreement. The Board of Newco (the “Board”) shall determine the timing of such additional capital contributions by making a formal request to Prospect for such additional capital contributions. Each additional capital contribution made pursuant to this Paragraph 6(b) will reduce Seller’s ownership interest in Newco proportional to the sum of the Purchase Price plus prior capital contributions. Under no circumstances shall the Seller’s interest be diluted to less than 15% as a result of the provisions of this Paragraph 6(b).</p> <p>c) It is expected that the funds contributed to Newco pursuant to the capital commitment made in Paragraph 6(b) above will be spent on projects that include the following:</p> <ul style="list-style-type: none"> • Expansion of cancer center at Roger Williams Medical Center (“RWMC”) • Emergency Department Expansion at RWMC • Emergency Department Renovation/Reconfiguration at Our Lady of Fatima Hospital (“OLF”) • Renovation of operating rooms at RWMC • Conversion of all patient rooms to private rooms at RWMC and OLF • Renovation of ambulatory care center at OLF • New windows at RWMC and OLF • New generator at OLF • Face lift for facades at RWMC and OLF • HP access at front entrances of RWMC and OLF <p>d) Capital calls approved by the Newco Board shall be funded via the following sources in the order listed:</p> <ol style="list-style-type: none"> i. First, by free cash flow generated by the earnings of Newco; ii. Second, from debt incurred in such amounts as determined by

CharterCARE Health Partners
Proposed Term Sheet – Prospect Medical Partners, Inc.
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	<p>Prospect, except that any borrowings in excess of a specified amount of the projected EBITDA of Newco shall require the approval of the Newco Board. Borrowings may be from third party lenders or from Prospect or its affiliates. Any borrowings from Prospect or its affiliates will be at market rates, based upon terms that would be generally available from unaffiliated third party lenders.</p> <p>iii. Third by contributions from equity owners, in proportion to their respective ownership interests</p> <p>e) Each party shall have a right not to meet any capital calls. In such event, should the other party provide additional capital to Newco (excluding the commitments made in a) and b) above), proportional ownership interest will be adjusted based on the fair market value of Newco at the time such dilution occurs. Fair market value shall be determined using the average of the median revenue multiple and median EBITDA multiple of publicly traded hospital management companies, as measured over the most recent 12 month period of publicly available financial results, applied to Newco’s revenues and EBITDA, as measured over the most recent 12 month period, times 90%. In the event Prospect is publicly traded, fair market value shall be determined using Prospect’s Revenue and EBITDA multiples applied to Newco’s revenues and EBITDA times 90%.</p> <p>f) Under no circumstances shall the Seller’s interest in Newco be diluted to less than 5%.</p>
<p>7. Put Option/Tag Along Rights</p>	<p>a) Commencing on the fifth anniversary of closing, Seller shall have a right to put its entire interest in Newco to Prospect using the valuation methodology described in Paragraph 6(e). Such put must be exercised by Seller within 90 days after the fifth anniversary and settled 90 days thereafter. At any time, Seller shall have a right to put its interest in Newco to Prospect, using the valuation methodology described in Paragraph 6(e), if necessary to protect Seller’s tax-exempt status.</p> <p>b) Upon the earlier of 3 years after Closing, Prospect undertaking an IPO or upon a change in control of Prospect, Seller will have the right to convert all or part of its interests in Newco to common equity interest in Prospect.</p>
<p>8. Governance Structure</p>	<p>a) So long as Seller holds its interest in Newco, Newco will establish a Board of Directors (the “Newco Board”) composed 50% of members appointed by Seller (the “Seller Block”) and 50% by Prospect (the “Prospect Block”), to ensure that a strong local presence is in place to navigate the RI healthcare landscape. Regular distributions of Newco’s profits will be made on a pro rata basis, reflecting the percentage ownership interest in Newco at the time of each distribution. The Newco Board will be structured to allow the Seller’s distributions from Newco to be tax-exempt while allowing Prospect to consolidate the financial results of Newco with the other financial results of Prospect in accordance with generally accepted accounting principles.</p> <p>b) Most of the issues that the Newco Board will address will require a majority of votes for approval; however, certain Major Decisions will require the affirmative vote of a majority of both the Seller Block and the Prospect Block. “Major Decisions” will include:</p> <ul style="list-style-type: none"> • Amendments to the governing documents of Newco;

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Proposed Term Sheet – Prospect Medical Partners, Inc.
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	<ul style="list-style-type: none">• Development of a strategic plan for Newco;• Adopting a corporate vision, mission and values statement and developing policies and monitoring progress toward strategic goals;• Approval of the appointment of, and continuing employment recommendations of Newco’s CEO;• Capital calls;• Certificate of Need filings• Changes to charity care policy and community benefits standards <p>c) Immediately following the closing of the Transaction, the Newco Board shall collaboratively examine Seller’s existing strategic initiatives, with consideration given to:</p> <ul style="list-style-type: none">i. Growth and development of clinical centers of excellence<ul style="list-style-type: none">a. Cancerb. Geriatric continuumc. Behavioral Healthd. Digestive Diseasee. Bariatricsf. Diabetesii. Pursuit of opportunities in<ul style="list-style-type: none">a. Neurological Sciencesb. Dermatology and Wound Carec. Orthopedicsiii. Clinical Integrationiv. Medical Staff – System Alignment/Engagement <p>Within the first 180 days of joint venture operations, the Newco Board will prepare a three to five year strategic plan addressing the short-term and long-term priorities for Newco, its facilities, and strategic objectives.</p> <p>d) Subject to limitations ensuring that Prospect may consolidate the financial results of Newco as provided above, the Newco Board’s responsibilities will include, but not be limited to, oversight, but not necessarily approval, of:</p> <ul style="list-style-type: none">• Newco’s hospitals Board of Trustees (see (g));• Periodic evaluations of the CEO;• Operating and capital budgets and facility planning;• Conducting periodic evaluations of the CEO and making recommendations regarding that individual’s employment;• Assuring Newco facilities compliance with Joint Commission accreditation and criteria;• Fostering community relationships and identifying service and education opportunities. <p>e) The parties will negotiate in good faith a mechanism to break Newco board deadlocks.</p> <p>f) A change of control of Prospect will not require a vote of the Newco Board.</p>
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	<p>g) Newco will establish a Board of Trustees for each of its hospitals. The Board of Trustees, generally comprised of ½ physicians and ½ community leaders and the local Chief Executive Officer, will be responsible for medical staff credentialing, quality assurance and accreditation of the hospital. The Board of Trustees reviews strategic and capital plans and makes strategic recommendations for the hospital; it also provides guidance and support on local market and community concerns, considerations, strategies, issues and politics. The Trustees will serve terms of three years.</p> <p>h) Newco will seek advice from the current Seller for the Hospital Boards of Trustees and would also consider having members of the Board of Seller on the Hospital Boards of Trustees.</p>
<p>9. Management Agreement</p>	<p>a) Newco shall execute a management services agreement (“MSA”) with Prospect. The MSA shall provide for a management fee equal to 2% of Newco’s Net Revenues, paid monthly. Under the MSA, Prospect shall provide all corporate services customarily provided to Prospect’s wholly or majority owned subsidiaries</p> <p>b) For purposes of the MSA, “Net Revenues” shall mean total operating revenues of Newco reduced by revenue deductions, which deductions shall be comprised of contractual allowances, discounts and charity care amounts (but not bad debt expense) as determined in accordance with generally accepted accounting principles.</p> <p>c) Prospect shall not charge corporate overhead costs to Newco other than those variable costs directly attributable to services provided to Newco and not part of ordinary corporate services provided under the MSA.</p>
<p>10. Preservation of Name</p>	<p>After the closing, Newco will continue operating using the current names of the Business entities.</p>
<p>11. Maintenance of Services</p>	<p>Newco will contractually agree to maintain the two existing acute care hospitals and the full complement of essential clinical services (“Essential Services”). Essential Services shall be defined by the parties in the Definitive Agreement and shall include continued choice and access to hospital and non-acute health care service providers. In the event that Newco sells the Business, Newco will require the party that acquires the Business to assume this obligation.</p>

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<p>12. Charity Care and Community Obligations</p>	<p>a) Newco acknowledges that Seller has historically provided significant levels of care for indigent and low-income patients and has also provided care through a variety of community-based health programs. Subject to a review of Seller’s policies and procedures during confirmatory due diligence and to changes in legal requirements or governmental guidelines or policies, Newco will adopt, maintain, and adhere to Seller’s current policy on charity care or adopt other policies and procedures that are at least as favorable to the indigent and uninsured as Seller’s policies and procedures.</p> <p>b) Newco will continue to provide care through sponsorship and support of community-based health programs, including cooperation with local organizations that sponsor healthcare initiatives to address identified community needs and improving the health status of the elderly, poor, and at-risk populations in the community.</p> <p>c) Newco shall continue to support nursing and staff education.</p> <p>d) Newco shall maintain a senior executive compliance officer whose responsibilities shall include regulatory compliance, organizational compliance and shall be responsible for establishing and overseeing an ethics committee to include community board members.</p>
<p>13. Medical Staff Matters</p>	<p>a) Physicians shall comprise up to 50% of each Newco hospital’s Board of Trustees. Some of these physicians will be appointed by Seller and some by Prospect.</p> <p>b) Prospect will work with the Business’s medical staff at both hospital campuses to ensure that physicians maintain an active presence at the Business and are kept informed and provided with necessary assistance during the transition planning phase, and are encouraged to maintain their medical practices within the community. Prospect will invest heavily in the medical staff to retain existing staff and recruit new staff. In addition, Prospect will commit to properly position system to compete in Rhode Island (and regionally as necessary), consistent with emerging health care regulatory and reimbursement environments.</p> <p>c) Newco intends to involve physicians in the strategic and capital planning process for each of Newco’s hospitals, insuring the critical needs of the medical staff are met and that strategic initiatives and investment into the facility can be prioritized to better meet the needs of physicians practicing in the hospitals.</p> <p>d) Newco will recognize the medical staffs of the hospitals, and agrees for a period of 2 years there will be no change or modification to current medical staff privileges for physicians on staff at the Business or to such Business facility’s medical staff by-laws, rules, and regulations.</p> <p>e) Prospect will also recognize and sustain as currently configured the medical staff leadership structures including all officers, directors, and chiefs of service, both sitting and elected, at the Business.</p>
<p>14. Employee Matters</p>	<p>a) Newco will offer at-will employment, at base salaries and wages equal to their base salaries and wages as of the closing date, to all employees of the Business, including management, who are actively employed and in good standing on the closing date.</p>

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Proposed Term Sheet – Prospect Medical Partners, Inc.
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	<ul style="list-style-type: none"> b) Employees will retain their current seniority for purposes of benefits and their salaries as of the closing date will provide the base for future increases. c) Employees terminated within the first twelve months after closing will be offered a severance package whose terms are comparable to those of the Seller’s existing severance package. d) Employees will retain their current seniority with regard to eligibility to participate in Newco qualified retirement plans and vesting in vacation and sick time. e) Newco will provide eligible employees with vacation, sick leave, holidays, health insurance, life insurance, a 401(k) plan, and other employee benefits consistent with market terms. f) Newco will recognize the existing unions at SJHSRI.
15. Capital Expenditure Commitments	Newco will make available sufficient resources to meet the capital needs of the Business, which shall be at least equal to Newco’s average annual depreciation expense. Seller’s current annual capital budget is \$10 million.
16. Ethical and Religious Directives and Catholic Identity	Newco shall comply with requests regarding Ethical and Religious Directives for Catholic Health Care Services at all SJHSRI locations and shall maintain the Catholic identity at all SJHSRI locations.
17. Pastoral Care	<ul style="list-style-type: none"> a) Newco will maintain pastoral care programs at all hospital facilities owned by Newco. b) Newco will provide pastoral care education curriculum sufficient to meet the needs of the hospitals owned by Newco. c) Newco will maintain chapels in all Newco hospital facilities indefinitely.
18. Medical Education	Newco will, at a minimum, continue the current medical education and research programs in place at the Business.
19. No Sale	<ul style="list-style-type: none"> a) Prospect will agree not to sell its interest in Newco to an unaffiliated third party for a period of five years after closing. The foregoing will not prevent Prospect from transferring its interest to an affiliate or from pledging its interest in Newco to Prospect’s lenders. The foregoing restriction shall not apply to a change of control (including merger or consolidation) of Prospect. b) In the event that Prospect agrees to sell its interest in Newco to an unaffiliated third party after the five year period set forth in a) above expires, then Seller shall have the option to sell its interest in Newco to such buyer under the same terms and conditions. If such buyer is not willing to purchase all of the interests offered for sale by the parties, each party will be able to sell a portion of the interest to be sold to the buyer equal to its percentage interest in Newco. The terms of the sale of any party’s interest in Newco or any other consolidation, merger or like transaction, shall require such purchaser to expressly assume the Definitive Agreements or such successor to reaffirm the respective party’s obligations under the Definitive Agreements.

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<p>20. Right of First Refusal</p>	<p>The Seller or its designee will maintain a right of first refusal to purchase Prospect's interest in Newco under essentially the same terms and conditions provided to Prospect if Prospect agrees to sell or transfer its interest in Newco to an unaffiliated third party. Seller shall have 60 days to exercise its right and 180 days to close. The foregoing restriction shall not apply to a change of control (including merger or consolidation) of Prospect.</p>
<p>21. Medicare Cost Settlement</p>	<p>To the extent necessary, Newco will provide information to Seller and assist the Seller in the preparation and filing of a terminating cost report. In addition, Newco will provide information to Seller regarding any open cost report matter that relates to a pre-closing time period. Seller will hold Newco and Prospect harmless from any liability arising from or related to this provision.</p>
<p>22. Contracts</p>	<p>Newco shall accept assignment of and assume all obligations arising after closing under contracts, operating leases, physician arrangements and other operating obligations of the Business, with no offset against the Purchase Price; provided, however, that Newco shall not be obligated to assume commercially unreasonable contracts or contracts that raise regulatory concerns.</p>
<p>23. Indemnification</p>	<ul style="list-style-type: none"> a) Seller shall indemnify Newco and Prospect against losses arising from a breach of Seller's representations, warranties and covenants. b) Prospect shall indemnify Seller against losses from breach of Prospect and Newco's representations and warranties. c) Neither party shall be entitled to indemnification for breaches of representations or warranties unless and until the aggregate amount of losses that otherwise would be payable exceeds certain baskets to be agreed upon by the parties. d) Newco will not assume and Seller will remain responsible for, and indemnify Newco and Prospect against, any and all liabilities, indebtedness, commitments or obligations of any kind whatsoever that relate to Seller's operation of the Business prior to the closing, including without limitation, environmental claims or claims associated with alleged violations of environmental laws for acts prior to closing, liabilities for funding any employee benefit plan (including any defined benefits pension plan), cost report liabilities, tax matters and medical malpractice or general liability claims. e) Newco and Prospect shall be responsible for, and indemnify Seller against, any and all liabilities, indebtedness, commitments, or obligations of any kind whatsoever that relate to Prospect's operation of Newco after the closing, including without limitation, environmental claims or claims associated with alleged violations of environmental laws for acts after closing, liabilities for funding any employee benefit, cost report liabilities, tax matters and medical malpractice or general liability claims. Prospect's liability for such losses shall be limited to 85% of the amount for which Seller is entitled to indemnification.
<p>24. Conditions</p>	<ul style="list-style-type: none"> a) This Term Sheet is subject to and contingent upon execution by the Seller and Newco of a definitive purchase and sale agreement and other related documents (the "Definitive Agreement"). The Definitive Agreement shall contain i) provisions outlined herein and ii) representations, warranties, and

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	<p>other terms and conditions consistent herewith and otherwise customary in this type of transaction and acceptable to the parties hereto, including, without limitation, governance and regulatory approvals, including IRS, anti-trust, hospital licensure, and state attorney general and favorable opinions of counsel acceptable to the parties.</p> <p>b) The representations and warranties to be contained in the Definitive Agreement, the survival of such representations and warranties, and the duration of such survival shall be subject to the mutual agreement of the parties.</p> <p>c) Each party agrees to negotiate in good faith and consistent with this Term Sheet with a view toward signing a Definitive Agreement as soon as practicable after approval by both parties.</p> <p>d) Execution of the Definitive Agreement and the closing of the Transaction shall be subject in all respects to approval by the respective Boards of Prospect and Seller and any sponsors of Seller prior to execution of the Definitive Agreement, and all relevant legal and regulatory approvals and other customary conditions prior to closing, provided that closing will not be conditioned on the absence of a material adverse change in the Purchased Assets or the financial condition of the Business.</p>
Binding Provisions	
25. Entire Agreement	<p>Except for the Mutual Nondisclosure and Confidentiality Agreement dated as of August 2, 2012 (the “Confidentiality Agreement”), this Letter of Intent and Term Sheet constitutes the full and complete agreement and understanding between the parties hereto concerning the subject matter hereof and supersedes any prior written and oral agreements with regard to such subject matter. This Letter of Intent and Term Sheet may be modified or waived only by a separate written agreement signed by the parties hereto.</p>
26. Transition	<p>a) Prospect shall be afforded the opportunity to provide limited input to significant activities of the Business after execution of Definitive Agreements including, but not limited to:</p> <ul style="list-style-type: none"> • Capital expenditures exceeding \$250,000 • New contracts exceeding \$500,000 <p>b) After closing, Newco will administratively assist Seller, at no additional cost, to dispose/discharge those assets and liabilities retained by Seller.</p>
27. Ordinary Course	<p>Until the earlier of the closing of the proposed Transaction or termination of this Letter of Intent and Term Sheet, Seller and its affiliates shall conduct business in the ordinary course of business and shall not sell or dispose of any asset other than in ordinary course.</p>
28. Confidentiality	<p>Information provided by Seller and Prospect in connection with this proposed Transaction, and the existence of this Letter of Intent and Term Sheet, are subject to the terms and requirements of the Confidentiality Agreement between the parties dated as of August 2, 2012.</p>

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Proposed Term Sheet – Prospect Medical Partners, Inc.
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29. Due Diligence, Access to Information and Facilities	The parties agree and acknowledge that Prospect’s confirmatory due diligence requires access to additional information and Seller’s facilities above and beyond that which has been provided to Prospect prior to the execution of this Letter of Intent. Seller and its affiliates will provide Prospect with reasonable access to (i) information and materials related to the Business, the Seller, its affiliates and their respective related assets as requested by Prospect from time to time, and (ii) all real property, facilities and equipment that are part of the proposed transaction. Prospect shall provide Seller with all data, materials and information that Seller may reasonably require from time to time as part of the due diligence process conducted by Seller.
30. Expenses	<p>a) Prospect and Seller shall each bear their respective legal, accounting and other expenses (including the expense of any brokers, agents or finders) in connection with the Transaction contemplated herein whether or not the Transaction is consummated.</p> <p>b) Newco will pay for title costs, title insurance, recording fees, and transfer and other taxes arising from the Transaction contemplated herein.</p> <p>c) Newco will pay for any inspections, studies, tests, review and analysis of the Assets Purchased.</p>
31. Dispute Resolution	<p>All disputes, controversies or claims that may arise among the parties hereto, including, without limitation, any dispute, controversy or claim arising out of this agreement, or any other relevant document, or the breach, termination or invalidity thereof (a “Dispute”), shall be settled solely and finally pursuant to the procedures set forth in this Paragraph.</p> <p>The parties shall attempt in good faith to resolve any Dispute of whatever nature arising between the parties, promptly by negotiation. If the Dispute has not been resolved within 30 days after delivery of a notice of a Dispute has been provided by one party to the other party, any of such parties may initiate arbitration of the Dispute as provided below.</p> <p>If the Dispute has not been resolved by negotiation as provided above, then, the parties agree that the Dispute shall be submitted to, and determined by, binding arbitration. Such arbitration shall be conducted pursuant to the CPR Rules for Non-Administered Arbitration, by one neutral arbitrator, which shall be selected from a list of 10 potential candidates provided by CPR. The award made by the arbitrator shall be final and binding upon the parties thereto and the subject matter, and judgment upon the award rendered by the arbitrator may be entered by any court having jurisdiction thereof. Unless otherwise agreed by the parties, the arbitration shall be held in Providence, Rhode Island. The arbitrator shall not have the authority to award punitive or exemplary damages. The costs and fees of the arbitration shall be borne equally by the parties to the arbitration, except that each party shall be solely responsible for its own attorneys’ fees; provided, however, that the prevailing party in any such arbitration shall be entitled to recover its reasonable attorneys’ fees, expert witness fees, costs and expenses (including, without limitation arbitration fees) incurred in connection with the arbitration to the extent such recovery is permitted by the law(s) governing the claim(s) asserted.</p>

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Proposed Term Sheet – Prospect Medical Partners, Inc.
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32. Press Release	Except as required by law, it is understood that all press releases or other public communications of any sort relating to this letter of intent and the method of the release for publication thereof, will be subject to the prior approval of both parties.
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Exhibit 40

Beretta, Richard </O=APS/OU=PROVIDENCE/CN=RECIPIENTS/CN=RICHARD BERETTA>
To: Rocha, Pat
Sent: 2/7/2013 3:19:19 PM
Subject: FW: Letter of Intent Drafts
Attachments: CCHP-Prime LOI Term Sheet 013113.docx; CCHP-Prospect LOI Term Sheet 013113.docx

Richard R. Beretta, Jr.
ADLER POLLOCK & SHEEHAN P.C.
One Citizens Plaza, 8th Floor
Providence, RI 02903

E-Mail rberetta@apslaw.com
Phone 401.274.7200
Fax 401.351.4607
Visit our website at www.apslaw.com
[\\chevy/scripts/Office/logo.jpg](http://chevy/scripts/Office/logo.jpg)

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From: DiStefano, Joseph
Sent: Thursday, February 07, 2013 10:12 AM
To: Beretta, Richard
Subject: Letter of Intent Drafts

Richard – Attached are the LOIs for Prime and Prospect prepared by Cain Brothers & Company, LLC

CCHP-Prime LOI Term Sheet 013113.docx

CCHP-Prospect LOI Term Sheet 013113.docx

Joe DiStefano

Joseph R. DiStefano
Attorney
ADLER POLLOCK & SHEEHAN P.C.
One Citizens Plaza, 8th Floor
Providence, RI 02903-1345

E-Mail jdistefano@apslaw.com
Phone 401.274.7200 X126
Fax 401.751.0604
Visit our website at www.apslaw.com

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Case Number: PC-2019-11756
Filed in Providence/Bristol County Superior Court
Submitted: 9/11/2020 1:06 PM
Envelope: 2743155
Reviewed: [REDACTED]

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CharterCARE Letterhead

January 31, 2013

Sam Lee
Chief Executive Officer
Prospect Medical Holdings
10780 Santa Monica Blvd., Suite 400
Los Angeles, CA 90025

LETTER OF INTENT

Dear Mr. Lee:

The purpose of this letter of intent (the "Letter") is to set forth certain non-binding understandings and certain binding agreements by and between CharterCARE Health Partners ("Seller") and Prospect Medical Holdings, Inc. ("Prospect") with respect to the creation of a joint venture ("Newco") whereby Seller will sell certain assets and operations of Seller to Newco, as more particularly described in the attached term sheet (the "Term Sheet"), incorporated herein by reference.

Paragraphs 1 through 24 of the Term Sheet (the "Non-Binding Provisions") reflect our mutual understanding of the matters described in them, but each party acknowledges that the Non-Binding Provisions are not intended to create or constitute any legally binding obligation between Seller and Prospect, and neither Seller nor Prospect shall have any liability to the other party with respect to the Non-Binding Provisions until a definitive agreement and other related documents (the "Definitive Agreement") are prepared, authorized, executed and delivered by and between all parties. If the Definitive Agreement is not prepared, authorized, executed, or delivered for any reason, no party to this Letter shall have liability to any other party to this Letter based upon or relating to the Non-binding Provisions.

Upon execution by all parties of this Letter, Paragraphs 25 to 32 of the Term Sheet (collectively, the "Binding Provisions") will constitute the legally binding and enforceable agreement of the parties in recognition of the significant costs to be borne by the parties in pursuing the transaction and further in consideration of the mutual undertakings as to the matters described herein.

The Binding Provisions may be terminated only by mutual written consent; provided, however, that the termination of the Binding Provisions shall not affect the liability of a party for breach of any of the Binding Provisions prior to the termination. This Letter shall be construed and enforced in accordance with the laws of the State of Rhode Island. No signatory hereto shall assign this Letter to any party, other than to an affiliate of such party.

Notwithstanding the foregoing, this letter is intended to evidence the understandings which have been reached regarding the proposed transactions and the mutual intent of the parties to negotiate in good faith a Definitive Agreement in accordance with the terms contained in the Term Sheet.

Mr. Sam Lee
January 31, 2013
Page 2

The term of this Letter of Intent shall commence as of the Execution Date and shall continue in effect until signing of the Definitive Agreement or the agreement of the parties that , as defined in the term sheet.

Each party recognizes that it is a party to that certain Confidentiality Agreement dated as of August 2, 2012, and that such agreement remains in full force and effect.

The rights and remedies of the parties to this Letter of Intent are cumulative and not alternative. Neither the failure nor any delay by any party in exercising any right, power, or privilege under this Letter of Intent shall operate as a waiver of such right, power, or privilege, and no single or partial exercise of any such right, power, or privilege shall preclude any other or further exercise of such right, power, or privilege or the exercise of any other right, power, or privilege. A waiver shall be applicable only in the specific instance for which it is given. To the maximum extent permitted by law (i) no claim or right arising out of this Letter of Intent can be discharged by one party, in whole or in part, by a waiver or renunciation of the claim or right unless in writing signed by the other party; (ii) no waiver that may be given by a party shall be applicable except in the specific instance for which it is given; and (iii) no notice to or demand on one party shall be deemed to be a waiver of any obligation of such party or of the right of the party giving such notice or demand to take further action without notice or demand as provided in this Letter of Intent.

The invalidity or unenforceability of any provision of this Letter of Intent shall not affect the validity or enforceability of any other provisions of this Letter of Intent, which shall remain in full force and effect. If any provision of this Letter of Intent is determined to be unenforceable by reason of its extent, duration, scope or otherwise, then the parties contemplate that the court making such determination shall reduce such extent, duration, scope or other provision and enforce them in their reduced form for all purposes contemplated by this Letter of Intent.

This Letter of Intent may be executed in two or more counterparts, each of which shall be deemed to be an original copy of this Letter of Intent, and all of which, when taken together, shall be deemed to constitute one and the same agreement.

All notices, requests, demands or other communications required or permitted to be given under this Letter of Intent shall be in writing and shall be delivered to the Party to whom notice is to be given, to the notice addresses set forth below, either (i) by personal delivery (in which case such notice shall be deemed given on the date of delivery), (ii) by next business day courier service (e.g., Federal Express, UPS or other similar service) (in which case such notice shall be deemed given on the business day following the date of deposit with the courier service), or (iii) by United States mail, first class, postage prepaid, certified, return receipt requested (in which case such notice shall be deemed given on the third (3rd) day following the date of deposit with the United States Postal Service).

If to CCHP: CharterCARE Health Partners
825 Chalkstone Avenue
Providence, RI 02908

With a simultaneous copy to:
Kimberly O'Connell
CharterCARE General Counsel
825 Chalkstone Avenue
Providence, RI 02908

Mr. Sam Lee
January 31, 2013
Page 3

If to Prospect:

Prospect Medical Holdings, Inc.
10780 Santa Monica Blvd., Suite 400
Los Angeles, CA 90025
Attn.: Sam Lee

With a simultaneous copy to counsel for Prospect:

Prospect Medical Holdings, Inc.
10780 Santa Monica Blvd., Suite 400
Los Angeles, CA 90025
Attn.: Ellen Shin, General Counsel

This Letter of Intent represents an expression of intent only with respect to the consummation of the proposed transaction. Accordingly, unless and until the Definitive Agreement are executed and all other conditions to closing have been satisfied or waived; no party shall be obligated to consummate the proposed transaction. As a result, in the absence of the Definitive Agreement with respect to the proposed transaction, and subject to the Binding Provisions, the failure by either Party to agree to the Definitive Agreement shall not, in and of itself, give rise to any legally enforceable right or claim for damages or injunctive relief or any other form of judicially recognized award or right with respect to the proposed transaction or the consummation thereof. No past or future action, course of conduct, or failure to act relating to the proposed transaction, or relating to the negotiations of the terms of the Definitive Agreement, will give rise to or serve as a basis for any obligation or other liability on the part of any party. The parties acknowledge and agree that this Letter of Intent is an expression made in good faith by Seller regarding Seller's intentions. The omission of certain terms from this Letter of Intent shall not be construed so as to diminish the importance or the materiality of such term, and the parties acknowledge that, in addition to the proposed terms contained in this Letter of Intent, additional material terms remain to be resolved. It shall remain in the sole and absolute discretion of each party whether or not to enter into any definitive agreements or transactions with the other party, or parties, and no party shall have any liability or obligation for failing to do so except as expressly provided in this Letter of Intent.

Mr. Sam Lee
January 31, 2013
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If the terms herein are acceptable, please sign and date this Letter in the space provided below to confirm the mutual agreements set forth in the Binding Provisions and return a signed copy to the undersigned.

Sincerely:

CHARTERCARE HEALTH PARTNERS

By: _____
Kenneth H. Belcher
President and CEO

Date: _____

By: _____
Edwin J. Santos
Chairman of the Board

Date: _____

ACKNOWLEDGED AND AGREED:

PROSPECT MEDICAL HOLDINGS, INC.

By: _____
Sam Lee
Chief Executive Officer

Date: _____

CharterCARE Health Partners
Term Sheet for a Transaction with Prospect Medical Holdings, Inc.
January 31, 2013

Non-Binding Provisions	
1. Form of Transaction	<p>a) CharterCARE Health Partners, a Rhode Island 501(c)(3) corporation (“Seller”), operates two acute care hospitals and certain related health care businesses in Providence, Rhode Island and surrounding communities (the “Business”).</p> <p>b) A newly established limited liability company (“Newco”), to be owned 85% by Prospect Medical Holdings, Inc. (“Prospect”), and 15% by Seller, will purchase substantially all of the assets, liabilities and operations of the Business, other than the Excluded Assets and Excluded Liabilities (the “Purchased Assets”) from Seller.</p> <p>c) Prospect shall serve as the manager of Newco.</p> <p>d) In addition to operating the Business, Prospect’s intent is to support the growth of Newco through regional development, the deployment of ambulatory locations of care, recruitment and integration of physicians, safety and quality improvement initiatives, efforts to improve financial performance, and building and expanding Newco’s care capabilities.</p> <p>e) Prospect will guarantee all of the pre-closing obligations, covenants, representations, and warranties of Newco and 85% of the post-closing obligations and covenants of Newco.</p> <p>f) The purchase of the Purchased Assets is referred to herein as the “Transaction”.</p>
2. Commitment to Quality, Safety and Patient Satisfaction	<p>Subsequent to the Transaction, Prospect shall operate Newco consistent with a not-for-profit purpose and with a commitment to quality, safety and patient satisfaction including maintaining appropriate accreditations necessary to receive reimbursement under CMS and state Medicaid programs as well commitments to certain minimum measures of quality to be defined.</p>
3. Purchase Price	<p>a) In exchange for the Purchased Assets, Newco shall</p> <ul style="list-style-type: none"> i) Pay to Seller \$75 million in cash at closing, \$34 million of which will be applied to extinguish Seller’s existing long-term debt, and \$14 million of which will be earmarked to strengthen the cash position of St. Joseph Health Services of Rhode Island’s (“SJHSRI”) pension plan; ii) Grant Seller 15% of the equity of Newco; iii) Pay to Seller or receive from Seller the amount by which the net book value of Net Working Capital (as defined in Paragraph 4(b) hereof) is greater or less than the average net working capital (excluding cash and current portion of long term debt) of the Seller for the twelve month period prior to the close of the transaction. <p>b) Seller will obtain tail insurance coverage for all of Seller’s liabilities prior to the closing date, including malpractice and worker’s compensation. Seller shall be solely responsible for the cost of such coverage.</p>

**CharterCARE Health Partners
 Proposed Term Sheet – Prospect Medical Partners, Inc.
 Page 2**

	<p>c) Subsequent to the execution of the Letter of Intent, Newco shall not propose any reduction of, or other direct or indirect change to, the Purchase Price, except for the determination of Net Working Capital or in the event that Prospect discovers, during confirmatory due diligence, a fact or circumstance, of which Prospect was previously unaware, directly related to the operation of the Business that may reasonably result in a material adverse effect on the value of the Purchased Assets or future ongoing operation of the Business.</p>
<p>4. Purchased Assets and Liabilities Assumed</p>	<p>Newco shall purchase the following:</p> <p>a) All of the assets of Seller, excluding certain financial assets identified as “Excluded Assets”, including: any associated owned clinical care buildings; ancillary services land and buildings; real property used in connection with the operation of the Business, or acquired for the benefit of the Business, including any other buildings, leaseholds, improvements or fixtures, free and clear of all liens and encumbrances except for those that are typically permitted encumbrances (e.g., easements for utilities) or that Newco otherwise chooses to assume; equipment; patient, medical, personnel and other records of the Business; licenses, permits; and trade names; certain assumable contracts and leases related to the operations of the Business; interests in all property arising or acquired in the ordinary course of the operation of the Business between the date of the Letter and the closing; all other property, whether tangible or intangible, of every kind, character or description owned by the Seller and used or held for use in the operation of the Business; and any other assets owned by Seller which are necessary for the operation of the Business.</p> <p>b) The net working capital (“Net Working Capital”) that is comprised of usable inventory and supplies, patient accounts receivable, pledges and grants receivable, other receivables, prepaid expenses and deposits that have continuing value to the operations of the Business, less trade accounts payable, accrued expenses, and employee benefit accruals (including vacation and sick time).</p> <p>c) Seller’s interest in Rhode Island PET Services, LLC.</p> <p>d) Seller’s interest in Roger Williams Radiation Therapy.</p> <p>e) Newco will not purchase, and Seller will retain ownership of, SJHSRI Retirement Plan assets, cash and investments, funds held by the bond trustee under the bond indenture, charitable restricted assets, assets of St. Joseph Health Services Foundation, Inc., funds held by trustee for insurance, board designated investments, restricted interests in perpetual trusts, donor restricted funds, or funds restricted by spending policy (the “Excluded Assets”).</p> <p>f) Newco will assume all liabilities of Seller, with the exception of the Excluded Liabilities. Assumed liabilities include: long-term capital leases, deferred gain on joint venture investments, asset retirement obligations.</p> <p>g) Newco will not assume, and Seller will remain liable for, Seller’s long-term debt, pension liability, insurance reserves and other reserves (the “Excluded Liabilities”).</p> <p>h) Newco shall assume all obligations arising after closing under the assigned contracts and leases, including capital leases.</p> <p>References to classes of assets and liabilities in this Term Sheet refer to assets and liabilities categorized under such headings as shown in the balance sheet</p>

CharterCARE Health Partners
Proposed Term Sheet – Prospect Medical Partners, Inc.
Page 3

	analysis attached hereto as Exhibit A.
<p>5. SJHSRI Pension Plan Discharge</p>	<p>a) Seller will work diligently to freeze the SJHSRI pension obligations in an amount equal to \$100 million (the “Final Balance”). This process may include creation of a separate fund, and appointment of a small board and investment CEO to manage the Final Balance. The intent of this action is to maintain the pension plan as a “Church Plan”.</p> <p>b) The gap between current SJHSRI Retirement Plan assets and the Final Balance will be funded by contributions from the Seller.</p>
<p>6. Capitalization of Newco</p>	<p>a) At closing, Prospect shall contribute \$75 million to Newco. Each party shall also contribute, in proportion to their respective ownership interests, an amount equal to expenses payable by Newco at or in connection with closing, and any expenses incurred by Prospect for inspections, studies, tests, review and analysis of the Business and the Purchased Assets for the benefit of Newco.</p> <p>b) Prospect commits to make \$50 million in additional capital contributions over three years pursuant to the capital commitment contained in the Definitive Agreement. The Board of Newco (the “Board”) shall determine the timing of such additional capital contributions by making a formal request to Prospect for such additional capital contributions. Each additional capital contribution made pursuant to this Paragraph 6(b) will reduce Seller’s ownership interest in Newco proportional to the sum of the Purchase Price plus prior capital contributions. Under no circumstances shall the Seller’s interest be diluted to less than 15% as a result of the provisions of this Paragraph 6(b).</p> <p>c) It is expected that the funds contributed to Newco pursuant to the capital commitment made in Paragraph 6(b) above will be spent on projects that include the following:</p> <ul style="list-style-type: none"> • Expansion of cancer center at Roger Williams Medical Center (“RWMC”) • Emergency Department Expansion at RWMC • Emergency Department Renovation/Reconfiguration at Our Lady of Fatima Hospital (“OLF”) • Renovation of operating rooms at RWMC • Conversion of all patient rooms to private rooms at RWMC and OLF • Renovation of ambulatory care center at OLF • New windows at RWMC and OLF • New generator at OLF • Face lift for facades at RWMC and OLF • HP access at front entrances of RWMC and OLF <p>d) Capital calls approved by the Newco Board shall be funded via the following sources in the order listed:</p> <ol style="list-style-type: none"> i. First, by free cash flow generated by the earnings of Newco; ii. Second, from debt incurred in such amounts as determined by

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	<p>Prospect, except that any borrowings in excess of a specified amount of the projected EBITDA of Newco shall require the approval of the Newco Board. Borrowings may be from third party lenders or from Prospect or its affiliates. Any borrowings from Prospect or its affiliates will be at market rates, based upon terms that would be generally available from unaffiliated third party lenders.</p> <p>iii. Third by contributions from equity owners, in proportion to their respective ownership interests</p> <p>e) Each party shall have a right not to meet any capital calls. In such event, should the other party provide additional capital to Newco (excluding the commitments made in a) and b) above), proportional ownership interest will be adjusted based on the fair market value of Newco at the time such dilution occurs. Fair market value shall be determined using the average of the median revenue multiple and median EBITDA multiple of publicly traded hospital management companies, as measured over the most recent 12 month period of publicly available financial results, applied to Newco’s revenues and EBITDA, as measured over the most recent 12 month period, times 90%. In the event Prospect is publicly traded, fair market value shall be determined using Prospect’s Revenue and EBITDA multiples applied to Newco’s revenues and EBITDA times 90%.</p> <p>f) Under no circumstances shall the Seller’s interest in Newco be diluted to less than 5%.</p>
<p>7. Put Option/Tag Along Rights</p>	<p>a) Commencing on the fifth anniversary of closing, Seller shall have a right to put its entire interest in Newco to Prospect using the valuation methodology described in Paragraph 6(e). Such put must be exercised by Seller within 90 days after the fifth anniversary and settled 90 days thereafter. At any time, Seller shall have a right to put its interest in Newco to Prospect, using the valuation methodology described in Paragraph 6(e), if necessary to protect Seller’s tax-exempt status.</p> <p>b) Upon the earlier of 3 years after Closing, Prospect undertaking an IPO or upon a change in control of Prospect, Seller will have the right to convert all or part of its interests in Newco to common equity interest in Prospect.</p>
<p>8. Governance Structure</p>	<p>a) So long as Seller holds its interest in Newco, Newco will establish a Board of Directors (the “Newco Board”) composed 50% of members appointed by Seller (the “Seller Block”) and 50% by Prospect (the “Prospect Block”), to ensure that a strong local presence is in place to navigate the RI healthcare landscape. Regular distributions of Newco’s profits will be made on a pro rata basis, reflecting the percentage ownership interest in Newco at the time of each distribution. The Newco Board will be structured to allow the Seller’s distributions from Newco to be tax-exempt while allowing Prospect to consolidate the financial results of Newco with the other financial results of Prospect in accordance with generally accepted accounting principles.</p> <p>b) Most of the issues that the Newco Board will address will require a majority of votes for approval; however, certain Major Decisions will require the affirmative vote of a majority of both the Seller Block and the Prospect Block. “Major Decisions” will include:</p> <ul style="list-style-type: none"> • Amendments to the governing documents of Newco;

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	<ul style="list-style-type: none">• Development of a strategic plan for Newco;• Adopting a corporate vision, mission and values statement and developing policies and monitoring progress toward strategic goals;• Approval of the appointment of, and continuing employment recommendations of Newco’s CEO;• Capital calls;• Certificate of Need filings• Changes to charity care policy and community benefits standards <p>c) Immediately following the closing of the Transaction, the Newco Board shall collaboratively examine Seller’s existing strategic initiatives, with consideration given to:</p> <ul style="list-style-type: none">i. Growth and development of clinical centers of excellence<ul style="list-style-type: none">a. Cancerb. Geriatric continuumc. Behavioral Healthd. Digestive Diseasee. Bariatricsf. Diabetesii. Pursuit of opportunities in<ul style="list-style-type: none">a. Neurological Sciencesb. Dermatology and Wound Carec. Orthopedicsiii. Clinical Integrationiv. Medical Staff – System Alignment/Engagement <p>Within the first 180 days of joint venture operations, the Newco Board will prepare a three to five year strategic plan addressing the short-term and long-term priorities for Newco, its facilities, and strategic objectives.</p> <p>d) Subject to limitations ensuring that Prospect may consolidate the financial results of Newco as provided above, the Newco Board’s responsibilities will include, but not be limited to, oversight, but not necessarily approval, of:</p> <ul style="list-style-type: none">• Newco’s hospitals Board of Trustees (see (g));• Periodic evaluations of the CEO;• Operating and capital budgets and facility planning;• Conducting periodic evaluations of the CEO and making recommendations regarding that individual’s employment;• Assuring Newco facilities compliance with Joint Commission accreditation and criteria;• Fostering community relationships and identifying service and education opportunities. <p>e) The parties will negotiate in good faith a mechanism to break Newco board deadlocks.</p> <p>f) A change of control of Prospect will not require a vote of the Newco Board.</p>
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	<p>g) Newco will establish a Board of Trustees for each of its hospitals. The Board of Trustees, generally comprised of ½ physicians and ½ community leaders and the local Chief Executive Officer, will be responsible for medical staff credentialing, quality assurance and accreditation of the hospital. The Board of Trustees reviews strategic and capital plans and makes strategic recommendations for the hospital; it also provides guidance and support on local market and community concerns, considerations, strategies, issues and politics. The Trustees will serve terms of three years.</p> <p>h) Newco will seek advice from the current Seller for the Hospital Boards of Trustees and would also consider having members of the Board of Seller on the Hospital Boards of Trustees.</p>
<p>9. Management Agreement</p>	<p>a) Newco shall execute a management services agreement (“MSA”) with Prospect. The MSA shall provide for a management fee equal to 2% of Newco’s Net Revenues, paid monthly. Under the MSA, Prospect shall provide all corporate services customarily provided to Prospect’s wholly or majority owned subsidiaries</p> <p>b) For purposes of the MSA, “Net Revenues” shall mean total operating revenues of Newco reduced by revenue deductions, which deductions shall be comprised of contractual allowances, discounts and charity care amounts (but not bad debt expense) as determined in accordance with generally accepted accounting principles.</p> <p>c) Prospect shall not charge corporate overhead costs to Newco other than those variable costs directly attributable to services provided to Newco and not part of ordinary corporate services provided under the MSA.</p>
<p>10. Preservation of Name</p>	<p>After the closing, Newco will continue operating using the current names of the Business entities.</p>
<p>11. Maintenance of Services</p>	<p>Newco will contractually agree to maintain the two existing acute care hospitals and the full complement of essential clinical services (“Essential Services”). Essential Services shall be defined by the parties in the Definitive Agreement and shall include continued choice and access to hospital and non-acute health care service providers. In the event that Newco sells the Business, Newco will require the party that acquires the Business to assume this obligation.</p>

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<p>12. Charity Care and Community Obligations</p>	<p>a) Newco acknowledges that Seller has historically provided significant levels of care for indigent and low-income patients and has also provided care through a variety of community-based health programs. Subject to a review of Seller’s policies and procedures during confirmatory due diligence and to changes in legal requirements or governmental guidelines or policies, Newco will adopt, maintain, and adhere to Seller’s current policy on charity care or adopt other policies and procedures that are at least as favorable to the indigent and uninsured as Seller’s policies and procedures.</p> <p>b) Newco will continue to provide care through sponsorship and support of community-based health programs, including cooperation with local organizations that sponsor healthcare initiatives to address identified community needs and improving the health status of the elderly, poor, and at-risk populations in the community.</p> <p>c) Newco shall continue to support nursing and staff education.</p> <p>d) Newco shall maintain a senior executive compliance officer whose responsibilities shall include regulatory compliance, organizational compliance and shall be responsible for establishing and overseeing an ethics committee to include community board members.</p>
<p>13. Medical Staff Matters</p>	<p>a) Physicians shall comprise up to 50% of each Newco hospital’s Board of Trustees. Some of these physicians will be appointed by Seller and some by Prospect.</p> <p>b) Prospect will work with the Business’s medical staff at both hospital campuses to ensure that physicians maintain an active presence at the Business and are kept informed and provided with necessary assistance during the transition planning phase, and are encouraged to maintain their medical practices within the community. Prospect will invest heavily in the medical staff to retain existing staff and recruit new staff. In addition, Prospect will commit to properly position system to compete in Rhode Island (and regionally as necessary), consistent with emerging health care regulatory and reimbursement environments.</p> <p>c) Newco intends to involve physicians in the strategic and capital planning process for each of Newco’s hospitals, insuring the critical needs of the medical staff are met and that strategic initiatives and investment into the facility can be prioritized to better meet the needs of physicians practicing in the hospitals.</p> <p>d) Newco will recognize the medical staffs of the hospitals, and agrees for a period of 2 years there will be no change or modification to current medical staff privileges for physicians on staff at the Business or to such Business facility’s medical staff by-laws, rules, and regulations.</p> <p>e) Prospect will also recognize and sustain as currently configured the medical staff leadership structures including all officers, directors, and chiefs of service, both sitting and elected, at the Business.</p>
<p>14. Employee Matters</p>	<p>a) Newco will offer at-will employment, at base salaries and wages equal to their base salaries and wages as of the closing date, to all employees of the Business, including management, who are actively employed and in good standing on the closing date.</p>

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	<ul style="list-style-type: none"> b) Employees will retain their current seniority for purposes of benefits and their salaries as of the closing date will provide the base for future increases. c) Employees terminated within the first twelve months after closing will be offered a severance package whose terms are comparable to those of the Seller’s existing severance package. d) Employees will retain their current seniority with regard to eligibility to participate in Newco qualified retirement plans and vesting in vacation and sick time. e) Newco will provide eligible employees with vacation, sick leave, holidays, health insurance, life insurance, a 401(k) plan, and other employee benefits consistent with market terms. f) Newco will recognize the existing unions at SJHSRI.
15. Capital Expenditure Commitments	Newco will make available sufficient resources to meet the capital needs of the Business, which shall be at least equal to Newco’s average annual depreciation expense. Seller’s current annual capital budget is \$10 million.
16. Ethical and Religious Directives and Catholic Identity	Newco shall comply with requests regarding Ethical and Religious Directives for Catholic Health Care Services at all SJHSRI locations and shall maintain the Catholic identity at all SJHSRI locations.
17. Pastoral Care	<ul style="list-style-type: none"> a) Newco will maintain pastoral care programs at all hospital facilities owned by Newco. b) Newco will provide pastoral care education curriculum sufficient to meet the needs of the hospitals owned by Newco. c) Newco will maintain chapels in all Newco hospital facilities indefinitely.
18. Medical Education	Newco will, at a minimum, continue the current medical education and research programs in place at the Business.
19. No Sale	<ul style="list-style-type: none"> a) Prospect will agree not to sell its interest in Newco to an unaffiliated third party for a period of five years after closing. The foregoing will not prevent Prospect from transferring its interest to an affiliate or from pledging its interest in Newco to Prospect’s lenders. The foregoing restriction shall not apply to a change of control (including merger or consolidation) of Prospect. b) In the event that Prospect agrees to sell its interest in Newco to an unaffiliated third party after the five year period set forth in a) above expires, then Seller shall have the option to sell its interest in Newco to such buyer under the same terms and conditions. If such buyer is not willing to purchase all of the interests offered for sale by the parties, each party will be able to sell a portion of the interest to be sold to the buyer equal to its percentage interest in Newco. The terms of the sale of any party’s interest in Newco or any other consolidation, merger or like transaction, shall require such purchaser to expressly assume the Definitive Agreements or such successor to reaffirm the respective party’s obligations under the Definitive Agreements.

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<p>20. Right of First Refusal</p>	<p>The Seller or its designee will maintain a right of first refusal to purchase Prospect’s interest in Newco under essentially the same terms and conditions provided to Prospect if Prospect agrees to sell or transfer its interest in Newco to an unaffiliated third party. Seller shall have 60 days to exercise its right and 180 days to close. The foregoing restriction shall not apply to a change of control (including merger or consolidation) of Prospect.</p>
<p>21. Medicare Cost Settlement</p>	<p>To the extent necessary, Newco will provide information to Seller and assist the Seller in the preparation and filing of a terminating cost report. In addition, Newco will provide information to Seller regarding any open cost report matter that relates to a pre-closing time period. Seller will hold Newco and Prospect harmless from any liability arising from or related to this provision.</p>
<p>22. Contracts</p>	<p>Newco shall accept assignment of and assume all obligations arising after closing under contracts, operating leases, physician arrangements and other operating obligations of the Business, with no offset against the Purchase Price; provided, however, that Newco shall not be obligated to assume commercially unreasonable contracts or contracts that raise regulatory concerns.</p>
<p>23. Indemnification</p>	<ul style="list-style-type: none"> a) Seller shall indemnify Newco and Prospect against losses arising from a breach of Seller’s representations, warranties and covenants. b) Prospect shall indemnify Seller against losses from breach of Prospect and Newco’s representations and warranties. c) Neither party shall be entitled to indemnification for breaches of representations or warranties unless and until the aggregate amount of losses that otherwise would be payable exceeds certain baskets to be agreed upon by the parties. d) Newco will not assume and Seller will remain responsible for, and indemnify Newco and Prospect against, any and all liabilities, indebtedness, commitments or obligations of any kind whatsoever that relate to Seller’s operation of the Business prior to the closing, including without limitation, environmental claims or claims associated with alleged violations of environmental laws for acts prior to closing, liabilities for funding any employee benefit plan (including any defined benefits pension plan), cost report liabilities, tax matters and medical malpractice or general liability claims. e) Newco and Prospect shall be responsible for, and indemnify Seller against, any and all liabilities, indebtedness, commitments, or obligations of any kind whatsoever that relate to Prospect’s operation of Newco after the closing, including without limitation, environmental claims or claims associated with alleged violations of environmental laws for acts after closing, liabilities for funding any employee benefit, cost report liabilities, tax matters and medical malpractice or general liability claims. Prospect’s liability for such losses shall be limited to 85% of the amount for which Seller is entitled to indemnification.
<p>24. Conditions</p>	<ul style="list-style-type: none"> a) This Term Sheet is subject to and contingent upon execution by the Seller and Newco of a definitive purchase and sale agreement and other related documents (the “Definitive Agreement”). The Definitive Agreement shall contain i) provisions outlined herein and ii) representations, warranties, and

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	<p>other terms and conditions consistent herewith and otherwise customary in this type of transaction and acceptable to the parties hereto, including, without limitation, governance and regulatory approvals, including IRS, anti-trust, hospital licensure, and state attorney general and favorable opinions of counsel acceptable to the parties.</p> <p>b) The representations and warranties to be contained in the Definitive Agreement, the survival of such representations and warranties, and the duration of such survival shall be subject to the mutual agreement of the parties.</p> <p>c) Each party agrees to negotiate in good faith and consistent with this Term Sheet with a view toward signing a Definitive Agreement as soon as practicable after approval by both parties.</p> <p>d) Execution of the Definitive Agreement and the closing of the Transaction shall be subject in all respects to approval by the respective Boards of Prospect and Seller and any sponsors of Seller prior to execution of the Definitive Agreement, and all relevant legal and regulatory approvals and other customary conditions prior to closing, provided that closing will not be conditioned on the absence of a material adverse change in the Purchased Assets or the financial condition of the Business.</p>
Binding Provisions	
25. Entire Agreement	<p>Except for the Mutual Nondisclosure and Confidentiality Agreement dated as of August 2, 2012 (the “Confidentiality Agreement”), this Letter of Intent and Term Sheet constitutes the full and complete agreement and understanding between the parties hereto concerning the subject matter hereof and supersedes any prior written and oral agreements with regard to such subject matter. This Letter of Intent and Term Sheet may be modified or waived only by a separate written agreement signed by the parties hereto.</p>
26. Transition	<p>a) Prospect shall be afforded the opportunity to provide limited input to significant activities of the Business after execution of Definitive Agreements including, but not limited to:</p> <ul style="list-style-type: none"> • Capital expenditures exceeding \$250,000 • New contracts exceeding \$500,000 <p>b) After closing, Newco will administratively assist Seller, at no additional cost, to dispose/discharge those assets and liabilities retained by Seller.</p>
27. Ordinary Course	<p>Until the earlier of the closing of the proposed Transaction or termination of this Letter of Intent and Term Sheet, Seller and its affiliates shall conduct business in the ordinary course of business and shall not sell or dispose of any asset other than in ordinary course.</p>
28. Confidentiality	<p>Information provided by Seller and Prospect in connection with this proposed Transaction, and the existence of this Letter of Intent and Term Sheet, are subject to the terms and requirements of the Confidentiality Agreement between the parties dated as of August 2, 2012.</p>

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<p>29. Due Diligence, Access to Information and Facilities</p>	<p>The parties agree and acknowledge that Prospect’s confirmatory due diligence requires access to additional information and Seller’s facilities above and beyond that which has been provided to Prospect prior to the execution of this Letter of Intent. Seller and its affiliates will provide Prospect with reasonable access to (i) information and materials related to the Business, the Seller, its affiliates and their respective related assets as requested by Prospect from time to time, and (ii) all real property, facilities and equipment that are part of the proposed transaction. Prospect shall provide Seller with all data, materials and information that Seller may reasonably require from time to time as part of the due diligence process conducted by Seller.</p>
<p>30. Expenses</p>	<p>a) Prospect and Seller shall each bear their respective legal, accounting and other expenses (including the expense of any brokers, agents or finders) in connection with the Transaction contemplated herein whether or not the Transaction is consummated.</p> <p>b) Newco will pay for title costs, title insurance, recording fees, and transfer and other taxes arising from the Transaction contemplated herein.</p> <p>c) Newco will pay for any inspections, studies, tests, review and analysis of the Assets Purchased.</p>
<p>31. Dispute Resolution</p>	<p>All disputes, controversies or claims that may arise among the parties hereto, including, without limitation, any dispute, controversy or claim arising out of this agreement, or any other relevant document, or the breach, termination or invalidity thereof (a “Dispute”), shall be settled solely and finally pursuant to the procedures set forth in this Paragraph.</p> <p>The parties shall attempt in good faith to resolve any Dispute of whatever nature arising between the parties, promptly by negotiation. If the Dispute has not been resolved within 30 days after delivery of a notice of a Dispute has been provided by one party to the other party, any of such parties may initiate arbitration of the Dispute as provided below.</p> <p>If the Dispute has not been resolved by negotiation as provided above, then, the parties agree that the Dispute shall be submitted to, and determined by, binding arbitration. Such arbitration shall be conducted pursuant to the CPR Rules for Non-Administered Arbitration, by one neutral arbitrator, which shall be selected from a list of 10 potential candidates provided by CPR. The award made by the arbitrator shall be final and binding upon the parties thereto and the subject matter, and judgment upon the award rendered by the arbitrator may be entered by any court having jurisdiction thereof. Unless otherwise agreed by the parties, the arbitration shall be held in Providence, Rhode Island. The arbitrator shall not have the authority to award punitive or exemplary damages. The costs and fees of the arbitration shall be borne equally by the parties to the arbitration, except that each party shall be solely responsible for its own attorneys’ fees; provided, however, that the prevailing party in any such arbitration shall be entitled to recover its reasonable attorneys’ fees, expert witness fees, costs and expenses (including, without limitation arbitration fees) incurred in connection with the arbitration to the extent such recovery is permitted by the law(s) governing the claim(s) asserted.</p>

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32. Press Release	Except as required by law, it is understood that all press releases or other public communications of any sort relating to this letter of intent and the method of the release for publication thereof, will be subject to the prior approval of both parties.
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Exhibit 41

From: Lundsten, Hans </O=APS/OU=PROVIDENCE/CN=RECIPIENTS/CN=HANS LUNDSTEN>
To: DiStefano, Joseph
CC: Dowling, Sally; Rocha, Pat
Sent: 4/26/2013 5:58:20 PM
Subject: Re: ChaterCare
Attachments: 4467_001.pdf

We discussed the structure of the deal between CharterCare and Prospect involving the two hospitals (Roger Williams and St. Josephs). As I understand it, each side would have the right to appoint 50% of the directors (assuming the hospitals are transferred to new for profit corporations), and CharterCare would have about a 15% equity interest in the new entites and Prospect would have an 85% equity interest in the new entities. The goal of giving CharterCare appointees a significant presence on the board of each of the new entities was to preserve the tax exempt status of CharterCare following the transfers. You also mentioned that Prospect insisted that language be included in the letter of intent that the arrangement would be set up so that Prospect could include the operations of the hospitals post closing on its consolidated income tax returns and financial statements.

If the new entities were LLC's then Prospect (unless the LLCs elected to be taxed as corporations) would report its share (85%) of the operations on its tax returns and financial statements. If the new entities are corporations then for Prospect to include 100% of the operations of the hospitals on its tax returns those entities would have to be included on the consolidated federal income tax return filed by Prospect. Under Section 1504(a)(2) IRC for those entities to be included on Prospect's consolidated federal income tax return it would need to satisfy the so-called "80-percent voting and value test". That means Prospect would have to own at least 80% of the voting stock and at least 80% of the value of the stock of each of the new entities. The value requirement should be easy to satisfy on our facts. The voting requirement will be much harder, if not impossible, to satisfy. Generally, voting power is determined based on the ownership of the shares that can vote for the election of directors. If a corporation owns 80% or more of the shares of a subsidiary that have the power to elect the subsidiary's directors then the 80% voting test is meet. It is not clear to me how Prospect could satisfy the 80% test if in fact it is only going to appoint 50% of the directors. If we agree to the language you said Prospect wants in the letter of intent that could impact our ability to show that CharterCare really continues to controls the hospitals following the transfer. If cannot make that showing then it is likely that Charter_Care and Roger Williams and St. Josephs will lose their tax exempt status if this deal goes through.

E. Hans Lundsten
ADLER POLLOCK & SHEEHAN P.C.
One Citizens Plaza, 8th Floor
Providence, RI 02903

E-Mail hlundsten@apslaw.com
Phone 401.274.7200
Direct 401.824.1301
Fax 401 751.0604
Visit our website at www.apslaw.com

ADLER POLLOCK & SHEEHAN P.C.

To comply with IRS regulations, we advise that any discussion of Federal tax issues in this e-mail is not intended or written to be used, and cannot be used, (i) to avoid any penalties imposed under the Internal Revenue Code or (ii) to promote, market or recommend to another party any transaction or matter addressed herein.

This e-mail message is confidential and is intended only for the named recipient(s). It may contain information that is subject to the attorney client privilege or the attorney work-product doctrine or that is otherwise exempt from disclosure under applicable law. If you have received this e-mail message in error, or are not the named recipient(s), please immediately notify the sender and delete this message from your computer and destroy all copies. Thank you.

From: 8664_IR3320@APSLAW.COM [mailto:8664_IR3320@APSLAW.COM]
Sent: Friday, April 26, 2013 12:40 PM
To: Lundsten, Hans

Exhibit 42

ADLER POLLOCK & SHEEHAN P.C.

Adler Pollock & Sheehan P.C.
One Citizens Plaza, 8th Floor
Providence, RI 02903-1345
Telephone (401) 274-7200
Fax (401) 751-0604

175 Federal Street
Boston, MA 02110
Telephone (617) 482-0699
Fax (617) 482-0604

EI # 05-0343749

St. Joseph Health Services of R.I.
Kimberly A. O'Connell, Esq.
Vice President and General Counsel
CharterCARE Health Partners
825 Chalkstone Avenue
Providence, RI 02908

Invoice Date: July 11, 2013
Invoice Number: 425129
Client Number: 058186

For Professional Services Rendered:

001 - General Counsel-St. Joseph Health Services of R.I.

Date	Timekeeper	Description	Hours	Value
05/08/13	Pickett, E P	Prepare Statement of Information and send to client.	0.50	\$ 87.50
05/10/13	Rocha, P K	Receipt of Health and Human Services Secretary of State annual report filing notification; Communication to and from Kim O'Connell re same.	0.10	42.00
05/29/13	Pickett, E P	Revise Statement of Information and return to Deb Spicuzza.	0.25	43.75
06/17/13	Rocha, P K	Communication with firm attorney (L. Parker) re research re document request; Review subpoena duces tecum to Northwest Imaging; Review communication from plaintiff's counsel re same; Communication to Kim O'Connell re status.	1.00	420.00
06/19/13	Rocha, P K	Conference with Kim O'Connell re Northwest subpoena; Communication from John Tutalo re same.	0.30	126.00
06/20/13	Parker, L D	Research exceptions to medical records subpoena act.	0.10	20.00
Total Professional Services			2.25	\$ 739.25

ADLER POLLOCK & SHEEHAN P.C.

Adler Pollock & Sheehan P.C.
One Citizens Plaza, 8th Floor
Providence, RI 02903-1345
Telephone (401) 274-7200
Fax (401) 751-0604

175 Federal Street
Boston, MA 02110
Telephone (617) 482-0699
Fax (617) 482-0604

EI # 05-0343749

CharterCARE Community Board
c/o David Hirsch
951 North Main Street
Providence, RI 02904

Invoice Date: July 11, 2013
Invoice Number: 425150
Client Number: 402920

For Professional Services Rendered:

005 - Prospect

Date	Timekeeper	Description	Hours	Value
06/04/13	Rocha, P K	Communication and conference with Moshe Berman re status of document production; Communication with Kim O'Connell re same.	0.50	\$ 210.00
06/05/13	Brennan, C M	Review e-mail and attachments re q. 10 of HCA from Moshe Berman.	0.20	20.00
06/05/13	Rocha, P K	Communications from Kim O'Connell, Mark Russo and Moshe Berman re status.	0.30	126.00
06/06/13	Rocha, P K	Communication from Moshe Berman; Communication to and from Kim O'Connell re production of charitable asset information.	0.30	126.00
06/07/13	Brennan, C M	Review e-mail and attachment from Moshe Berman re HCA q. 16.	0.10	10.00
06/07/13	Rocha, P K	Prepare for meeting with DOH and AG.	0.50	210.00
06/07/13	Rocha, P K	Meeting with Mike Dexter, Elizabeth Shelov, Jodi Bourque, Mark Russo and Moshe Berman re HCA and CEC filings.	1.00	420.00
06/10/13	Rocha, P K	Conference with Deb Spicuzza re status of documents; Conference call with Mark Russo and Moshe Berman; Conference call with Moshe Berman and summer associate (N. Verdi) re	1.50	630.00

Date	Timekeeper	Description	Hours	Value
		charity care documents.		
06/11/13	Rocha, P K	Communications from Moshe Berman and Jodi Bourque re outstanding issues; Communication to Deb Spicuzza re financial statements.	0.50	210.00
06/12/13	Rocha, P K	Communication from Moshe Berman re charitable documents.	0.10	42.00
06/14/13	Rocha, P K	Communication from Mark Russo re memorandum re tax stabilization; Review draft letter and attachments.	0.50	210.00
06/18/13	Brennan, C M	Review e-mails and attachments from Moshe Berman re question nos. 9 & 23; Review e-mail from Deb Spicuzza re delivery of documents.	0.20	20.00
06/18/13	Rocha, P K	Conference and communication from Moshe Berman re status of documents; Conference with Deb Spicuzza re status of document response for HCA Application.	0.50	210.00
06/19/13	Brennan, C M	Meeting with firm attorney (P. Rocha) re status of HCA.	0.20	20.00
06/19/13	Brennan, C M	Review and scan documents sent by Deb Spicuzza re HCA.	5.75	575.00
06/19/13	Rocha, P K	Conference call with Mark Russo and Kim O'Connell re application status; Communication and conference with Deb Spicuzza re documents; Work on application.	1.00	420.00
06/20/13	Brennan, C M	Work on HCA Application.	4.25	425.00
06/20/13	Rocha, P K	Conference with firm paralegal (C. Brennan); Communications from Moshe Berman; Review application issues.	1.00	420.00
06/21/13	Brennan, C M	Work on HCA Application.	4.50	450.00
06/21/13	Rocha, P K	Communications to and from Mark Russo and Kim O'Connell re status; Attention to application.	0.50	210.00
06/24/13	Rocha, P K	Conference call with Mark Russo and Moshe Berman re status and strategy	0.50	210.00



<u>Date</u>	<u>Timekeeper</u>	<u>Description</u>	<u>Hours</u>	<u>Value</u>
		issues; Communication from Moshe Berman and Kim O'Connell re review of charitable donation documents.		
06/26/13	Brennan, C M	Review and scan documents re HCA.	1.50	150.00
06/26/13	Rocha, P K	Communications with Mark Russo, Kim O'Connell and Moshe Berman re status of HCA; Conference call with Deb Spicuzza re same; Begin review of draft HCA application forwarded by Moshe Berman.	1.00	420.00
06/27/13	Brennan, C M	Work on HCA Application.	4.00	400.00
06/28/13	Brennan, C M	Work on HCA Application.	1.50	150.00
06/28/13	Rocha, P K	Conference with Moshe Berman re outstanding issues; Meeting with firm paralegal (C. Brennan) re application processing.	0.50	210.00
Total Professional Services			<u>32.40</u>	<u>\$ 6,504.00</u>

<u>Timekeeper Summary</u>	<u>Hours</u>	<u>Rate</u>	<u>Total</u>
Rocha, P K	10.20	\$ 420	\$ 4,284.00
Brennan, C M	22.20	100	2,220.00
Total Professional Services	<u>32.40</u>		<u>\$ 6,504.00</u>

Total Professional Services and Disbursements for this Matter \$ 6,504.00

Exhibit 43

From: Lundsten, Hans </O=APS/OU=PROVIDENCE/CN=RECIPIENTS/CN=HANS LUNDSTEN>
To: DiStefano, Joseph
Sent: 7/9/2013 3:17:18 PM
Subject: St. Joseph Health Services

The language in the P & BS (4.13(c)) as it applies to St. Joseph Health Services is a little misleading. That entity is treated as being exempt under Section 501©(3) but only because under Section 508©(1) it is treated as an integrated auxiliary of the Catholic Church and is listed in The Official Catholic Directory published by P. J. Kennedy & Sons , New Providence, NJ.

E. Hans Lundsten
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ADLER POLLOCK & SHEEHAN P.C.

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175 Federal Street
Boston, MA 02110
Telephone (617) 482-0699
Fax (617) 482-0604

EI # 05-0343749

CharterCARE Community Board
c/o David Hirsch
951 North Main Street
Providence, RI 02904

Invoice Date: December 9, 2013
Invoice Number: 429899
Client Number: 402920

For Professional Services Rendered:

005 - Prospect

Date	Timekeeper	Description	Hours	Value
06/19/13	Lundsten, E H	Review material on foundation; Discuss with firm attorney (P. Rocha)	1.50	\$ 630.00
07/09/13	Lundsten, E H	Review issues on proposed sale; Discuss with firm attorney (J. DiStefano).	1.00	420.00
07/17/13	Lundsten, E H	Review issues with Realty Trustee Tax and Joint Venture and discuss with firm attorney (J. DiStefano).	1.25	525.00
08/21/13	Lundsten, E H	Review issues on structure of sale with firm attorney (J. R. DiStefano).	0.75	315.00
09/12/13	Lundsten, E H	Discuss pension issues on sale with firm attorney (J. DiStefano).	1.00	420.00
11/06/13	Rocha, P K	Conference with Mark Russo; Conference with Mike Dexter re status of HCA and CEC review; Research and strategy re Charitable Assets Foundation and cy pres petition.	1.50	630.00
11/08/13	Rocha, P K	Conference with Mike Dexter re HCA and CEC review; Communication from Moshe Berman re status.	0.50	210.00
11/18/13	Rocha, P K	Begin review of deficiency questions; Conference with Mark Russo re same; Communication to and from Kim O'Connell and Deb Spicuzza re same.	1.00	420.00

Date	Timekeeper	Description	Hours	Value
11/19/13	Rocha, P K	Conference with Mike Dexter re application status; Communication from Moshe Berman; Continued analysis of deficiency questions.	1.00	420.00
11/20/13	Brennan, C M	Meeting preparation; Review HCA deficiencies; Meeting with Mark Russo, Moshe Berman and firm attorney (P. Rocha) re HCA and CEC deficiencies; Make edits to post organizational chart; Work on HCA deficiencies.	3.20	320.00
11/20/13	Rocha, P K	Continuation of review of HCA deficiencies; Receipt and review of CEC deficiencies.	1.00	420.00
11/20/13	Rocha, P K	Meeting with Mark Russo, Moshe Berman and firm paralegal (C. Brennan) to review HCA and CEC deficiencies; Communication to Kim O'Connell and Deb Spicuzza re same.	1.50	630.00
11/21/13	Brennan, C M	Review HCA and CEC deficiencies and documentation to prepare for conference call with firm attorney (P. Rocha) and Kim O'Connell; Conference call with Kim O'Connell and firm attorney (P. Rocha) re HCA and CEC deficiencies; Work on deficiencies; Communications to and from Moshe Berman; Communication to Deb Spicuzza re exhibits.	3.10	310.00
11/21/13	Lundsten, E H	Discuss issues on charitable assets with firm attorneys (P. Rocha and J. DiStefano).	0.75	315.00
11/21/13	Rocha, P K	Continuation of review and analysis of HCA and CEC deficiencies; Begin drafting responses to deficiencies; Communications to and from Moshe Berman re outstanding issues; Conference call with Kim O'Connell and firm paralegal (C. Brennan); Communications to Kim O'Connell, Mark Russo and Moshe Berman re status.	3.00	1,260.00
11/22/13	Rocha, P K	Communication and conference with Moshe Berman re outstanding issues; Prepare for meeting with AG/DOH;	3.50	1,470.00

Date	Timekeeper	Description	Hours	Value
		Meeting with Jodi Bourque, Katie Enright, Mike Dexter, Mark Russo and Moshe Berman re status of deficiencies.		
11/24/13	Rocha, P K	Review joint defense agreement.	0.50	210.00
11/25/13	Brennan, C M	Meeting with firm attorneys (P. Rocha and L. Parker) re charitable assets; Prepare binders for rush delivery to Kathy Moore; Work on deficiencies.	2.00	200.00
11/25/13	Lundsten, E H	Review and discuss with firm attorneys (P. Rocha and J. DiStefano).	1.75	735.00
11/25/13	Rocha, P K	Work on deficiency responses; Communication to and from Kathleen Moore; Delivery of Exhibits to Kathleen Moore; Meeting with firm attorneys (J. DiStefano, E.H. Lundsten) re charitable assets issues; Communication with Kim O'Connell; Communication to and from Deb Spicuzza re outstanding issues.	3.00	1,260.00
11/26/13	Rocha, P K	Travel to Fatima Hospital; Meeting with Moshe Berman, Kim O'Connell, Kathy Moore and Paula Iacono re charity care deficiency questions; Conference with Jodi Bourque re same; Communication to clients re status; Continuation of analysis re charity care issues.	3.50	1,470.00
11/27/13	Rocha, P K	Communications to and from Moshe Berman re outstanding issues; Revisions to Common Interest Agreement; Communication to Kim O'Connell re same; Work on deficiency questions.	1.00	420.00
11/29/13	Brennan, C M	Work on HCA deficiencies.	2.00	200.00
11/29/13	Rocha, P K	Communications from Kathy Moore and Moshe Berman re response to charity care deficiencies.	0.50	210.00
Total Professional Services			39.80	\$ 13,420.00

Exhibit 44

From: Rocha, Pat </O=APS/OU=PROVIDENCE/CN=RECIPIENTS/CN=PAT ROCHA>
To: Beretta, Richard; Brooks, Robert
Sent: 7/10/2013 9:44:46 PM
Subject: FW: Prospect Medical Holdings, Inc.

fyi

Patricia K. Rocha
Attorney
Adler Pollock & Sheehan P.C.
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From: Rocha, Pat
Sent: Wednesday, July 10, 2013 5:43 PM
To: 'Belcher, Ken'
Cc: DiStefano, Joseph; O'Connell, Kimberly A
Subject: RE: Prospect Medical Holdings, Inc.

Yes, Mark asked Bob Brooks in our office to assist .

Patricia K. Rocha
Attorney
Adler Pollock & Sheehan P.C.
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From: Belcher, Ken [<mailto:kbelcher@chartercare.org>]
Sent: Wednesday, July 10, 2013 5:38 PM
To: Rocha, Pat
Cc: DiStefano, Joseph; O'Connell, Kimberly A
Subject: RE: Prospect Medical Holdings, Inc.

During today's conference call with Prospect and Cain it appeared as though Mark Russo was working on this

From: Rocha, Pat [<mailto:PRocha@apslaw.com>]
Sent: Wednesday, July 10, 2013 4:01 PM
To: Belcher, Ken
Cc: DiStefano, Joseph
Subject: Prospect Medical Holdings, Inc.

Hi, Ken. Following up on your discussion with Joe, I am writing to confirm that Adler Pollock & Sheehan P.C. is providing representation to Prospect Medical Holdings, Inc. in connection with obtaining a tax stabilization/exemption ordinance from the City of Providence. As you know, pursuant to the Letter of Intent and the draft Asset Purchase Agreement, the acquisition is contingent on the resolution of property tax issues satisfactory to Prospect. Accordingly, the interests of CharterCARE Health Partners and Prospect are aligned in this regard.

If you have any questions, please contact me or Joe.

Pat

Patricia K. Rocha
Attorney
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From: Rocha, Pat </O=APS/OU=PROVIDENCE/CN=RECIPIENTS/CN=PAT ROCHA>
To: Brooks, Robert; Beretta, Richard
Sent: 7/10/2013 8:26:35 PM
Subject: RE: Fw: Prospect Medical Holdings, Inc.

Ok thanks

Patricia K. Rocha
Attorney
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From: Brooks, Robert
Sent: Wednesday, July 10, 2013 4:26 PM
To: Rocha, Pat; Beretta, Richard
Subject: RE: Fw: Prospect Medical Holdings, Inc.

Mark Russo asked that we Bill him directly for the work so I will weave this in to the engagement letter.

Robert P. Brooks
Managing Partner
ADLER POLLOCK & SHEEHAN P.C.
One Citizens Plaza, 8th Floor
Providence, RI 02903

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From: Rocha, Pat
Sent: Wednesday, July 10, 2013 4:02 PM
To: Beretta, Richard; Brooks, Robert
Subject: Fw: Prospect Medical Holdings, Inc.

In the engagement letter to Prospect, we should confirm our representation of CharterCARE Health Partners, Roger Williams Medical Center and St. Joseph Health Services of Rhode Island in the regulatory review and that if there is a dispute between the parties regarding the property tax issue, we would not represent either one. Thanks – if you have any questions, let me know.

Pat

From: Rocha, Pat
Sent: Wednesday, July 10, 2013 4:01 PM
To: kbelcher@chartercare.org
Cc: DiStefano, Joseph
Subject: Prospect Medical Holdings, Inc.

Hi, Ken. Following up on your discussion with Joe, I am writing to confirm that Adler Pollock & Sheehan P.C. is providing representation to Prospect Medical Holdings, Inc. in connection with obtaining a tax stabilization/exemption ordinance from the City of Providence. As you know, pursuant to the Letter of Intent and the draft Asset Purchase Agreement, the acquisition is contingent on the resolution of property tax issues satisfactory to Prospect. Accordingly, the interests of CharterCARE Health Partners and Prospect are aligned in this regard.

If you have any questions, please contact me or Joe.

Pat

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From: Christopher Vitale <cvitale@capitolcitygrp.com>
To: W. Mark Russo; Rocha, Pat; Brooks, Robert
Sent: 5/2/2014 7:19:54 PM
Subject: Fw: PILOT

See below.

Sent from my BlackBerry 10 smartphone on the Verizon Wireless 4G LTE network.

From: Susanne Greschner <Susanne.Greschner@dor.ri.gov>
Sent: Friday, May 2, 2014 3:12 PM
To: cvitale@capitolcitygrp.com
Cc: James Savage; Jill Barrette; Rosemary Booth Gallogly
Subject: PILOT

Chris,

Assuming no change to the total proposed appropriation of \$35,080,409 by the General Assembly, the City of Providence will receive in July 2014 an amount of \$1,376,574 for Roger Williams Medical Center and \$433,297 for St. Joseph's Hospital.

The Town of North Providence will receive an amount of \$546,143 for Our Lady of Fatima.

Susanne Greschner
Chief
Division of Municipal Finance
Department of Revenue
One Capitol Hill - 1st Floor

Exhibit 45

From: Rocha, Pat </O=APS/OU=PROVIDENCE/CN=RECIPIENTS/CN=PAT ROCHA>
To: Humm, Debbie
Sent: 12/5/2013 5:08:11 PM
Subject: FW:
Attachments: DISCLOSURE STATEMENT.DOCX

From: Lundsten, Hans
Sent: Thursday, December 05, 2013 11:27 AM
To: DiStefano, Joseph; Rocha, Pat
Subject:

This is a draft of the general disclosure statement for the Hospitals and Foundation we discussed during our meeting yesterday. I would appreciate your thoughts before sending it out. I am also in the process of preparing a similar statement for the golf tournament.

E. Hans Lundsten
ADLER POLLOCK & SHEEHAN P.C.
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GENERAL DISCLOSURE STATEMENT FOR NEW GIFTS

We want to acknowledge our appreciation for your recent charitable gift to the (Foundation/Roger Williams Hospital/ St. Joseph Health Services). As you may be aware we anticipate sometime in early 2014 that the operating assets of Roger Williams Hospital and St. Joseph Health Services will be transferred to a for profit entity that will operate both hospitals as for profit hospitals. Prior to that transfer the assets, including the restricted funds and endowments, of both hospitals and the Foundation, have been and will be devoted to charitable activities of both hospitals. Following the transfer, however, those assets will no longer support the activities of those hospitals since the hospitals will be owned and operated by a for profit entity. The Foundation, Roger Williams Hospital and St. Joseph Health Service will remain in existence following the transfer but they will no longer support, own or operate charitable hospitals. They will, however, devote their assets in a charitable manner to originate, support and/or develop local healthcare activities and initiatives identified from time to time by their boards of directors that will benefit the local community. In view of that, if you directed that your gift be used to support a particular activity of the (Foundation/ Roger Williams Hospital/ St. Joseph Health Service) it is likely that following the transfer of the operating assets of the hospitals to a for profit entity we will be unable to follow that direction and that any unspent portion of your gift will be used to support the local healthcare activities and initiatives that we will be supporting following the transfer..

665000.1

Exhibit 46

From: Force, Brenna </O=APS/OU=PROVIDENCE/CN=RECIPIENTS/CN=BANATONE>
To: Rocha, Pat
Sent: 12/6/2013 9:04:19 PM
Subject: RE: Charter Care LLC agreement

There is no mention of \$31 million or \$14 million in the agreement, nor could I find anything about paying off any pension deficiencies (I got the searchable version from Tom so ran various searches in addition to scanning through the whole agreement). Based on a memo on the system written by Joe, I think that the language he's looking for may be in Schedule 4.7(d), which is referenced in the asset purchase agreement but is not part of the agreement that you gave me. I have asked Tom to see if he can find it.

Brenna

From: Rocha, Pat
Sent: Friday, December 06, 2013 3:00 PM
To: Force, Brenna
Cc: DiStefano, Joseph
Subject: RE: Charter Care LLC agreement

thanks

From: Force, Brenna
Sent: Friday, December 06, 2013 2:59 PM
To: Rocha, Pat
Subject: Charter Care LLC agreement

The LLC agreement is attached as an exhibit to the main agreement.

Brenna Anatone Force, Esq.
ADLER POLLOCK & SHEEHAN P.C.
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Exhibit 47

From: Force, Brenna </O=APS/OU=PROVIDENCE/CN=RECIPIENTS/CN=BANATONE>
To: Rocha, Pat
Sent: 12/6/2013 9:08:27 PM
Subject: letter from Joe D re asset purchase agreement
Attachments: Lt K. Belcher re comments to 7_5 version of Asset Purchase Agreement.DOCX

Attached.

Brenna Anatone Force, Esq.
ADLER POLLOCK & SHEEHAN P.C.
One Citizens Plaza, 8th Floor
Providence, RI 02903

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July 15, 2013

Via E-Mail and Regular Mail

Mr. Kenneth Belcher
President
CharterCARE Health Partners
825 Chalkstone Avenue
Providence, RI 02908

Re: Comments on Draft Asset Purchase Agreement (Red-Lined Version Dated 7/5/13)

Dear Ken:

Below are some comments concerning the referenced draft Asset Purchase Agreement:

Comment No. 1. At the outset, you will note that the assets of both hospitals are being transferred to a single, newly created joint venture limited liability company. There is a provision in the Agreement which, at this new entity's option, would require the assets to be transferred to subsidiaries of that entity. In my view, it would best to have the assets of the respective hospitals transferred to separate subsidiaries at the outset, as I do not believe the State will allow two separate hospital licenses to be held by the same entity. Furthermore, I believe the Bishop and Rome would have some concern about the assets of the hospital being held by a single entity (religious considerations – Roger Williams Medical Center can perform sterilizations, etc.).

Comment No. 2. We are getting \$45 million at the outset, \$31 million of which is to be used to pay off bonded indebtedness and \$14 million to be contributed to the pension plan. The Agreement requires us to pay up all "material indebtedness". What other "material indebtedness" do we have beyond the bonded indebtedness? We need to be sure that the \$31 million is sufficient to discharge all "material indebtedness".

Comment No. 3. With respect to title to the "purchased assets" and so-called "permitted exceptions" to title, I would not be surprised if Rome, as a condition of its approval, required a deed restriction preventing the Catholic facilities from ever being used for the purpose of the performance of abortions, etc.

We may want to include some language to cover that eventuality.

Mr. Kenneth Belcher
July 15, 2013
Page 2

Comment No. 4. There is no mention, that I have seen, that requires Roger Williams Medical Center to honor the Commitments it made to the Bishop relative to performance of abortions, etc. Also, there should be some enforcement mechanism allowing the Bishop to enforce the covenants relating to prohibited activities against both the two new for-profit hospitals. Please keep in mind that the new for-profit St. Joseph Health Services will not in any way be influenced by the Bishop nor, as the Agreement currently reads, will he have enforcement powers. Perhaps, as a condition of continuing to use the name “St. Joseph”, he could be given the power to seek injunctive relief to prevent violations.

Comment No. 5. In Section 4.13(c), it should be made clear that St. Joseph Health Services of Rhode Island does not have a separate 503(c)(3) designation from the Internal Revenue Service. That entity is treated as being exempt under Section 501(c)(3), but only because, under Section 508(c)(1), it is treated as an integrated auxiliary of the Catholic church and is listed in the official Catholic directory published by P. J. Kennedy & Sons, New Providence, New Jersey.

Comment No. 6. Since we are going to be applying to Rome for approval of the transaction, there should be some representations by Prospect as to whether it is currently performing abortions in its current facilities.

Comment No. 7. The question of who pays for obtaining regulatory approvals from the State of Rhode Island is not as clear as it might otherwise be. It appears that the Sellers are responsible for obtaining church approvals. However, I find Section 7.5 a little confusing vis-à-vis who pays for the approvals of required governmental entities. This should be made abundantly clear.

Comment No. 8. Section 12.1(d) could be problematic. Do we have any service contracts that cannot be cancelled without incurring substantial liability?

Comment No. 9. Under Section 12.3, Transfer Taxes, it would be well to note that Rhode Island has a conveyance tax which, under Section 44-25-2, does not exempt tax-exempt grantors from that tax, which is \$4 per \$1,000 in value of transferred assets. It might be a good idea to check with Rhode Island counsel assisting Drinker Biddle as to how best to structure the transaction to avoid the imposition of the tax.

Interestingly, Massachusetts, which has a statute similar to Rhode Island’s on this subject, takes the position that the transfer of ownership interest in a limited liability company or stock in a

Mr. Kenneth Belcher
July 15, 2013
Page 3

corporation, in lieu of the transfer of the underlying real estate is not a taxable transfer of real estate, so long as there is a legitimate business purpose for the transaction.

Comment No. 10. In the “Definitions” section of the Agreement, on page 7, “Hospitals” is defined only as the Roger Williams facility on Chalkstone Avenue in Providence, and the Fatima facility in North Providence. What is to become of the Providence facilities owned by St. Joseph Health Services of Rhode Island? The St. Joseph Providence facilities are not “excluded assets”.

Comment No. 11. The current St. Joseph Health Services of Rhode Island is retaining its pension plan as a “church plan”. As the agreements are currently structured, can “church plan” status be maintained and, if not, what are the consequences? In fact, as the agreements are currently structured, can CharterCARE, Roger Williams and St. Joseph Health Services retain their non-profit status?

Sincerely yours,

JOSEPH R. DISTEFANO

JRD/nehb

Exhibit 48

From: Lundsten, Hans </O=APS/OU=PROVIDENCE/CN=RECIPIENTS/CN=HANS LUNDSTEN>
To: Rocha, Pat
CC: DiStefano, Joseph
Sent: 12/13/2013 3:06:23 PM
Subject: RE: Foundation Bylaws

I talked to Joe this morning and he suggested we add language that would confirm that CCHP has the authority and any time to remove and/or replace any director. I will check to see if any new language covering that point is needed. He also felt that these changes should not be approved until after the sale is completed so what we would be furnishing the AG would be a draft of the proposed, revised Bylaws. Will that be okay?

From: Lundsten, Hans
Sent: Thursday, December 12, 2013 3:17 PM
To: Rocha, Pat
Cc: DiStefano, Joseph
Subject: RE: Foundation Bylaws

As we discussed, there are some changes that have to be made to the Foundation's organizational structure. Initially, we thought CCHP was going to be dissolved so I thought we would need to either replace the sole member or adopt another procedure for election of directors. It now appears CCHP will not be dissolved so we don't have to address that point. It was decided, however, as I recall that we should reduce the board from 15 to 7. In addition, there should no longer be slots on the board reserved for members of the hospitals' or CCHP boards. As I recall, it was also agreed that slots would not be reserved for CCHP's CEO and CFO. When should we plan on making these changes or should we merely give the AG's office a draft of the Bylaws with these changes?

From: Rocha, Pat
Sent: Thursday, December 12, 2013 11:35 AM
To: Lundsten, Hans
Cc: DiStefano, Joseph
Subject: RE: can you please review - tired and they all sound the same now

Thanks, hans

From: Lundsten, Hans
Sent: Thursday, December 12, 2013 11:25 AM
To: Rocha, Pat
Cc: DiStefano, Joseph
Subject: FW: can you please review - tired and they all sound the same now
Importance: High

Pat,

I did look thru the attachment you sent and there are some points that should either be revised or clarified. Following the Foundation's creation on 2/27/07 since its sole member was St Joseph's it was listed in the Official Catholic Directory and was covered by the Church's tax exemption. On August 25, 2011 (not August 22nd) the organizational documents of the Foundation were revised to change its name to CharterCARE Health Partners Foundation and to make CharterCARE Health Partners its sole member. Since the change of its sole member would prevent the Foundation from being listed in the Official Catholic Directory and would preclude the Foundation from relying on the Church's tax exemption, the Foundation secured from the IRS on September 9, 2011 a separate determination that it was exempt from tax Under Section 501(c)(3) of the IRC and that it was a public charity under Section 509(a)(3) of the IRS.

I am assuming the other information concerning the Foundation is correct.

Hans

From: Rocha, Pat

Sent: Thursday, December 12, 2013 8:41 AM

To: Lundsten, Hans

Subject: FW: can you please review - tired and they all sound the same now

Importance: High

Hans ,any comments on the write up?

From: Moore, Kathleen [<mailto:kmoore@chartercare.org>]

Sent: Wednesday, December 11, 2013 11:46 PM

To: Rocha, Pat; 'Moshe Berman'

Subject: can you please review - tired and they all sound the same now

Importance: High

Hi

This is the narrative for the SJ Foundation. Can you please read and if necessary make any wording changes. I want to make sure it is clear regarding the Cy Pres. I am trying to keep it short but provide the details needed.

Behind this memo the following schedules will be included:

Tab A – memo

Tab B - Petition for Cy Pres

Tab C - for a list of the SJ Foundation funds, by GL account number, and their balances transferred to SJHSRI.

Tab D - for a list of SJ Foundation funds and their GL Account numbers that were transferred to SJHSRI (crosswalk).

Tab E for the one year rollforward (October 1, 2010 through September 30, 2011) of SJ Foundation charitable assets.

Tab F for a reconciliation of SJ Foundation charitable assets to the bank account balances as of September 2011

Thanks

Kathy

Exhibit 49

From: Lundsten, Hans </O=APS/OU=PROVIDENCE/CN=RECIPIENTS/CN=HANS LUNDSTEN>
To: DiStefano, Joseph
CC: Rocha, Pat
Sent: 12/20/2013 3:57:36 PM
Subject: RE:
Attachments: (CharterCare Health Partners Foundation) Bylaws.DOCX

You are a man of few words. Attached is a revised version of the Bylaws with that change. Pat indicated she would send a copy to Kim.

From: DiStefano, Joseph
Sent: Friday, December 20, 2013 10:45 AM
To: Lundsten, Hans
Subject: RE:

yes

From: Lundsten, Hans
Sent: Friday, December 20, 2013 10:06 AM
To: DiStefano, Joseph
Cc: Rocha, Pat
Subject:

Joe,

Pat pointed out that Section .01 of the Bylaws, which covers the conflict policy , provides that the Foundation will conduct "its affairs in accordance with high professional, religious and ethical standards". She suggested, and I agree , that we should delete the word "religious" from that statement. Do you agree?

Hans

E. Hans Lundsten
ADLER POLLOCK & SHEEHAN P.C.
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Providence, RI 02903

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Phone 401.274.7200
Direct 401.824.1301
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ADLER POLLOCK & SHEEHAN P.C.

To comply with IRS regulations, we advise that any discussion of Federal tax issues in this e-mail is not intended or written to be used, and cannot be used, (i) to avoid any penalties imposed under the Internal Revenue Code or (ii) to promote, market or recommend to another party any transaction or matter addressed herein.

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**PROPOSED REVISIONS TO BY-LAWS
CHANGES REDLINED**

REVISED

BY-LAWS

OF

CHARTERCARE HEALTH PARTNERS FOUNDATION

Adopted on August 22, 2011 and revised
on October 8, 2013*

By: _____
Kenneth Belcher, Secretary

*This revision is to address a typographical error in Section 2.01 of the Bylaws which identified CharterCare Health Partners as "SJHSRI" rather "CCHP" and is in furtherance of the resolution approved at a Meeting of the Sole Member and the Directors of St. Joseph Health Services Foundation on August 22, 2011, that changed the name of the Foundation to "CharterCare Health Partners Foundation" and directed that its sole member be CharterCare Health Partners..

ARTICLE I

GENERAL

SECTION 1.01. Name and Purpose. CharterCare Health Partners Foundation (the “Foundation”) is a nonprofit corporation organized exclusively for charitable, scientific and educational purposes within the meaning of Section 501(c) (3) of the Internal Revenue Code of 1986, as amended from time to time (the “Code”), and the regulations promulgated thereunder. Such purposes are set out in Article Third of the Articles of Incorporation of the Foundation, from time to time in effect (the “Articles of Incorporation”).

Notwithstanding any other provision of the Articles of Incorporation or these By-Laws, the Foundation shall not carry on any activities not permitted to be carried on by a corporation exempt from federal income tax under Section 501(c)(3) of the Code or corresponding section of any future federal tax code. No substantial part of the activities of the Foundation shall be carrying on propaganda, or otherwise attempting, to influence legislation (except as otherwise provided by Section 501(h) of the Code), or participating in, or intervening in (including the publication or distribution of statements), any political campaign on behalf of any candidate for public office.

SECTION 1.02. Powers. The Foundation shall have the power, either directly or indirectly, either alone or in conjunction and/or cooperation with others, to do any and all lawful acts and things and to engage in any and all lawful activities which may be necessary, useful, suitable, desirable or proper for the furtherance, accomplishment, fostering or attainment of any or all of the purposes for which the Foundation is organized, and to aid or assist other organizations whose activities are such as to further accomplish, foster, or attain any of the Foundation’s purposes. Notwithstanding anything herein to the contrary, the Foundation shall exercise only such powers as are in furtherance of the exempt purposes of organizations as set

forth in Section 501(c)(3) and the Code and the rules and regulations promulgated thereunder.

SECTION 1.03. Nonprofit Status. The Foundation is not organized for profit and no part of the net earnings of the Foundation shall inure to the benefit of any director or officer. In the event of the liquidation of the Foundation, whether voluntary or involuntary, no director or officer shall be entitled to any distribution or division of the Foundation's property or the proceeds thereof, and upon such liquidation, the balance of all money, assets and other property of the Foundation, after the payment of all its debts and obligations, shall be distributed pursuant to Section 8 of Article Fourth of the Articles of Incorporation.

SECTION 1.04. Principal Office. The principal office of the Foundation shall be located at 200 High Service Avenue, North Providence, Rhode Island. The Foundation may have such other offices or places of business, either within or outside the State of Rhode Island, as the business of the Foundation may require and as the Board of Directors may from time to time establish.

SECTION 1.05. Registered Office. The registered office of the Foundation shall be located 200 High Service Avenue, North Providence, Rhode Island. The registered office may be changed from time to time by the Board of Directors in compliance with the provisions of applicable law.

ARTICLE II

MEMBERSHIP

SECTION 2.01. Membership. The sole Member of the Foundation shall be CharterCare Health Partners ("CCHP"), a Rhode Island non-profit corporation qualifying as tax-exempt under Section 501(c)(3) of the Code. CCHP may from time to time designate a representative who shall act with the full power and authority of the Member. No membership may be assigned

or transferred or encumbered in any manner whatsoever, either voluntarily, involuntarily or by operation of law. Any proposed or attempted assignment, transfer or termination of membership shall be void. Notwithstanding the foregoing, any legally appointed successor to CCHP by way of corporate merger, acquisition or other similar event shall become the sole Member hereof.

SECTION 2.02. Enumerated Powers. The powers of the Member shall be limited to taking action on the activities enumerated below and those activities expressly requiring action of the Member pursuant to law or the Articles of Incorporation:

- (a) election of the directors;
- (b) authorization or approval of any amendment to the Articles of Incorporation of the Foundation;
- (c) authorization or approval of any amendment to the By-Laws of the Foundation;
- (d) authorization or approval of any change to the name of the Foundation;
- (e) authorization or approval of any merger, consolidation, reorganization, or sale, transfer, disposition, pledge or hypothecation of all or substantially all of the assets of the Foundation;
- (f) authorization or approval of the establishment and the organizational documents (including any amendment, revision or repeal thereof), of any equity or contractual joint venture between the Foundation and any third party in which the Foundation will have more than a twenty percent (20%) interest in the revenues or profits of the joint venture, excluding contracts in the ordinary course of business;
- (g) authorization or approval of any plan of dissolution, liquidation,

assignment for the benefit of creditors, petition for voluntary bankruptcy or appointment of a receiver, or any plan for winding up the affairs of the Foundation, or any liquidating distribution by the Foundation;

- (h) authorization or approval of the incurrence of any debt, loan, borrowing, debt guarantee, whether as primary obligor or co-obligor, pledge, lien, hypothecation, security interest or encumbrance on any of the property or assets of the Foundation;
- (i) authorization or approval of any acquisition or lease of, or interest in, real estate, by the Foundation;
- (j) authorization or approval of undertaking any expenditure outside of the annual budget whether by contract or otherwise, in excess of \$25,000;
- (k) authorization or approval of entering into any contract or commitment which involves aggregate payments in excess of \$50,000 in any year; and
- (l) authorization or approval of the settlement of any litigation or other dispute involving the Foundation.

SECTION 2.03. Annual Meeting. The annual meeting of the Members shall be held on such date and at such place and time as the Board may designate. If such meeting is for any reason not held on the date determined in accordance with this section, a special meeting, as defined below, in lieu of the annual meeting may be held with the same force and effect of the annual meeting.

SECTION 2.04. Special Meetings. A special meeting of the Member may be called at any time by the President, the Board of the Foundation, or by the Member.

SECTION 2.05. Notice. Notice of the annual meeting or any special meeting shall be

given by the Secretary to the Member at the Member's address on file with the Secretary either by mail or electronic communication, at least seven (7) days prior to the meeting and in the case of a special meeting, stating the purpose thereof.

SECTION 2.06. Voting. The Member shall have one (1) vote on all matters on which the Member is entitled to vote.

SECTION 2.07. Action Without a Meeting. Any action required or permitted to be taken by the Member may be taken without a meeting if the Member consents in writing and if such written consent is filed with the records of the Foundation. Such consents shall be treated for all purposes as a vote at a meeting.

ARTICLE III

BOARD OF DIRECTORS

SECTION 3.01. General Powers. The Foundation's property, affairs and business shall be managed by the Board and the Board shall have, and may exercise, all of the powers of the Foundation, except those reserved to the Members by law, the Articles or these By-Laws.

SECTION 3.02. Number, Qualification and Election. The members of the Board serving at the time CharterCARE Health Partners becomes the sole Member of the Foundation shall remain in office until a new Board is elected by the sole Member at its annual meeting or at a special meeting. Commencing with such election the Board shall consist of not more than seven (7) directors who shall be elected as set forth herein by the Member at its annual meeting or at a special meeting. Each member of the Board shall have equal voting authority.

SECTION 3.03. Nomination Process. The Nominating Committee of the Member shall serve as the Nominating Committee. At least fifteen (15) days prior to the Member's annual meeting or a special meeting called for the election or replacement of directors of the

Foundation, the Nominating Committee shall provide to the Board of Trustees of the Member a list of nominees for election as directors. The Nominating Committee shall adopt such procedures, including procedures for the solicitation of potential nominees, as are necessary to carry out its duties.

SECTION 3.04. Increase and Decrease in Number. The number and designation of directors of the Foundation may be modified from time to time by majority vote of the Board.

SECTION 3.05. Term. Each director shall hold office for a three (3) year term, up to a maximum of two (2) terms, and until a successor shall have been duly appointed and qualified or until death, resignation or removal in the manner hereinafter provided. Terms of the initial directors elected after CharterCARE Health Partners becomes the sole Member at its annual meeting or at a special meeting shall be staggered such that each year the terms of a portion of the directors shall expire.

SECTION 3.06. Quorum and Voting. A majority of the total number of directors at the time in office shall constitute a quorum for the transaction of business at any meeting. In the absence of a quorum, a majority of the directors present may adjourn any meeting from time to time without further notice until a quorum be had. Each director shall have one (1) vote on all matters addressed by the Board. The directors shall act only as a Board, and the individual director shall have no power as such.

SECTION 3.07. Place of Meetings. The Board may hold its meetings at any place within or without the State of Rhode Island as it may from time to time determine and shall be specified or fixed in the respective notices or waivers of notice thereof.

SECTION 3.08. Action Without a Meeting. Any action required or permitted to be taken by the directors may be taken without a meeting if all of the directors consent in writing and if

the written consents are filed with the Foundation's records. Such consents shall be treated for all purposes as a vote at a meeting.

SECTION 3.09. Telephonic Participation In Meetings. Directors may participate in their respective meetings by means of telephone conference call or similar communications equipment by means of which all persons participating in the meeting can hear each other at the same time, and participation by such means shall constitute presence in person at a meeting.

SECTION 3.10. Annual Meetings. The annual meeting of the Board shall be held immediately following the Members' annual meeting. If any day in which the annual meeting is fixed shall be a legal holiday, then the meeting shall be held on the next succeeding business day that is not a legal holiday. If for any reason such annual meeting is omitted, a special meeting may be held in place thereof and any business transacted or elections held at such special meeting shall have the same effect as if transacted at the annual meeting. Purposes for which an annual meeting is to be held, in addition to those prescribed by law or these By-Laws, may be specified by the President or by a majority of the Board.

SECTION 3.11. Regular Meetings. Regular meetings of the Board shall be held as often as the Board shall determine from time to time by vote. If any day fixed for a regular meeting shall be a legal holiday at the place where the meeting is to be held, then the meeting which would otherwise be held on that day shall be held at the same hour on the next succeeding business day that is not a legal holiday. Notice of regular meetings need not be given.

SECTION 3.12. Special Meetings; Notice. Special meetings of the Board shall be held whenever called by the President. Notice of each such meeting shall be given by the Secretary or the person calling the meeting by mailing such notice addressed to each director at his/her residence or usual place of business, or conveying such notice electronically, verbally by

telephone or personally, at least twenty-four (24) hours before the time at which the meeting is to be held. Every such notice shall state the time and place of the meeting, but need not state the purpose thereof except as otherwise expressly provided in these By-Laws. A statement contained in the minutes of any Board meeting over the signature of the Secretary to the effect that due notice of such meeting has been given shall be conclusive evidence that proper notice of such Meeting has been duly given.

SECTION 3.13. Waiver of Notice. Notice of the time, place and purpose (unless otherwise specified) of any Board meeting may be waived in writing by any director either before or after such meeting and attendance in person at a Board meeting or any meeting held in lieu thereof shall be equivalent to having waived notice thereof.

SECTION 3.14. Resignation of Directors. Any director may resign at any time by providing written notice to the Board, the President or the Secretary. Any director's resignation shall take effect at the time specified therein and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

SECTION 3.15. Removal/Replacement of Directors. Subject to these By-Laws, any director may be removed and/or replaced, either with or without cause, by the Member.

SECTION 3.16. Vacancies. In the case of director vacancies caused by death, resignation, removal, disqualification or any other cause, the Member, shall use best efforts to elect a duly-qualified individual to serve the remainder of the departing director's term. Notwithstanding the foregoing, any actions taken at a meeting or as otherwise provided herein while such positions are vacant shall be valid so long as a quorum is then present.

SECTION 3.17. Compensation. No director shall receive any compensation for his/her services as a director of the Foundation.

ARTICLE IV

COMMITTEES

SECTION 4.01. Appointment. The Board may from time to time by vote create such committees of directors, officers, employees or other persons for the purpose of advising the Foundation's Board, officers and/or employees in all such matters as the Board shall deem advisable and with such functions and duties as the Board shall prescribe by vote. Each committee shall have a chairperson appointed by the President. Unless otherwise expressly required in these By-Laws, committee members shall be appointed by the President; provided, however, that any such appointment may be reversed by majority vote of the Board. Committee members may be but need not be directors. The Board shall have power to increase or decrease the number of members on any committee at any time and to discharge any such committee, either with or without cause, at any time.

SECTION 4.03. Meetings and Notice. Committee meetings may be called by the President or the committee chairperson. Each committee shall meet as often as necessary and appropriate to perform its duties. Notice of a meeting's date, time and place shall be given at such time and in such manner as to provide reasonable notice to committee members of the meeting. Each committee shall keep minutes of its proceedings.

SECTION 4.04. Removal and Vacancies. The President may remove any committee member or chairperson whose selection is not otherwise specified in the By-Laws. Vacancies in any committee's membership may be filled by appointments made in the same manner as provided for in the original appointments.

SECTION 4.05. Quorum. Unless otherwise provided in the Board's resolution designating a committee, each committee member shall have one (1) vote and a majority of the

whole committee shall constitute a quorum. The act of a majority of the members present at a committee meeting at which a quorum is present shall constitute the act of the committee.

SECTION 4.06. Rules. Each committee may adopt rules for its own governance not inconsistent with these By-Laws or with any roles adopted by the directors.

ARTICLE V

OFFICERS

SECTION 5.01. Enumeration. The officers of the Foundation shall consist of a President, a Secretary, and a Treasurer, and such other officers as the Board may from time to time appoint. Each officer of the Foundation shall be a director.

SECTION 5.02. Election, Qualifications and Term of Office. The officers shall be elected by the Board at the annual meeting of the Foundation or special meeting held in lieu thereof. Each officer shall hold office for a one (1) year term and until a successor shall have been duly elected and qualified or until death, resignation, disqualification or removal in the manner hereinafter provided.

SECTION 5.03. Removal. Any officer may be removed, either with or without cause, by the vote of a majority of the directors at a special meeting called for said purpose.

SECTION 5.04. Resignation. Any officer may resign at any time by giving written notice to the Board or to the Secretary. Any such resignation shall take effect at the date of receipt of such notice or at any later time specified herein and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

SECTION 5.05. Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled for the unexpired portion of the term by the Member.

SECTION 5.06. The President. The President shall act as chair of the Board and have general charge and supervision of the affairs of the Foundation. The President shall perform such other duties assigned to him/her by the Board.

SECTION 5.08. The Secretary. The Secretary shall record or cause to be recorded all the proceedings of Board meetings and meetings of all committees to which a secretary shall not have been appointed; shall see that all notices are duly given in accordance with the provisions of these By-Laws and as required by law; shall be custodian of the records and of the Foundation's seal; and have such other powers and perform such other duties as the Board may from time to time prescribe.

SECTION 5.09. The Treasurer. The Treasurer shall have charge and custody of, and be responsible for, all Foundation funds, credits and property, render a statement concerning the condition of the Foundation's finances at all regular meetings and, upon the Board's request, make a full financial report to the Board. The Treasurer also shall have charge of the Foundation's books and records of account, which shall be kept at such office of the Foundation as the Board shall from time to time designate; be responsible for the keeping of correct and adequate records of the Foundation's assets, liabilities, business and transactions and at all reasonable times exhibit the books and records of account to any of the directors; review the Foundation's budget annually; be responsible for monitoring the budget; and, in general, perform all the duties incident to the office of Treasurer and such other duties as from time to time may be assigned by the Board or the President.

SECTION 5.10. Other Officers. Each other officer chosen by the directors shall perform such duties and have such powers as may be designated from time to time by the Board.

SECTION 5.11. Other Powers and Duties. Each officer shall, subject to these By-Laws

and in addition to the duties and powers specifically set forth in these By-Laws, have such duties and powers as are customarily incident to his/her office. The exercise of any power which by law, the Articles or these By-Laws, or in accordance with any vote of the Board, may be exercised by a Foundation officer only in the event of another officer's absence or any other contingency, shall bind the Foundation in favor of anyone relying therein in good faith, whether or not such absence or contingency existed.

SECTION 5.12. Bonding. Any officer, employee, agent or factor shall give such bond with such surety or sureties for the faithful performance of his/her duties as the Board may from time to time require.

ARTICLE VI

INDEMNIFICATION OF DIRECTORS AND OFFICERS

SECTION 6.01. Indemnification. Subject to the exclusions hereinafter set forth, the Foundation will indemnify an Indemnified Person against and hold the Indemnified Person harmless from any Covered Loss or Covered Expenses.

SECTION 6.02. Advance Payment of Covered Expenses. The Foundation will pay the Covered Expenses of an Indemnified Person in advance of the final disposition of any Proceeding. The advance payment of Covered Expenses will be subject to the Indemnified Person's first agreeing in writing with the Foundation to repay the sums paid by it hereunder if it is thereafter determined that the Proceeding involved an Excluded Claim or that the Indemnified Person was otherwise not entitled to indemnity under this Article VI.

SECTION 6.03. Exclusions.

(a) The Foundation will not be liable to pay any Covered Loss or Covered Expense (an "Excluded Claim"):

- (i) With respect to a Proceeding, if the Foundation determines that the Indemnified Person (i) did not conduct himself or herself in good faith, (ii) engaged in intentional misconduct, and (iii) in the case of a criminal proceeding, knowingly violated the law;
- (ii) With respect to a Proceeding in which a final judgment or other final adjudication determines that the Indemnified Person is liable on the basis that personal benefit was improperly received by him or her;
- (iii) For which the Indemnified Person is otherwise indemnified or reimbursed;
or
- (iv) If a final judgment or other final adjudication determines that such payment is unlawful.

(b) With respect to a Proceeding by or on behalf of the Foundation in which the Indemnified Person is adjudged to be liable to the Foundation, the Foundation may indemnify the Indemnified Person for his or her Covered Expenses but shall not indemnify the Indemnified Person for his or her Covered Loss.

(c) Notwithstanding any other provisions herein, the Foundation shall indemnify an Indemnified Person for any Covered Expense in the event that the Indemnified Person is wholly successful, on the merits or otherwise, in the defense of any Proceeding under Section 6.03(a)(i).

SECTION 6.04. Notice to Foundation; Insurance. Promptly after receipt by the Indemnified Person of the notice of the commencement of or the threat of commencement of any Proceeding, the Indemnified Person will, if indemnification with respect thereto may be sought from the Foundation under this Article VI, notify the Foundation of the commencement thereof. If, at the time of the receipt of such notice, the Foundation has any directors' and officers'

liability insurance in effect, the Foundation will give prompt notice of the commencement of such Proceeding to the insurer in accordance with the procedures set forth in the policy or policies in favor of the Indemnified Person. The Foundation will thereafter take all necessary or desirable action to cause such insurer to pay, on behalf of the Indemnified Person, any and all Covered Loss and Covered Expense payable as a result of such Proceeding in accordance with the terms of such policies.

SECTION 6.05. Indemnification Procedures.

(a) Payments on account of the Foundation's indemnity against Covered Loss will be subject to the Foundation's first determining that the Covered Loss results from a claim which is not an Excluded Claim. Such a determination will be made by a majority vote of a quorum of Trustees not at the time parties to the Proceeding or vote of the Member. The determination required by this Section 6.05 will be made within sixty (60) days of the Indemnified Person's written request for payment of a Loss, and if it is determined that the Covered Loss is not an Excluded Claim, payment will be made forthwith thereafter.

(b) Payment of an Indemnified Person's Covered Expenses in advance of the final disposition of any Proceeding will be made within twenty (20) days of the Indemnified Person's written request therefor. Any determination required as to the reasonableness of requested Covered Expenses shall be made in accordance with Section 6.05(a). From time to time prior to the payment of Covered Expenses, the Foundation may, but is not required to, determine (in accordance with Section 6.05(a) above) whether the Covered Expenses claimed may reasonably be expected, upon final disposition of the Proceeding, to constitute an Excluded Claim. If such a determination is pending, payment of the Indemnified Person's Covered Expenses may be delayed up to sixty (60) days after the Indemnified Person's written request therefor, and if it is

determined that the Covered Expenses are not an Excluded Claim, payment will be made forthwith thereafter.

SECTION 6.06. Settlement. The Foundation will have no obligation to indemnify the Indemnified Person under this Article VI for any amounts paid in settlement of any Proceeding effected without the Foundation's prior written consent. The Foundation will not unreasonably withhold or delay its consent to any proposed settlement. The Foundation may consent to a settlement subject to the requirement that a determination thereafter will be made as to whether the Proceeding involved an Excluded Claim or not.

SECTION 6.07. Rights Not Exclusive. The rights provided hereunder will not be deemed exclusive of any other rights to which the Indemnified Person may be entitled under the Act, any agreement, vote of disinterested directors or otherwise, both as to action in the Indemnified Person's official capacity and as to action in any other capacity while holding such position or office, and shall continue after the Indemnified Person ceases to serve the Foundation in an official capacity.

SECTION 6.08. Enforcement.

(a) The Indemnified Person's right to indemnification hereunder will be enforceable by the Indemnified Person in any court of competent jurisdiction and will be enforceable notwithstanding that an adverse determination has been made as provided in Section 6.05 above.

(b) In the event that any action is instituted by the Indemnified Person under this Article VI to enforce or interpret any of the terms of this Article VI, the Indemnified Person will be entitled to be paid all court costs and expenses, including reasonable attorneys' fees, incurred by the Indemnified Person with respect to such action, unless the court determines that each of the material assertions made by the Indemnified Person as a basis for such action was not made

in good faith or was frivolous.

SECTION 6.09. Successors and Assigns. This Article VI will be (a) binding upon all successors and assigns of the Foundation (including any transferee of all or substantially all of its assets); and (b) binding on and inure to the benefit of the heirs, executors, administrators, and other personal representatives of the Indemnified Person. If the Foundation sells or otherwise transfers all or substantially all of its assets to a third party, the Foundation will, as a condition of such sale or other transfer, require such third party to assume and perform the obligations of the Foundation under this Article VI.

SECTION 6.10. Amendment. No amendment of this Article VI will be effective as to an Indemnified Person without such Indemnified Person's written consent.

SECTION 6.11. Insurance. The Foundation shall have, to the fullest extent permitted by state and federal law, the power to purchase and maintain insurance on behalf of any Indemnified Person against any liability asserted against or incurred by an Indemnified Person arising out of his or her status as an Indemnified Person whether or not the Foundation would have the power to indemnify the Indemnified Person against such liability pursuant to this Article VI.

SECTION 6.12. Definitions.

“Covered Act” means any act or omission by an Indemnified Person in the Indemnified Person's official capacity as a member of the governing body, director, trustee, officer, employee or agent of another limited liability company, corporation, partnership, joint venture, trust or other entity or enterprise, including entities and enterprises which are subsidiaries or affiliates of the Foundation, or employee benefit plan.

“Covered Expense” means any reasonable expense incurred by an Indemnified Person in connection with the defense of any claim made against the Indemnified Person for Covered Acts

including legal, accounting or investigative fees and expenses, including the expense of bonds necessary to pursue an appeal of an adverse judgment.

“Covered Loss” means any amount which an Indemnified Person is legally obligated to pay as a result of any claim made against the Indemnified Person for a Covered Act including judgment for, and awards of, damages, amounts paid in settlement of any claim, any fine or penalty or, with respect to an employee benefit plan, any excise tax or penalty.

“Excluded Claim” is defined in Section 6.03.

“Indemnified Person” means any individual who is or was a director or officer of the Foundation.

“Proceeding” means any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative.

ARTICLE VII

CONFLICT OF INTEREST

SECTION 7.01. Policy Adoption. The Foundation is committed to pursuing its mission and to conducting its affairs in accordance with high professional and ethical standards which include the avoidance of detrimental conflicts of interest. The Foundation believes that avoiding such conflicts is imperative in preserving the public’s trust. Persons who agree to serve the Foundation should not use their position for personal gain, or to expose the Foundation to potential harm as a result of conflict of interest.

The Foundation shall adopt and maintain a Conflict of Interest Policy which applies to Designated Persons, as defined below, and deliberations by the Board and its committees.

SECTION 7.02. General Principles. Any Designated Person has an obligation to:
(i) protect decisions involving the Foundation against conflicts of interest; (ii) maintain the

confidentiality of information obtained through service to the Foundation; (iii) assure that the Foundation acts for the benefit of the community as a whole rather than for the private benefit of a Designated Person; and (iv) fully disclose any personal business opportunities that are competitive with the Foundation or in which the Foundation would have an interest. In the furtherance of these obligations all Designated Persons shall exercise the utmost good faith in all transactions touching upon their duties to the Foundation or its property. In their dealings with and on behalf of the Foundation, they shall be held to a strict standard of honest and fair dealing. Designated Persons shall scrupulously avoid any conflict between their individual interests and the interests of the Foundation in any and all actions taken by them. They shall disclose any interests or activities in which they are involved or become involved, directly or indirectly, that could conflict with the interests or activities of the Foundation and shall obtain approval prior to commencing, continuing, or consummating any activity or transaction which raises a possible conflict of interest. Designated Persons are also obliged to disclose any potential conflict of interest arising from the interests and activities of their Immediate Family, as defined in the Policy. Failure to comply with the Conflict of Interest Policy may disqualify a person from serving as a Designated Person or, if already serving as a Designated Person, may, if the Designated Person is an employee of the Foundation, result in disciplinary action up to and including dismissal, subject to the terms of any applicable employment or collective bargaining agreement or, in the case of a Designated Person who is a director, the director shall be deemed to have resigned.

SECTION 7.03. Designated Persons. "Designated Persons" shall include the following:

- (a) Members of the Board of Directors of the Foundation;
- (b) Members of administration or senior management of the Foundation;

- (c) Committee Chairpersons or members of a Committee with Board delegated powers, who have a direct or indirect ability to influence the use of Foundation resources;
- (d) Persons and/or staff members with the authority to purchase, to select or to influence the purchase of goods or services on behalf of the Foundation; and
- (e) Any other person(s) and/or staff members whom the Board may from time to time designate.

ARTICLE VIII

FISCAL AUTHORITY

SECTION 8.01. Deposits. All funds of the Foundation shall be deposited from time to time to the credit of the Foundation in such banks, trust companies or other depositories as the directors may select.

SECTION 8.02. Gifts. The directors may accept on behalf of the Foundation any contribution, gift, bequest or devise for the general purposes or for any special purpose of the Foundation.

SECTION 8.03. Budget. An annual budget shall be prepared at the President's direction for approval by the directors at their annual meeting.

ARTICLE IX

EXECUTION OF DOCUMENTS

SECTION 9.01. Contracts, etc., How Executed. Unless otherwise determined by the Board, the President or the Treasurer may enter into any contract or execute and deliver any contract or other instrument, the execution of which is not otherwise specifically provided for, in the name and on behalf of the Foundation. The Board, except as otherwise provided in these By-Laws, may authorize any other or additional officer, officers, agent or agents of the Foundation

to enter into any contract or execute and deliver any contract or other instrument in the name and on behalf of the Foundation and such authority may be general or confined to specific instances. Unless authorized to do so by these By-Laws or by the directors, no officer, agent or employee shall have any power or authority to bind the Foundation by any contract or engagement or to pledge its credit or render it liable pecuniarily for any purpose or in any amount.

SECTION 9.02. Checks, Drafts, etc. All of the Foundation's checks, drafts, bills of exchange or other orders for the payment of money, obligations, notes or other evidences of indebtedness, bills of lading, warehouse receipts and insurance certificates shall be signed or endorsed by such of the Foundation's officer, officers, employee or employees as shall from time to time be determined by Board resolution.

SECTION 9.03. Shares Held by Foundation. Any shares of stock issued by any corporation and owned or controlled by the Foundation may be voted at such corporation's shareholders' meeting by the Foundation's President or the Treasurer.

ARTICLE X

SEAL

The seal of the Foundation shall be in the form of a circle and shall bear the Foundation's name and the state and year of its incorporation.

ARTICLE XI

FISCAL YEAR

Except as from time to time otherwise provided by the Board, the Foundation's fiscal year shall commence on the 1st day of October of each year.

ARTICLE XII

MISCELLANEOUS

SECTION 12.01. Personal Liability. Directors and officers of the Foundation shall not be personally liable for any Foundation debt, liability or obligation. All persons, corporations or other entities extending credit to, contracting with or having any claim against the Foundation may look only to the Foundation's funds and property for the payment of any debt, damages, judgment or decree, or of any money that may otherwise become due or payable to them from the Foundation.

SECTION 12.02. Corporate Records. The original or attested copies of the Articles of Incorporation, these By-Laws, and records of all meetings of the Member and the Board and all of the Foundation's records, the names and the record addresses of all directors, Member and officers shall be kept in North Providence, Rhode Island, at the Foundation's principal office or at an office of its Secretary or Resident Agent. Said copies and records need not all be kept in the same office. They shall be available at all reasonable times for the inspection of any director or officer for any proper purpose, but not to secure a list or other information for the purpose of selling said list or information or copies thereof or of using the same for a purpose other than in the interest of the director or officer relative to the Foundation's affairs. Except as otherwise may be required by law, the Articles or these By-Laws, the Foundation shall be entitled to treat a director's, Member's or officer's record address as shown on its books as the address of such person or entity for all purposes, including the giving of any notices and it shall be the duty of each such person or entity to notify the Foundation of his/her/its latest post office address.

SECTION 12.03. Evidence of Authority. A certificate by the Secretary as to any action taken by a director, officer or representative of the Foundation shall be conclusive evidence of

such action as to all who rely thereon in good faith.

SECTION 12.04. Ratification. Any action taken on behalf of the Foundation by a director, officer or representative of the Foundation which requires authorization by the directors shall be deemed to have been duly authorized if subsequently ratified by the directors retrospectively if action by them was necessary for authorization.

SECTION 1.01. Articles of Incorporation. All references in these By-Laws to the Articles shall be deemed to refer to the Articles, as amended, and in effect from time to time.

ARTICLE XIII

AMENDMENTS

Alterations and repeal of the By-Laws, and new By-Laws not inconsistent with the laws of the State of Rhode Island or with the Articles of Incorporation, may be adopted by the Foundation upon the authorization or approval by the Member after such alteration, repeal or new By-Law is proposed by a majority vote of the Board at any meeting at which a quorum shall be present. The proposed alteration or repeal or of the proposed new By-Laws shall be included in the notice of such Board meeting at which such alteration, repeal or adoption is acted upon.

666422.1

Exhibit 50

ADLER POLLOCK & SHEEHAN P.C.

Adler Pollock & Sheehan P.C.
One Citizens Plaza, 8th Floor
Providence, RI 02903-1345
Telephone (401) 274-7200
Fax (401) 751-0604

175 Federal Street
Boston, MA 02110
Telephone (617) 482-0699
Fax (617) 482-0604

EI # 05-0343749

CharterCARE Community Board
c/o David Hirsch
951 North Main Street
Providence, RI 02904

Invoice Date: January 15, 2014
Invoice Number: 430773
Client Number: 402920

For Professional Services Rendered:

005 - Prospect

Date	Timekeeper	Description	Hours	Value
12/02/13	Brennan, C M	Work on HCA deficiencies.	3.25	\$ 325.00
12/02/13	Rocha, P K	Conference call with Kathy Moore, Paula Iacono, Kim O'Connell and Moshe Berman re charity care deficiencies; Communication from Moshe Berman re outstanding issues; Communication from Mark Russo re strategy issues; Continuation of work on deficiencies; Attention to charitable asset deficiencies; Communication from Moshe Berman re Common Interest Agreement.	3.00	1,260.00
12/03/13	Brennan, C M	Research re deficiencies; Work on deficiencies re question 9.	4.25	425.00
12/03/13	Lundsten, E H	Prepare for meeting on issues related to sale.	1.00	420.00
12/03/13	Rocha, P K	Meeting with firm attorneys (J. DiStefano, E.H. Lundsten) re CCHP Foundation and pension issues; Continuation of work on responses to deficiency questions and analysis of charity care issues.	2.50	1,050.00
12/04/13	Brennan, C M	Work on indexing CCHP meeting minutes (question 9); Communication from Deb Spicuzza re question 19 deficiency; Work on indexing RWMC meeting minutes.	5.00	500.00

Date	Timekeeper	Description	Hours	Value
12/04/13	Lundsten, E H	Organize comments; Research; Meeting.	4.00	1,680.00
12/04/13	Rocha, P K	Draft agenda for meeting; Communications with Moshe Berman and Kim O'Connell re status of deficiency questions; Travel to meeting with Ken Belcher, Mike Conklin, Kim O'Connell and firm attorneys (J. DiStefano, E.H. Lundsten); Meeting with Tom Reardon; Communications with Moshe Berman re status of deficiency questions; Communication to Kim O'Connell re same; Communications from Kathy Moore and Paula Iacono; Review Kathy Moore's worksheets for meeting with Jodi Bourque.	3.50	1,470.00
12/05/13	Brennan, C M	Work on indices.	4.50	450.00
12/05/13	Lundsten, E H	Review and organize notes on tax issues.	1.50	630.00
12/05/13	Rocha, P K	Review revisions to Common Interest Agreement; Communication to Kim O'Connell; Communication to Moshe Berman re status.	0.50	210.00
12/05/13	Rocha, P K	Conference and communications with Moshe Berman re outstanding issues re HCA and CEC deficiencies.	0.50	210.00
12/05/13	Rocha, P K	Revisions to Disclosure Statement to new gift donors.	0.50	210.00
12/05/13	Rocha, P K	Review analysis prepared by Kathy Moore; Communication to Jodi Bourque; Conference with Moshe Berman re outstanding issues.	1.00	420.00
12/06/13	Force, B A	Reviewed and analyzed contract regarding allocation of \$14 million for payment of pension deficiencies.	1.50	300.00
12/06/13	Brennan, C M	Work on RWMC deficiency for exhibit 9C(index).	1.00	100.00
12/06/13	Lundsten, E H	Prepare Disclosure Statements.	1.50	630.00
12/06/13	Rocha, P K	Communication from Moshe Berman	3.50	1,470.00

Date	Timekeeper	Description	Hours	Value
		re joint defense agreement; Communications from Kathy Moore re responses to charity care deficiencies; Continuation of work on deficiency responses; Travel to St. Joseph's; Meeting with Kim O'Connell, Moshe Berman, Mark Russo, Jodi Bourque, Katie Enright, Kathy Moore and Paula Iacono re response to charity care questions; Communication with Mike Dexter re escrow agreement; Communication to team re same.		
12/09/13	Brennan, C M	Work on RWMC & SJHSRI deficiencies for exhibits 9C and 9D (indices).	4.50	450.00
12/09/13	Lundsten, E H	Calls from firm attorney (J. DiStefano) and to P. Karlson on pension issues.	1.25	525.00
12/09/13	Rocha, P K	Conference call with Moshe Berman re Common Interest Agreement; Communication to Kim O'Connell; Numerous communications with Kathy Moore, Paula Iacono, Moshe Berman re response to charity care deficiencies; Conference with Mark Russo re status; Continuation of work on deficiency questions; Communication from Ken Belcher re charitable care issues.	2.50	1,050.00
12/10/13	Brennan, C M	Meeting with firm attorney (P. Rocha) re HCA deficiencies; Prepare list of outstanding information; Work on deficiencies.	4.00	400.00
12/10/13	Lundsten, E H	Review material on plan; Discuss with firm attorneys (J. DiStefano and P. Rocha) and P. Karlson.	1.75	735.00
12/10/13	Rocha, P K	Meeting with firm attorneys (J. DiStefano, E.H. Lundsten) re pension and charitable asset issues; Meeting with firm paralegal (C. Brennan) to review status of outstanding deficiencies; Conference with Deb Spicuzza and firm paralegal (C. Brennan); Communication to Kim O'Connell and Deb Spicuzza re outstanding deficiency issues; Communication to Jodi Bourque and	3.00	1,260.00



Date	Timekeeper	Description	Hours	Value
		Katie Enright re clarification of deficiency questions; Continuation of work on same.		
12/11/13	Brennan, C M	Work on deficiencies; Meeting with firm attorney (P. Rocha), Kim O'Connell, Moshe Berman, Mark Russo, Prospect representatives, Paula Iacono and Kathy Moore re HCA deficiencies; Communication to Moshe Berman forwarding redlined draft; Conference with firm applications specialist (K. Anderson) and firm attorney (P. Rocha) re logistics of application and production with WarRoom.	5.00	500.00
12/11/13	Lundsten, E H	Review funding report; Meeting on benefit plan.	2.00	840.00
12/11/13	Rocha, P K	Communications to and from Kathy Moore and Paula Iacono re outstanding issues; Communications to Jodi Bourque, Katie Enright and Mike Dexter re confirmation re certain deficiency question; Revisions to Escrow Agreement; Communication to Moshe Berman and Mark Russo re same; Conference call with Mark Russo, Moshe Berman, Ellen Shin and Kim O'Connell re deficiencies; Meeting with Kathy Moore, Paula Iacono, Moshe Berman and firm paralegal (C. Brennan) re charity care issues; Communication to WarRoom re status.	4.00	1,680.00
12/12/13	Brennan, C M	Work on deficiencies; Telephone conference with Mike Logee of WarRoom, firm applications specialist (K. Anderson) and firm attorney (P. Rocha) regarding HCA application production; Communication from Debbie Spicuzza re deficiencies; Continue to work on deficiencies.	6.00	600.00
12/12/13	Lundsten, E H	Review Bylaws and issues on unfunded liability.	1.00	420.00
12/12/13	Rocha, P K	Conference call with Warroom, Casey Brennan and Kris Anderson re: application processing issues;	3.50	1,470.00



Date	Timekeeper	Description	Hours	Value
		numerous communications with Kathy Moore and Paula Iacono re: CharterCARE issues; draft responses to CharterCARE deficiency questions; conference with firm attorney (E. H. Lundsten) re: same; communications from Mike Dexter and Jodi Bourque re: application deficiencies; conference with Mark Russo re: status and status of Cain Report; communications to and from Kim O'Connell re: same.		
12/13/13	Brennan, C M	Work on deficiencies and electronic version of exhibits.	5.50	550.00
12/13/13	Lundsten, E H	Review Bylaws; E-Mail on changes.	0.50	210.00
12/13/13	Rocha, P K	Numerous communications with Jodi Bourque and Mike Dexter re deficiency questions; Communications with Kathy Moore, Paula Iacono and Moshe Berman; Work on responses to charity care; Communication to Kim O'Connell and Mark Russo re outstanding issues.	3.00	1,260.00
12/16/13	Brennan, C M	Travel to Fatima Hospital for delivery to Kathy Moore; Work on deficiencies and electronic copy; Communication from Deb Spicuzza.	5.75	575.00
12/16/13	Rocha, P K	Review and execute Non-Disclosure Agreement; Communication to Kim O'Connell re Common Interest Agreement; Communication from Moshe Berman re same; Communications from Kathy Moore and Paula Iacono on charity care responses; Communication to Kim O'Connell re outstanding questions; Communication from Otis Brown re market share information; Continuation of work on deficiencies.	3.00	1,260.00
12/17/13	Brennan, C M	Work on deficiencies; Telephone conference with firm attorney (P. Rocha), Moshe Berman, Mark Russo, Kim O'Connell and representatives from Prospect re HCA; Conference with firm attorney (P. Rocha) re HCA; Continue to work on deficiencies.	7.50	750.00



Date	Timekeeper	Description	Hours	Value
12/17/13	Rocha, P K	Finalization of responses to transfer of charitable assets questions; Communication with firm attorney (E. H. Lundsten) re status and amendment to bylaws; Conference call with Mark Russo, Moshe Berman, Frank Saidara, Ellen Shin, Kim O'Connell and firm attorney (C. Brennan) re status of outstanding deficiencies; Numerous communications with Kathy Moore and Paula Iacono re charitable assets deficiencies; Continuation of work on responses.	4.00	1,680.00
12/18/13	Brennan, C M	Meeting with firm attorney (P. Rocha) and Moshe Berman re charitable assets; Work on charitable assets binders; Work on deficiencies.	6.50	650.00
12/18/13	Lundsten, E H	Revise Bylaws.	1.00	420.00
12/18/13	Rocha, P K	Meeting with Moshe Berman and firm paralegal (C. Brennan) to review charitable assets binders; Numerous communications with Kathy Moore and Paula Iacono re same; Communication with Kim O'Connell re outstanding issues; Conference call with Mike Dexter re engagement of John Schibler; Communication from Moshe Berman re joint defense agreement; Communication from Otis Brown re market share information and charitable assets disclosure statement; Continuation of work on deficiencies.	4.00	1,680.00
12/19/13	Brennan, C M	Meeting with firm attorney (P. Rocha) re outstanding deficiencies; Conference call with Moshe Berman and firm attorney (P. Rocha) re same; Work on deficiencies and exhibits.	9.50	950.00
12/19/13	Rocha, P K	Attention to list of outstanding items; Communication to Deb Spicuzza and Kim O'Connell re same; Communication with Kim O'Connell re joint defense agreement, Schibler as expert, and outstanding issues; Numerous conferences with Moshe Berman and firm paralegal (C.	4.00	1,680.00

Date	Timekeeper	Description	Hours	Value
		Brennan) re outstanding issues; Communication from Moshe Berman re Escrow Agreement; Communication from Valentina Adamova re filing issues; Continuation of work on response to deficiencies.		
12/20/13	Brennan, C M	Meeting with firm attorney (P. Rocha) re exhibits and deficiencies; Communication with firm attorney (P. Rocha) and Addy Kane re same; Communication with Moshe Berman and firm attorney (P. Rocha) re same; Work on deficiencies and exhibits; Scan documents.	7.50	750.00
12/20/13	Rocha, P K	Communications and conference with Moshe Berman re status of response to deficiencies; Communications and conference call with Mike Dexter re engagement of John Schibler; Conference with Kim O'Connell and Ken Belcher re same; Meeting with firm paralegal (C. Brennan) to review status of deficiency responses; Continue to work on deficiencies; Conference call with Addie Kane re response to proposed deficiencies; Conference call with Mike Dexter re January 2 filing.	3.50	1,470.00
12/21/13	Brennan, C M	Work on exhibits.	5.00	500.00
12/22/13	Brennan, C M	Work on HCA deficiencies and exhibits: Create electronic version to submit to WarRoom.	8.75	875.00
12/23/13	Brennan, C M	Meeting with firm attorney (P. Rocha) and Moshe Berman re HCA exhibits; Prepare electronic version and indices of exhibits of Bates designations for WarRoom; Work on HCA deficiencies; Provide exhibits to Maria at WarRoom.	7.00	700.00
12/23/13	Rocha, P K	Communication to and from Moshe Berman re engagement of consultants; Meeting with Moshe Berman and firm paralegal (C. Brennan) to review HC application and exhibits; Communications to and from Deb Spicuzza re outstanding issues; Communication to Mike Dexter re	3.50	1,470.00



Date	Timekeeper	Description	Hours	Value
		John Schibler; Communication with Ken Belcher and Kim O'Connell re same; Continuation of work on deficiencies.		
12/24/13	Brennan, C M	Communications to and from Matt from WarRoom re exhibit production; Telephone conference with Matt from WarRoom re same; Work on HCA application deficiencies.	3.00	300.00
12/24/13	Rocha, P K	Meet with firm paralegal (C. Brennan) re HCA deficiency filing; Conference with firm paralegal (C. Brennan) and War Room.	1.00	420.00
12/25/13	Brennan, C M	Review revised HCA sent by Moshe Berman.	0.25	25.00
12/26/13	Brennan, C M	Work on HCA and CEC deficiencies.	3.00	300.00
12/26/13	Rocha, P K	Continuation of work on response to deficiencies; Meeting with firm paralegal (C. Brennan) re same; Communications to and from Moshe Berman re outstanding issues; Draft letter to Mike Dexter and Jodi Bourque; Work on CEC Application.	3.00	1,260.00
12/27/13	Brennan, C M	Meeting with Moshe Berman re CEC and HCA applications and exhibits; Work on CEC application exhibits; Communications to and from Moshe Berman re CEC and HCA applications/exhibits.	4.00	400.00
12/27/13	Rocha, P K	Communications from Moshe Berman re finalization of APA Schedules and response to deficiency questions.	0.50	210.00
12/29/13	Brennan, C M	Review non-confidential exhibits; Make index of non-confidential exhibits.	2.50	250.00
12/29/13	Rocha, P K	Review HCA Application and deficiency responses.	1.50	630.00
12/30/13	Brennan, C M	Meeting with Moshe Berman; Work on HCA and CEC exhibits; Organize electronic confidential exhibits for disc.	13.00	1,300.00
12/30/13	Rocha, P K	Meeting with firm paralegal (C.	2.50	1,050.00



<u>Date</u>	<u>Timekeeper</u>	<u>Description</u>	<u>Hours</u>	<u>Value</u>
		Brennan) re status of Application; Meeting with firm paralegal (C. Brennan) and WarRoom re exhibits; Communication with Moshe Berman re final version of Application; Communication to and from Kim O'Connell re same.		
12/31/13	Brennan, C M	Work on HCA exhibits for submission; Organize electronic non-confidential exhibits for disc.	6.50	650.00
12/31/13	Rocha, P K	Meeting with Moshe Berman and firm paralegal (C. Brennan) re application exhibits; Communication to and from Kim O'Connell re outstanding issues; Communication to Mike Dexter and Jodi Bourque re supplemental filing; Final revisions to application and finalization of application exhibits; Finalization of cover letters to Mike Dexter and Jodi Bourque.	5.00	2,100.00
Total Professional Services			<u>216.25</u>	<u>\$ 48,015.00</u>

<u>Disbursements</u>		<u>Total</u>
11/25/13	Messenger Services	16.77
12/13/13	Messenger Services	<u>11.35</u>
Total Disbursements		<u>\$ 28.12</u>

<u>Timekeeper Summary</u>	<u>Hours</u>	<u>Rate</u>	<u>Total</u>
Force, B A	1.50	\$ 200	\$ 300.00
Lundsten, E H	15.50	420	6,510.00
Rocha, P K	66.50	420	27,930.00
Brennan, C M	<u>132.75</u>	100	<u>13,275.00</u>
Total Professional Services	<u>216.25</u>		<u>\$ 48,015.00</u>

Total Professional Services and Disbursements for this Matter \$ 48,043.12

Exhibit 51

From: DiStefano, Joseph </O=APS/OU=PROVIDENCE/CN=RECIPIENTS/CN=JOSEPH DISTEFANO>
To: Rocha, Pat
Sent: 3/17/2014 7:15:08 PM
Subject: CharterCARE Health Partners

Protection of the current CEO is contained in the Letter of Intent dated March 18, 2013 in Section 8 thereof and it is also contained in the Amended and Restated Limited Liability Company Agreement in Sections VIII and XII.

Joe DiStefano

Joseph DiStephano
ADLER POLLOCK & SHEEHAN P.C.
One Citizens Plaza, 8th Floor
Providence, RI 02903

E-Mail: jdistefano@apslaw.com

Phone: 401-274-7200

Fax: 401-751-0604

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ADLER POLLOCK & SHEEHAN P.C.

Exhibit 52

ADLER POLLOCK & SHEEHAN P.C.

Adler Pollock & Sheehan P.C.
One Citizens Plaza, 8th Floor
Providence, RI 02903-1345
Telephone (401) 274-7200
Fax (401) 751-0604

175 Federal Street
Boston, MA 02110
Telephone (617) 482-0699
Fax (617) 482-0604

EI # 05-0343749

CharterCARE Community Board
c/o David Hirsch
951 North Main Street
Providence, RI 02904

Invoice Date: April 7, 2014
Invoice Number: 433682
Client Number: 402920

For Professional Services Rendered:

005 - Prospect

Date	Timekeeper	Description	Hours	Value
03/03/14	Rocha, P K	Communications from Kim O'Connell, Tom Reardon, Moshe Berman and Barbara Groux re supplemental questions.	0.50	\$ 210.00
03/04/14	Rocha, P K	Conference with Mark Russo and Moshe Berman re UMG and RWMA OACF Applications.	0.30	126.00
03/04/14	Rocha, P K	Communications re status of response to supplemental questions; Communication with Darleen Souza re same.	0.30	126.00
03/05/14	Brennan, C M	Review e-mails re HCA confidentiality determination; Begin review and compile exhibits re same.	1.50	150.00
03/05/14	Rocha, P K	Communications from Katie Enright re hospital tours and submission of confidential documents; Review revised responses to supplemental questions; Conference call with Mark Russo, Moshe Berman and CharterCARE and Prospect teams.	1.50	630.00
03/06/14	Brennan, C M	Communications to and from Moshe Berman re confidentiality determinations; Communication with Moshe Berman and Kathryn Enright of AG's Office re same; Work on same.	3.50	350.00

Date	Timekeeper	Description	Hours	Value
03/06/14	Rocha, P K	Communication from Moshe Berman re status of response to supplemental questions; Revisions to same; Communication from Darleen Souza re status of union negotiations.	0.50	210.00
03/07/14	Rocha, P K	Conference call with Kim O'Connell re hospital tour; Communication to Kim O'Connell re response to CEC supplemental questions; Conference with Moshe Berman re same; Finalization of response to supplemental questions.	1.00	420.00
03/07/14	Rocha, P K	Review Caine Brothers SJHSRI valuation report; Conference with Mark Russo re status and strategy issues.	0.50	210.00
03/10/14	Rocha, P K	Conference call with Mark Russo re status; Communication from Mike Dexter re March 18 meeting.	0.50	210.00
03/11/14	Brennan, C M	Research HCA application and exhibits re hospital valuations.	0.40	40.00
03/11/14	Brennan, C M	Conference with firm attorney (P. Rocha) re confidentiality determinations; Telephone conference with Kathryn Enright and firm attorney (P. Rocha) re same.	0.40	40.00
03/11/14	Brennan, C M	Work on confidentiality determination index, electronic version and copies for DOH and AG.	5.00	500.00
03/11/14	Rocha, P K	Communication and conference call with Moshe Berman re preparation for PRC hearing; Conference call with Moshe Berman and Mike Dexter re hearing status; Communication from Ken Belcher re status and strategy issues; Conference call with Katie Enright and firm paralegal (Casey Brennan) re status of confidential/non-confidential exhibits.	1.50	630.00
03/12/14	Brennan, C M	Work on supplemental filing - confidentiality determinations.	1.00	100.00
03/12/14	Rocha, P K	Conference call with Mark Russo; Communication to and from Ken Belcher and Kim O'Connell re status	2.00	840.00

Date	Timekeeper	Description	Hours	Value
		and strategy issues; Review questions for March 18 presentation; Conference and communications from Mike Dexter and Katie Enright re review process including interviews; Communication from Mike Dexter re Department consultants' presentations.		
03/13/14	Brennan, C M	Work on and prepare electronic copies of confidentiality determinations for AG and DOH; Draft letters re same; Conference with firm attorney (P. Rocha) re same. File with DOH and AG.	5.00	500.00
03/13/14	Rocha, P K	Conference call with Moshe Berman and Katie Enright re outstanding issues including status of confidential exhibits, public meeting and witness interviews; Communication to Ken Belcher and Kim O'Connell re same; Conference call with Mike Dexter re status of hearings, consultants' presentations and interviews; Communication from Barbara Groux re outstanding issues; Conference call with Mark Russo re PRC meeting; Conference call with CharterCARE and Prospect teams re meeting preparation; Communication to Ken Belcher and Kim O'Connell re outstanding issues.	4.00	1,680.00
03/14/14	Rocha, P K	Meeting preparation; Communication to Otis Brown; Communications to Ken Belcher and Kim O'Connell re status; Communication from Mike Dexter forwarding Prime letter; Review same.	2.00	840.00
03/17/14	Brennan, C M	Research re K. Belcher employment agreement, LOI and Amended & Restated LLC Agmt re HCA application; Work on Response to Public Comment; Attention to file maintenance.	4.00	400.00
03/17/14	Rocha, P K	Conference call with Mark Russo re Prime letter and response; Communication to Kim O'Connell and Ken Belcher re same; Conference call with Ken Belcher re Prime comments.	0.50	210.00

Date	Timekeeper	Description	Hours	Value
03/17/14	Rocha, P K	Communications to Ken Belcher and Kim O'Connell; Revisions to response to Prime comment letter; Conference with Mike Dexter re PRC meeting; Prepare for meeting; Communications to Moshe Berman and Mark Russo re same; Communication from Mark Russo re presentation before PRC.	4.00	1,680.00
03/18/14	Rocha, P K	Revisions to response to Prime letter; Communication and conference with Moshe Berman re same; Conference call with Katie Enright, Gen Martin and Mike Dexter re interviews; Communication to team re AG and DOH interviews; Meeting with CharterCARE and Prospect teams re PRC meeting preparation; Attendance at PRC meeting; Communication from Katie Enright re interviews; Communication from Mike Dexter re meeting schedule.	6.00	2,520.00
03/19/14	Rocha, P K	Communications with Katie Enright, Gen Martin and Mike Dexter re interview process and scope of interviews; Conference calls with Mike Conklin and Ken Belcher re same; Communication to Kim O'Connell and Kathy Moore re interview scheduling.	1.50	630.00
03/20/14	Brennan, C M	Attention to file maintenance and organization of materials.	0.50	50.00
03/20/14	Rocha, P K	Communications with Ken Belcher, Sheila Capobianco, Kathy Moore, Paula Iacono, and Mike Dexter; Communication to Katie Enright, Gen Martin and Mike Dexter re meeting schedule/agendas.	0.50	210.00
03/21/14	Rocha, P K	Conference call with Katie Enright and Mike Dexter re interviews; Conference call with Moshe Berman re outstanding issues; Communication from Mike Dexter re interviews with Dr. Cooper; Communication with Kim O'Connell re same; Communication from Katie Enright re status of supplemental questions; Communication to clients re same.	1.00	420.00

<u>Date</u>	<u>Timekeeper</u>	<u>Description</u>	<u>Hours</u>	<u>Value</u>
03/24/14	Rocha, P K	Conference and communications from Mike Dexter re outstanding issues; Conference with Deb Spicuzza re interview schedules; Communication from Katie Enright; Review supplemental questions; Communication to team re same; Communication from Mike Dexter re Dr. Cooper and John Schibler's supplemental questions.	1.00	420.00
03/24/14	Rocha, P K	Communication with Moshe Berman re outstanding issues re interview scheduling and supplemental questions; Analysis of same.	0.50	210.00
03/25/14	Rocha, P K	Conference call with Katie Enright re scope of supplemental questions; Conference and communication with Moshe Berman re same; Communications to Mike Conklin, Kim O'Connell and Kathy Moore re interviews and supplemental questions; Meeting with firm attorney (J. DiStefano) re supplemental questions; Analysis of same.	2.00	840.00
03/26/14	Brennan, C M	Meeting with firm attorney (P. Rocha) re supplemental responses: Research re IP info in APA for supplemental responses.	0.50	50.00
03/26/14	Rocha, P K	Communication and conference with Mike Dexter and Katie Enright re interview status; Communication with Ken Belcher and Kim O'Connell re same; Begin work on response to supplemental questions.	1.00	420.00
03/26/14	Rocha, P K	Communication from Katie Enright re supplemental questions, interviews and cy pres petition; Research re same.	1.00	420.00
03/26/14	Rocha, P K	Conference call with CharterCARE/Prospect teams re review of HCA supplemental questions; Communication to and from Chris Vitale; Meeting with firm paralegal (C. Brennan) re responses to supplemental questions.	1.50	630.00

Date	Timekeeper	Description	Hours	Value
03/27/14	Lundsten, E H	Review e-mail on Good Standing Certificate need and procedure.	0.20	84.00
03/27/14	Rocha, P K	Conference with Katie Enright re charitable assets and cy pres petition; Communication to Kim O'Connell re same; Communication from Moshe Berman re interview schedule; Work on responses to supplemental questions.	1.50	630.00
03/28/14	Brennan, C M	Travel to and from Fatima Hospital re charitable assets meeting; Meeting with firm attorney (P. Rocha), Moshe Berman, Kathy Moore, Kim O'Connell and Paula Iacono; Work on supplemental questions.	4.00	400.00
03/28/14	Lundsten, E H	Review material for Notice of Sale to be sent to Rhode Island Division of Taxation.	1.00	420.00
03/28/14	Rocha, P K	Communications with Kathy Moore and Moshe Berman; Conference call with Katie Enright; Communication with Mike Dexter re interviews and outstanding document request; Work on responses to supplemental questions; Review supplemental questions forwarded by Katie Enright and Mike Dexter; Communication from Kim O'Connell forwarding Vatican approval; Review same.	2.00	840.00
03/28/14	Rocha, P K	Travel to and from Fatima Hospital; Meeting with Kim O'Connell, Kathy Moore, Paula Iacono, Otis Brown, Moshe Berman and firm paralegal (C. Brennan) re review of HCA supplemental questions.	3.50	1,470.00
03/31/14	Brennan, C M	Telephone conference with AG and DOH, Mark Russo, Moshe Berman and firm attorney (P. Rocha) re HCA and CEC supplemental questions and responses; Draft schedule; Prepare and organize research materials; Work on supplemental questions for HCA; Communications to and from Deb Spicuzza re same; Research exhibits; Forward documents to Deb Spicuzza re same.	5.50	550.00

<u>Date</u>	<u>Timekeeper</u>	<u>Description</u>	<u>Hours</u>	<u>Value</u>
03/31/14	Lundsten, E H	Meetings with firm attorney (P. Rocha) and calls to O. Brown.	2.75	1,155.00
03/31/14	Rocha, P K	Conference call with Katie Enright, Genevieve Martin, Jen Gallop, Mike Dexter, Steve Morris, Mark Russo and Moshe Berman re scope of supplemental questions and interview questions; Meeting with firm attorney (E.H. Lundsten) re charitable assets issues; Conference call with Otis Brown, Kim O'Connell and firm attorney (E.H. Lundsten); Conference call with Pat Nadle, Joanne Dooley and Kim O'Connell; Conference call with Ken Belcher, Kim O'Connell and Otis Brown re interview preparation; Communications from Kathy Moore re responses to supplemental charitable assets questions; Communications with Mark Russo and Moshe Berman re outstanding issues; Work on responses to supplemental questions.	6.00	2,520.00
Total Professional Services			83.35	\$ 24,991.00

<u>Disbursements</u>			<u>Total</u>
02/18/14	Messenger Services		22.70
02/19/14	Messenger Services		11.35
02/25/14	Messenger Services		16.77
03/13/14	Messenger Services		33.54
03/13/14	Express Mail		20.99
Total Disbursements			\$ 105.35

<u>Timekeeper Summary</u>	<u>Hours</u>	<u>Rate</u>	<u>Total</u>
Lundsten, E H	3.95	\$ 420	\$ 1,659.00
Rocha, P K	48.10	420	20,202.00
Brennan, C M	31.30	100	3,130.00
Total Professional Services	83.35		\$ 24,991.00

Exhibit 53

Rocha, Pat

From: Lundsten, Hans
Sent: Wednesday, April 02, 2014 3:19 PM
To: Rocha, Pat
Subject: RE: Prospect CharterCARE

Actually, those sections don't directly address the question I raised and actually add some further confusion. In S-13 of the Draft Response it says that the assets of the CCHP affiliates following the transaction "will be held by the newly formed Prospect CharterCare entities." That certainly implies that the all of CCHP's existing affiliates will transfer or sell their assets as part of this arrangement and that CCHP will not be assigning its equity or similar interests in those entities as part of the deal. *(I will send you a list with the names of the CCHP affiliates that existed when we filed for the 501©(3) determination from the IRS several years ago. I included the names of those entities below in my last e-mail.)* The only LLC's that I was aware of that would be created as part of the transaction and held by the so-called Master LLC that CCHP and the Prospect entity will own are (i) Prospect CharterCARE RWMC, LLC (that will take over Roger Williams Medical Center), (ii) Prospect CharterCARE SJHSRI, LLC (that will take over St. Joseph's) and (iii) Prospect CharterCARE Elmhurst (that will take over Elmhurst Extended Care Facilities). Where do the assets of the other entities go? Also, some of the entities on the list of CCHP's affiliates are for profit entities, (such as SJH Energy, LLC, Rosebank Corporation, Elmhurst Health Associates, Inc. and Our Lady of Fatima Ancillary Services, Inc.) and as such I am assuming they have to file regular state income tax returns and could be taxed on any gains from these transfers. In any event, if these entities are transferring their assets as part of this transaction we will need to include them in the notice and also file a separate request for each of these entities for a letter of god standing. In addition, if any of these entities are taxable entities we will have to file a tax return for the entity through the date of the closing and showing their share of the gain or loss from the transaction (and pay any RI tax that may be due on the sale) to secure the letter of good standing. This could be a problem since the purchase price is not allocated among the selling entities.

The answer to S-10 of the Draft Response is a little complicated. CCHP's other counsel as I understand it has refused to provide any written opinion or guidance on this point but has orally told management and possibly the board that they should not be concerned. I have not seen anything that sets forth their rational on that point. I assume representations had to be made to the State as part of the review purposes that Prospect would not reduce the level of charitable care provide to the community by the hospitals or otherwise change the charitable nature of the services currently provided by the hospitals. I would also assume that CCHP's other counsel would point to that representation and to the fact the CCHP has a 50% voting interest in the new LLC and argue that with those voting rights CCHP could prevent Prospect from changing without its approval the charitable nature of the services provided by the hospitals and that it can prevent Prospect from operating the hospitals solely to derive profit. The IRS has generally taken the position that if the charity does not have a majority of the voting interests it can't assure that the charitable nature of the services will continue and that securing an interest in the new entity will negatively impact the charity's ability to retain its Section 501©(3) status. In the IRS' view that means the charity has to have the voting power to force the hospitals to continue or take certain action rather than a veto right to prevent change. The nature of the power that must retained by the charity has not been litigated so it is hard to tell whether the IRS' position would be followed if the matter went to court. If the for profit entity is bound by representations made to the state as part of the review process could also affect how a court would view the matter. Since Kim and CCHP's other counsel dealt with this issue we should make sure they agree with this rational.

adapt CC's charity care policies

From: Rocha, Pat
Sent: Wednesday, April 02, 2014 12:00 PM
To: Lundsten, Hans
Subject: RE: Prospect CharterCARE

Hi, Hans. See the attached draft responses at S-13 and S-14 that should answer your questions. Thanks.

Pat

Exhibit 54

From: Rocha, Pat </O=APS/OU=PROVIDENCE/CN=RECIPIENTS/CN=PAT ROCHA>
To: pnadle@chartercare.org; jdooley@chartercare.org
CC: 'Kimberly A. O'Connell (koconnell@chartercare.org)'
Sent: 4/3/2014 5:52:02 PM
Subject: PRIVILEGED- ATTORNEY-CLIENT COMMUNICATION

I spoke to Mark Russo regarding Dr. Cooper's interviews of the PMH folks. He said the main theme was the continuance of the existing quality services provided by RWMC and SJHSRI. I think the response, if you're comfortable, is that although you have not had detailed communications with the PMH folks, your understanding is that all the programs currently in place will continue, there will be a seamless transition, but with the added benefit that PMH will have financial resources to enhance the services, *i.e.*, new equipment. Likewise, with respect to academic affiliations and research, your understanding is that they will also continue. Mark said that one of the women interviewed was from one of the Texas hospitals who has been there before and after the PMH acquisition. Her comments were that you wouldn't even know that there was a change except for the infusion of additional capital for equipment and the like. Let me know if you have any questions; otherwise, I will see you tomorrow.

Pat

Patricia K Rocha

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ADLER POLLOCK & SHEEHAN P.C.

To comply with IRS regulations, we advise that any discussion of Federal tax issues in this e-mail is not intended or written to be used, and cannot be used, (i) to avoid any penalties imposed under the Internal Revenue Code or (ii) to promote, market or recommend to another party any transaction or matter addressed herein.

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Exhibit 55

From: Belcher, Ken <kbelcher@chartercare.org>
To: Rocha, Pat
Sent: 4/10/2014 2:46:19 PM
Subject: RE: Update

OK thanks.

From: Rocha, Pat [mailto:PRocha@apslaw.com]
Sent: Thursday, April 10, 2014 9:13 AM
To: Belcher, Ken; O'Connell, Kimberly A
Subject: Update

I spoke with Mark Russo and as a result of all the interviews, we need to address/satisfy the following issues with the AG/DOH:

- Operation of the hospitals on a go-forward basis including the services under the Management Agreement. Ed Santos was questioned, as were the Prospect folks, regarding the Management Agreement and whether its terms are contrary to what we are proposing. Mark is going to circulate a draft today to address operations and once everyone signs off, if need be, we can tweak the Management Agreement.
- Transition plan post-closing to address wind-up and payment of excluded assets. We are addressing this in the response to the pending supplemental questions in terms of dollar amounts, as well as who will be providing the day-to-day transition services, *i.e.*, on loan from Prospect, and, if so, will need to document same.
- *Cy Pres*. Work in progress. (Kim, we should set some time to discuss the specific terms we are going to propose in the *cy pres* petition.)
- Taxes. Mark continues to work with the local communities.

Please contact me with any questions.

Pat

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Exhibit 56

From: Lundsten, Hans </O=APS/OU=PROVIDENCE/CN=RECIPIENTS/CN=HANS LUNDSTEN>
To: Rocha, Pat
Sent: 4/14/2014 6:32:04 PM
Subject: RE: S3-48 Response

Where is the money suppose to come from? Who will want to stay on as the administrator or trustee of an underfunded plan (the plan will lose its status as a church plan after the closing and it will thereafter have to be fully funded)? What are they doing to protect any assets of RWM from the claims associated with the plan? Let's talk to Joe when he gets in later in the week. It seems the only real answer might be to pull the plug on the plan after the closing and put it into receivership.

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ADLER POLLOCK & SHEEHAN P.C.

From: Rocha, Pat
Sent: Monday, April 14, 2014 2:01 PM
To: Lundsten, Hans
Subject: FW: S3-48 Response

fyi

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ADLER POLLOCK & SHEEHAN P.C.

From: O'Connell, Kimberly A [<mailto:koconnell@chartercare.org>]
Sent: Monday, April 14, 2014 1:49 PM
To: Rocha, Pat
Subject: FW: S3-48 Response

Will the pension liability remain in place – how much, and what is the plan going forward to fund the liability?

· The pension liability will remain in place post transaction

Subsequent to the \$14 Million contribution to the Plan upon transaction, future contributions to the Plan will be made based on recommended annual contribution amounts as provided by the Plan's actuarial advisors

· Moving forward, the investment portfolio of the plan will be monitored by the Investment Committee of the Board of Trustees.

Exhibit 57

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PROVIDENCE, Sc. SUPERIOR COURT

PRIME HEALTHCARE SERVICES)
)
VS.) CASE NO: PB/2014-1992
)
STATE OF RHODE ISLAND, ET AL)

BENCH DECISION RENDERED BY
ASSOCIATE JUSTICE MICHAEL A. SILVERSTEIN ON:
FRIDAY, APRIL 25, 2014

APPEARANCES:

ROBERT FLANDERS, ESQUIRE
ADAM RAMOS, ESQUIRE
FOR PRIME HEALTHCARE SERVICES

MICHAEL FIELD, ASSISTANT ATTORNEY GENERAL
GENEVIEVE MARTIN, ASSISTANT ATTORNEY GENERAL
FOR THE STATE OF RHODE ISLAND

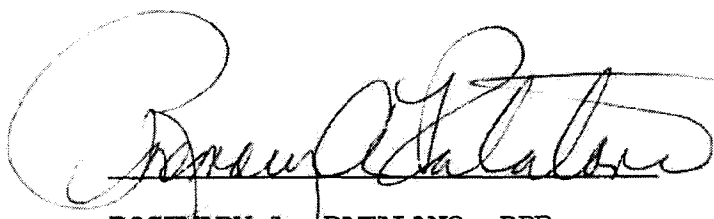
PATRICIA ROCHA, ESQUIRE
FOR THE CHARTERCARE ENTITIES

W. MARK RUSSO, ESQUIRE
FOR THE PROSPECT ENTITIES

ROSEMARY A. PATALANO, RPR; OFFICIAL STATE COURT REPORTER

C E R T I F I C A T I O N

I, Rosemary A. Patalano, hereby certify that the succeeding pages, 1 through 20, inclusive, are a true and accurate transcript of my stenographic notes.



ROSEMARY A. PATALANO, RPR
Certified Official Court Reporter

FRIDAY, APRIL 25, 2014

MORNING SESSION

1
2
3 THE CLERK: PC/2014-1992, Prime Healthcare Services
4 versus State of Rhode Island, Department of Attorney
5 General.

6 Counsel ID, please, starting with the far left.

7 MR. RAMOS: Adam Ramos on behalf of Prime Healthcare
8 Services.

9 MR. FLANDERS: Robert Flanders on behalf of Prime.

10 MR. FIELD: Michael Field for the State, Your Honor.

11 MS. MARTIN: Genevieve Martin for the State, Your
12 Honor.

13 MS. ROCHA: Patricia Rocha for the CharterCARE
14 entities.

15 MR. RUSSO: Mark Russo for the Prospect entities.

16 THE COURT: Thank you, all, for coming early.

17 This cause is before the Court for decision on the
18 basis of a complaint filed by plaintiff, Prime Healthcare
19 Services, Inc. (hereinafter "Prime"), an apparent
20 rebuffed suitor with respect to CharterCARE Health
21 Partners (hereinafter "CharterCARE"), identified in
22 Prime's complaint as a Rhode Island nonprofit corporation
23 which operates healthcare entities associated with it, to
24 wit, Roger Williams Medical Center, Our Lady of Fatima,
25 Elmhurst Extended Care, and the St. Joseph's Health

1 Center.

2 In addition to the unsworn complaint the Court has
3 had the benefit of one, an objection to request for
4 injunctive relief filed by CharterCARE and its fiancée,
5 Prospect Charter Care, LLC. The complaint names as
6 defendants a number of Prospect entities, all of which
7 hereinafter are referred to as "Prospect."

8 Additional defendants named in the complaint are the
9 Department of Attorney General through the Attorney
10 General and the Department of Health through its
11 director.

12 The Court also has received a memorandum of law from
13 Prime in support of its request for access to public
14 records.

15 Finally, as will be indicated during the course of
16 this decision, the Court received and reviewed in camera
17 heavily redacted limited portions of the material sought
18 by Prime pursuant to the relief requested by it in its
19 complaint.

20 While no testimony or other evidence was adduced at
21 the hearing conducted by this Court on the afternoon of
22 April 22, the day following the filing of the complaint
23 herein, all parties were represented. The facts relied
24 upon by the Court in connection herewith are gleaned from
25 the unsworn complaint, memoranda, and arguments; and,

1 essentially, were not disputed by counsel for any of the
2 parties, all of whom were present in court and all of
3 whom participated in the afternoon long arguments, save
4 only for counsel to the Department of Health, who was
5 present but did not argue.

6 Essentially, the Court finds the following as the
7 facts. And as I have indicated, that's predicated on
8 what the Court has gleaned from the papers and from
9 arguments made.

10 In the fall of 2012, CharterCARE was seeking a
11 strategic partner for its healthcare system. In that
12 connection it issued requests for proposals, including a
13 request for proposal to Prime. Prime submitted a
14 specific proposal to CharterCARE on November 4, 2012.

15 In February of 2013, Prime sent a letter of intent
16 to CharterCARE, which it amended by amended letter of
17 intent sent on March 8, 2013. Thereafter, Prime learned
18 that CharterCARE and Prospect had entered into a letter
19 agreement and were negotiating a definitive agreement in
20 mid July of 2013.

21 After learning that CharterCARE and Prospect were
22 about to enter into a definitive agreement, Prime sent a
23 letter to CharterCARE's board of directors amending and,
24 in its view, enhancing its earlier proposal.

25 On September 24 CharterCARE and Prospect entered

1 into an agreement, which essentially provided for a joint
2 venture with respect to CharterCARE and its healthcare
3 facilities.

4 Prime again wrote to CharterCARE's directors on
5 November 1, 2013, restating its offer to CharterCARE,
6 which it believed to exceed Prospect's economic proposal
7 and also provided for local membership on the governing
8 board of CharterCARE.

9 On or about January 2, 2014, an application pursuant
10 to the provisions of Title 32, Chapter 17.14, the
11 hospitals conversion act, was filed as required under
12 statute both with the Attorney General and with the
13 department of health.

14 On or about January 17, both the Attorney General
15 and the department of health deemed the application
16 complete, thus accepting it and starting a statutorily
17 provided for 120 day review period, thus requiring action
18 by the Attorney General and the department of health with
19 respect to the application by May 19, slightly more than
20 three weeks from today.

21 Title 23-17.14-6(a) provides what must be included
22 with an application that is filed pursuant to the
23 hospital conversions act. Item (a) (5) on the list of
24 approximately 42 different types of items that must be
25 filed with the application reads as follows, quote:

1 "Agenda and minutes of all meetings of the board of
2 directors or trustees and any of its committees,
3 subcommittees, task forces related to the conversion, or
4 similar entities excluding those focused on peer review
5 and confidential medical matters, that occurred within
6 the two year period prior to submission of the
7 application, including, upon the request of the
8 department or attorney general, any meeting packages."

9 Accordingly, with the application, it was required
10 that all of the transacting parties, a defined term to
11 mean the acquirer and the acquiree, must submit two
12 years' worth of the items specified in Number (5) as just
13 read into the record to the Attorney General. And also,
14 it is submitted to the department of health.

15 Incidentally, Title 23, Section -- Chapter
16 17.14-6(c) provides that "except --" and I am quoting
17 again:

18 "Except for information determined by the attorney
19 general in accordance with 23-17.14-32 to be confidential
20 and/or proprietary, or otherwise required by law to be
21 maintained as confidential, the initial application and
22 supporting documentation shall be considered public
23 records and shall be available for inspection upon
24 request."

25 Thus, the default provisions under the hospital

1 conversions act is that the information, unless it falls
2 into the narrow category just articulated, is to be
3 public information.

4 The beginning of Sub(c) as read indicates that
5 pursuant to a separate section the Attorney General has
6 certain rights to classify materials. And that section
7 is Section 32 of the act which imposes certain power and
8 also certain duties upon the Attorney General pursuant to
9 the hospital conversions act.

10 First of all, the power, Subsection(a):

11 "The attorney general has the power to decide
12 whether any information required by this chapter of an
13 applicant is confidential and/or proprietary."

14 That is a power afforded to the Attorney General.

15 The obligation imposed upon the Attorney General is
16 found in Sub(b) and that is an obligation that reads:

17 "The department of attorney general shall adopt
18 rules and regulations to accomplish the purpose of this
19 chapter."

20 This section last was touched by our General
21 Assembly in the Public Laws of 2000 (see Chapter 325,
22 Section 1). That's some fourteen years ago. There
23 appear to be no rules and/or regulations adopted by the
24 Attorney General over this fourteen-year period. Had
25 there been, it is possible that some light would have

1 been given to the power of the Attorney General and how
2 that was to be exercised in Section(a) immediately
3 preceding Section(b) .

4 While the Attorney General has not adopted rules or
5 regulations, the department of health has. And it was
6 suggested to the Court that essentially what here has
7 happened is that the Attorney General pretty much has
8 adopted those rules and regulations, which is a nice
9 suggestion, but the Court finds no authority for that in
10 the papers before it or in the arguments made to it. The
11 repercussions of that, the failure to adopt rules and
12 regulations, and if rules and regulations had been
13 adopted, whether they would've covered (a) above, the
14 Court cannot speculate.

15 What is known here is as a matter of fact that
16 obviously substantial minutes and the other things
17 provided for in the section that I read have been filed
18 with the Attorney General and have been deemed by him to
19 be confidential pursuant to the power set forth in Sub(a)
20 above. Is that power absolute? Does the Attorney
21 General have in connection with the exercise of that
22 power unfettered discretion?

23 The Court notes that the hospital conversion act
24 contains a provision dealing with judicial review, and it
25 is Section 34 of the act which in its Section(a) starts

1 off with the statement that:

2 "Notwithstanding any other provision of the general
3 laws, any transacting party --"

4 You will recall that above the Court referred to
5 transacting party and defined the term as defined in our
6 statutes.

7 "-- aggrieved by a final order of the department of
8 health or the attorney general...may seek judicial review
9 by original action filed in the superior court."

10 The complaint here is in the nature of an original
11 complaint brought by Prime, not -- not a transacting
12 party, a "rebuffed suitor."

13 The second sentence of 23-17.14-34(a) reads:

14 "Any preliminary, procedural, or intermediate agency
15 act or ruling with respect to the filing of an
16 application for conversion...including
17 confidentiality...is immediately reviewable."

18 I have left out language but that's the thrust of
19 that section. So, while one might query whether the act
20 of what I'll now call the regulators in deeming the
21 minutes to be confidential is a preliminary, a
22 procedural, or an intermediate agency act or ruling, the
23 general assembly, because of its reference to
24 confidentiality, so far as this Court is concerned, has
25 answered that question. And the answer to the question

1 is, it fits into the category which is immediately
2 reviewable.

3 Some argument was made to the Court that the
4 language at the inception of this section limiting review
5 to an action by the transacting parties also pertained to
6 this section or this sentence. The Court finds no
7 authority for that proposition. And accordingly, the
8 Court finds that with respect to the count in the
9 complaint brought pursuant to the hospital conversions
10 act, this Court has jurisdiction with respect to that
11 count. The Court thus finds that it is clearly within
12 the contemplation of this legislation that a
13 determination of confidentiality by the Attorney General
14 is reviewable by this Court.

15 In an effort to shoot with more than one barrel,
16 Prime here also used at least a double barrel shotgun.
17 They also claim that pursuant to the provisions of what
18 we call APRA, the Access to Public Records Act, found at
19 title 38, chapter 2, et seq., that they made -- that is
20 to say, Prime, made demand on the Attorney General and on
21 the Department of Health for copies of the minutes that
22 had been deemed confidential and were being withheld from
23 them. They claimed, inter alia, that they needed this
24 information so that they could participate pursuant to
25 the hospital conversions act as a member of the public in

1 the process provided by the hospital conversions act.

2 It is noted one that they already via a detailed
3 letter sent to the regulators, which is attached as an
4 exhibit to the objection that was filed, had made their
5 position known. As a matter of fact, their request under
6 the public records act came rather belatedly. But in any
7 event, it was responded to by the department of attorney
8 general, not by the department of health.

9 Attached to the complaint as Exhibit C is a copy of
10 the response from the department of attorney general
11 which the Court wants to read a portion of into the
12 record. And it is in the form of a letter addressed to
13 Messrs. Flanders and Rogers at Hinckley Allen dated
14 April 8, 2014. And it references the request made on
15 behalf of Prime dated March 25, one month ago today,
16 wherein Prime sought under the public records act --
17 access to public records act the minutes of CharterCARE
18 and of Prospect, as I have defined them in this bench
19 decision for the time period reflected in the application
20 that was filed; that is to say, for the two year period.

21 The department's reply was terse and it simply says:

22 "After review of this department's records, it has
23 been determined that this department does possess records
24 responsive to your request. These records are, however,
25 deemed not public records in total pursuant to the

1 statutory scheme of 23-17.14-32, the provisions that we
2 have discussed in the hospital conversions act, and Rhode
3 Island General Laws 38-2-2(4) (B) and (4) (S)."

4 Again, the Court determines that the default
5 provision under the public records act, except as
6 otherwise provided, is for the public to be entitled to
7 access to public records. Here, there's no question,
8 38-2-2 is the definitions provision in the access to
9 public records act, and in Section(4) thereof, leaving
10 out a lot of language, public record is defined to mean
11 "all documents received pursuant to law or in connection
12 with the transaction of official business by any agency."

13 Here, the requirement under the hospital conversions
14 act was for the filing with the Attorney General and with
15 the department of health of these minutes. Accordingly,
16 the default position is they are public records, unless
17 the final sentence of Section(4) is implicated. And that
18 final sentence reads:

19 "For the purpose of this chapter, the following
20 records shall not be deemed public."

21 And in the letter from the Attorney General he
22 referenced two of the subsections of (4). He referenced
23 (B), which reads simply:

24 "Trade secrets and commercial or financial
25 information obtained from a person, firm, or corporation

1 which is of a privileged or confidential nature."

2 And the letter from the Attorney General also
3 references (S) which reads:

4 "Records, reports, opinions, information, and
5 statements required to be kept confidential by federal
6 law or regulation or state law or rule of court."

7 This Court does not quarrel with the proposition
8 that trade secrets and commercial or financial
9 information may be withheld. It's statutory. And the
10 way the statute is phrased, it's not a public record
11 because of that fact.

12 So, too, with the provisions of (S). Here, as to
13 (S), essentially the argument seems to be that the
14 Attorney General pursuant to authority granted to him
15 under Section 32 of the hospital conversions act has
16 deemed this material all to be confidential and,
17 therefore, it is confidential and there's nothing anyone
18 can do about it.

19 However, the Court already heretofore in its
20 discussion of the judicial review process provided in
21 Section 34 has concluded that it does have the power,
22 indeed, the obligation, to review in connection with an,
23 essentially, a protest to that which has been done by the
24 Attorney General who does not, in the opinion of this
25 Court, have unfettered discretion as to this matter.

1 What about the Section(B)? The Court has indicated
2 that it finds the withholding of trade secrets and
3 commercial and financial information as not matters of
4 public record to be appropriate. The access to public
5 record act contains a provision that requires analysis to
6 be made of the segregability of withheld information in
7 the initial determination as to whether it should be made
8 public or not.

9 In that course, during the arguments to this Court,
10 I directed that limited and redacted portions of the
11 minutes, to the extent that they named or dealt with
12 Prime, be made available to this Court for in camera
13 review. I did that because, inter alia, the complaint
14 brought by Prime raised the issue as to whether their
15 communiques to the board of directors had been made
16 available to the board of directors. Whether they had
17 been provided with the information as to Prime's offer.

18 The Court has reviewed what the Court required be
19 segregated out from the mass of minutes. And
20 specifically, the Court will read into the record what
21 was provided to it. The Court received the following,
22 and as I've perhaps three times indicated, limited and
23 heavily redacted, provided to the Court were portions of
24 the following:

25 Minutes of the executive committee of the board of

1 trustees from November 27, 2012;

2 Minutes of the annual meeting of the board of
3 trustees of December 18, 2012;

4 Minutes of the executive committee the of the board
5 of trustees of January 25, 2013;

6 Minutes of the board of trustees meeting of
7 February 14, 2013;

8 Minutes of the board of trustees meeting on
9 March 13, 2013;

10 Minutes of the executive committee of the board of
11 trustees on May 23, 2013;

12 And finally, minutes of a board of trustees meeting
13 on June 20, 2013.

14 In addition and again, heavily redacted, the Court
15 also received a report essentially entitled, "Discussion
16 of Strategic Alternatives" dated January 25, 2013; and a
17 report entitled, "Strategic Partnering Transaction
18 Process Overview and Update, Confidential" dated
19 June 20, 2013.

20 The Court, taking unto itself the segregating
21 function of the department of attorney general in this
22 matter, has segregated these, finds no confidential
23 information therein, and directs that not later than
24 1 o'clock today copies of those be provided to Prime.

25 The letter from the Attorney General in response to

1 the request under the access to public records act had
2 two other comments. One, and consistent with usual
3 practice, it notified Prime of its right to bring suit,
4 appeal, which the Court would guess Prime didn't need to
5 be reminded of. It also reminded Prime that in
6 connection with its application to acquire Landmark, its
7 minutes had received the same shield of confidentiality
8 that was being afforded to the minutes here in question.

9 This is no question but that in connection with the
10 rather cumbersome, rather difficult shoals to navigate
11 of the hospital conversions act that Prime was not a
12 virgin. Been there and done it.

13 Interestingly, the application that's now pending
14 was filed on January 2nd of this year, two days, two days
15 after Prime through the hospital conversion act and
16 through a five and-a-half year period of insolvency by
17 Landmark in this court had finished its acquisition of
18 Landmark.

19 The Court understands that the hospital conversion
20 act process is not a playing field for competing bidders.
21 Prime is, however, a member of the public within the
22 contemplation of the act and has the right, in the
23 Court's view, to at least what this Court has ordered be
24 provided to it. An order consistent herewith may enter.

25 Court is in recess.

1 THE SHERIFF: Please rise.

2 MR. RUSSO: May we be heard on a motion to stay,
3 Your Honor?

4 THE COURT: Sure.

5 We are still on the record.

6 MS. ROCHA: Your Honor, on behalf of the CharterCARE
7 entities, pursuant to Rule 62(c) of the Superior Court
8 rules, we'd ask that the Court enter a stay of its
9 decision to allow us time to seek review in the Supreme
10 Court and until the Supreme Court makes a decision on the
11 merits. Obviously, we will request expeditious review
12 from the Supreme Court in light of the timetable in the
13 review process of the application.

14 THE COURT: Does the Court understand that there is
15 a public hearing set for Monday of this week.

16 MS. ROCHA: That's correct.

17 THE COURT: Mister Field.

18 MR. FIELD: Your Honor, we'd make a similar request,
19 I think that's a little bit different. The Court's order
20 was to make the documents available at 1 p.m. today.

21 THE COURT: No, it was to make it available not
22 later than 1 p.m.

23 MR. FIELD: Not later than 1 p.m. today. We would
24 request a stay at least until Monday to seek Supreme
25 Court review and determine whether or not the Supreme

1 Court will issue a further stay, not necessarily on the
2 merits, but as I -- as the argument was made earlier,
3 what was before the Court was a temporary restraining
4 order. Once the documents are released, the bell can't
5 be un-rung. And I'd at least like a stay to grant -- to
6 have time to go to the Supreme Court and not to handicap
7 the Supreme Court to make a decision or even get into the
8 Supreme Court in the next three hours.

9 I'd also note that the Court's decision noted -- the
10 Court just noted about the hearing of the public hearing
11 for Monday, but the Court's decision also noted that the
12 request that was made by Prime was "belated", to use the
13 Court's word. So, the position that we are in again is
14 because of Prime's belated request. So, for that reason,
15 I at least ask for a stay until Monday.

16 THE COURT: Thank you.

17 MR. FLANDERS: I would have no objection to that,
18 Your Honor, at long as the Court stayed all further
19 proceedings on the application pending this review
20 they're seeking. Absent that, we'd object, because the
21 whole point of this was to obtain this information so
22 that it would be used in connection with the ongoing
23 regulatory process.

24 MR. RUSSO: The Prospect entities would join in the
25 Attorney General's motion. And there's nothing before

1 the Court to stay the process. It was in the complaint
2 but there was no evidence put on, there were no elements
3 established as --

4 THE COURT: The Court made all of that abundantly
5 clear in its decision that there was no evidence before
6 the Court.

7 MS. MARTIN: Your Honor, I would note that we have
8 until, you said, May 19 to do this, as Mr. Flanders is
9 suggesting that we suspend our review because there's no
10 provision under the statute to toll that review. It's a
11 120 day statutory time frame without exception.

12 THE COURT: Well, off the record.

13 (Off the record)

14 THE COURT: Go ahead.

15 MR. FLANDERS: I mean, we have no objection to the
16 Attorney General or any -- or the department of health,
17 for that matter, continuing its review. We just would
18 object to the regulatory hearings that the public is
19 supposed to have input ongoing forward when again, the
20 whole point of this was to give us the information that
21 we could have a meaningful chance to participate in those
22 hearings.

23 So, I don't think they can have it both ways. If
24 they want the hearings to go forward, then they ought to
25 provide the information as the Court has ordered; or

1 else, at least the Court should order them to not go
2 forward with the public hearings during the pendency of
3 this attempt to seek review.

4 MR. RUSSO: Your Honor, that public hearing is not
5 the only opportunity to provide public comment. The
6 public comment period remains open after the 28th of
7 April. They can submit their comments in writing, that
8 provided for that. They've already afforded themselves
9 of that. This is not a make or break all, but it's a
10 public noticed hearing for members of the public not as
11 sophisticated as Prime to come and make comment to the
12 regulators. I don't --

13 THE COURT: As a matter of fact, Prime's previous
14 comments were attached to your memo --

15 MR. RUSSO: Yes.

16 THE COURT: -- if I recall.

17 MR. RUSSO: They were.

18 THE COURT: In writing.

19 MR. RUSSO: They were.

20 THE COURT: I don't know if they were presented.

21 MR. RUSSO: They have been presented. They have
22 been received and are part of the record.

23 THE COURT: Anyone else?

24 MS. MARTIN: The date by which comments have to be
25 made is May 5, written comments. So, there's still

1 additional time beyond the public hearing for any other
2 comments to come in.

3 MS. ROCHA: Your Honor, for the record, we'd object
4 to delaying the review process in the meeting scheduled
5 for Monday. As my brother and sister stated, Prime has
6 the opportunity to file additional written comments by
7 the May 5 deadline.

8 THE COURT: The Court is going to do this. I am
9 going to change the Court's direction to the Attorney
10 General. One, I am going to require that that material
11 be turned over to Prime on or before 4:30 today. And
12 two, the Court denies the request for a stay, finding no
13 grounds. No appropriate grounds for it.

14 MR. FIELD: Thank you, Your Honor.

15 THE COURT: All right?

16 Thank you.

17 THE SHERIFF: Please rise.

18 (R E C E S S)

19

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22

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24

25

Exhibit 58

ADLER POLLOCK & SHEEHAN P.C.

Adler Pollock & Sheehan P.C.
One Citizens Plaza, 8th Floor
Providence, RI 02903-1345
Telephone (401) 274-7200
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Fax (617) 482-0604

EI # 05-0343749

CharterCARE Community Board
c/o David Hirsch
951 North Main Street
Providence, RI 02904

Invoice Date: May 28, 2014
Invoice Number: 435475
Client Number: 402920

For Professional Services Rendered:

007 - Prime Litigation

Date	Timekeeper	Description	Hours	Value
05/01/14	Parker, L D	Research and draft memorandum concerning standing of Prime to appeal CEC or HCA decision.	3.70	\$ 832.50
05/01/14	Rocha, P K	Conference call with Ken Belcher and Kim O'Connell re strategy re Prime allegations.	0.30	126.00
05/01/14	Rocha, P K	Work on letter to PRC members re Prime allegations; Communications to and from Ken Belcher and Kim O'Connell and Andy Labovitz; Review timeline.	2.00	840.00
05/02/14	Parker, L D	Draft, revise, and research memorandum concerning Prime's standing to appeal CEC and HCA decision.	1.90	427.50
05/02/14	Rocha, P K	Revisions to letter to PRC members and timeline; Communication and conference with Ken Belcher, Kim O'Connell and Andy Labovitz; Conference with Gen Martin re same.	3.00	1,260.00
05/03/14	Rocha, P K	Communication from Tom Reardon; Communication to Ken Belcher and Kim O'Connell re response to Prime allegations; Revisions to letter.	0.50	210.00
05/05/14	Parker, L D	Revise memorandum concerning Prime's standing to appeal under the	1.50	337.50



<u>Date</u>	<u>Timekeeper</u>	<u>Description</u>	<u>Hours</u>	<u>Value</u>
		APA and HCA; research legislative history of HCA to argue that Prime does not have standing to appeal HCA decision.		
05/05/14	Rocha, P K	Revisions to Trustees letter to Dr. Fine and Attorney General Kilmartin; Conference and communication with Ken Belcher re same; Conference with Gen Martin and forward draft letter and timeline; Conference with Mike Dexter re same; Delivery of letter to Mike Dexter, Dr. Fine and Attorney General Kilmartin.	1.50	630.00
05/05/14	Rocha, P K	Research and work on memorandum re Prime's standing to appeal CEC and HCA decisions; Conference call with Michael Field re release of documents responsive to APRA request.	1.00	420.00
05/08/14	Rocha, P K	Work on analysis of Prime standing to appeal CEC and HCA decisions; Communication with Mark Russo and Moshe Berman re proposed legislation re standing; Review transcript; Revisions to letter re Prime presentation.	2.00	840.00
05/12/14	Parker, L D	Research whether Prime would have standing to intervene in cy pres petition proceedings.	1.30	292.50
05/12/14	Rocha, P K	Review meeting minutes; Review letter from Troy Schell; Review answer to Prime complaint.	1.50	630.00
05/13/14	Rocha, P K	Conference call with Gen Martin re Prime APRA request; Review APRA request; Communication from Michael Field re same.	0.50	210.00
05/14/14	Parker, L D	Analyze whether Prime has standing to intervene in cy pres petition.	0.30	67.50
05/14/14	Rocha, P K	Work on memorandum re Prime's standing to appeal decisions.	0.50	210.00
05/15/14	Parker, L D	Review and revise memorandum concerning Prime's standing to appeal HCA decision.	0.40	90.00



<u>Date</u>	<u>Timekeeper</u>	<u>Description</u>	<u>Hours</u>	<u>Value</u>
05/15/14	Rocha, P K	Conference call with Gen Martin and communication with Mike Field re Prime's APRA request; Review redacted minutes; Communication with Kim O'Connell and Ken Belcher re same.	0.50	210.00
05/19/14	Bachant, J J	Conducted research concerning public comment on CEC application, incidental to argument that Prime does not have standing to appeal DOH decision in this case.	0.50	100.00
05/19/14	Parker, L D	Research legal authority that allows Prime to participate in CEC application public comments.	0.40	90.00
05/19/14	Rocha, P K	Finalization of standing research memo; Communication to CCHP/Prospect teams re same.	1.00	420.00
Total Professional Services			<u>24.30</u>	<u>\$ 8,243.50</u>

Timekeeper Summary

	<u>Hours</u>	<u>Rate</u>	<u>Total</u>
Parker, L D	9.50	\$ 225	\$ 2,137.50
Rocha, P K	14.30	420	6,006.00
Bachant, J J	<u>0.50</u>	<u>200</u>	<u>100.00</u>
Total Professional Services	<u>24.30</u>		<u>\$ 8,243.50</u>

Total Professional Services and Disbursements for this Matter \$ 8,243.50

Exhibit 59



Tel: 714-957-3200
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600 Anton Blvd.
Suite 500
Costa Mesa, CA 92626

Board of Directors
Prospect Medical Holdings, Inc.
3415 South Sepulveda Boulevard, 9th Floor
Los Angeles, California 90034

August 10, 2020

Please find attached revised consolidated financial statements for Prospect Medical Holdings, Inc. for the year ended September 30, 2019.

The notes to the consolidated financial statements have been revised solely to clarify statements in Note 10 relating to the sale lease back transaction and loan transaction with Medical Properties Trust, Inc. that occurred during the year ended September 30, 2019.

The date of our audit opinion remains the same.

Yours sincerely,

BDO USA, LLP



Consolidated Financial Statements

**As of and for the Years Ended
September 30, 2019 and 2018**

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.



Prospect Medical Holdings, Inc.

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600 Anton Blvd., Suite 500
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Independent Auditor's Report

Board of Directors
Prospect Medical Holdings, Inc.
Los Angeles, California

We have audited the accompanying consolidated financial statements of Prospect Medical Holdings, Inc. (the "Company"), which comprise the consolidated balance sheets as of September 30, 2019 and 2018, and the related consolidated statements of operations, statements of comprehensive loss, statements of stockholder's deficit, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Prospect Medical Holdings, Inc. and its subsidiaries as of September 30, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

December 20, 2019

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the International BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.

Prospect Medical Holdings, Inc.

Consolidated Balance Sheets (in thousands, except par value and share amounts)

<i>September 30,</i>	2019	2018
Assets		
Current assets		
Cash and cash equivalents	\$ 52,091	\$ 7,694
Cash held in escrow	70,000	-
Restricted cash	1,485	1,742
Restricted investments	29,540	23,779
Patient accounts receivable, net of allowance for doubtful accounts of \$165,719 and \$151,279 at September 30, 2019 and 2018, respectively	306,587	317,412
Due from government payers	20,270	21,409
Other receivables, prepaid expenses and other current assets	118,000	117,026
Income tax receivable	-	2,737
Inventories	34,229	32,624
Hospital fee program receivable	167,530	211,454
Current assets held for sale	37,277	60,990
Total current assets	837,009	796,867
Property, improvements and equipment, net	538,471	513,690
Deferred income taxes, net	823	1,975
Goodwill	302,377	301,988
Intangible assets, net	25,545	31,822
Other assets	118,022	56,922
Long term assets held for sale	44,120	115,369
Total assets	\$ 1,866,367	\$ 1,818,633

See accompanying notes to the consolidated financial statements.

Prospect Medical Holdings, Inc.

Consolidated Balance Sheets (in thousands, except par value and share amounts)

September 30,	2019	2018
Liabilities and Stockholder's Deficit		
Current liabilities:		
Accrued medical claims and other healthcare costs payable	\$ 72,508	\$ 62,887
Accounts payable and other accrued liabilities	264,252	298,996
Accrued salaries, wages and benefits	179,997	167,705
Hospital fee program liability	24,362	65,966
Due to government payers	28,606	29,137
Income taxes payable	7,395	-
Revolving line of credit, net	70,000	207,645
Current portion of capital leases	10,238	12,933
Current portion of long-term debt	18,983	18,429
Current portion of MPT liabilities	43,145	-
Other current liabilities	25,249	27,831
Current liabilities held for sale	33,939	42,224
Total current liabilities	778,674	933,753
Long-term debt, net of current portion	187,367	1,098,441
Malpractice reserves	133,300	73,532
Capital leases, net of current portion	30,372	29,230
Asset retirement obligations	5,602	6,179
Other long-term liabilities	48,706	32,949
Pension obligations	302,372	254,121
MPT liabilities, net of current portion	1,338,040	-
Long term liabilities held for sale	11,994	12,777
Total liabilities	2,836,427	2,440,982
Commitments and contingencies		
Stockholder's deficit:		
Common stock, \$0.01 par value; 100 shares authorized, issued and outstanding at September 30, 2019 and 2018	1	1
Additional paid-in capital	64,961	23,961
Accumulated other comprehensive (loss) income	(23,236)	21,303
Accumulated deficit	(1,019,073)	(676,930)
Total stockholder's deficit attributable to Prospect Medical Holdings, Inc.	(977,347)	(631,665)
Non-controlling interests	7,287	9,316
Total stockholder's deficit	(970,060)	(622,349)
Total liabilities and stockholder's deficit	\$ 1,866,367	\$ 1,818,633

See accompanying notes to the consolidated financial statements.

Prospect Medical Holdings, Inc.
Consolidated Statements of Operations
 (in thousands)

<i>For the Years Ended September 30,</i>	2019	2018
Revenues:		
Net Hospital Segment patient services revenues	\$ 2,487,156	\$ 2,576,844
Provision for bad debts	(98,306)	(100,026)
Net Hospital segment patient services revenues less provision for bad debts	2,388,850	2,476,818
Other non-patient Hospital revenues	49,377	45,828
Net Hospital Segment revenues	2,438,227	2,522,646
Medical Group revenues	353,954	334,408
Global Risk Management revenues	49,696	33,863
Corporate revenues	7,321	2,971
Total net revenues	2,849,198	2,893,888
Operating Expenses:		
Hospital operating expenses	1,966,380	2,029,219
Medical Group cost of revenues	259,631	267,376
Global Risk Management cost of revenues	33,444	20,430
General and administrative	501,586	486,543
Depreciation and amortization	92,011	85,051
Total operating expenses	2,853,052	2,888,619
Operating income from unconsolidated joint ventures	5,889	2,599
Operating income	2,035	7,868
Other expense:		
Interest expense and amortization of deferred financing costs, net	127,835	100,190
Loss on early extinguishment of debt	30,052	18,422
Goodwill impairment	-	14,228
Other expense, net	2,858	2,231
Total other expense, net	160,745	135,071
Loss before income taxes	(158,710)	(127,203)
Income tax provision	16,455	62,786
Net loss from continuing operations	(175,165)	(189,989)
Loss from discontinued operations:		
Loss from discontinued operations	(141,539)	(59,914)
Income tax benefit	18,234	1,289
Loss on discontinued operations, net of taxes	(123,305)	(58,625)
Loss before allocation to non-controlling interests	(298,470)	(248,614)
Net loss attributable to non-controlling interests	(734)	(4,449)
Net loss attributable to Prospect Medical Holdings, Inc.	\$ (297,736)	\$ (244,165)

See accompanying notes to the consolidated financial statements.

Prospect Medical Holdings, Inc.

Consolidated Statements of Comprehensive Loss (in thousands)

<i>For the Years Ended September 30,</i>	2019	2018
Net loss attributable to Prospect Medical Holdings, Inc.	\$ (297,736)	\$ (244,165)
Other comprehensive (expense) income, net of tax:		
Pension obligation and other post-retirement benefits adjustment (net of \$251 and \$6,833 tax)	(45,796)	12,995
Debt and equity securities, unrealized gain	1,257	160
Total other comprehensive (loss) income, net of tax	(44,539)	13,155
Total comprehensive loss	\$ (342,275)	\$ (231,010)

See accompanying notes to the consolidated financial statements.

Prospect Medical Holdings, Inc.
Consolidated Statements of Stockholder's Deficit
 (in thousands, except share amounts)

	Number of Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Prospect Medical Holdings, Inc. Stockholder's (Deficit) Equity	Non-controlling interests	Total Stockholder's (Deficit) Equity
Balance at October 1, 2017	100	\$ 1	\$ 22,398	\$ 8,148	\$ 24,165	\$ 54,712	\$ 12,604	\$ 67,316
Options exercised	-	-	853	-	-	853	-	853
Stock-based compensation	-	-	710	-	-	710	-	710
Non-controlling interest attributed to minority shareholders	-	-	-	-	-	-	1,161	1,161
Net loss	-	-	-	-	(244,165)	(244,165)	(4,449)	(248,614)
Dividend paid to stockholder	-	-	-	-	(456,930)	(456,930)	-	(456,930)
Other comprehensive income, net of tax	-	-	-	13,155	-	13,155	-	13,155
Balance at September 30, 2018	100	1	23,961	21,303	(676,930)	(631,665)	9,316	(622,349)
Non-controlling interest attributed to minority shareholders	-	-	-	-	-	-	(1,295)	(1,295)
Net loss	-	-	-	-	(297,736)	(297,736)	(734)	(298,470)
Capital contribution from stockholder	-	-	41,000	-	-	41,000	-	41,000
Dividend paid to stockholder	-	-	-	-	(44,407)	(44,407)	-	(44,407)
Other comprehensive loss, net of tax	-	-	-	(44,539)	-	(44,539)	-	(44,539)
Balance at September 30, 2019	100	\$ 1	\$ 64,961	\$ (23,236)	\$ (1,019,073)	\$ (977,347)	\$ 7,287	\$ (970,060)

See accompanying notes to the consolidated financial statements.

Prospect Medical Holdings, Inc.
Consolidated Statements of Cash Flows
(in thousands)

<i>For the Years Ended September 30,</i>	2019	2018
Operating activities		
Net loss	\$ (298,470)	\$ (248,614)
Adjustments to reconcile net loss to net cash and cash equivalents used in operating activities:		
Depreciation and amortization	92,011	85,051
Amortization of deferred financing costs, net	4,484	2,702
Goodwill impairment	-	14,228
Write-off of deferred financing costs	13,444	11,411
Amortization of original issue discount and premium, net	3,478	2,976
Write-off of original issue discount and premium	16,608	6,713
Provision for bad debts	98,306	100,026
Pension obligation net periodic benefit cost	17,411	12,403
Excess contribution to pension plan	(15,939)	(41,667)
Deferred income taxes, net	1,152	97,782
Stock-based compensation	-	710
Undistributed earnings from unconsolidated joint ventures	(5,889)	(2,599)
Gain on sale of equity method investments	-	280
Loss (gain) on disposal of assets	3,398	(976)
Changes in operating assets and liabilities, net of business combinations:		
Patient accounts receivable	(87,481)	(93,310)
Due to/from government payers, net	608	11,668
Other receivables, prepaid expenses and other current assets	(974)	57,185
Hospital fee program receivable	43,924	(152,242)
Hospital fee program liability	(41,604)	63,999
Inventories	(1,605)	(93)
Income taxes payable/receivable, net	10,132	(45,530)
Other assets	(36,325)	1,580
Accrued medical claims and other healthcare costs payable	9,621	8,175
Accounts payable, other accrued liabilities and other long term liabilities	2,399	51,482
Net cash and cash equivalents used in operating activities from discontinued operations	99,863	50,698
Net cash and cash equivalents used in operating activities	(71,448)	(5,962)
Investing activities		
Purchases of property, improvements and equipment	(52,075)	(70,543)
Cash paid for acquisitions, net of cash received and working capital adjustments	(390)	(5,780)
Proceeds from sale of property and improvements	-	726
Distribution received from equity and cost method investments	2,355	2,150
Increase in investments	(4,253)	(7,315)
Net cash and cash equivalents used in investing activities from discontinued operations	(11,224)	(28,037)
Net cash and cash equivalents used in investing activities	(65,587)	(108,799)

Prospect Medical Holdings, Inc.

Consolidated Statements of Cash Flows (Continued) (in thousands)

<i>For the Years Ended September 30,</i>	2019	2018
Financing activities		
Borrowings on Senior Secured Notes, net of original issue discount	-	1,097,600
Repayments on Senior Secured Notes	(1,114,400)	(622,788)
Borrowings on line of credit	290,000	385,000
Repayments on line of credit	(429,000)	(176,000)
Repayments on retired line of credit, net	-	(115,300)
Proceeds of other long-term debt	175,538	-
Repayments of long-term debt	(7,346)	(1,380)
Repayment of financing leases	(2,082)	(2,450)
Repayments of capital leases	(14,509)	(11,318)
Proceeds from exercise of stock options	-	853
Cash paid for deferred financing costs	(526)	(19,536)
Change in restricted cash	257	29,019
Change in cash held in escrow	(70,000)	-
Capital contribution from stockholder	41,000	-
Dividend paid to stockholder	(44,407)	(456,930)
Repayments of insurance premium financing	(37)	(10,026)
Cash paid for deferred financing costs related to MPT liability transaction	(21,781)	-
Proceeds from MPT liability transactions	1,385,796	-
Repayment of MPT liability transactions	(5,447)	-
Net cash and cash equivalents used in financing activities from discontinued operations	(1,624)	(1,398)
Net cash and cash equivalents provided by financing activities	181,432	95,346
Increase (decrease) in cash and cash equivalents	44,397	(19,415)
Cash and cash equivalents, beginning of year	7,694	27,109
Cash and cash equivalents, end of year	\$ 52,091	\$ 7,694
Supplemental disclosure of cash flow information		
Interest paid (including cash paid on debt extinguishment)	\$ 101,251	\$ 53,070
Income taxes received	\$ 343	\$ 3,485
Schedule of non-cash investing and financing activities		
Equipment acquired under capital leases	\$ 15,213	\$ 16,849
Accrual of property, improvements and equipment	\$ 47,113	\$ 19,249
Insurance premium financed	\$ -	\$ 9,900
Partial satisfaction of long-term liability assumed from acquisition of PCC	\$ -	\$ 1,195
Acquisition of NUMG	\$ -	\$ 7,452

See accompanying notes to the consolidated financial statements.

Prospect Medical Holdings, Inc.

Notes to Consolidated Financial Statements

1. Organization

Prospect Medical Holdings, Inc. (“Prospect” or the “Company” or the “Parent Entity”) is a Delaware corporation and a wholly-owned indirect subsidiary of Ivy Holdings Inc. (“Ivy Holdings”).

The Company’s operations are currently organized into four primary reportable segments: Hospital Services, Medical Group, Global Risk Management and Corporate, as discussed below.

Hospital Services Segment

As of September 30, 2019, through its subsidiaries, the Company owns 16 acute care and behavioral hospitals and multi-level elder care facilities in Southern California, Rhode Island, Pennsylvania and Connecticut with approximately 3,100 licensed beds, and a network of specialty and primary care clinics. The Hospital Services segment subsidiaries are wholly-owned by Prospect, except for the facilities in Rhode Island, in which Prospect has an 85% interest in the subsidiary that owns such facilities.

Additionally, at September 30, 2019, through its subsidiaries the Company owns 4 acute care and behavioral health hospitals in Texas and New Jersey, which are in the process of being closed or sold. According, and as further discussed in Note 5, for all periods presented the assets and liabilities of these businesses have been classified as “held for sale,” and the operations (as it relates to revenues and expenses that will no longer continue post sale) have been shown within discontinued operations. All of the footnotes in these financial statements refer to continuing operations unless otherwise stated.

Admitting physicians are primarily practitioners in the local area. The hospitals have payment arrangements with Medicare, Medicaid and other third party payers, including commercial insurance carriers, health maintenance organizations (“HMOs”) and preferred provider organizations (“PPOs”).

Medical Group Segment

The Medical Group segment is a healthcare management services organization that provides management services to affiliated physician organizations that operate as independent physician associations (“Medical Groups” or “IPAs”). The affiliated physician organizations enter into agreements with HMOs to provide HMO enrollees with a full range of medical services in exchange for fixed monthly fees (“Capitation”). The Medical Groups contract with physicians (primary care and specialist) and other healthcare providers to provide enrollees with medical services. Prospect currently manages the provision of healthcare services for its affiliated physician organizations in California, Texas, Rhode Island, Connecticut, Pennsylvania and New Jersey. The California network consists of various IPAs that are generally wholly-owned by Prospect Medical Group, Inc. (“PMG”) and managed by the two medical management company subsidiaries that are wholly-owned by Prospect. The Company’s networks in its other states consist of IPA subsidiaries of Prospect Provider Groups, Inc. The Medical Group segment also owns clinic facilities in California, Rhode Island, Pennsylvania and Connecticut that operate by employing physicians to serve their patients. In California, the clinic facilities are owned through New Genesis Medical Association (“NGMA”). PMG and NGMA are owned by a nominee physician shareholder pursuant to an assignable option agreement, under which Prospect has an assignable option, obtained for a nominal amount from PMG and the nominee shareholder, to designate the purchaser (successor physician) for all or part of PMG’s issued and outstanding stock held by the nominee physician shareholder (the “Stock Option”) in its sole discretion.

Prospect Medical Holdings, Inc.

Notes to Consolidated Financial Statements

Most of the physician organizations in California and Texas have entered into Management Service Agreements (“MSA”) with Prospect Medical Systems Inc., (“PMS”), and have agreed to pay a management fee to PMS, which is based in part on the costs to the management company and on a percentage of revenues. In Rhode Island, Pennsylvania, Connecticut and New Jersey, the physician organizations have entered into Administrative Services Agreements (“ASA”) with PMS pursuant to which they have agreed to reimburse PMS for the costs of certain administrative services provided by PMS on their behalf. In return for payment of the management fee, PMS has agreed to provide financial management, information systems, marketing, advertising, public relations, risk management, and administrative support, including for utilization review and quality of care. At its cost, PMS has assumed the obligations for all facilities and employs physician and non-physician personnel for administrative services. The management fee is earned based on a combination of percentage of revenue and share of pre-tax income. The management fees fluctuate based on the revenue and profitability of each physician organization. The MSAs are not terminable by the physician organization except in the case of gross negligence, fraud or other illegal acts, or bankruptcy, of PMS. The services provided under an ASA are more limited than those provided under an MSA and each ASA is terminable by either party upon the delivery of 90 days prior written notice thereof.

Prospect consolidates the revenues and expenses of all the physician organizations (except for one entity that is a 50/50 joint venture, which is accounted for under the equity method) from the respective dates of execution of the Management Agreements. All significant inter-entity balances have been eliminated in consolidation. In the case of the joint venture, only that portion of the results which are contractually identified as Prospect’s are recognized in the consolidated financial statements, together with the management fee that the Company charges the joint venture for managing the other owners’ share of the joint venture operations.

Prospect has also entered into management services agreements with unaffiliated third parties to manage services to their HMO enrollees. These management agreements do not have characteristics that give rise to the consolidation of the entities under current accounting literature. These management services agreements are terminable in accordance with the agreements.

The affiliated physician organizations provided medical services to a combined total of approximately 445,000 and 442,000 enrollees as of September 30, 2019 and 2018, respectively. The enrollees include approximately 237,000 and 255,000 enrollees that the Company manages for the economic benefit of certain independent third parties, and for which the Company earns management fee income as of September 30, 2019 and 2018, respectively. The total paid member months including managed enrollees, for the years ended September 30, 2019 and 2018 was approximately 5,435,000 and 5,360,000, respectively.

Global Risk Management Segment

The Global Risk Management segment exists in pursuit of the Company coordinated regional care (“CRC”) operating model and risk management platform. CRC has subsidiaries in California, Texas, Rhode Island, Pennsylvania, Connecticut and New Jersey, and has accountable care organizations operating in Rhode Island, Pennsylvania and New Jersey. These entities contract with third-party health plans and the Centers for Medicare and Medicaid Services (“CMS”) on progressive risk reimbursement models leading to global risk contracts for physicians, other medical services and institutional services including hospital inpatient and outpatient services, home health, skilled nursing facility and other institutional services. In turn, the global risk management entities contract with owned and third-party independent physician associations, owned and third-party hospitals and other health care providers to assume and manage this global risk. Through these contracts, the Company manages health plan member populations with a focus

Prospect Medical Holdings, Inc.

Notes to Consolidated Financial Statements

on delivering coordinated care to members across our network of physicians and providers under risk and value-based contracts. This segment also includes Coordinated Regional Care Group, Inc. (“CRCG”). CRCG incurs development and operating costs related to the Global Risk Management segment for new markets and strategic initiatives.

Corporate Segment

The Company has two captive insurance companies, Prospect Medical Holding Risk Retention Group, Inc. (“RRG”), based in Vermont, and Connecticut Healthcare Insurance Company (“CHIC”), based in the Cayman Islands. RRG was formed to provide primary insurance coverage for hospital and physician professional and general liability risks for the Company’s subsidiary health care organizations located in Pennsylvania on a claims-made basis. CHIC provides hospital and physician professional and general liability coverage to all of the Company’s hospitals and affiliated subsidiaries except for Prospect Crozer, LLC (“Crozer”) and its Pennsylvania subsidiaries. CHIC is an exempted Company with limited liability under the Companies Law of the Cayman Islands and it holds a Class “B(i)” Insurer’s License under Section 4(3)(b) of the Cayman Islands Insurance Law 2010. CHIC’s principal activity is to issue primary policies for hospital liabilities covering Prospect, its subsidiaries and employees, on a claims-made basis. The Company procured excess healthcare professional liability and umbrella liability insurance policy on a claims-made basis covering healthcare professional liability, general liability, automobile liability, employer’s liability, helipad liability and non-owned aircraft liability of the Company and its affiliates. This excess coverage is purchased entirely from unrelated commercial insurers. CHIC also provides a deductible reimbursement policy for workers compensation to the Company’s facilities all of which have high deductible program structures or are qualified self-insureds.

On January 1, 2018, CHIC began providing an employee benefit stop-loss policy to all Company subsidiaries. Unlimited excess coverage is purchased from unrelated reinsurance companies.

The Company does not allocate interest expense related to acquisition debt or income taxes to the other reporting segments.

2. Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and include the accounts of all controlled subsidiaries, of which control is effectuated through ownership of voting common stock or by other means, but do not include the accounts of the parent companies, Ivy Holdings Inc. and Ivy Intermediate Holding Inc. The Company has a variable interest in various entities under the Medical Group segment due to the existence of two call options, under which the Company has the ability to require the holders of all of the voting common stock of the underlying subsidiaries to sell their shares at a fixed nominal price (\$1,000) to another designated physician chosen by the Company. This call option agreement represents rights provided through a variable interest other than the equity interest itself that limits the returns that could be earned by the equity holders. In addition, the Company has management agreements with the physician organizations under the Medical Group segment which allows the Company to direct the activities of such physician organizations that most significantly impact their economic performance, retain the right to receive expected residual returns and assume the obligation to absorb losses. Accordingly, the Company is considered to be the primary beneficiary and these entities are consolidated within the accompanying consolidated financial statements.

Prospect Medical Holdings, Inc.

Notes to Consolidated Financial Statements

Operating results for acquisitions are consolidated with the Company's financial statements from their acquisition dates. All significant intercompany balances and transactions have been eliminated in consolidation. Non-controlling interests in less-than-wholly-owned consolidated subsidiaries of the Company are presented as a component of total equity to distinguish between the interests of the Company and the interests of the non-controlling owners.

The consolidation of these entities does not change any legal ownership, and does not change the assets or the liabilities and equity of the Parent Entity as a stand-alone entity. These entities had total revenues of approximately \$330,930,000 and \$310,720,000 and total net income of approximately \$14,245,000 and net loss of approximately \$2,184,000 for the years ended September 30, 2019 and 2018, respectively. The assets and liabilities of the variable interest entities are as follows (in thousands):

<i>September 30,</i>	2019	2018
Assets		
Total current assets	\$ 86,966	\$ 89,882
Total non-current assets	89,049	90,465
Total assets	\$ 176,015	\$ 180,347
Liabilities		
Total current liabilities	\$ 52,120	\$ 69,097
Total long-term liabilities	730	730
Total liabilities	\$ 52,850	\$ 69,827

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Prospect Medical Holdings, Inc.

Notes to Consolidated Financial Statements

Revenues

Revenues by reportable segment are comprised of the following amounts (in thousands):

<i>For the Years Ended September 30,</i>	2019	2018
Net Hospital Services		
Inpatient	\$ 1,392,340	\$ 1,497,923
Outpatient	926,645	902,122
Capitation	148,800	157,968
Other	19,371	18,831
Total Hospital Segment patient service revenues	2,487,156	2,576,844
Less: Provision for bad debts	(98,306)	(100,026)
Total Net Hospital Segment patient service revenues less provision for bad debts	2,388,850	2,476,818
Other non-patient revenues	49,377	45,828
Total Hospital Segment revenues	2,438,227	2,522,646
Medical Group		
Capitation	302,734	297,965
Management fees	15,044	10,501
Other	36,176	25,942
Total Medical Group revenues	353,954	334,408
Global Risk Management		
Capitation	37,018	23,095
Other	12,678	10,768
Total Global Risk Management revenue	49,696	33,863
Corporate Segment revenues	7,321	2,971
Total net revenues	\$ 2,849,198	\$ 2,893,888

Hospital Services Segment

Net Patient Service Revenues

Operating revenue of the Hospital Services segment consists primarily of net patient service revenue. The Company reports net patient service revenue at the estimated net realizable amounts from patients and third-party payers and others in the period in which services are rendered. The Company has agreements with third-party payers, including Medicare, Medicaid, managed care and other insurance programs that are paid at negotiated rates. These payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments, as further described below. Estimates of contractual allowances are based upon the payment terms specified in the related contractual agreements. The Company accrues for amounts that it believes may ultimately

Prospect Medical Holdings, Inc.

Notes to Consolidated Financial Statements

be due to or from the third-party payers. Normal estimation differences between final settlements and amounts accrued in previous years are reported as changes in estimates in the current year. Outstanding receivables, net of allowances for contractual discounts and bad debts, are included in patient accounts receivable in the accompanying consolidated balance sheets.

The following is a summary of sources of patient service revenues (net of contractual allowances and discounts) before provision for bad debts and exclude revenues from discontinued operations (in thousands):

<i>Years ended September 30,</i>	2019	2018
Medicare	\$ 822,407	\$ 801,222
Medicaid	750,909	874,865
Managed Care	579,141	559,463
Self-Pay/Other	166,528	164,495
Capitation	148,800	157,968
Other	19,371	18,831
Total patient service revenue	\$ 2,487,156	\$ 2,576,844

A summary of the payment arrangements with major third-party payers follows:

Medicare: Medicare is a federal program that provides certain hospital and medical insurance benefits to persons aged 65 and over, some persons with end-stage renal disease and certain other beneficiary categories, including eligible disabled persons. Most inpatient hospital services rendered to Medicare program beneficiaries are paid on a fee-for-service basis at prospectively determined rates per discharge, according to a patient classification system based on clinical, diagnostic, and other factors. Most outpatient services also are paid on a fee-for-service basis generally using prospectively determined rates. The Company receives, as appropriate, Medicare disproportionate share hospital (“DSH”) and bad debt payments at tentative rates, with final settlement determined after submission of the annual Medicare cost report and audit thereof by the Medicare Administrative Contractor. The Company also receives, as appropriate, Medicare uncompensated care DSH payments, which are generally not subject to cost report audit except to determine eligibility for Medicare DSH. The Company also receives Medicare outlier payments on an ongoing basis during the year for cases that are unusually costly, and under certain circumstances these payments may be reconciled to more closely reflect the costs in excess of outlier thresholds after the submission and audit of the annual Medicare cost report. Normal estimation differences between filed settlements and amounts accrued are reflected in net patient service revenue.

The Company is reimbursed by Medicare for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare Administrative Contractor. The estimated amounts due to or from the program are reviewed and adjusted annually based on the status of such audits and any subsequent appeals. Differences between final settlements and amounts accrued in previous years are reported as adjustments to net patient service revenue in the year that examination is substantially completed.

Although services for most Medicare beneficiaries are paid by the Federal government on a fee-for-service basis, approximately one-third of Medicare beneficiaries are enrolled in a “Medicare Advantage” plan, which is a type of health plan that contracts with the Medicare program to provide hospital and medical benefits to Medicare beneficiaries. Medicare Advantage Plans include Health

Prospect Medical Holdings, Inc.

Notes to Consolidated Financial Statements

Maintenance Organizations, Preferred Provider Organizations, Private Fee-For-Service Plans, Special Needs Plans, and Medicare Medical Savings Account Plans. For Medicare beneficiaries enrolled in a Medicare Advantage plan, most Medicare services are covered by the plan and are not paid for under fee-for-service Medicare. Certain Medicare Advantage plans make capitation payments to the Company using a "Risk Adjustment model," which compensates providers based on the health status (acuity) of each enrollee. Providers with higher acuity enrollees generally will receive more and those with healthier enrollees will receive less.

Medicaid: Medicaid is a joint federal-state funded healthcare benefit program that is administered by states to provide benefits to qualifying individuals who are unable to afford care. The Company receives reimbursements under the fee-for-service component of Medicaid programs in each state in which it operates at prospectively determined rates for inpatient services and a mixture of fee schedules and cost reimbursement methodologies for outpatient services depending on the specific state regulations. Cost report settlements are recorded based upon as-filed cost reports (if required by the respective facility's state) and adjusted for tentative and final settlements, if any. In addition, in California, Rhode Island, and Pennsylvania, a substantial portion of Medicaid beneficiaries are enrolled in Medicaid managed care organizations. The Company received payments for services furnished to these beneficiaries based on negotiated contract rates or non-contract payment methodologies where the Company does not have a contract with the managed care organization.

The various states in which the Company operates have additional programs in which certain of the Company's facilities participate in, related to medical facilities serving a disproportionate number of low-income patients. The following table shows the revenues generated by these programs during the years ended September 30, 2019 and 2018 (in thousands), which are reflected in Net Hospital Services revenues in the accompanying consolidated statements of operations:

<i>For the years ended September 30,</i>	2019	2018
California Medi-Cal Disproportional Share ("CA DSH") (a)	\$ 28,967	\$ 13,761
Rhode Island DSH and Upper Payment Limit ("UPL") (b)	20,456	19,035
Pennsylvania State Programs (c)	68,831	40,344
Connecticut Medicaid DSH revenue (d)	26,338	33,152
	\$ 144,592	\$ 106,292

- (a) Revenues are accrued based on the expected total annual awards. Differences between the estimated and the actual awards are recorded in the period they become known, and are subject to retrospective revision prior to finalization, which could lead to material retractions. The Company records retrospective retractions when they are estimable and probable. Retrospective additional revenues are recorded when the amounts are received.
- (b) Rhode Island hospitals receive federal and state Medicaid funds as additional reimbursement for treating a disproportionate share of low-income patients. The State of Rhode Island also assesses a license fee to all hospitals in Rhode Island based on each hospital's net patient revenue. The Company recorded \$17,565,000 and \$16,925,000 of expense during the years ended September 30, 2019 and 2018, respectively, as a result of the license fee.
- (c) The Company's Pennsylvania hospitals are participants in Pennsylvania statewide hospital assessment, Medicaid Modernization Assessment ("MMA"), which has been extended through June 30, 2023. The assessments have enabled the Commonwealth of Pennsylvania to maintain

Prospect Medical Holdings, Inc.

Notes to Consolidated Financial Statements

the updated inpatient payment system, make changes to existing disproportionate share/supplemental payments, and to create new payments where applicable. The Company has also recognized revenues from the Pennsylvania Community Access Fund (“CAF”).

- (d) The Company’s hospitals in Connecticut participate in its Medicaid DSH program and receive additional reimbursement for treating a disproportionate share of low-income patients. Connecticut assesses a provider tax based on total net revenue received by a hospital for the provision of inpatient hospital services and outpatient hospital services. The state’s 2020/2021 budget eliminated a scheduled reduction in the hospital’s tax rates on inpatient and outpatient services by maintaining the rates at fiscal year 2019 levels but requiring the base year for calculating the tax to be adjusted each biennium. The State has made a Medicaid supplemental payment to hospitals for the first quarter of the State’s 2020-21 fiscal year prior to obtaining federal approval, and has announced that this payment would be recovered if federal approval was not obtained. The amount of the provider tax has also been the subject of litigation, which was recently settled. However, the final settlement is contingent on federal approval of the state’s tax waiver and proposed Medicaid State Plan Amendments, as well as on the state’s General Assembly approval and adoption of implementing legislation. The proposed settlement agreement is estimated to have a financial impact on hospitals of approximately \$1.8 billion in state and federal funds between now and 2026. The agreement includes a one-time payment or refund of approximately \$79 million to hospitals, along with declining taxes on hospitals and corresponding increasing state payments to facilities during the applicable time period. The state can ask the court to modify the agreement if the state’s overall costs are between \$50 and \$100 million, and the state can terminate the agreement if the state’s overall costs rise by \$100 million.

Managed Care: The Company has also entered into payment agreements with certain commercial insurance carriers, HMOs, and PPOs. The basis for payment under these agreements is in accordance with negotiated contracted rates or at the Company’s standard charges for services provided. Some of these payments are capitated, meaning that the Company receives an agreed amount per patient for providing an agreed range of services.

Self-Pay: Self-pay patients represent those patients who do not have health insurance and are not covered by some other form of third party arrangement. Such patients are evaluated, at the time of services or shortly thereafter, for their ability to pay based upon federal and state poverty guidelines, qualifications for Medicaid, as well as the Company’s local hospital’s indigent and charity care policy.

Laws and regulations governing the third-party payor arrangements are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Normal estimation differences between subsequent cash collections on patient accounts receivable and net patient accounts receivable estimated in the prior year are reported as adjustments to net patient service revenue in the current period.

Prospect Medical Holdings, Inc.

Notes to Consolidated Financial Statements

The following is a summary of due from and due to governmental payers at September 30, 2019 and 2018 (in thousands):

<i>September 30,</i>	2019	2018
Due from government payers:		
Medicaid Disproportionate Share	\$ 19,301	\$ 16,545
Medicare cost report settlements	969	4,691
Medicaid Section 1115 receivable	-	173
	\$ 20,270	\$ 21,409
Due to government payers:		
Medicare cost report settlements	\$ 19,464	\$ 20,323
Medicaid cost report settlements	9,142	8,814
	\$ 28,606	\$ 29,137

The Company is not aware of any material claims, disputes, or unsettled matters with any payers that would affect revenues that have not been adequately provided for and disclosed in the accompanying consolidated financial statements.

California Hospital Fee Program

The Company recognizes revenues related to supplemental Medi-Cal payments under California provider fee programs. These programs are funded by quality assurance fees paid by participating hospitals and matching federal funds.

Based on formulas contained in the legislation as well as modeling done by the California Hospital Association, the Company recognized supplemental payments, included in net patient service revenue, and quality assurance fee expense, included in general and administrative expenses in the accompanying consolidated statements of operations as follows (in thousands):

<i>Years Ended September 30,</i>	2019	2018
Hospital services revenues	\$ 122,976	\$ 284,122
General and administrative expenses	53,775	123,996
Net pre-tax impact	\$ 69,201	\$ 160,126

As of September 30, 2019 and 2018, the Company had receivables related to the California Hospital Fee Program of approximately \$167,530,000 and \$211,454,000, respectively, and had liabilities related to the California Hospital Fee Program of approximately \$24,362,000 and \$65,996,000, respectively, in the accompanying consolidated balance sheets.

Legislation approved by the State of California in October 2013 created the framework for the hospital fee program to continue in perpetuity without requiring further legislation from California. In November 2016, California voters approved Proposition 52, which made the hospital fee program permanent and prohibits lawmakers from diverting Medi-Cal funds to pay for anything other than their intended purpose.

Prospect Medical Holdings, Inc.

Notes to Consolidated Financial Statements

In December 2017, CMS approved the fee-for-service inpatient and outpatient payments and taxes for the period from January 1, 2017 to June 30, 2019 (“QAF 5”). CMS has not yet approved the amended Health Plan contracts. During the year ended September 30, 2018, the Company recorded revenues under the QAF 5 program of \$111.9 million related to periods prior to the current fiscal year. Additionally, the Company recorded revenues related to previous hospital fee programs prior to QAF 5 of \$14.6 million during the year ended September 30, 2018. The current cycle of the California Hospital Fee Program relates to the period from July 1, 2019 through December 31, 2021 (“QAF 6”). This cycle has not yet been approved by CMS and accordingly the Company has not recorded any revenues or expenses related to QAF 6 (or any prior program) during the fourth quarter of the year ended September 30, 2019.

Charity Care

The Company provides charity care to patients who lack financial resources and are deemed to be medically indigent based on criteria established under the Company’s charity care policy. This care is provided without charge or at amounts less than the Company’s established rates. Because the Company does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue. The direct and indirect costs related to this care totaled approximately \$7,559,000 and \$8,787,000 for the years ended September 30, 2019 and 2018, respectively. Direct and indirect costs for providing charity care are estimated by calculating a ratio of cost to gross charges and then multiplying that ratio by the gross uncompensated charges associated with providing care to charity patients. In addition, the Company provides services to other medically indigent patients under various state Medicaid programs. Such programs pay amounts that are less than the cost of the services provided to the recipients. The Company has not changed its charity care or uninsured discount policies during the years ended September 30, 2019 and 2018.

Provisions for Contractual Allowances and Bad Debts

Collection of receivables from third-party payers and patients is the Company’s primary source of cash and is critical to its operating performance. The Company closely monitors its historical collection rates, as well as changes in applicable laws, rules and regulations and contract terms, to assure that provisions for contractual allowances are made using the most accurate information available. However, due to the complexities involved in these estimations, actual payments from payers may be materially different from the amounts management estimates and records. The Company’s primary collection risks relate to uninsured patients and the portion of the bill which is the patient’s responsibility, primarily co-payments and deductibles. Payments for services may also be denied due to issues over patient eligibility for medical coverage, the Company’s ability to demonstrate medical necessity for services rendered and payer authorization of hospitalization.

Accounts receivable are reduced by an allowance for doubtful accounts. Valuation of the collectability of accounts receivable and provision for bad debts is based on historical collection experience, payer mix and the age of the receivables. Management routinely reviews accounts receivable balances in conjunction with these factors and other economic conditions which might ultimately affect the collectability of the patient accounts, and makes adjustments to the Company’s allowances as warranted. For receivables associated with services provided to patients who have third-party coverage, management analyzes contractually due amounts and subsequently calculates an allowance for doubtful accounts and provision for bad debts once the age of the accounts reaches a specific age category based on historical experience. For receivables associated with self-pay patients, management records a significant provision for bad debts beginning in the period services were provided based on past experience that many patients are unable or unwilling to pay the portion of their bill for which they are

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financially responsible. The allowance for doubtful accounts as a percent of gross accounts receivable was 35% and 32% at September 30, 2019 and September 30, 2018, respectively. The allowance for doubtful accounts was approximately \$165,719,000 and \$151,279,000 as of September 30, 2019 and 2018, respectively, and the increase results from a determination at September 30, 2019 to fully reserve for all patient accounts receivable over 365 days old.

Legislation

All of the Company's hospital facilities are subject to the Emergency Medical Treatment and Active Labor Act ("EMTALA"). This federal law requires any hospital that participates in the Medicare program to conduct an appropriate medical screening examination of every person who presents to the hospital's emergency department for treatment and, if the patient is suffering from an emergency medical condition, to either stabilize that condition or make an appropriate transfer of the patient to a facility that can handle the condition. The obligation to screen and stabilize emergency medical conditions exists regardless of a patient's ability to pay for treatment. There are severe penalties under EMTALA if a hospital fails to screen or appropriately stabilize or transfer a patient or if the hospital delays appropriate treatment in order to first inquire about the patient's ability to pay. Penalties for violations of EMTALA include civil monetary penalties and exclusion from participation in the Medicare program. In addition, an injured patient, the patient's family or a medical facility that suffers a financial loss as a direct result of another hospital's violation of the law can bring a civil suit against that other hospital. The Company believes that it is in compliance with EMTALA and is not aware of any pending or threatened EMTALA investigations involving allegations of potential wrongdoing that would have a material effect on the Company's consolidated financial statements.

Medical Group Segment

Medical Group Revenues

Operating revenue of the Medical Group segment consists primarily of payments for medical services procured by certain entities included within the Medical Group segment ("Affiliates") under capitated contracts with various managed care providers including HMOs. Capitation revenue under HMO contracts is prepaid monthly to the Affiliates based on the number of enrollees electing any one of the Affiliates as their health care provider. See "Concentrations of Credit Risks" below for revenues received from the five largest contracted HMOs.

Capitation revenue (net of capitation withheld to fund risk share deficits discussed below) is recognized in the month in which the physician organizations are obligated to provide services. Minor ongoing adjustments to prior months' capitation, primarily arising from contracted HMOs' finalizing of monthly patient eligibility data for additions or subtractions of enrollees, are recognized in the month they are communicated to the Company. Additionally, Medicare pays capitation using a "Risk Adjustment model," which compensates managed care organizations and providers based on the health status (acuity) of each enrollee. Health plans and providers with higher acuity enrollees will receive more and those with healthier enrollees will receive less. Under Risk Adjustment, capitation is determined based on health severity, measured using patient encounter data. Capitation is paid on an interim basis based on data submitted for the enrollee for the preceding year and is adjusted in subsequent periods (generally in the Company's fourth quarter) after the final data is compiled. Positive or negative capitation adjustments are made for Medicare enrollees with conditions requiring more or less healthcare services than assumed in the interim payments. Since the Company cannot reliably predict these adjustments, periodic changes in capitation amounts earned as a result of Risk Adjustment are recognized generally in the fourth quarter when those changes are communicated by the health plans to the Company. During the years ended September 30, 2019 and 2018, the Company returned and recognized as a reduction in revenue,

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approximately \$1,749,000 and \$3,220,000, respectively, as a result of the final Hierarchical Condition Category (“HCC”) reconciliation.

HMO contracts also include provisions to share in the risk for hospitalization, whereby the physician organization can earn additional incentive revenue or incur penalties based upon the utilization of hospital services. Typically, any shared risk deficits are not payable until and unless the Company generates future risk sharing surpluses, or if the HMO withholds a portion of the capitation revenue to fund any risk share deficits. At the termination of the HMO contract, any accumulated risk share deficit is typically extinguished. Due to the lack of access to information necessary to estimate the related costs, shared-risk amounts receivable from the HMOs are only recorded when such amounts are known. Risk pools for the prior contract years are generally final settled in the third or fourth quarter of the following fiscal year. For the years ended September 30, 2019 and 2018, Medical Group revenues included approximately \$10,482,000 and \$7,125,000, respectively, relating to risk-sharing profit. At September 30, 2019 and 2018, contingent liabilities for carry-forward risk-pool deficits expected to be forgiven, or offset against future surpluses were approximately \$88,991,000 and \$92,700,000, respectively, based on the available information from the health plans.

The Company also receives incentives under “pay-for-performance” programs for quality medical care based on various criteria. These incentives, which are included in other revenues within Medical Group revenues, are generally recorded in the third and fourth quarters of the fiscal year when such amounts are known. Performance and incentive revenues recorded during the years ended September 30, 2019 and 2018 were \$11,221,000 and \$5,751,000, respectively.

Management fee revenue is earned in the month the services are rendered. Management fee arrangements with unaffiliated entities provide for compensation ranging from 6.5% to 10% of revenues. Management fee revenues recorded during the years ended September 30, 2019 and 2018 were \$10,248,000 and \$5,656,000, respectively. Management fees for revenue for entities that are consolidated are eliminated on consolidation.

Medical Group Cost of Revenues

The cost of health care services consists primarily of capitation and claims payments, pharmacy costs and incentive payments to contracted providers. These costs are recognized in the period incurred, or when the services are provided. Claims costs also include an estimate of the cost of services which have been incurred but not yet reported to the Company. The estimate for accrued medical costs is based on projections of costs using historical studies of claims paid and adjusted for seasonality, utilization and cost trends. These estimates are subject to trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management records its best estimate of the amount of medical claims incurred at each reporting period. Estimates are continually monitored and reviewed and, as settlements are made or estimates adjusted, differences are reflected in current period. See Note 14 for changes in claims estimates during the years ended September 30, 2019 and 2018.

The Company has contractual reimbursement obligations to providers and discretionary incentive payment obligations to physicians. These payments are in large part predicated on the pay-for-performance, shared risk revenues, and favorable senior capitation risk adjustment payments received by the Company from the health plans. The Company records these revenues generally in the third or fourth quarter of each fiscal year when the incentives and capitation adjustments due from the health plans are known. During this period, the Company also finalizes the physician discretionary incentive.

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The Company recorded physician incentives expense of approximately \$17,643,000 and \$21,669,000 for the years ended September 30, 2019 and 2018, respectively. As of September 30, 2019 and 2018, physician incentive accruals of approximately \$14,351,000 and \$17,396,000, respectively, were included in accounts payable and other accrued liabilities in the accompanying consolidated financial statements.

The Company also periodically evaluates the need to establish premium deficiency reserves for the probability that anticipated future health care costs could exceed future capitation payments from HMOs under capitated contracts and, where appropriate, records a premium deficiency reserve. There were no such premium deficiencies recorded at September 30, 2019 and 2018, respectively.

The Company, for certain matters, maintains stop loss coverage for health care costs that are in excess of set thresholds.

Global Risk Management Segment

Global Risk Management Revenues

Operating revenue of the Global Risk Management segment consists primarily of payments for medical services procured under global capitation arrangements from third-party health plans. Capitation revenue under these global capitation contracts is prepaid monthly to the Global Risk Management segment based on the number of enrollees. Entities within the Global Risk Management segment entered into Management Services Agreements with the Hospital Services and Medical Group segments, under which up to 98% of capitation revenue received is transferred to these segments. During the years ended September 30, 2019 and 2018, capitation revenue received from health plans was \$267,300,000 and \$254,795,000, respectively, of which \$105,755,000 and \$101,563,000, and \$120,119,000 and \$116,957,000 was transferred to our Hospital Services segment and Medical Group segment, respectively.

Similar to the Medical Group segment, capitation revenue is recognized in the month in which the Global Risk Management segment is obligated to provide services. Minor ongoing adjustments to prior months' capitation, primarily arising from contracted HMOs' finalizing of monthly patient eligibility data for additions or subtractions of enrollees, are recognized in the month they are communicated to the Company. Additionally, Medicare pays capitation using a "Risk Adjustment model," which compensates managed care organizations and providers based on the health status (acuity) of each enrollee. Health plans and providers with higher acuity enrollees will receive more and those with healthier enrollees will receive less. Under Risk Adjustment, capitation is determined based on health severity, measured using patient encounter data. Capitation is paid on an interim basis based on data submitted for the enrollee for the preceding year and is adjusted in subsequent periods (generally in the Company's fourth quarter) after the final data is compiled. Positive or negative capitation adjustments are made for Medicare enrollees with conditions requiring more or less healthcare services than assumed in the interim payments. Since the Company cannot reliably predict these adjustments, periodic changes in capitation amounts earned as a result of Risk Adjustment are recognized generally in the fourth quarter when those changes are communicated by the health plans to the Company. During the years ended September 30, 2019 and 2018, the Global Risk Management Segment recognized capitation risk adjustments of \$4,552,000 and \$5,155,000, respectively.

Global Risk Management Cost of Revenues

The cost of health care services consists primarily of the transfer of capitation revenue to the Hospital Services and Medical Group segments under the Management Services Agreements, and capitation and claims payments. These costs are recognized in the period incurred, or when the services are provided.

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Claims costs also include an estimate of the cost of services which have been incurred but not yet reported to the Company. The estimate for accrued medical costs is based on projections of costs using historical studies of claims paid and adjusted for seasonality, utilization and cost trends. These estimates are subject to trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management records its best estimate of the amount of medical claims incurred at each reporting period. Estimates are continually monitored and reviewed and, as settlements are made or estimates adjusted, differences are reflected in current operations.

The Company also periodically evaluates the need to establish premium deficiency reserves for the probability that anticipated future health care costs could exceed future capitation payments from HMOs under capitated contracts and, where appropriate, record a premium deficiency reserve. There were no such premium deficiencies recorded at September 30, 2019 or 2018.

The Company, for certain matters, maintains stop loss coverage for health care costs that are in excess of set thresholds.

Property, Improvements and Equipment

Property, improvements and equipment are stated on the basis of cost or, in the case of acquisitions, at their acquisition date fair values. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, and amortization of leasehold improvements is provided using the straight-line basis over the shorter of the remaining lease period or the estimated useful lives of the leasehold improvements. Leasehold improvements are generally depreciated over 5 to 40 years, buildings are depreciated over 5 to 40 years, equipment is depreciated over 2 to 15 years and furniture and fixtures are depreciated over 2 to 20 years. Equipment capitalized under capital lease obligations are amortized over the lesser of the life of the lease or the useful life of the asset.

As more fully described in Note 13, the Company is required to comply with certain seismic standards as required by the state of California by dates ranging from February 2021 through June 2022. The useful life of buildings subject to seismic retrofit requirements may be limited if the Company does not make the necessary upgrades by the required compliance date.

Goodwill

Goodwill represents the excess of the consideration paid and liabilities assumed over the fair value of the net assets acquired, including identifiable intangible assets.

Goodwill is not amortized; rather it is reviewed annually for impairment for each reporting unit, or more frequently if impairment indicators arise. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. The Company's annual goodwill impairment test is conducted on July 1. Impairment of goodwill is tested at the reporting unit level, by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. The fair value of the reporting units are estimated. In evaluating whether indicators of impairment exist, the Company considers adverse changes in market value, laws and regulations, profitability, cash flows, ability to maintain enrollment and renew payer contracts at favorable terms, among other factors. The goodwill impairment test is a one-step process which consists of estimating based on a weighted combination of (i) the guideline company method that utilizes revenue or earnings multiples for comparable publicly-traded companies, and (ii) a discounted cash flow model. If the estimated fair value of the reporting unit is less than its carrying value, this indicates that goodwill is impaired, and impairment is recorded based on the deficiency of fair value compared to the carrying value. The

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Company's impairment test related to goodwill during the year ended September 30, 2018 resulted in a full impairment of goodwill related to the Rhode Island facilities. There were no impairment charges during the year ended September 30, 2019.

Intangible Assets

Intangible assets include customer relationships, trade names, and favorable leaseholds. The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The Company considers assets to be impaired and writes them down to fair value if estimated undiscounted cash flows associated with those assets are less than their carrying amounts. Fair value is based upon the present value of the associated cash flows. Changes in circumstances (for example, changes in laws or regulations, technological advances or changes in strategies) may also reduce the useful lives from initial estimates. Changes in planned use of intangibles may result from changes in customer base, contractual agreements, or regulatory requirements. In such circumstances, management will revise the useful life of the long-lived asset and amortize the remaining net book value over the adjusted remaining useful life. There were no impairments recorded during the years ended September 30, 2019 and 2018.

Insurance Reserves

Medical Malpractice Liability Insurance

The individual physicians who contract with the physician organizations carry their own medical malpractice insurance, some of which may be purchased from RRG or CHIC. In the Hospital Services segment, the Company's hospitals carry professional and general liability insurance to cover medical malpractice claims under claims-made policies. Under the policies, insurance premiums cover only those claims actually reported during the policy term. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims related to occurrences during the policy term but reported subsequent to the policy's termination may be uninsured. The Company's hospitals have a consolidated policy for professional and general liability insurance with separate retentions for each entity. The Pennsylvania MCARE fund provides the \$500,000 in excess of \$500,000 RRG malpractice coverage for Crozer.

For the current fiscal year, RRG provided primary malpractice insurance (\$500,000 per occurrence and \$2,500,000 in the aggregate) and general liability (\$1,000,000 per occurrence and \$2,000,000 in the aggregate). In addition, the RRG provided coverage for losses of \$4,000,000 in excess of \$1,000,000 for each hospital professional liability claim with no aggregate limit. RRG also provides additional layers of excess coverage over \$5,000,000 up to \$20,000,000, which are 100% reinsured by third party insurance carriers through multiple layers. The excess coverage provided for general liability is over \$10,000,000 up to \$50,000,000, which is also 100% reinsured by third party carriers. Additionally, there is \$1,000,000 per occurrence and \$3,000,000 in the aggregate) coverage for non-healthcare provider professional liability.

During the year ended September 30, 2018, CHIC provided malpractice and general liability (\$2,000,000 per occurrence) coverage for all facilities except Crozer and Prospect ECHN, Inc. ("ECHN"). During the year ended September 30, 2019, CHIC provided malpractice and general liability (\$5,000,000 per occurrence and \$37 million in the aggregate) coverage for all facilities, except Crozer. CHIC also provided an excess healthcare professional liability and umbrella liability insurance policy on a claims-made basis covering healthcare professional liability, general liability, automobile liability, employers' liability, helipad liability and non-owned aircraft liability. The limit provided was \$80,000,000 and \$60,000,000

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(during the years ended September 30, 2019 and 2018, respectively) for each loss event and in the annual aggregate excess of the primary coverage layers described above. This coverage was fully reinsured by third party carriers.

GAAP requires that a health care organization record and disclose the estimated costs of medical malpractice claims in the period of the incident of malpractice, if it is reasonably possible that liabilities may be incurred and losses can be reasonably estimated. The Company has recognized an estimated liability for incurred but not reported claims and the self-insured risks (including deductibles and potential claims in excess of policy limits) based upon an actuarial valuation of the Company's historical claims experience of its hospitals. At September 30, 2019 and 2018, the total gross claims liability, was \$133,300,000 and \$73,532,000 and reinsurance recoverable on unpaid losses were \$49,552,000 and \$12,834,000, respectively, included in other assets on the accompanying consolidated balance sheets, and were estimated using a discount factor ranging from 3.50% to 4.00%.

Workers' Compensation Insurance

The workers' compensation coverage provides the statutory benefits required by law with a \$500,000 deductible reimbursement policy provided by CHIC for the Company's entities located in California and Connecticut, and for the year ended September 30, 2019, Pennsylvania (covered in fiscal 2018 for the first \$500,000 with a third party carrier). The facilities in Rhode Island were fully insured for workers' compensation claims with no deductible. At September 30, 2019 and 2018, included in accrued salaries, wages and benefits are accruals for uninsured claims and claims incurred but not reported of approximately \$29,182,000 and \$27,776,000 and reinsurance recoverable on unpaid losses of \$3,134,000 and \$8,557,000, respectively, included in other assets on the accompanying consolidated balance sheets. The amounts are estimated based upon an actuarial valuation of claims experience, using a discount factor of 4%.

Reserve Methodology

The claims reserve is based on the best data available to the Company. The estimate, however, is subject to a significant degree of inherent variability. The estimate is continually monitored and reviewed, and as the reserve is adjusted, the difference is reflected in current operations. While the ultimate amount of the medical malpractice and workers' compensation claims liability is dependent on future developments, management is of the opinion that the associated liabilities recognized in the accompanying consolidated financial statements are adequate to cover such claims. Management is not aware of any potential claims whose settlement, if any, would have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Stock Options

Ivy Holdings has a stock option plan (the "Ivy Plan"), which is administered by the Compensation Committee of the Ivy Holdings Board. The plan includes an Incentive Stock Option Agreement and a Non-Qualified Stock Option Agreement to be used in connection with the grant of options under the plan. These options granted under the Ivy Plan are exercisable into Ivy Holdings stock and vest based on a number of criteria.

Compensation costs for option awards are measured and recognized in the consolidated financial statements based on their grant date fair value, net of estimated forfeitures over the awards' service period. Options subject to variable accounting treatment are subject to revaluation at the end of each reporting period. The Company uses the Black-Scholes option pricing model and a single option award

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approach to estimate the fair value of stock options granted. The fair value of restricted stock grants are determined on the date of grant, based on the number of shares granted and the quoted price or estimated fair market value of the Company's common stock. Equity-based compensation is classified within the same line items as cash compensation paid to employees. Compensation costs related to stock options that vest or are exercisable when certain corporate transactions occur, including a change in control, are recognized at the time that such an event occurs.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments with initial maturities of 90 days or less to be cash equivalents. Cash and cash equivalents are primarily comprised of deposits with banks. The Company maintains its cash at banks with high credit-quality ratings.

Restricted Cash

Some of the Company's cash is restricted for various purposes including research, regulatory requirements and letters of credit. The Company is also required to keep restricted deposits by certain HMOs for the payment of claims. Such restricted deposits are classified as a current asset in the accompanying consolidated balance sheets, as they are restricted for payment of current liabilities. Restricted cash also include certificates of deposit with maturity dates of more than 90 days when purchased.

Cash Held in Escrow

The Company holds \$70 million of the cash at September 30, 2019 which is held in in escrow and is expected to be contributed to the Company's pension plans during the year ending September 30, 2020.

Restricted Investments

Investments in marketable securities, primarily mutual funds, and are classified as available for sale and are stated at fair value. Unrealized gains and losses are recorded in the statements of other comprehensive income. Investment securities are exposed to various risk, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in values of investment securities could occur in the near term and such changes could materially affect investment. These investments are held in the Company's captive insurance companies and are shown as restricted because the state/local regulators require their approval before dividends or return of capital to the Parent Entity.

Inventories

Inventories of supplies are valued at the lower of amounts that approximate the weighted average cost or net realizable value, which approximates market value, and are expensed as incurred. Inventories consist primarily of medical and surgical supplies and pharmaceuticals.

Internal Use Software

Included within other receivables, prepaid expenses and other current assets are hosting arrangements related to the Oracle suite of products, which are accounted for as service contracts. The gross carrying amount of capitalized service costs was approximately \$12,100,000 and \$149,000 at September 30, 2019 and 2018, respectively. There is no expected residual value for capitalized costs. At September 30, 2019 and 2018, there was approximately \$12,100,000 and \$149,000, respectively, of capitalized costs for hosting arrangements accounted for as service contracts that is was in the development stage and amortization is scheduled to commence once the project is complete and ready for its intended use. The

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estimated amortization period is 5 years. There was no amortization expense for the years ended September 30, 2019 and 2018, respectively.

Deferred Financing Costs

Deferred financing costs are amortized over the period in which the related debt is outstanding using the effective interest method and are classified as a deduction from the carrying amount of the related debt. As it relates to MPT liabilities, deferred financing costs are classified in other assets in the accompanying consolidated balance sheets.

Income Taxes

Deferred income tax assets and liabilities are recognized for differences between financial and income tax reporting bases of assets and liabilities based on enacted tax rates and laws. To the extent a deferred tax asset cannot be recognized under the preceding criteria, allowances must be established. The impact on deferred taxes of changes in tax rates and laws, if any, are applied to the years during which temporary differences are expected to be settled and reflected in the financial statements in the period of enactment. The Company recognizes interest and penalties associated with income tax matters and unrecognized tax benefits in the income tax expense line item of the statements of operations. For the year ended September 30, 2018, the Company incurred \$2,405,000 of interest and penalties related to income taxes, which were reversed during the year ended September 30, 2019.

An entity is required to evaluate its tax positions using a two-step process. First, the entity should evaluate the position for recognition. An entity should recognize the financial statement benefit of a tax position if it determines that it is more likely than not that the position will be sustained on examination. Next, the entity should measure the amount of benefit that should be recognized for those tax positions that meet the more-likely-than-not test.

A consolidated federal tax return is filed for Ivy Holdings, with the exception of Nuestra Familia Medical Group Inc., ("Nuestra"), which files its own federal tax returns. The Company files separate state tax returns for California, Texas, Rhode Island, Pennsylvania, Connecticut, New Jersey and Florida. The Company's filed tax returns are generally subject to examination by the IRS and state tax boards for 3 to 4 years.

Sale-Leaseback Transactions

The Company evaluates sale-leaseback transactions by determining whether the transaction meets the qualifying criteria to be recognized as a sale-leaseback, including the transfer of risk and rewards of ownership as well as the absence of continuing involvement of the Company. When the qualifying criteria for a sale-leaseback transaction are not met, the Company accounts for the transaction as a financing (see Notes 9 and 10).

Comprehensive Income

Comprehensive income consists of net income and other gains and losses affecting stockholder's equity that, under generally accepted accounting principles, are excluded from net income (loss) attributable to the Company. For the Company, such items consist primarily of unrealized gains or losses on debt and equity securities as well as changes related to pension and other postretirement liabilities that are not recognized immediately in net periodic benefit costs (see Note 12).

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Fair Value of Financial Instruments

Financial instruments consist primarily of cash and cash equivalents, restricted cash, restricted investments, patient and other accounts receivables, accrued salaries and benefits, accounts payable and accrued expenses, medical claims and related liabilities, amounts due to government agencies, notes receivable and payable, capital lease obligations, debt, MPT liability and other liabilities. The carrying amounts of current assets and liabilities approximate their fair value due to the relatively short period of time between the origination of the instruments and their expected realization.

Fair Value Measurement

Relevant accounting guidance establishes a framework for measuring fair value and clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

The guidance requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of inputs as follows: Level 1 quoted prices in active markets for identical assets or liabilities; Level 2 quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; or Level 3 unobservable inputs for the asset or liability, such as discounted cash flow models or valuations. The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The Company's Level 1 assets include cash and cash equivalents and investments (certificates of deposit and money market mutual funds). The inputs for fair value of goodwill and intangible assets (including long lived assets and intangible assets subject to amortization) would be based on Level 3 inputs as data used for such fair value calculations would be based on discounted cash flows that are not observable from the market, directly or indirectly.

Financial Items Measured at Fair Value on a Recurring Basis

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis and where they are classified within the hierarchy (in thousands):

<i>September 30, 2019</i>	Total	Level 1	Level 2	Level 3
Mutual funds	\$ 29,540	\$ 29,540	\$ -	\$ -
<i>September 30, 2018</i>				
Mutual funds	\$ 23,779	\$ 23,779	\$ -	\$ -

The Company's investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices. The Company's defined benefit pension plan assets are also measured at fair value (see Note 12).

The Company's carrying amount of long-term debt approximated fair value as of September 30, 2019 and 2018, respectively.

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Nonfinancial Items Measured at Fair Value on a Nonrecurring Basis

Nonfinancial assets such as goodwill and identifiable intangible assets are measured at fair value when there is an indicator of impairment and recorded at fair value only when impairment is recognized. The Company performs an annual impairment test on the goodwill, and performs an impairment test on the intangible assets when there are indications of impairment.

During the year ended September 30, 2018, the Company recorded approximately \$14,228,000 of impairment relating to goodwill, which is reflected in the accompanying consolidated statements of operations.

The Company uses the discounted cash flow approach and the guideline public company approach to estimate the residual value of the Company's goodwill. The measurement of goodwill is a Level 3 measurement.

The following table provides quantitative information related to the significant unobservable inputs to determine fair value of goodwill as of September 30, 2018:

Residual Value of Goodwill	Valuation Technique	Unobservable Input	Rates
\$ -	Discounted Cash Flow	Weighted average cost of capital	9.3%
		Revenue growth rate	2.1% - 2.5%
	Guideline Public Company	LTM revenue multiple	0.5x
		NTM EBITDA multiple	7.0x

There were no nonrecurring measurements as of September 30, 2019.

Concentrations of Credit Risk

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits of \$250,000 per depositor of each financial institution. The Company has not experienced any losses to date related to these balances.

Financial instruments that potentially subject the Company to concentrations of credit risk consist of receivables due from Medicare, Medicaid, patients, and health plans including shared-risk arrangements.

The Company invests excess cash in liquid securities at institutions with strong credit ratings, following established guidelines relative to diversification and maturities to maintain safety and liquidity. These guidelines are periodically reviewed and modified to take into consideration trends in yields and interest rates and principal risk. Management attempts to schedule the maturities of the Company's investments to coincide with the Company's expected cash requirements. Credit risk with respect to receivables is limited since amounts are generally due from large HMOs within the Medical Group segment and from the Medicare and Medicaid programs within the Hospital Services segment. Management reviews the financial condition of these institutions on a periodic basis and does not believe the concentration of cash or receivables results in a high level of risk.

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For the years ended September 30, 2019 and 2018, the Hospital Services segment received a total of 63% and 65% of its net patient revenues from Medicare and Medicaid programs, respectively, and the Medical Group segment received a total of 65% and 62% for the years ended September 30, 2019 and 2018, respectively, of their capitation revenues from its five largest HMOs, as follows (in thousands):

<i>Years Ended September 30,</i>	2019	% of Total Revenue	2018	% of Total Revenue
Hospital Services:				
Government Payers:				
Medicare	\$ 822,407	33%	\$ 801,222	31%
Medicaid	750,909	30%	874,865	34%
Total	\$ 1,573,316	63%	\$ 1,676,087	65%
Medical Group:				
HMO A	\$ 61,087	20%	HMO A 60,506	20%
HMO B	35,674	12%	HMO B 35,705	11%
HMO E	34,684	11%	HMO F 32,934	11%
HMO F	34,207	11%	HMO D 32,357	11%
HMO D	32,617	11%	HMO C 27,051	9%
Total	\$ 198,269	65%	\$ 188,553	62%

The Global Risk Management segment received all of their revenues from seven health plans during the years ended September 30, 2019 and 2018.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities at the dates, and for the periods, that the consolidated financial statements are prepared. Actual results could materially differ from those estimates. Principal areas requiring the use of estimates include third party settlements, settlements under risk sharing programs, allowances for contractual discounts and doubtful accounts, accruals for medical claims, impairment of goodwill, long-lived assets and intangible assets, share-based payments, professional and general liability claims and workers' compensation claims, reserves for pension obligations and other postretirement benefit reserves, reserves for outcome of legislation and valuation allowances against deferred tax assets.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)" with an effective date deferred by ASU 2015-14. The core principle of ASU 2014-09 is built on the contract between a vendor and a customer for the provision of goods and services, and attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this objective, the standard requires five basic steps: (i)

Prospect Medical Holdings, Inc.

Notes to Consolidated Financial Statements

identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, (v) recognize revenue when (or as) the entity satisfies a performance obligation. Nonpublic entities will apply the new standard for annual periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Three basic transition methods are available – full retrospective, retrospective with certain practical expedients, and a cumulative effect approach. Under the third alternative, an entity would apply the new revenue standard only to contracts that are incomplete under legacy U.S. GAAP at the date of initial application and recognize the cumulative effect of the new standard as an adjustment to the opening balance of retained earnings. That is, prior years would not be restated and additional disclosures would be required to enable users of the financial statements to understand the impact of adopting the new standard in the current year compared to prior years that are presented under legacy U.S. GAAP. The Company is currently evaluating the effect of this guidance on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)”. The core principle of ASU 2016-02 is that a lessee should recognize the assets and liabilities that arise from leases, including operating leases. Under the new requirements, a lessee will recognize in the statement of financial position a liability to make lease payments (the lease liability) and the right-of-use asset representing the right to the underlying asset for the lease term. For leases with a term of 12 months or less, the lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous GAAP. The standard was originally scheduled to be effective for nonpublic entities for fiscal years beginning after December 15, 2019. In November 2019 the FASB issued ASU 2019-10, “Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)” which delay the effective date by one year to December 2020. The Company is currently evaluating the standard and the impact on its consolidated financial statements and footnote disclosures.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230)”. The updated standard addresses eight specific cash flow issues with the objective of reducing diversity in practice. ASU 2016-15 is effective for non-public business entities for annual reporting periods beginning after December 15, 2018, including interim periods within those annual reporting periods. Early adoption is permitted. The Company is assessing the impact of the adoption of ASU 2016-15 on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The ASU amends ASC Topic 715, Compensation – Retirement Benefits, to require employers that present a measure of operating income in their statements of income to include only the service cost component of net periodic pension costs and net periodic postretirement benefit cost in operating expenses. The ASU also stipulates that only the service cost component of net benefit cost is eligible for capitalization. This guidance is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted as of the beginning of an annual period for which financial statements have not been issued or made available for issuance. Disclosures of the nature of and reason for the change in accounting principle are required in the first interim and annual periods of adoption. The Company is currently evaluating the provisions of ASU 2017-07 and its impact on the Company’s consolidated financial position, results of operations and cash flows.

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In August 2018, the FASB issued ASU 2018-14, "Compensation - Retirement Benefits - Defined Benefit plans - General (Topic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans", which amends ASC 715 to add, remove and clarify disclosure requirements related to defined benefit pension and other postretirement plans. This ASU is effective for fiscal years ending after December 15, 2021. Early adoption is permitted. The Company is currently evaluating the provision of ASU 2018-14 and its impact on its consolidated financial statements and related disclosures.

Reclassifications

Certain reclassifications were made to the prior year consolidated financial statements in order to conform to the current year presentation, and primarily relate to presentation of discontinued operations (see Note 5).

3. Property, Improvements and Equipment

Property, improvements and equipment, consisted of the following (in thousands):

<i>September 30,</i>	2019	2018
Land and land improvements	\$ 68,403	\$ 75,801
Buildings and improvements	359,570	316,217
Leasehold improvements	12,097	8,758
Equipment	373,153	283,008
Furniture and fixtures	5,288	4,705
	818,511	688,489
Less: accumulated depreciation	(342,106)	(248,162)
	476,405	440,327
Construction in Progress	62,066	73,363
Property, improvements and equipment, net	\$ 538,471	\$ 513,690

At September 30, 2019 and 2018, the Company had assets under capitalized leases of approximately \$53,861,000 and \$31,784,000, respectively, and related accumulated depreciation of \$10,771,000 and \$12,433,000, respectively.

Depreciation expense was approximately \$83,683,000 and \$78,153,000 for the years ended September 30, 2019 and 2018, respectively.

Included within equipment is capitalized software costs, which relate to significant system conversions. The estimated amortization period is 5 years. The gross carrying amount of capitalized software for internal use (related to the Cerner suite of products) was approximately \$39,538,000 and \$14,557,000 at September 30, 2019 and 2018, respectively, and the net carrying amount considering accumulated amortization was approximately \$37,449,000 and \$14,557,000 at September 30, 2019 and 2018, respectively. There is no expected residual value for capitalized internal-use software. At September 30, 2019 and 2018, there was approximately \$28,355,000 and \$7,914,000, respectively, of capitalized costs for internal-use software that is in the development stage and amortization is scheduled to commence once the software project is complete and ready for its intended use. Amortization expense was \$2,050,000 and \$0 for the years ended September 30, 2019 and 2018, respectively.

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4. Acquisitions

For the years ended September 30, 2019 and 2018, the Company entered into the following material acquisitions. All business combinations were consistent with the Company's strategic growth plan and were accounted for using the acquisition method of accounting. Operating results for each of the acquisitions have been included in the accompanying consolidated financial statements from the date of acquisition. Goodwill arising is primarily attributable to the synergies expected to arise after the acquisitions, and is expected to be deductible for tax purposes for entities that were asset acquisitions, but is not expected to be deductible for tax purposes for entities that were stock acquisitions.

All assets acquired and liabilities assumed were at fair value with the exception of the defined benefit pension liabilities and other post retirement employee benefits, which allows for an exception to fair value accounting for business combinations in accordance with GAAP. The recognized tax bases (the amount that is attributable for tax purposes) of the assets and liabilities are compared to the financial reporting values of the acquired assets and assumed liabilities (book bases) to determine the appropriate temporary differences. The Company identified temporary differences related to assumed pension liabilities, due primarily to differences in tax law regarding when a liability is or is not assumed in an asset acquisition; this difference in the treatment of the pension liabilities resulted in the recording of deferred tax assets which are reflected in the acquisition accounting and noted in the tables below.

Transaction costs incurred during the years ended September 30, 2019 and 2018 were immaterial.

2019 acquisitions

The Company completed the acquisitions of 10 physician practices in Connecticut and Pennsylvania for an aggregate purchase price of approximately \$400,000. All acquisitions were asset acquisitions.

2018 acquisitions

In December 2017, New University Medical Group LLC ("New UMG") entered into a Second Closing to acquire the remaining assets of University Medical Group ("UMG") that were not acquired in the initial acquisition in December 2014. As consideration for the acquisition, New UMG has assumed certain designated liabilities of the practice, which consists of various loans payable to subsidiaries of the Company, totaling approximately \$7.5 million. Post-acquisition, these liabilities are eliminated on consolidation. There was no cash consideration related to the transaction. The remaining assets and liabilities acquired were immaterial and no value was assigned to them in the purchase price allocation, and accordingly goodwill of \$7.5 million arises from the acquisition. New UMG's parent company, Prospect CharterCARE Physicians, LLC, dba CharterCARE Medical Associates ("CCMA"), entered into a Post Closing Administrative Services Agreement pursuant to which CCMA and its affiliates provide services to the seller of the practice in connection with its termination of all operations and the wind up its affairs and operations.

The Company completed the acquisitions of four physician practice acquisitions in Connecticut for an aggregate purchase price of approximately \$2.6 million, one physician multi-specialty practice in Pennsylvania for a purchase price of \$1.6 million (net of working capital adjustments), three physician medical practices in California for an aggregate purchase price of approximately \$800,000, and one physician family practice in Rhode Island for \$180,000. All acquisitions were asset acquisitions, except for one stock purchase acquisition in Connecticut for a purchase price of \$800,000.

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5. Discontinued Operations

During the year ended September 30, 2019, the Company made the determination to sell the operations of Nix Hospital System (“Nix Health”) in Texas and East Orange General Hospital (“EOGH”) in New Jersey. The initial plan as approved by the Company’s Board of Directors in March 2019 was to sell both Nix Health and EOGH as “going concern” businesses. Subsequent to the initial plan, the plans for Nix Health changed as a result of interest in the market place. The decision to sell the acute hospital building as a real estate transaction was made in August 2019. The hospital closed to patient admissions in September 2019 and as of September 30, 2019 had no patients “in-house”. The building is under contract for sale for \$28.5 million and the sale is expected to close in the second quarter of fiscal 2020. The decision was made in October 2019 to initially consolidate, and then close, the behavioral business. The two behavioral health businesses were closed in November 2019. Efforts are underway to sell the building that is owned and sublease the building that is leased. Negotiations continue with a number of potential buys with respect to the sale of EOGH. The Company’s decision to discontinue the operations of each of these entities was based on the strategy of the Company’s management in their respective markets and financial results.

Accordingly, as of September 30, 2019 and 2018, the assets and liabilities of these businesses have been classified as “held for sale,” and the operations (as it relates to revenues and expenses that will no longer continue post sale) have been shown within discontinued operations.

In connection with the presentation of discontinued operations, the Company was required to test the long lived assets for impairment as of September 30, 2019. As part of that impairment test: (i) goodwill at Nix Health was fully impaired; (ii) property, plant and equipment at EOGH was impaired by approximately \$55.9 million and at Nix Health was impaired by \$17.8 million, respectively.

Summarized financial information for discontinued operations is included below (in thousands):

<i>September 30,</i>	2019	2018
Patient accounts receivable, net of allowance for doubtful accounts and other receivables	\$ 26,037	\$ 33,377
Due from government payors	2,022	11,424
Other receivables, prepaid expenses and other current assets	7,732	11,352
Inventories	1,486	4,837
Total current assets	37,277	60,990
Property, improvements and equipment, net	42,401	110,273
Goodwill	-	3,138
Intangible assets, net	1,555	1,797
Other assets	164	161
Total assets of the disposal groups classified as held for sale in the consolidated balance sheets	\$ 81,397	\$ 176,359

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<i>September 30,</i>	2019	2018
Accrued medical claims and other healthcare costs payable	\$ 53	\$ 46
Accounts payable and other accrued liabilities	23,325	29,436
Accrued salaries, wages and benefits	7,929	9,849
Due to government payers	855	1,478
Current portion of capital leases	1,777	1,415
Total current liabilities	33,939	42,224
Long-term debt, net of current portion	946	1,000
Malpractice reserves	2,677	3,748
Capital leases, net of current portion	7,310	6,623
Other long-term liabilities	1,061	1,406
Total liabilities of the disposal groups classified as held for sale in the consolidated balance sheets	\$ 45,933	\$ 55,001
<i>For the Years Ended September 30,</i>	2019	2018
Net patient service revenues	\$ 189,063	\$ 190,085
Provision for bad debts	(19,953)	(19,388)
Net patient service revenues	169,110	170,697
Other non-patient revenues	4,762	5,049
Total revenues	173,872	175,746
Hospital operating expenses	181,145	174,058
General and administrative	47,829	42,651
Depreciation and amortization	7,224	12,763
Total operating expenses	236,198	229,472
Net operating loss	(62,326)	(53,726)
Interest expense, net	1,708	1,699
Goodwill impairment	3,138	4,572
Property, improvement and equipment impairment	73,682	-
Other expense (income), net	685	(83)
Total other expense, net	79,213	6,188
Loss on discontinued operations before income taxes	(141,539)	(59,914)
Income tax benefit	18,234	1,289
Loss on discontinued operations, net of taxes	\$ (123,305)	\$ (58,625)

Prospect Medical Holdings, Inc.

Notes to Consolidated Financial Statements

6. Goodwill and Intangible Assets

The carrying value of goodwill by reporting unit is as follows (in thousands):

<i>September 30,</i>	2019	2018
Southern California Hospitals	\$ 130,912	\$ 130,912
California Medical Groups	28,222	28,222
Crozer	140,216	140,216
ECHN	535	483
Waterbury	2,492	2,155
Total	\$ 302,377	\$ 301,988

The changes in the carrying amount of goodwill for the years ended September 30 are as follows (amounts in thousands):

<i>September 30,</i>	2019	2018
Balance, beginning of year	\$ 301,988	\$ 302,985
Acquisitions	389	13,231
Impairment	-	(14,228)
Balance, end of year	\$ 302,377	\$ 301,988

Identifiable intangible assets are comprised of the following (in thousands):

<i>September 30,</i>	Useful lives	2019	2018
HMO membership	14 years	\$ 25,200	\$ 25,200
Trade names, net of impairment	3 - 20 years	42,030	50,160
Customer relationships	7 years	-	350
Other	5 - 6 years	97	97
Gross carrying value		67,327	75,807
Accumulated amortization		(41,782)	(43,985)
Intangible assets, net		\$ 25,545	\$ 31,822

Amortization is recognized on a straight-line basis (management's best estimate of the period of economic benefit) over the respective useful lives and expense for the years ended September 30, 2019 and 2018 was \$6,278,000 and \$6,898,000, respectively. There are no expected residual values related to these intangible assets.

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Estimated amortization expense for each future fiscal year is as follows (in thousands):

<u>Years ending September 30,</u>	
2020	\$ 5,108
2021	5,088
2022	3,299
2023	2,780
2024	2,780
Thereafter	6,490
	<hr/>
	\$ 25,545

The weighted-average remaining useful life for the intangible assets was approximately 7 years as of September 30, 2019.

7. Related Party Transactions

Jeerreddi Prasad, M.D., a shareholder of Ivy Holdings, a director of Ivy Holdings and the Company, and an officer of the Upland Medical Group, a Professional Medical Group and Pomona Valley Medical Group, Inc (collectively "ProMed Entities"), has ownership interests in physician medical groups that provide medical services to ProMed members, including Chaparral Medical Group, Inc., (in which the Company beneficially owns a 13.2% interest). For the years ended September 30, 2019 and 2018, the ProMed Entities paid these groups approximately \$21,922,000 and \$19,760,000, respectively. As of September 30, 2019 and 2018, the Company had accounts payable and other accrued liabilities due to these related parties of \$806,000 and \$1,266,000, respectively.

Pursuant to a Management Services Agreement, dated December 15, 2010 and amended on May 3, 2012 (the "LGP Management Agreement"), between the Company and Leonard Green & Partners, L.P. ("LGP"), a private equity fund with affiliated funds that collectively constitute the majority shareholder of Ivy Holdings, LGP provides to the Company, (a) certain investment banking services, (b) management, consulting and financial planning services and (c) financial advisory and investment banking services in connection with major financial transactions from time to time. In consideration for the services provided by LGP under the LGP Management Agreement, the Company pays LGP an annual fee of \$1,000,000, payable in monthly installments, and reimburses LGP for its related expenses up to \$50,000 annually. If approved by the unanimous consent of the Board of Directors of the Company, additional customary fees may be due to LGP pursuant to the terms of the LGP Management Agreement for services rendered in connection with major transactions from time to time. As of September 30, 2019 and 2018, there was approximately \$500,000 and \$0 payable, respectively, included in accounts payable and other accrued liabilities on the accompanying consolidated balance sheets.

During the year ended September 30, 2019, the Company received a capital contribution from Ivy Intermediate of \$41.0 million and paid a dividend of approximately \$44.4 million (see Note 11).

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The Company is a wholly-owned indirect subsidiary of Ivy Holdings. Therefore, Ivy Holdings is the parent of an affiliated group of corporations within the meaning of Section 1504(a) of the Internal Revenue Code of 1986. On December 15, 2010, Ivy Holdings, Ivy Intermediate and the Company entered into a Tax Sharing Agreement. The Tax Sharing Agreement allows the Company to make payments to Ivy Holdings as necessary to fund their payment of any required taxes incurred due to such parent status. Under this agreement, the Company received refunds (net of payments) of \$(343,000) and \$5,463,000 for the years ended September 30, 2019 and September 30, 2018, respectively.

8. Income Taxes

The components of the income tax (benefit) provision are as follows (in thousands):

<i>For the years ended September 30,</i>	2019	2018
Current:		
Federal	\$ 11,940	\$ (41,703)
State	3,353	(8,549)
	15,293	(50,252)
Deferred:		
Federal	1,162	100,529
State	-	12,509
	1,162	113,038
Total:		
Federal	13,102	58,826
State	3,353	3,960
	\$ 16,455	\$ 62,786

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Notes to Consolidated Financial Statements

Temporary differences and carry forward items that result in deferred income tax balances as of September 30, are as follows (in thousands):

<i>September 30,</i>	2019	2018
Deferred tax assets:		
Accrued medical claims	\$ 3,443	\$ 4,265
Malpractice reserves	3,254	3,202
Accounts receivable	26,596	22,136
Accrued salaries & wages	13,478	10,530
Pension obligation	65,919	81,847
Net operating losses	44,026	51,567
Tax Credits	1,719	2,870
Outside basis differences	7,244	755
Lease liability	132,400	-
UTP & other	-	7,730
Deferred tax assets	298,079	184,902
Valuation allowance	(203,335)	(105,909)
Net deferred tax assets	94,744	78,993
Deferred tax liabilities:		
Property, plant & equipment	(72,053)	(54,863)
Intangible assets	(6,642)	(8,626)
Prepaid expenses	(2,969)	(2,222)
Other comprehensive income	(11,585)	(11,307)
UTP & other	(672)	-
Deferred tax liabilities	(93,921)	(77,018)
Net deferred tax assets	\$ 823	\$ 1,975

Deferred tax assets and liabilities reflect the effect of temporary differences between the assets and liabilities recognized for financial reporting purposes and the amounts recognized for income tax purposes.

Management assesses the available positive and negative evidence to estimate whether sufficient future pretax income will be generated to permit use of the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative pretax losses incurred over the three year period ended September 30, 2019. Such objective evidence limits the ability to consider other subjective evidence, such as the Company's projections for future growth. On the basis of this evaluation, at September 30, 2019 and 2018, a valuation allowance of approximately \$203.3 million and \$105.9 million, respectively, was recorded to recognize only the portion of the deferred tax asset that is more likely than not to be realized. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased or if negative objective evidence in the form of cumulative losses is no longer present and additional weight is given to subjective evidence such as the Company's projections for growth.

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During fiscal 2019, the Company completed an IRS examination for Ivy Holdings, Inc. & Subsidiaries fiscal 2014 through 2016 federal income tax returns without any adjustment to reported taxable income. The Company is under examinations by the California Franchise Tax Board for tax years ended September 30, 2014 through 2016. The Company does not currently anticipate any changes to our unrecognized tax benefits for the next twelve months related to these examinations.

The Company's tax years 2016 and 2017 are open for federal tax examination, and generally the states are open for tax years 2015 through 2017. During the year ended September 30, 2018, the Company recorded a liability in the amount of \$12.7 million related to uncertain tax positions ("UTP") with respect to impermissible accounting methods for federal income tax purposes, which was recorded in other long-term liabilities in the accompanying consolidated balance sheets. During the year ended September 30, 2019, The Company has removed the UTP liability due to filing with IRS for a change from an improper to a proper accounting method change.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Act") was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, limitations on various business deductions such as executive compensation under Internal Revenue Code §162(m), the transition of U.S international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017. The United States federal income tax rate reduction was effective as of January 1, 2018. As a result, the Company reduced net U.S. deferred tax assets by \$25,660,000 during the year ended September 30, 2018. As the Company does not have profitable foreign subsidiaries, it does not anticipate any impacts as a result of the mandatory deemed repatriation of cumulative foreign earnings.

The differences between the income tax provision at the federal statutory rate and that reflected in the accompanying consolidated statements of operations are summarized as follows:

<i>For the years ended September 30,</i>	2019	2018
Tax provision at statutory rate	21%	25%
State taxes, net of federal benefit	16%	15%
Impact of US Tax Reform	0%	(16)%
Valuation allowance	(56)%	(77)%
UTP	8%	(2)%
Other	1%	4%
	(10)%	(51)%

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9. Long-Term Debt

Long-term debt consists of the following (in thousands):

<i>September 30,</i>	2019	2018
Senior secured credit facility (net of discount of \$0 and \$20,085, respectively)	\$ -	\$ 1,094,315
Other debt (1)	206,350	38,769
Less: Deferred financing costs, net ("DFC")	-	(16,214)
Total Debt, net of discount and DFC	206,350	1,116,870
Less: current maturities	(18,983)	(18,429)
Long-term debt, net of current maturities	\$ 187,367	\$ 1,098,441

(1) Other debt includes (i) financing obligations related to sales-leaseback transactions. The financing obligations related to sales-leaseback transactions were \$23,152,000 and \$24,614,000 for years ended September 30, 2019 and 2018, respectively, excluding the sale leaseback transaction in entered into in fiscal 2019 with MPT (see Note 10) and (ii) debt related to the Foothill (\$51,267,000) and TRS Notes (\$112,937,000) entered into in fiscal 2019 with MPT (see Note 10).

Senior Secured Credit Facilities

On June 30, 2016, the Company entered into a six-year \$625,000,000 senior secured term loan B (the "Original Term Loan"). The Original Term Loan was issued with an original discount of 1.50%, or \$9,375,000. Additionally, the Company refinanced the previous revolver with a new \$100,000,000 asset-based revolving credit facility ("Original ABL Facility" and together with the Original Term Loan, the "New Senior Secured Credit Facilities"). Pursuant to various amendments from August 2016 through October 2017, the aggregate commitment amount under the Original ABL facility was increased in stages to \$175,000,000. The original maturity date for the Original ABL Facility was June 30, 2021, and the original maturity date for the Term Loan was June 30, 2022.

On February 22, 2018, the Company refinanced and replaced both the Original Term Loan and the Original ABL Facility, and entered into an Amended and Restated Term Loan Credit Agreement (the "Amended TL Agreement"), by and among the Company (as the borrower), the lenders party thereto and JPMorgan Chase Bank, N.A. ("JPMorgan"), as administrative agent and collateral agent. The Amended TL Agreement replaced the Original Term Loan with a new Term B-1 Loan ("Term B-1 Loan"). The principal amount of the Term B-1 Loan was \$1,120,000,000 and such loan incurred interest at LIBOR (subject to a 1.00% floor) plus 5.50%. The Term B-1 Loan was issued with an original discount of 2.00% and was originally scheduled to mature on February 22, 2024. The Term B-1 Loan was repaid on August 23, 2019 (see Note 10).

Additionally, on February 22, 2018, the Company entered into an Amended and Restated ABL Credit Agreement (the "Amended ABL Agreement"), by and among the Company (as the borrower), the lenders party thereto and JPMorgan, as administrative agent and collateral agent. The Amended ABL Agreement replaced the Original ABL Facility. Under the Amended ABL Agreement, the maximum revolving commitment was \$250,000,000 with ability to expand the facility to \$325,000,000, and the new ABL

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facility (the “New ABL Facility”) bears interest at a variable base rate plus an applicable spread that is based on excess availability under the New ABL Facility, as further described in the Amended ABL Agreement, which was 6.0% as of September 30, 2019. From January 2019 through July 2019 the Company entered into various amendments to the Amended ABL Agreement. Such amendments (i) waived certain events of default at September 30, 2018; (ii) increased the maximum revolving commitment from \$250.0 million to \$280.0 million, and further to \$285.0 million, while simultaneously reducing and removing future expansion of the facility; (iii) introduced \$40.0 million of a first in last out (“FILO”) revolving facility, which incurred interest at either 2.5% or 3.5% per annum depending on whether they are Eurodollar loans or ABR loans (which were repaid on August 23, 2019); (iv) provides for a reduction in the maximum revolving commitment by \$20.0 million and \$10.0 million upon the future planned closure or disposition of Nix Health and EOGH, respectively. The New ABL Facility matures on February 22, 2023. As of September 30, 2019, the outstanding balance and the available balance on the New ABL facility was approximately \$70.0 million and \$175.6 million, respectively.

The proceeds of the Term B-1 Loans and the New ABL Facility (the “New Senior Secured Credit Facilities”) were used to refinance the Original Term Loan and the Original ABL Facility, to pay a dividend of \$457,000,000 to the Company’s stockholders, to pay certain expenses associated with the refinancing, to prefund approximately \$40,000,000 of pension liabilities of the Company’s subsidiaries, to make payments to certain option holders as a result of the referenced dividend, and to finance certain working capital and other operational needs of the Company and its subsidiaries.

Under applicable accounting literature, during the year ended September 30, 2018, deferred financing costs of \$11,700,000 and outstanding debt discount of \$6,700,000 as of February 22, 2018 were expensed and presented within loss on debt extinguishment in the accompanying consolidated statements of operations, and new costs of approximately \$18,000,000 incurred in connection with the refinancing were capitalized to offset the new long-term debt in the accompanying consolidated balance sheets, and are being amortized over the term of the related debt using the effective interest method. In connection with the repayment of the Term B-1 Loan (see Note 10), and under applicable accounting literature, during the year ended September 30, 2019, deferred financing costs of \$13,444,000 and outstanding debt discount of \$16,608,000 were expensed and are presented within loss on debt extinguishment in the accompanying consolidated statements of operations.

The New ABL Facility is secured by a first priority security interest on the working capital assets of the Company and its wholly-owned subsidiaries except Prospect Health Plan, Inc., CHIC, RRG, Prospect Health Access Network, Inc. and certain immaterial subsidiaries and a second priority security interest on their fixed assets. The Amended ABL Agreement does not have any financial maintenance covenants. The Amended ABL Agreement has a “springing” fixed charge ratio covenant that applies if excess availability is less than the greater of 10% of the maximum borrowing amount and \$22,000,000. The fixed charge ratio covenant was not required to be tested for the fiscal quarter ended September 30, 2019.

Demand Notes

The Company has a commitment from a bank for a \$15,000,000 equipment leasing facility to finance various equipment at the Company’s hospital facilities. As of September 30, 2019 and 2018, draws under the facility are classified as capital lease arrangements. Draws represent demand notes until conversion to capital leases, and interest accrues on such draws at the bank prime rate plus 1.50% with a floor of 4.50% and payable monthly. As of September 30, 2019, approximately \$15,000,000 had been drawn under the line.

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Scheduled payments under the Company's current and long-term debt as of September 30, 2019 are as follows (in thousands):

<u>Years ending September 30,</u>	
2020	\$ 18,983
2021	15,289
2022	13,140
2023	13,106
2024	13,412
Thereafter	132,420
<hr/>	
Total scheduled payments	206,350
Less: Current maturities	(18,983)
<hr/>	
Total long-term debt	\$ 187,367

10. Transactions with MPT

On August 23, 2019, the Company closed a series of transactions with affiliates of Medical Properties Trust, Inc. ("MPT"), a publicly traded Real Estate Investment Trust ("REIT"). Under these transactions, the Company sold to MPT the Company's hospital buildings in California (excluding Foothill Regional Medical Center ("Foothill"), Connecticut and Pennsylvania for an aggregate purchase price of \$1,386,000,000. Concurrent with the sale transactions, the Company entered into two master lease agreements whereby the hospital properties and related medical office buildings were leased back for an initial 15 year term, with options to extend twice for an additional 5 years each and for a further 4.75 year extension. Monthly rent is defined as 7.5% of the lease base, subject to annual escalation of consumer price index, limited to a minimum of 2% and a maximum of 4%. For the first master lease, the Company has the option to buy the properties at their fair value at the end of the lease term. For the second master lease, the Company has the option to purchase at a price that is fixed at the time of entering into the lease (the "Option Price"). If the Company chooses not to exercise this option, and the fair value at the end of the lease is below the Option Price, then the Company must pay MPT a sum equal to the difference between the fair value and the Option Price. These transactions do not qualify for sale leaseback accounting because of the Company's deemed continuing involvement with the buyer-lessor, including the requirements to pay reserves for major repairs, and the option to purchase included in the lease, which are considered a form of contingent collateral and results in the transaction being recorded under the financing method. All of the legal entities that are parties to the master lease agreement (which are the hospital entities in California, Connecticut and Pennsylvania) provide cross guarantees on all of the obligations to MPT, which guarantees include both lease payments under the master lease as well as indebtedness due to MPT. The balance due under the leases is reflected in MPT liabilities in the accompanying consolidated financial statements.

Further, the Company obtained a mortgage on the Foothill property. This mortgage is secured by the buildings at Foothill. The interest on this mortgage is 7.5% per annum and is subject to annual escalation of consumer price index, limited to a minimum of 2% and a maximum of 4%. The maturity date of this loan is in August 2034. MPT can purchase the property on event of default or at end of term, or if Company does not exercise purchase rights for the aforementioned leased properties. Additionally, if the Foothill property is no longer used as collateral for a promissory note payable to Prospect Medical Group, Inc. ("PMG"), one of the Company's California Medical Groups, then MPT shall have the right to purchase the Foothill property and lease it back to the Company under the second master lease

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agreement, for an amount equal to the outstanding principal balance. The referenced promissory note payable to PMG has been included in the calculation of PMG's Tangible Net Equity in connection with requirements of the California Department of Managed Health Care. The balance due under the promissory note payable to MPT is reflected in long term debt in the accompanying consolidated financial statements (see Note 9).

Additionally, the Company entered into a promissory note (the "TRS Note"), under which MPT has advanced to the Company \$112,937,000. The interest on this note is 7.5% per annum and is subject to annual escalation of consumer price index, limited to a minimum of 2% and a maximum of 4%. The maturity date of this note is the earlier of July 2022 or, if it occurs, a sale-leaseback of the properties in Rhode Island. The balance due under this note is reflected in long term debt in the accompanying consolidated financial statements (see Note 9).

All of the agreements referenced in this footnote are cross-collateralized and cross defaulted among the parties and the assets included therein (which do not include any of the hospital operating entities or real properties in Rhode Island, Texas or New Jersey). Based on annualized Adjusted EBITDAR (as defined) achieved over the three years from the transaction date, additional amounts between \$50 million to \$250 million will be payable to the Company. As of September 30, 2019, there has been no accounting for these amounts in the consolidated financial statements. The proceeds from these transactions were used to pay off in full the Term B-1 Loan and to pay down the amounts outstanding under the Amended ABL Agreements (see Note 9) and the FILO facility, as well as fund a restricted cash account for the future paydown of the Company's pension liabilities and to provide working capital.

The MPT transaction documents contain certain customary covenants and restrictions and a financial covenant based on EBITDAR performance.

Interest expense under these agreements was \$6,649,000 for the year ended September 30, 2019.

See Note 13 for future minimum lease payments related to sale leaseback commitments as of September 30, 2019.

11. Stockholder's Equity

Equity Based Compensation Plans

Effective December 15, 2010, the Board of Directors of Ivy Holdings adopted the Ivy Plan that initially authorized the issuance of options exercisable for up to 155,110 shares of the common stock of Ivy Holdings ("Initial Options") to employees, certain consultants and independent members of the boards of directors, of Ivy Holdings and its subsidiaries (including the Company and its subsidiaries). These options are exercisable into Ivy Holdings stock and vest based on a number of criteria, including time, Company and Business Unit performance based on EBITDA targets and CEO and Compensation Committee discretion. Since the Ivy Holdings stock options were granted to Company employees for their services related to the Company, the related compensation cost has been recorded in the Company's consolidated financial statements. Effective June 30, 2015, the Board of Directors of Ivy Holdings adopted the First Amendment to the Ivy Plan. Under the First Amendment, and subsequent amendments, a further 63,704 shares of common stock of Ivy Holdings ("New Options") can be issued.

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The New Options are exercisable into Ivy Holdings stock and vest based on a number of criteria, including the same criteria as the Initial Options. However, they only become exercisable on the occurrence of certain corporate transactions, including a change in control of Ivy Holdings, as defined in the Incentive Stock Option Agreements (“Corporate Transaction”). Because the occurrence and timing of a Corporate Transaction is not determinable as of September 30, 2019 and 2018, no compensation cost has been recorded in the Company’s consolidated financial statements for the years then ended. See Note 16 for Merger Agreement that was entered into subsequent to year-end.

Under the terms of the Ivy Plan, the exercise price of an incentive stock option (“ISO”) may not be less than 100% of the fair market value of the Company’s common stock on the date of grant and, if granted to a shareholder owning more than 10% of the Company’s common stock, then not less than 110%. Stock options granted under the Ivy Plan have a maximum term of 10 years from the grant date, and are exercisable at such time and upon such terms and conditions as determined by the Compensation Committee. Stock options granted to employees generally vest over four years, subject to continued service, performance, and other criteria. In the case of an ISO, the amount of the aggregate fair market value of common stock with respect to which the ISO grant is exercisable, for the first time by an employee during any calendar year, may not exceed \$100,000.

Stock Options Activity

The following table summarizes information about Ivy Holdings stock options outstanding as of September 30, 2019 and 2018 and activity during the years then ended for the Initial Options and the New Options:

	Shares Subject to Options	Weighted Average Exercise Price	Weighted Average Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term (Months)
Outstanding as of October 1, 2017	168,875	\$ 174.91	\$ 663.09	73.4
Granted	26,516	418.21	—	—
Exercised	(22,608)	37.74	—	—
Canceled/Forfeited	(9,530)	322.72	—	—
Outstanding as of September 30, 2018 (1)	163,253	140.47	156.53	70.5
Granted	—	—	—	—
Exercised	—	—	—	—
Canceled/Forfeited	(14,233)	231.42	—	—
Outstanding as of September 30, 2019	149,020	\$ 131.79	\$ —	56.2

(1) The number of options outstanding at September 30, 2018 were modified in connection with the Adjusted Exercise Price of the options (see below).

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the estimated fair value of the Company’s common stock for those awards that have an exercise price currently below the estimated fair value. As of September 30, 2019, the outstanding shares had no aggregate intrinsic value. As of September 30, 2019, there were 101,448 options that are exercisable at a weighted average exercise price of \$47.23.

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A summary of Ivy Holdings non-vested options and the changes during the fiscal years ended September 30, 2019 and 2018 is presented as follows for the Initial Options and New Options:

	Shares	Weighted Average Grant Date Fair Value
Ivy Holdings Stock Options:		
Nonvested at October 1, 2017	34,364	\$ 225.09
Granted	26,516	188.98
Vested	(17,054)	269.50
Canceled/Forfeited	(9,530)	206.09
<hr/>		
Nonvested at September 30, 2018	34,296	181.07
Granted	—	—
Vested	—	—
Canceled/Forfeited	(1,876)	200.11
<hr/>		
Nonvested at September 30, 2019	32,420	\$ 179.97

Stock-Based Compensation Expense

Stock-based compensation expense for all share-based payments in exchange for employee services (including stock options and restricted stock) is measured at fair value on the date of grant, estimated using an option pricing model and is recognized in the consolidated financial statements, net of estimated forfeitures over the awards requisite service period.

The Company uses the Black-Scholes option pricing model and a single option award approach to estimate the fair value of options granted. Estimated forfeitures will be revised in future periods if actual forfeitures differ from the estimates and will impact compensation cost in the period in which the change in estimate occurs. The determination of fair value using the Black-Scholes option-pricing model is affected by the Company's estimated stock price as well as assumptions regarding a number of complex and subjective variables, including expected stock price volatility, risk-free interest rate, expected dividends and projected employee stock option exercise behaviors.

There were no options granted during the year ended September 30, 2019. Fair value for options granted during the year ended September 30, 2018 was estimated with the following assumptions for Ivy Holdings:

<i>September 30,</i>	<i>2018</i>
Weighted average fair value of option grants	\$ 188.98
Estimated fair market value of the Company's common stock on the date of grant	\$ 390.14
Weighted average expected life of the options	5 years
Risk-free interest rate	0.85%
Weighted average expected volatility	60.0%
Dividend yield	0.00%

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Expected Term - The expected term of options granted represents the period of time that they are estimated to be outstanding.

Risk-Free Interest Rate - The Company bases the risk-free interest rate on the implied yield in effect at the time of option grant on U.S. Treasury zero-coupon issues with equivalent remaining terms.

Expected Volatility - The Company estimates the volatility of the common stock at the date of grant based on the average of the historical volatilities of a group of peer companies. The Company has identified a group of comparable companies to calculate historical volatility from publicly available data for sequential periods approximately equal to the expected terms of the option grants. In selecting comparable companies, Management considered several factors including industry, stage of development, size and market capitalization.

Forfeitures - Share-based compensation is recognized only for those awards that are ultimately expected to vest. Compensation expense is recorded net of estimated forfeitures. Those estimates are revised in subsequent periods if actual forfeitures differ from those estimates. The Company used data since December 2010 to estimate pre-vesting option forfeitures.

Stock-based compensation expense for the Ivy Holdings stock options recognized by the Company during the years ended September 30, 2019 and 2018 was \$0 and \$710,000, respectively. At September 30, 2019, there were no unvested options, which could potentially vest over the next nine fiscal years, subject to meeting the vesting requirements noted above. There were no remaining maximum estimated stock compensation expense to be amortized to expense in future periods. Options which are expected to vest based on CEO and Compensation Committee discretion are treated as variable stock options and are subject to revaluation at each reporting period. Management determined the fair value of the discretionary vested options using a Black Scholes calculation but determined that the change in compensation expense was not material to the consolidated financial statements for the years ended September 30, 2019 and 2018.

Contributions

On January 25, 2019 and on February 6, 2019, Ivy Holdings made equity contributions in the amount of \$40,000,000 and \$1,000,000, respectively, to Ivy Intermediate Holding Inc., which was then contributed as equity to the Company.

Dividends

On February 22, 2018, the Board of Directors of Ivy Holdings, Inc. (the "Board") approved special cash in the amount of approximately \$33,000,000 in bonus payments were made ("the Bonuses") to Option Holders in connection with the dividend provided that any Bonus with respect to an unvested portion of an option shall be payable upon the date such unvested portion becomes vested and exercisable, subject to the Optionee's continued employment with Prospect through such date. At September 30, 2019 and 2018, approximately \$2,300,000 was accrued for bonuses in connection with this. To reflect the Dividend and pursuant to the terms of the Option Plan, the Board further resolved to equitably adjust the Options by reducing the per-share exercise price of the Options to an amount determined with reference to the Bonus amount payable by Prospect Medical with respect to such Option (the "Adjusted Exercise Price").

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The Company distributed approximately \$456,930,000 in connection with the issuance of “New Senior Secured Credit Facilities” during the year ended September 30, 2018, which was recorded against retained earnings, and was ultimately paid to the common stockholders of Ivy Holdings, Inc. (see Note 9).

The Company distributed approximately \$44,407,000 during the year ended September 30, 2019, which was recorded against accumulated deficit.

12. Retirement Benefits

The Company sponsors various employee non-contributory, defined benefit pension plans covering certain full-time employees of Crozer, ECHN and Prospect Waterbury, Inc. (“Waterbury”).

In connection with the acquisition of Crozer, \$100 million of the purchase price was put into an escrow and subsequently used by the Company, as the new sponsor of the Crozer pension plan (“DB Plan”) pursuant to IRS rules and regulations, to fund in part the underfunded plan liability then outstanding. Additionally, within five years after acquisition and subject to applicable filing and authorization by the applicable government agency or entity, the Company will adopt a plan amendment to terminate the plan effective within such five year period and will liquidate, fully fund and satisfy, and pay all benefits owed to participants and beneficiaries of the plan by providing lump sum distributions to participants, purchasing annuities for participants who do not elect a lump sum distribution.

Also, in connection with the Crozer acquisition, the plan was frozen with all benefit accruals ceased as of July 1, 2016. With respect to each Represented Employee who is a member of the Laborers’ International Union of North America, the Monthly Compensation (as defined), the Credited Service (as defined), the Eligibility Service (as defined) and the accrued benefit was frozen and determined as of July 1, 2016. No benefits accrue since that date. Additionally, the plan was amended to provide that for purposes of determining Vesting Service (as defined) for employees who were employed with the Company before July 1, 2016, years of service shall include all periods of employment completed on and after July 1, 2016, subject to the Break in Service rules (as defined).

On September 3, 2016, the DB Plan was further amended to provide certain Qualifying Participants (as defined) the right to make a Special Benefit Election (as defined) during “2016 Lump Sum Option Window” period from October 15, 2016 through November 30, 2016 to receive or commence receiving his or her vested Accrued Benefit as of December 1, 2016 in accordance with procedures adopted by the Committee.

In conjunction with the acquisition the Company also became the sponsor and assumed CKHS postretirement benefit program (the “OPEB Plan”) which is an unfunded medical care and life insurance benefit program, and a supplemental executive retirement plan (the “SERP Plan”) which is an unfunded retirement plan that covers a group of current and former executives. These plans were frozen with all benefit accruals ceased as of July 1, 2016. No benefits will accrue since that date. With respect to each Represented Employee who is a member of the Laborers’ International Union of North America, benefits will continue to accrue until a settlement of an ongoing union contract negotiation is reached.

ECHN has a defined benefit pension plan that covered substantially all of its employees. The benefits were based upon years of service and compensation for the five highest years during the employee’s last 10 years of service. Effective December 31, 2013, ECHN froze the defined-benefit for all remaining participants. During September 2013, the Board passed a resolution to freeze all benefits related to the

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Defined benefit pension plan. On December 31, 2008, ECHN implemented a soft freeze on the defined benefit pension plan. All qualified employees were eligible to enter into the defined contribution plan, ECHN contributed 3% of eligible employees' salaries. This contribution was non-guaranteed for all employees, except certain union workers covered under a collective bargaining agreement.

ECHN also sponsors a postretirement benefit plan that provides health care benefits to those employees who retired. The criteria to receive this benefit is to be vested in the pension plan, attain age 55 or older and start collecting under the defined benefit plan described above once retired. The retiree must be enrolled into the medical plan on the date of retirement to be eligible for the continuation. Full-time registered nurse retirees from ECHN's Manchester facility (retired prior to October 1, 2005 and were eligible per the collective bargaining agreement) were grandfathered and required to pay at least 50% of the total cost of the medical and dental coverage they elect for themselves under the plan.

Waterbury has a noncontributory defined benefit cash balance plan. It is Waterbury's policy to make contributions to the plan sufficient to meet the minimum funding requirements of applicable laws and regulations. The plan was frozen to non-union participants effective June 30, 2015. Participants who are part of the Connecticut Healthcare Associates Technical Unit remain active in the plan. Non-union employees no longer accrue additional employer contribution credits in the plan. These participants will continue to receive interest credits based on their account balances in accordance with the terms of the plan. They will be entitled to their account balance (the retirement benefit they have earned up to June 30, 2015) plus applicable interest credits after the Plan were frozen.

The activity of the pension plans for the years ended September 30, 2019 and 2018 is as follows (in thousands):

<i>September 30,</i>	2019		2018	
Changes in benefit obligations				
Projected benefit obligations, beginning of period	\$	660,176	\$	864,293
Service cost		181		194
Interest cost		28,432		27,695
Plan participant contributions		918		461
Actuarial loss		115,016		(48,654)
Benefits paid		(20,482)		(134,185)
Lump sum benefits paid and annuity purchase		(15,606)		(49,628)
Plan changes		(21)		-
Projected benefit obligation, end of year	\$	768,614	\$	660,176
Changes in plan assets				
Fair value of plan assets, beginning of year	\$	400,468	\$	556,590
Actual return on plan assets		80,668		(14,437)
Contributions by plan sponsor		15,939		41,667
Plan participant contributions		327		461
Benefits paid		(21,108)		(134,185)
Lump sum benefits paid and annuity purchase		(15,606)		(49,628)
Fair value of plan assets, end of year	\$	460,688	\$	400,468
Funded status of the plan, end of year	\$	(307,926)	\$	(259,708)
Accumulated benefit obligation, end of year	\$	(307,926)	\$	(259,708)

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The funded status of the pension plans as of September 30, 2019 and 2018 is as follows (in thousands), split between the pension plans and the post retirement plans:

	2019	2019	2019	2018	2018	2018
	Pensions	OPEBs	Total	Pensions	OPEBs	Total
Current liability	\$ -	\$ 500	\$ 500	\$ -	\$ 600	\$ 600
Non-current liability	302,372	5,054	307,426	254,121	4,987	259,108
	\$ 302,372	\$ 5,554	\$ 307,926	\$ 254,121	\$ 5,587	\$ 259,708

The components of net periodic benefit cost for the years ended September 30, 2019 and 2018 are as follows (in thousands):

<i>September 30,</i>	2019	2018
Components of net periodic benefit cost:		
Service cost	\$ 181	\$ 194
Interest cost	28,432	27,695
Expected return on plan assets	(11,154)	(16,045)
Effect of settlement	-	1,457
Amortization of prior service credit	(48)	(48)
Total net periodic benefit cost	\$ 17,411	\$ 13,253
Other change in benefit obligations recognized in accumulated other comprehensive income:		
(Gain) Loss due to assumption change	\$ 111,382	\$ (64,429)
Loss due to participant experience	4,849	14,118
Amortization of net loss	63	-
Asset return (gain) loss	(70,275)	30,483
Prior service cost	28	-
Total recognized in other comprehensive loss (income) and accumulated other comprehensive loss (income)	\$ 46,047	\$ (19,828)

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The assumptions used in determining the actuarial present value of the projected benefit obligations for pension plans as of September 30, 2019 and 2018 and for the years ended September 30, 2019 and 2018 are as follows:

	2019	2018
Weighted average assumptions used to determine benefit obligations at end of period		
Discount rate	2.92-3.31%	3.23-4.48 %
Rate of compensation increase	0.00-2.00%	0.00-2.00 %
Weighted average assumptions used to determine net periodic benefit cost for the period ended		
Discount rate	4.24-4.48%	3.49-4.41 %
Rate of compensation increase	0.00-2.00%	0.00-2.00 %
Expected return on the plan assets	0.00-4.50%	0.00-4.50 %

Assumed health care cost trend rates for the next period used to measure the expected cost of benefits covered by the plan are as follows:

	2019	2018
Health care trend rate assumed for next year	6.75%	7.00%
Rate to which the cost trend is assumed to decline (the ultimate rate)	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	2027	2026

Assumed health care cost trend rates have a significant effect on amounts reported for other postretirement benefit programs. A one-percentage-point change in assumed health care cost trends would have the following effects (in thousands):

	1% Increase	1% Decrease
Effect on other postretirement benefit obligations	\$95	\$87
Effect on total of service and interest cost components	\$3	\$3

The asset allocation percentage by major asset class for the plans and the target allocation for 2019 follows:

	Target	2019
Asset class:		
Cash and cash equivalents	0% - 20%	1 %
Fixed income	10% - 100%	95 %
Domestic equity	0% - 100%	
International equity	0% - 40%	
Real estate	0% - 30%	
Alternative investments and hedge funds	0% - 30%	4 %
		100 %

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The investment objectives of the plans are to invest consistently with the fiduciary standards of ERISA, to provide for the funding and anticipated withdrawals on an ongoing basis, conserve and enhance the capital value of the plans in real terms while maintaining a moderate risk profile, to minimize principal fluctuations over the investment cycle, and achieve a long-term level of return commensurate with contemporary economic conditions. The expected long-term rate of return with respect to the plans is based on an aggregate of expected capital market returns within each asset category.

The following tables set forth the assets in the plans measured at fair value, by input level (in thousands):

<i>September 30, 2019</i>	Level 1	Level 2	Level 3	Net asset value	Total
Fixed income securities:					
Short-Term Duration	\$ -	\$ 36,534	\$ -	\$ -	\$ 36,534
Extended Duration	-	172,610	-	-	172,610
Interim Duration	-	48,328	-	-	48,328
Long-Term Duration	-	181,570	-	-	181,570
Real estate	-	-	1,056	-	1,056
Alternative investments	-	-	17,809	-	17,809
Cash and cash equivalents	-	-	-	2,781	2,781
Total	\$ -	\$ 439,042	\$ 18,865	\$ 2,781	\$ 460,688

<i>September 30, 2018</i>	Level 1	Level 2	Level 3	Net asset value	Total
Fixed income securities:					
Short-Term Duration	\$ -	\$ 35,100	\$ -	\$ -	\$ 35,100
Extended Duration	-	125,562	-	-	125,562
Interim Duration	-	41,193	-	-	41,193
Long-Term Duration	-	174,162	-	-	174,162
Real estate	-	-	2,962	-	2,962
Alternative investments	-	-	18,593	-	18,593
Cash and cash equivalents	-	-	-	2,896	2,896
Total	\$ -	\$ 376,017	\$ 21,555	\$ 2,896	\$ 400,468

Pension plan assets classified as Level 3 in the fair value hierarchy represent investments in which the trustee has used significant unobservable inputs in the valuation model. The hedge funds consist of equity/long/short funds and multi-strategy funds in which fair values have been estimated using the net asset value per share of the investment. The alternative investments primarily consist of investments in limited partnerships that invest in the Public-Private Investment Program which fair values have been estimated using the net asset value per share of the investment.

On an annual basis, the Company assesses the valuation hierarchy for pension assets recorded at fair value. From time to time, assets will be transferred within the fair value hierarchy as a result of changes in, among other things, inputs used, liquidity, or valuation methodologies. During the years ended September 30, 2019 and 2018, there were no transfers in classification within the fair value hierarchy.

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The following table is a rollforward of the plans' assets classified within Level 3 of the fair value hierarchy (in thousands):

<u>September 30,</u>	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 21,555	\$ 23,742
Actual return on plan assets:		
Realized loss	-	-
Unrealized (loss) gain	(2,690)	(2,187)
Purchases	-	-
Sales	-	-
Balance, end of year	\$ 18,865	\$ 21,555

The expected long-term future benefit payments to retirees with respect to the plans and are as follows (in thousands):

2020	\$ 44,970
2021	40,450
2022	41,940
2023	42,760
2024	43,750
2025 - 2029	216,990
	\$ 430,860

Waterbury participates in multi-employer pension plans that cover substantially all union employees. Contributions to the plans are based upon a percentage of each participant's total salary. The risks of participating in these multi-employer plans are different from single employer plans in the following aspects:

- Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of another participating employer.
- If a participating employer stops contributing to the plan, the unfunded obligation of the plan may be borne by the remaining participating employers.
- If Waterbury chose to stop participating in the multi-employer plans, Waterbury may be required to pay those plans an amount based on the underfunded status of the plans, referred to as a withdrawal liability.

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The following table presents Waterbury's participation in these plans as of and for the years ended September 30, 2019 and 2018.

Pension Trust Fund	EIN / Pension Plan	Pension Protection Act ("PPA") Certified Zone Status ⁽¹⁾		FIP / RP Status Pending / Implemented ⁽²⁾	Contributions		Surcharge Imposed	Exp. Date of CBA
		2019	2018		2019	2018		
Connecticut Health Care Associates Pension Fund	06-1313462	Red	Red	Implemented	\$2,122,000	\$2,140,000	No	7/1/22
New England Health Care Employees Pension Fund	22-3071963	Green	Green	NA	754,000	821,000	No	3/15/21
Total contributions					\$2,876,000	\$2,961,000		

- (1) The most recent PPA zone status available in 2019 is for the plan's year-ending during 2018. The zone status is based on information received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the orange zone are less than 80 percent funded and have an accumulated funding deficiency in the current year or projected in the next six years, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded.
- (2) The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented. As it relates to the Connecticut Health Care Associates ("CHCA") Pension Plan, the trustees adopted a Rehabilitation Plan on May 7, 2018. The Rehabilitation Period, as defined, commenced on January 1, 2019 and ends on December 31, 2028. The trustees updated the Rehabilitation Plan on December 12, 2019 which reflects various reductions to plan benefits effective January 1, 2020.

During the years ended September 30, 2019 and 2018, Waterbury's contributions to the CHCA Pension Plan and the New England Health Care Employees Pension Plan represented 98.1% and 2.4% and 98.2% and 2.6% of the total contributions made to the plans by all participating employers, respectively.

Governmental regulations impose certain requirements relative to union-sponsored pension plans. In the event of plan termination or employer withdrawal, an employer may be liable for a portion of the plan's unfunded vested benefits. As of September 30, 2019, Waterbury has not recorded any liabilities for future withdrawal obligations related to the multi-employer plans.

Defined contribution plans

The Company previously sponsored five defined contribution plans covering substantially all employees who meet certain eligibility requirements. Effective May 1, 2018, the plans covering employees at ECHN, Waterbury and Crozer were merged into the plan covering employees at CharterCARE, and the two remaining plans were renamed and segregated between union and non-union employees. Under these

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plans, employees can contribute up to 50% of their compensation up to the IRS deferred annual maximum. There is currently no company match offered under the plans, except at certain facilities in Rhode Island and Pennsylvania, for which the expense for the employer match was \$18,863,000 and \$19,723,000 for the years ended September 30, 2019 and 2018, respectively.

13. Commitments and Contingencies

Leases

The Company leases various office facilities and equipment from third parties under non-cancelable operating and capital lease arrangements expiring at various dates through 2034. Certain operating leases contain rent escalation clauses and renewal options, which have been factored into determining rent expense on a straight-line basis over the lease terms. Capital leases bear interest at rates ranging from 2.5% to 41.0% per annum.

The future minimum annual lease payments required under leases in effect at September 30, 2019, are as follows (in thousands):

<i>For the Years ending September 30,</i>	Capital Leases	Operating Leases	MPT Liability*
2020	\$ 12,661	\$ 22,455	\$ 103,935
2021	9,157	18,685	106,273
2022	4,903	16,987	109,461
2023	4,018	14,195	112,745
2024	2,889	12,887	116,128
Thereafter	19,855	56,273	1,358,111
Total minimum lease payments	53,483	<u>\$ 141,482</u>	1,906,653
Less: amounts representing interest	(12,873)		(572,644)
Add: amounts representing land	-		47,176
	40,610		1,381,185
Less: current portion	<u>(10,238)</u>		<u>(43,145)</u>
	<u>\$ 30,372</u>		<u>\$ 1,338,040</u>

* Excludes debt related to the Foothill and TRS Notes entered into in fiscal 2019 with MPT (see Note 10).

Rent expense related to operating leases for the years ended September 30, 2019 and 2018 was approximately \$44,959,000 and \$46,124,000, respectively. Sublease rental income was not material to the consolidated financial statements for the years ended September 30, 2019 and 2018.

Litigation

The Company is subject to a variety of claims and suits that arise from time to time in the ordinary course of its business, acquisitions, or other transactions. While the Company's management currently believes that resolving all of these matters, individually or in the aggregate, will not have a material adverse impact on the Company's consolidated financial position or results of operations, the litigation

Prospect Medical Holdings, Inc.

Notes to Consolidated Financial Statements

and other claims that the Company faces are subject to inherent uncertainties and management's view of these matters may change in the future. Should an unfavorable final outcome occur, there exists the possibility of a material adverse impact on the Company's consolidated financial position, results of operations and cash flows for the period in which the effect becomes probable and reasonably estimable.

Seismic Standards

The Company's California Hospitals (with the exception of Bellflower, which currently only provides psychiatric services) are required to comply with laws that regulate the seismic performance of all aspects of hospital facilities in California and imposes near-term and long-term compliance deadlines for seismic safety assessment, submission of corrective plans, and retrofitting or replacement of medical facilities to comply with current seismic standards. These laws and regulations require hospitals to meet seismic performance standards to ensure that they are capable of providing medical services to the public after an earthquake.

The Company was required to conduct engineering studies at its hospitals to determine whether and to what extent modifications to the hospital facilities will be required. Two buildings at Southern California Hospital at Culver City ("SCH Culver City") and one building at Los Angeles Community Hospital ("LACH") do not currently meet the applicable seismic requirements. The three buildings are currently classified at Structural Performance Category 1 ("SPC-1") and, subject to possible deadline extensions discussed below, they must be upgraded to at least SPC-2 by January 1, 2020. That deadline date was set pursuant to an extension granted upon the Company's application submitted in accordance with California Senate Bill 90 (SB 90) and approved by the Office of Statewide Health Planning and Development ("OSHPD").

OSHPD has a voluntary program to re-evaluate the seismic risk of hospital buildings classified as SPC-1. These buildings are considered hazardous and at high risk of collapse in the event of an earthquake and they were required to be retrofitted, replaced or removed from providing acute care services by the applicable deadline. OSHPD is using Hazards U.S. ("HAZUS"), a state-of-the-art methodology, to reassess the seismic risk of SPC-1 buildings. Once the SPC-1 buildings have been seismically upgraded to SPC-2, they are no longer considered a significant risk to occupants, but they may not be repairable or functional after an earthquake. Participation in the HAZUS program is optional for hospital owners wishing to have their SPC-1 buildings evaluated.

Applications for HAZUS evaluation of seismic risk were submitted for all five of the Company's California acute care facilities: Southern California Hospital at Hollywood ("SCH Hollywood"); SCH Culver City; Los Angeles Community Hospital; Los Angeles Community Hospital at Norwalk ("LACH Norwalk"); and Foothill. All buildings at these five facilities obtained SPC-2 reclassification using HAZUS, except for the aforementioned three buildings at SCH Culver City and LACH which are still classified as SPC-1. Currently, failure to obtain SPC-2 reclassification for the three remaining SPC-1 buildings by January 1, 2020 would mean that the buildings would not be allowed to provide acute care services starting on that date.

Recently enacted Assembly Bill 2190 (AB-2190) was utilized to request additional extension. OSHPD granted extensions to 06/01/2022, 10/01/2021, and 02/01/2021 for Tower Building (at SCH Culver City), Pavilion Building (at SCH Culver City), and LACH respectively. For all three buildings, the construction must start by April 1, 2020 for AB-2190 extensions to be valid. SCH-Culver City is evaluating pursuing an alternate "replacement" scheme that would relocate the Emergency department into the adjoining One-Story Building which currently classified as an SPC-2 structure. The Tower Building would be retained as a 'non-hospital' OSHPD building useable for lower acuity services such as behavioral health and subacute/skilled nursing services.

Prospect Medical Holdings, Inc.

Notes to Consolidated Financial Statements

The Company will also be required to make significant capital expenditures in the future to comply with 2030 seismic standards (i.e., upgrade to SPC-4D and NPC-4D/5) for any buildings that will be utilized for hospital facilities beyond January 1, 2030. Such modifications to the hospital facilities could potentially result in environmental remediation liabilities which may be material to the Company.

These requirements can result in significant operational changes and capital outlays. Management is continuing to assess its options and the methods of financing the required retrofits. Based on management's evaluation, the costs of renovation needed to comply with the California seismic safety standards for its acute-care facilities, including asbestos abatement, are not estimable at this time.

Legislation and HIPAA

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

The Company believes that it is in compliance with fraud and abuse regulations as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

The Health Insurance Portability and Accountability Act ("HIPAA") assures health insurance portability, reduces healthcare fraud and abuse, guarantees security and privacy of health information, and enforces standards for health information. The Health Information Technology for Economic and Clinical Health Act ("HITECH Act") expanded upon HIPAA in a number of ways, including establishing notification requirements for certain breaches of protected health information. In addition to these federal rules, states have also developed their own standards for the privacy and security of health information as well as for reporting certain violations and breaches (for example, California's Confidentiality of Medical Information Act and Lanterman-Petris Short Act) which in some cases are more stringent. Other federal privacy laws may also apply to certain services provided by the Company, including 42 C.F.R. Part 2, which addresses the confidentiality of substance use disorder records. The Company may be subject to significant fines and penalties if found not to be compliant with these state or federal provisions.

Affordable Care Act

The Patient Protection and Affordable Care Act ("PPACA") has made significant changes to the United States health care system. The legislation impacted multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Under this legislation, 33 states have expanded their Medicaid programs to cover previously uninsured childless adults, and four additional states voted in 2018 to expand Medicaid or to elect a governor that pledged to expand Medicaid. In addition, many uninsured individuals have had the opportunity to purchase health insurance via state-based marketplaces, state-based marketplaces using a federal platform, state-partnership marketplaces or the federally-facilitated marketplace. PPACA also implemented a number of health insurance market reforms, such as allowing children to remain on their parents' health insurance until age 26 or prohibiting certain plans from denying coverage based on pre-existing conditions. Nationally, these reforms have reduced the number of uninsured individuals.

Prospect Medical Holdings, Inc.

Notes to Consolidated Financial Statements

It is unclear what changes may be made to PPACA with the divided Congress, current presidential administration, and pending litigation over the validity of PPACA. The Administration has promulgated rules to broaden the availability of coverage options that do not comply with the full range of PPACA requirements for individual market coverage, namely Association Health Plans and Short-Term Limited-Duration Insurance. The Administration has also provided additional guidance on state PPACA waivers. These executive actions have been or may be challenged in court. In addition, the Tax Cuts and Jobs Act ("TCJA"), passed in December 2017, eliminates the individual mandate penalty under PPACA, effective January 1, 2019. The individual mandate penalty was included in PPACA to address concerns that other market reforms expanding access to coverage might produce adverse selection and higher premiums. The extent to which the repeal of the individual mandate penalty will impact the uninsured rate and future premiums are unclear at this juncture. On December 14, 2018, the United States District Court for the Northern District of Texas ruled that the individual mandate without the penalty is unconstitutional and that PPACA is therefore invalid in its entirety. Litigation on this issue is ongoing, with a decision pending from a panel of the United States Court of Appeals for the Fifth Circuit following oral arguments in July 2019. This litigation along with any future legislative changes to PPACA or other federal and state legislation could have a material impact on the operations of the Company. The Company is continuing to monitor the legislative environment and developments in pending litigation for risks and uncertainties.

Collective Bargaining Agreements

As of September 30, 2019, the Company had approximately 17,800 employees, of whom approximately 5,500 employees or 31% are represented by various labor organizations. Of those, approximately 1,300 employees or 7% of the Company's employees are employed under union contracts that have expired or will expire before September 30, 2020.

Tangible Net Equity ("TNE") Requirement

The Company's affiliated California physician organizations and licensed healthcare service plans may be subject to one or more of the following requirements: minimum working capital, Tangible Net Equity, cash-to-claims ratio and claims payment requirements as prescribed by the California Department of Managed Health Care ("DMHC"). TNE is defined as net assets, less intangibles and amounts due from affiliates, plus subordinated obligations. As of September 30, 2019, the Company's affiliated California physician organizations were in compliance with these regulatory requirements.

Employee Health Plans

The Company offers self-insured EPO/HMO and PPO plans to all eligible employees.

Employee health benefits are administered by a third party claims administrator, based on plan coverage and eligibility guidelines determined by the Company, as well as by collective bargaining agreements (as reflected above). Prior to January 1, 2018, commercial insurance policies covered per occurrence losses. Effective January 1, 2018, all locations were covered by insurance policies with CHIC for per occurrence losses in excess of \$350,000, except for Crozer for which the limit is \$750,000. CHIC maintains reinsurance coverage above \$500,000 for all locations except for Crozer, for which the limit is \$750,000. An actuarially and internally-estimated liability of approximately \$12,808,000 and \$16,566,000 for incurred but not reported claims has been included in accrued salaries, wages, and benefits as of September 30, 2019 and 2018, respectively.

Prospect Medical Holdings, Inc.

Notes to Consolidated Financial Statements

Provider Contracts

Many of the Company's payer and provider contracts are complex in nature and may be subject to differing interpretations regarding amounts due for the provision of medical services. Such differing interpretations may not come to light until a substantial period of time has passed following contract implementation. Liabilities for claims disputes are recorded when the loss is probable and can be estimated. Any adjustments to reserves are reflected in current operations.

14. Accrued Medical Claims and Other Healthcare Costs Payable

The following table presents the roll-forward of incurred but not reported ("IBNR") claims reserves (Medical Group segment, Global Risk Management segment, and full risk contracts) as of and for each of the years ended September 30, 2019 and 2018 (in thousands):

<i>September 30,</i>	2019	2018
IBNR as of beginning of year	\$ 62,887	\$ 53,510
Claim expenses incurred during the year:		
Related to current year	296,817	301,598
Related to prior year	4,523	8,667
Total incurred	301,340	310,265
Claims paid during the year:		
Related to current year	(229,417)	(246,369)
Related to prior year	(62,302)	(54,519)
Total paid	(291,719)	(300,888)
IBNR as of end of year	\$ 72,508	\$ 62,887

Following is a table showing the details of the Medical Group and Global Risk Management segments cost of revenues per the consolidated statements of operations (in thousands):

<i>Years Ended September 30,</i>	2019	2018
Capitation expense	\$ 98,254	\$ 96,027
Fee-for-service claims expense	167,702	171,443
Other physician compensation	24,561	15,097
Other cost of revenues	2,558	5,239
Total cost of revenues	\$ 293,075	\$ 287,806

Prospect Medical Holdings, Inc.

Notes to Consolidated Financial Statements

15. Joint Ventures and Unconsolidated Equity Investments

The Company has invested in several joint ventures with unrelated third parties, which are accounted for under the equity method of accounting. As of September 30, 2019 and 2018, CharterCARE owned: 20% of Roger Williams Radiation Therapy and 20% of Southern New England Regional Cancer Center, LLC. ECHN owned: 50% of NRRON, LLC; 50% of Aetna Ambulance Service, Inc.; 50% of Ambulance Service of Manchester, LLC; and 50% of Evergreen Endoscopy Center, LLC. Waterbury owned: 50% of Harold Leever Regional Cancer Center Inc. Crozer owned: 50% of University Technology Park, Inc. and 21.25% of Delaware Valley Sleep Management Company, LLC. Prospect Medical Group, Inc. owned: 50% of AMVI/Prospect Medical Group. These joint ventures under the equity method are included in the other assets in the accompanying consolidated balance sheets as of September 30, 2019 and 2018 are \$28,119,000 and \$24,627,000, respectively. For the years ended September 30, 2019 and 2018, the Company received \$1,828,000 and \$1,746,000, respectively, in distributions for equity method investments, and \$527,000 and \$404,000, respectively, for cost method investments.

Summarized combined unaudited financial information for the Company's joint ventures as of September 30, 2019 and 2018 and for the years then ended is as follows (in thousands):

<i>September 30,</i>	2019		2018	
Cash	\$	18,976	\$	17,226
Receivables		10,096		8,060
Other current assets		21,329		23,654
Total current assets		50,401		48,940
Property, improvements and equipment, net		32,972		33,757
Goodwill		7,142		7,142
Intangible assets		821		852
Other long-term assets		2,904		3,094
Total assets		94,240		93,785
Accounts payable and accrued liabilities		5,827		5,563
Other long-term liabilities		6,116		5,334
Equity		82,297		82,888
Total liabilities and partner's capital	\$	94,240	\$	93,785
<i>Years ended September 30,</i>	2019		2018	
Revenues	\$	74,095	\$	67,554
Net income	\$	12,178	\$	5,039
PMH's income from equity method investments	\$	5,358	\$	1,332

Prospect Medical Holdings, Inc.

Notes to Consolidated Financial Statements

16. Subsequent Events

The Company has evaluated subsequent events through December 20, 2019, the date the Company's consolidated financial statements were available for issuance.

Effective October 2, 2019, Ivy Holdings entered into an Agreement and Plan of Merger ("Merger Agreement") with Chamber, Inc. ("Chamber"), Chamber Merger Sub, Inc. and affiliates of LGP. Chamber is owned by two individuals who hold the largest individual shareholdings in Ivy Holdings. The Merger Agreement contemplates, among other things, (i) the purchase of Ivy Holdings by and merger into by Chamber Merger Sub, Inc. (ii) the buyout of all of the other current stockholders of Ivy Holdings, (iii) the termination of all options that have not previously been exercised. The Merger Agreement is subject to regulatory approval by various state agencies and is expected to close during the year ended September 30, 2020.

Exhibit 60



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Suite 500
Costa Mesa, CA 92626

Board of Directors
Prospect CharterCARE, LLC
3415 South Sepulveda Boulevard, 9th Floor
Los Angeles, California 90034

August 10, 2020

Please find attached revised consolidated financial statements for Prospect CharterCARE, LLC for the year ended September 30, 2019.

The notes to the consolidated financial statements have been revised solely to clarify statements in Note 7 related to balances due to related parties and Note 8 relating to the sale lease back transaction and loan transaction between Prospect Medical Holdings, Inc. and Medical Properties Trust, Inc. that occurred during the year ended September 30, 2019.

The date of our audit opinion remains the same.

Yours sincerely,

BDO USA, LLP

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Prospect CharterCARE, LLC

Consolidated Financial Statements As of and for the Years Ended September 30, 2019 and 2018

The report accompanying these financial statements was issued by
BDO USA, LLP, a Delaware limited liability partnership and the U.S.
member of BDO International Limited, a UK company limited by guarantee.



Prospect CharterCARE, LLC

Consolidated Financial Statements

As of and for the Years Ended September 30, 2019 and 2018

Prospect CharterCARE, LLC

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600 Anton Blvd., Suite 500
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Independent Auditor's Report

Board of Directors
Prospect CharterCARE, LLC
Los Angeles, California

We have audited the accompanying consolidated financial statements of Prospect CharterCARE, LLC, (the "Company") which comprise the consolidated balance sheets as of September 30, 2019 and 2018, and the related consolidated statements of operations, members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Prospect CharterCARE, LLC and its subsidiaries as of September 30, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the Company is financially dependent on its parent company which has agreed to provide the financial support necessary for the operations of the Company. The accompanying financial statements do not reflect any adjustments or disclosures that would be required should the parent company discontinue its financial support.

BDO USA, LLP

February 6, 2020

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Prospect CharterCARE, LLC

Consolidated Balance Sheets (in thousands)

<i>September 30,</i>	2019	2018
Assets		
Current assets		
Cash and cash equivalents	\$ -	\$ -
Restricted cash	174	433
Patient accounts receivable, less allowance for doubtful accounts of \$17,871 and \$11,141	49,713	46,076
Other receivables	2,895	3,306
Due from government payers	5,531	5,533
Inventories	5,974	5,590
Prepaid expenses and other current assets	3,812	2,188
Total current assets	68,099	63,126
Property, improvements and equipment, net	60,918	59,780
Intangible assets, net	19	1,211
Equity method investments	3,675	4,088
Other assets	1,970	2,302
Total assets	\$ 134,681	\$ 130,507

See accompanying notes to consolidated financial statements.

Prospect CharterCARE, LLC

Consolidated Balance Sheets (in thousands)

<u>September 30,</u>	<u>2019</u>	<u>2018</u>
Liabilities and Members' Equity		
Current liabilities		
Accounts payable and other accrued liabilities	\$ 33,382	\$ 35,590
Accrued salaries, wages and benefits	18,150	17,696
Deferred revenue	170	170
Due to government payers	4,900	4,796
Due to affiliated companies, net	16,694	26,377
Current portion of capital leases	49	798
Total current liabilities	73,345	85,427
Capital leases, net of current portion	43	92
Asset retirement obligations	3,123	2,623
Deferred revenue, net of current portion	1,484	2,270
Other long-term liabilities	10,964	12,674
Total liabilities	88,959	103,086
Commitments and contingencies		
Members' equity		
Member contributions	120,105	92,108
Accumulated deficit	(74,383)	(64,687)
Total members' equity	45,722	27,421
Total liabilities and members' equity	\$ 134,681	\$ 130,507

See accompanying notes to consolidated financial statements.

Prospect CharterCARE, LLC

Consolidated Statements of Operations (in thousands)

<i>For the Years Ended September 30,</i>	2019	2018
Revenues		
Net patient service revenues	\$ 362,109	\$ 354,578
Provision for bad debts	(14,290)	(12,598)
Net patient service revenues less provision for bad debts	347,819	341,980
Other non-patient Hospital revenues	8,879	8,102
Total net revenues	356,698	350,082
Operating Expenses		
Salaries, wages and benefits	189,268	196,794
Supplies	61,933	62,507
Taxes and licenses	22,911	22,309
Purchased services	29,817	24,125
Depreciation and amortization	15,048	15,096
Professional fees	16,545	10,988
Other	3,461	11,287
Insurance	4,091	4,620
Management fees	7,395	7,298
Utilities	5,159	4,771
Lease and rental	5,185	5,438
Research grant expense	2,626	2,503
Repairs and maintenance	1,702	2,675
Registry	699	887
Total operating expenses	365,840	371,298
Operating income from unconsolidated equity method investments	560	589
Operating loss	(8,582)	(20,627)
Other expense (income):		
Interest expense	1,023	955
Goodwill impairment	-	14,228
Other expense (income), net	-	282
Total other (income) expense, net	1,023	15,465
Net loss from continuing operations	(9,605)	(36,092)
Loss from discontinued operations	(91)	(101)
Net loss	\$ (9,696)	\$ (36,193)

See accompanying notes to consolidated financial statements.

Prospect CharterCARE, LLC

Consolidated Statements of Members' Equity (in thousands)

	Member Contributions	Accumulated Deficit	Total Members' Equity
Balance at October 1, 2017	\$ 82,261	(28,494)	\$ 53,767
Member contributions	9,847	-	9,847
Net loss	-	(36,193)	(36,193)
Balance at September 30, 2018	92,108	(64,687)	27,421
Member contributions	27,997	-	27,997
Net loss	-	(9,696)	(9,696)
Balance at September 30, 2019	\$ 120,105	\$ (74,383)	\$ 45,722

See accompanying notes to consolidated financial statements.

Prospect CharterCARE, LLC
Consolidated Statements of Cash Flows
(in thousands)

<i>For the Years Ended September 30,</i>	2019	2018
Operating activities		
Net loss	\$ (9,696)	\$ (36,193)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	14,292	15,094
Provision for bad debts	(14,290)	12,598
Accretion of interest for asset retirement obligations	756	185
Undistributed earnings from equity method investments	(560)	(589)
Goodwill impairment	-	14,228
Write-off of investment	-	280
Changes in operating assets and liabilities, net of business combinations:		
Change in restricted cash	259	2,595
Patient accounts receivables	10,653	(16,247)
Due to/from government payers, net	106	(99)
Inventories	(384)	215
Prepaid expenses, other receivables and other current assets	(1,213)	2,704
Other assets	332	(829)
Accounts payable and other accrued liabilities	(5,163)	10,381
Net cash (used in) provided by operating activities	(4,908)	4,323
Investing activities		
Purchases of property, improvements and equipment	(9,926)	(8,973)
Cash distributions from equity investments	973	578
Cash paid for acquisitions, net of cash received	-	(736)
Net cash used in investing activities	(8,953)	(9,131)
Financing activities		
Increase in due to affiliated companies, net	14,659	6,288
Repayments of capital leases	(798)	(1,480)
Net cash provided by financing activities	13,861	4,808
Change in cash and cash equivalents	-	-
Cash and cash equivalents, beginning of year	-	-
Cash and cash equivalents, end of year	\$ -	\$ -
Supplemental disclosure of cash flow information		
Interest paid	\$ 1,019	\$ 955
Schedule of non-cash investing and financing activities		
Accrual of property, improvements and equipment	\$ 4,322	\$ -
Non-cash acquisitions	\$ -	\$ 7,692
Non-cash contributions (Note 6)	\$ 27,997	\$ 9,847

See accompanying notes to consolidated financial statements.

Prospect CharterCARE, LLC

Notes to Consolidated Financial Statements

1. Organization

Prospect CharterCARE, LLC (“PCC” or the “Company”) is owned 85% by Prospect East PMH, Inc. (“Prospect East”), a wholly-owned subsidiary of Prospect Medical PMH, Inc. (“Prospect” or “PMH”) and 15% by CharterCARE Community Board.

The Company provides a comprehensive range of services at Roger Williams Medical Center (“RWMC”) and Our Lady of Fatima Hospital (“Fatima” or “SJHRI”).

Admitting physicians are primarily practitioners in the local area. The hospitals have payment arrangements with Medicare, Medicaid and other third-party payers, including commercial insurance carriers, health maintenance organizations (“HMOs”) and preferred provider organizations (“PPOs”). A School of Nursing (the “School”) was operated out of the Hospital locations. As of September 30, 2019, the School has been closed.

At September 30, 2019, the Company had negative working capital in the amount \$5,077,000. The Company is dependent on Prospect to fund ongoing operations. As of September 30, 2019, the Company had a liability of \$16,694,000 due to Prospect and its subsidiaries, which is payable on demand, does not bear interest, and is included in due to affiliated companies, net in the accompanying consolidated balance sheets. Prospect does not intend to have the Company repay the liability in a manner which would impair the Company’s ability to maintain sufficient liquidity to sustain ongoing operations. During the year ended September 30, 2019, Prospect converted approximately \$24,700,000 of liabilities into a capital contribution.

2. Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and include the accounts of all wholly-owned subsidiaries, but do not include the accounts of the parent companies, Prospect or CharterCARE Community Board.

Operating results for the Company’s subsidiaries are consolidated with the Company’s financial statements from their acquisition dates. All significant intercompany balances and transactions have been eliminated in consolidation.

Revenues

Net Patient Service Revenues

Operating revenue consists primarily of net patient service revenues. The Company reports net patient service revenues at the estimated net realizable amounts from patients and third-party payers and others in the period in which services are rendered. The Company has agreements with third-party payers, including Medicare, Medicaid, managed care and other insurance programs that are paid at negotiated rates. These payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments, as further described below. Estimates of contractual allowances are based upon the payment terms specified in the related contractual agreements. The Company accrues for amounts that it believes may ultimately

Prospect CharterCARE, LLC

Notes to Consolidated Financial Statements

be due to or from the third-party payers. Normal estimation differences between final settlements and amounts accrued in previous years are reported as changes in estimates in the current year. Outstanding receivables, net of allowances for contractual discounts and bad debts, are included in patient accounts receivable in the accompanying consolidated balance sheets.

The following is a summary of sources of patient service revenues (net of contractual allowances and discounts) before provision for doubtful accounts and exclude revenues for discontinued operations (in thousands):

<i>For the Years Ended September 30,</i>	2019	2018
Medicare	\$ 151,701	\$ 165,882
Medicaid	86,573	74,710
Managed Care	82,955	80,605
Self-Pay/Other	40,880	33,381
Total	\$ 362,109	\$ 354,578

A summary of the payment arrangements with major third-party payers follows:

Medicare: Medicare is a federal program that provides certain hospital and medical insurance benefits to persons aged 65 and over, some persons with end-stage renal disease and certain other beneficiary categories, including eligible disabled persons. Most inpatient hospital services rendered to Medicare program beneficiaries are paid on a fee-for-service basis at prospectively determined rates per discharge, according to a patient classification system based on clinical, diagnostic, and other factors. Most outpatient services also are paid on a fee-for-service basis generally using prospectively determined rates. The Company receives, as appropriate, Medicare disproportionate share hospital (“DSH”) and bad debt payments at tentative rates, with final settlement determined after submission of the annual Medicare cost report and audit thereof by the Medicare Administrative Contractor. The Company also receives, as appropriate, Medicare uncompensated care DSH payments, which are generally not subject to cost report audit except to determine eligibility for Medicare DSH. The Company also receives Medicare outlier payments on an ongoing basis during the year for cases that are unusually costly, and under certain circumstances these payments may be reconciled to more closely reflect the costs in excess of outlier thresholds after the submission and audit of the annual Medicare cost report. Normal estimation differences between filed settlements and amounts accrued are reflected in net patient service revenue.

The Company is reimbursed by Medicare for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare Administrative Contractor. The estimated amounts due to or from the program are reviewed and adjusted annually based on the status of such audits and any subsequent appeals. Differences between final settlements and amounts accrued in previous years are reported as adjustments to net patient service revenue in the year that examination is substantially completed.

Although services for most Medicare beneficiaries are paid by the Federal government on a fee-for-service basis, approximately one-third of Medicare beneficiaries are enrolled in a “Medicare Advantage” plan, which is a type of health plan that contracts with the Medicare program to provide hospital and medical benefits to Medicare beneficiaries. Medicare Advantage Plans

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include Health Maintenance Organizations, Preferred Provider Organizations, Private Fee-For-Service Plans, Special Needs Plans, and Medicare Medical Savings Account Plans. For Medicare beneficiaries enrolled in a Medicare Advantage plan, most Medicare services are covered by the plan and are not paid for under fee-for-service Medicare. Certain Medicare Advantage plans make capitation payments to the Company using a "Risk Adjustment model," which compensates providers based on the health status (acuity) of each enrollee. Providers with higher acuity enrollees generally will receive more and those with healthier enrollees will receive less.

Medicaid: Medicaid is a joint federal-state funded healthcare benefit program that is administered by states to provide benefits to qualifying individuals who are unable to afford care. The Company receives reimbursements under the Medicaid program at prospectively determined rates for both inpatient and outpatient services. Similar to Medicare, cost report settlements are recorded based upon as-filed cost reports and adjusted for tentative and final settlements, if any.

RWMC and SJHSRI are participants in the State of Rhode Island's Disproportionate Share Hospital ("DSH") program, which assists hospitals that provide a disproportionate amount of uncompensated care. Under the program, Rhode Island hospitals, including RWMC and SJHSRI, receive federal and state Medicaid funds as additional reimbursement for treating a disproportionate share of low-income patients. RWMC and SJHSRI recognized revenue related to DSH and Upper Payment Limit ("UPL") reimbursement of \$20,456,000 and \$19,035,000 for the years ended September 30, 2019 and 2018, respectively. DSH and UPL payments received were \$20,074,000 and \$17,704,000 for the years ended September 30, 2019 and 2018, respectively. RWMC and SJHSRI recorded license fee expenses of \$17,565,000 and \$16,815,000 for the years ended September 30, 2019 and 2018, respectively, which is included within taxes and licenses expense within the accompanying consolidated statements of operations.

Managed Care: The Company has also entered into payment agreements with certain commercial insurance carriers, HMOs, and PPOs. The basis for payment under these agreements is in accordance with negotiated contracted rates or at the Company's standard charges for services provided.

Self-Pay: Self-pay patients represent those patients who do not have health insurance and are not covered by some other form of third-party arrangement. Such patients are evaluated, at the time of services or shortly thereafter, for their ability to pay based upon federal and state poverty guidelines, qualifications for Medicaid, as well as the Company's local hospital's indigent and charity care policy.

Laws and regulations governing the third-party payor arrangements are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Normal estimation differences between subsequent cash collections on patient accounts receivable and net patient accounts receivable estimated in the prior year are reported as adjustments to net patient service revenue in the current period.

The Company is not aware of any material claims, disputes, or unsettled matters with any payers that would affect revenues that have not been adequately provided for and disclosed in the accompanying consolidated financial statements.

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Charity Care

The Company provides charity care to patients who lack financial resources and are deemed to be medically indigent based on criteria established under the Company's charity care policy. This care is provided without charge or at amounts less than the Company's established rates. Because the Company does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue. The direct and indirect costs related to this care totaled approximately \$501,000 and \$772,000 for the years ended September 30, 2019 and 2018, respectively. Direct and indirect costs for providing charity care are estimated by calculating a ratio of cost to gross charges and then multiplying that ratio by the gross uncompensated charges associated with providing care to charity patients. In addition, the Company provides services to other medically indigent patients under various state Medicaid programs. Such programs pay amounts that are less than the cost of the services provided to the recipients. The Company has not changed its charity care or uninsured discount policies during the years ended September 30, 2019 or 2018.

Provisions for Contractual Allowances and Doubtful Accounts

Collection of receivables from third-party payers and patients is the Company's primary source of cash and is critical to its operating performance. The Company closely monitors its historical collection rates, as well as changes in applicable laws, rules and regulations and contract terms, to assure that provisions for contractual allowances are made using the most accurate information available. However, due to the complexities involved in these estimations, actual payments from payers may be materially different from the amounts management estimates and records. The Company's primary collection risks relate to uninsured patients and the portion of the bill which is the patient's responsibility, primarily co-payments and deductibles. Payments for services may also be denied due to issues over patient eligibility for medical coverage, the Company's ability to demonstrate medical necessity for services rendered and payer authorization of hospitalization.

Accounts receivable are reduced by an allowance for doubtful accounts. Valuation of the collectability of accounts receivable and provision for bad debts is based on historical collection experience, payer mix and the age of the receivables. Management routinely reviews accounts receivable balances in conjunction with these factors and other economic conditions which might ultimately affect the collectability of the patient accounts, and makes adjustments to the Company's allowances as warranted. For receivables associated with services provided to patients who have third-party coverage, management analyzes contractually due amounts and subsequently calculates an allowance for doubtful accounts and provision for bad debts once the age of the accounts reaches a specific age category based on historical experience. For receivables associated with self-pay patients, management records a significant provision for bad debts beginning in the period services were provided based on past experience that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The allowance for doubtful accounts was 26% and 19% of gross patient accounts receivable as of September 30, 2019 and 2018, respectively, and the increase results from a determination at September 30, 2019 to fully reserve for all patient accounts receivable over 365 days old.

Legislation

All of the Company's hospital facilities are subject to the Emergency Medical Treatment and Active Labor Act ("EMTALA"). This federal law requires any hospital that participates in the Medicare program to conduct an appropriate medical screening examination of every person who presents to

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the hospital's emergency department for treatment and, if the patient is suffering from an emergency medical condition, to either stabilize that condition or make an appropriate transfer of the patient to a facility that can handle the condition. The obligation to screen and stabilize emergency medical conditions exists regardless of a patient's ability to pay for treatment. There are severe penalties under EMTALA if a hospital fails to screen or appropriately stabilize or transfer a patient or if the hospital delays appropriate treatment in order to first inquire about the patient's ability to pay. Penalties for violations of EMTALA include civil monetary penalties and exclusion from participation in the Medicare program. In addition, an injured patient, the patient's family or a medical facility that suffers a financial loss as a direct result of another hospital's violation of the law can bring a civil suit against that other hospital. The Company believes that it is in compliance with EMTALA and is not aware of any pending or threatened EMTALA investigations involving allegations of potential wrongdoing that would have a material effect on the Company's consolidated financial statements.

Other Non-Patient Hospital Revenues

Other non-patient Hospital revenues totaled \$8,879,000 and \$8,102,000 for the years ended September 30, 2019 and 2018, respectively. The principal components of other non-patient Hospital revenues include tuition revenue, grant revenue and rental revenue.

Property, Improvements and Equipment

Property, improvements and equipment are stated on the basis of cost or, in the case of acquisitions, at their acquisition date fair values. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, and amortization of leasehold improvements is provided using the straight-line basis over the shorter of the remaining lease period or the estimated useful lives of the leasehold improvements. Building improvements are generally depreciated over seven years, buildings are depreciated over 10 years, equipment is depreciated over three to seven years and furniture and fixtures are depreciated over five to seven years. Equipment capitalized under capital lease obligations are amortized over the lesser of the life of the lease or the useful life of the asset.

Goodwill

Goodwill represents the excess of the consideration paid and liabilities assumed over the fair value of the net assets acquired, including identifiable intangible assets.

Goodwill is not amortized; rather it is reviewed annually for impairment for each reporting unit, or more frequently if impairment indicators arise. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. The Company's annual goodwill impairment test is conducted on July 1. Impairment of goodwill is tested at the reporting unit level, by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. The fair value of the reporting units are estimated. In evaluating whether indicators of impairment exist, the Company considers adverse changes in market value, laws and regulations, profitability, cash flows, ability to maintain enrollment and renew payer contracts at favorable terms, among other factors. The goodwill impairment test is a one-step process which consists of estimating based on a weighted combination of (i) the guideline company method that utilizes revenue or earnings multiples for comparable publicly-traded companies, and (ii) a discounted cash flow model. If the estimated fair value of the reporting unit is less than its carrying value, this indicates that goodwill is impaired, and impairment is recorded based on the deficiency of fair value compared to the carrying value. The Company's impairment test related to goodwill during the year ended

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September 30, 2018 resulted in a full impairment of goodwill related to the Rhode Island facilities. There was no goodwill as of and during the year ended September 30, 2019.

Intangible Assets

Intangible assets include trade names. The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The Company considers assets to be impaired and writes them down to fair value if estimated undiscounted cash flows associated with those assets are less than their carrying amounts. Fair value is based upon the present value of the associated cash flows. Changes in circumstances (for example, changes in laws or regulations, technological advances or changes in strategies) may also reduce the useful lives from initial estimates. Changes in planned use of intangibles may result from changes in customer base, contractual agreements, or regulatory requirements. In such circumstances, management will revise the useful life of the long-lived asset and amortize the remaining net book value over the adjusted remaining useful life. There were no impairments recorded during the years ended September 30, 2019 and 2018.

Insurance Reserves

Medical Malpractice Liability Insurance

The Company carries professional and general liability insurance to cover medical malpractice claims under claims-made policies. Under the policies, insurance premiums cover only those claims actually reported during the policy term. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims related to occurrences during the policy term but reported subsequent to the policy's termination may be uninsured.

GAAP requires that a health care organization record and disclose the estimated costs of medical malpractice claims in the period of the incident of malpractice, if it is reasonably possible that liabilities may be incurred and losses can be reasonably estimated. The Company recognizes an estimated liability for incurred but not reported claims and the self-insured risks (including deductibles and potential claims in excess of policy limits) based upon an actuarial valuation of the Company's historical claims experience of the Company's hospitals. The Company's gross claims liability was \$8,498,000 and \$9,943,000 as of September 30, 2019 and 2018, respectively, and insurance receivables were \$1,881,000 and \$2,220,000 as of September 30, 2019 and 2018, respectively. The gross claims liability and insurance receivables were estimated using a discount factor of 4% and are included within long-term liabilities and long-term assets, respectively, in the accompanying consolidated balance sheets.

Workers' Compensation Insurance

The Company was fully insured for workers' compensation claims with no deductible during the years ended September 30, 2019 and 2018.

Reserve Methodology

The claims reserve is based on the best data available to the Company. The estimate, however, is subject to a significant degree of inherent variability. The estimate is continually monitored and reviewed, and as the reserve is adjusted, the difference is reflected in current operations. While the

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ultimate amount of medical malpractice liability is dependent on future developments, management is of the opinion that the associated liabilities recognized in the accompanying consolidated financial statements are adequate to cover such claims. Management is not aware of any potential medical malpractice claims whose settlement, if any, would have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Asset Retirement Obligations

The Company recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. Over time, the liability is accreted to its present value each period. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the statements of operations. The Company has accrued \$3,123,000 and \$2,623,000 related to asbestos remediation as of September 30, 2019 and 2018, respectively. The liability was estimated using a discount factor which ranged from 1% and 7%.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments with initial maturities of 90 days or less to be cash equivalents. Cash and cash equivalents are primarily comprised of deposits with banks. The Company maintains its cash at banks with high credit-quality ratings.

Restricted Cash

The Company held restricted cash of \$174,000 and \$433,000 as of September 30, 2019 and 2018, respectively, which was restricted for research at the Company's hospitals as well as for School grants.

Inventories

Inventories of supplies are valued at the lower of amounts that approximate the weighted average cost or net realizable value, which approximates market value, and are expensed as incurred. Inventories consist primarily of medical and surgical supplies and pharmaceuticals.

Income Taxes

For tax reporting purposes, the Company is treated as a Partnership. The Company and its wholly-owned subsidiaries are pass-through entities. Therefore, no provision is made in the accompanying consolidated financial statements for liabilities for federal, state or local income taxes since such liabilities are the responsibility of the Company's parent companies. The Company periodically evaluates its tax positions, including its status as a pass-through entity, to evaluate whether it is more likely than not that such positions would be sustained upon examination by a tax authority for all open tax years, as defined by the statute of limitations, based on its technical merits.

As of September 30, 2019 and 2018, the Company has not established a liability for uncertain tax positions. The Company files income tax returns in the U.S. federal jurisdiction and the state of Rhode Island. Generally, the Company is subject to examination by U.S. federal (or state and local) income tax authorities for three to four years from the filing of a tax return.

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Fair Value of Financial Instruments

Financial instruments consist primarily of cash and cash equivalents, restricted cash, patient and other accounts receivables, accounts payable and accrued expenses, accrued salaries and benefits, amounts due from/to government payers, capital lease obligations, and other liabilities. The carrying amounts of current assets and liabilities approximate their fair value due to the relatively short period of time between the origination of the instruments and their expected realization.

Nonfinancial assets such as goodwill and identifiable intangible assets are measured at fair value when there is an indicator of impairment and recorded at fair value only when impairment is recognized. The Company performs an annual impairment test on the goodwill, and performs an impairment test on the intangible assets when there are indications of impairment.

During the year ended September 30, 2018, the Company recorded approximately \$14,228,000 of impairment relating to goodwill, which is reflected in the accompanying consolidated statements of operations.

The Company uses the discounted cash flow approach, the guideline public company approach and the guideline transactions approach to estimate the residual value of the Company's goodwill. The measurement of goodwill is a Level 3 measurement.

The following table provides quantitative information related to the significant unobservable inputs to determine fair value and impairment of goodwill as of September 30, 2018:

Residual Value of Goodwill	Valuation Technique	Unobservable Input	Rates
\$ -	Discounted Cash Flow	Weighted average cost of capital	9.3%
		Revenue growth rate	2.1% - 2.5%
	Guideline Public Company	LTM EBITDA multiple	7.0x

There were no non-recurring measurements as of September 30, 2019.

Concentrations of Credit Risk

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits of \$250,000 per depositor of each financial institution. The Company has not experienced any losses to date related to these balances.

Financial instruments that potentially subject the Company to concentrations of credit risk consist of receivables due from Medicare and Medicaid. The Company received revenues from Medicare and Medicaid as follows (excluding revenues for discontinued operations, in thousands):

<i>Years Ended September 30,</i>	2019		% of Total Revenues	2018		% of Total Revenues
Medicare	\$	151,701	42 %	\$	165,882	47 %
Medicaid		86,573	24 %		74,710	21 %
Total	\$	238,274	66 %	\$	240,592	68 %

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Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities at the dates, and for the periods, that the consolidated financial statements are prepared. Actual results could materially differ from those estimates. Principal areas requiring the use of estimates include amounts due from/to government payers, allowances for contractual discounts and doubtful accounts, professional and general liability claims, long-lived assets, intangible assets and asset retirement obligations.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers (Topic 606)” with an effective date deferred by ASU 2015-14. The core principle of ASU 2014-09 is built on the contract between a vendor and a customer for the provision of goods and services, and attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this objective, the standard requires five basic steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, (v) recognize revenue when (or as) the entity satisfies a performance obligation. Nonpublic entities will apply the new standard for annual periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Three basic transition methods are available – full retrospective, retrospective with certain practical expedients, and a cumulative effect approach. Under the third alternative, an entity would apply the new revenue standard only to contracts that are incomplete under legacy U.S. GAAP at the date of initial application and recognize the cumulative effect of the new standard as an adjustment to the opening balance of retained earnings. That is, prior years would not be restated and additional disclosures would be required to enable users of the financial statements to understand the impact of adopting the new standard in the current year compared to prior years that are presented under legacy U.S. GAAP. The Company is currently evaluating the effect of this guidance on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)”. The core principle of ASU 2016-02 is that a lessee should recognize the assets and liabilities that arise from leases, including operating leases. Under the new requirements, a lessee will recognize in the statement of financial position a liability to make lease payments (the lease liability) and the right-of-use asset representing the right to the underlying asset for the lease term. For leases with a term of 12 months or less, the lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous GAAP. The standard was originally scheduled to effective for nonpublic entities for fiscal years beginning after December 15, 2019. In November 2019 the FASB issued ASU 2019-10, “Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)” which delayed the effective date by one year to December 2020. The Company is currently evaluating the standard and the impact on its consolidated financial statements and footnote disclosures.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230)”. The updated standard addresses eight specific cash flow issues with the objective of reducing diversity in practice.

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ASU 2016-15 is effective for non-public business entities for annual reporting periods beginning after December 15, 2018, including interim periods within those annual reporting periods. Early adoption is permitted. The Company is assessing the impact of the adoption of ASU 2016-15 on its consolidated financial statements.

3. Property, Improvements and Equipment

Property, improvements and equipment, consisted of the following (in thousands):

<i>September 30,</i>	2019	2018
Property, improvements and equipment:		
Land and land improvements	\$ 7,471	\$ 7,471
Buildings and improvements	40,163	39,359
Leasehold improvements	4,410	4,334
Equipment	43,253	39,400
	95,297	90,564
Less: accumulated depreciation	(57,977)	(44,869)
	37,320	45,695
Construction in progress	23,598	14,085
Property, improvements and equipment, net	\$ 60,918	\$ 59,780

At September 30, 2019 and 2018, the Company had assets under capitalized leases of approximately \$4,292,000 and \$4,292,000, respectively, and related accumulated depreciation of \$2,661,000 and \$1,917,000, respectively.

Depreciation expense was \$13,100,000 and \$13,222,000 for the years ended September 30, 2019 and 2018, respectively.

4. Acquisitions

In December 2017, New University Medical Group ("New UMG") entered into a Second Closing to acquire the remaining assets of University Medical Group ("UMG") that were not acquired in the initial acquisition in December 2014. As consideration for the acquisition, New UMG has assumed certain designated liabilities of the practice, which consists of various loans payable to subsidiaries of the Company, totaling approximately \$7.5 million. Post-acquisition, these liabilities are eliminated on consolidation. There was no cash consideration related to the transaction. The remaining assets and liabilities acquired were immaterial and no value was assigned to them in the purchase price allocation, and accordingly goodwill of \$7.5 million from the acquisition. The goodwill is deductible for tax purposes at Prospect, with PCC acting as a flow through entity. New UMG's parent company, Prospect CharterCARE Physicians, LLC, dba CharterCARE Medical Associates ("CCMA"), entered into a Post Closing Administrative Services Agreement pursuant to which CCMA and its affiliates provide services to the seller of the practice in connection with its termination of all operations and the wind up its affairs and operations.

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Additionally, during the year ended September 30, 2018, CharterCARE Physicians entered into asset purchase agreements to acquire three medical practices with primary care physicians. Total cash consideration for the medical practices was \$976,000, of which \$240,000 was included in accounts payable in the accompanying consolidated balance sheets and paid in October 2018.

The acquisitions were accounted for as business combinations using the acquisition method of accounting. Under the acquisition accounting method, assets acquired and liabilities assumed are recorded based on their estimated fair values. As asset purchases, goodwill acquired is expected to be deductible for tax purposes.

The following table summarizes the assets acquired and liabilities assumed in connection with the acquisitions during fiscal 2018 (in thousands):

<i>For the Year Ended September 30,</i>	2018
Improvements and equipment	\$ 22
Goodwill	8,406
Accrued purchase consideration due to seller	(240)
Liabilities assumed	(7,452)
Net cash consideration	\$ 736

As mentioned at Note 2, on July 1, 2018, the Company tested for goodwill impairment which resulted in a full impairment of goodwill. This includes the goodwill presented in the table above (see Note 5).

5. Goodwill and Intangible Assets

Goodwill and intangible assets relate to the Prospect CharterCARE and CharterCARE Physicians medical practices acquisitions, as well as the acquisition of New UMG. The following is a roll-forward of goodwill for the years ended September 30, 2019 and 2018, respectively (in thousands):

<i>September 30,</i>	2019	2018
Balance, beginning of year	\$ -	\$ 5,822
Acquisitions	-	8,406
Impairment	-	(14,228)
Balance, end of year	\$ -	-

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Identifiable intangible assets are comprised of the following (in thousands):

	Amortization Period	September 30, 2019		September 30, 2018
Trade names	5 years	\$ 8,130	\$	8,130
Other	5 years	97	\$	97
Total acquisition cost of intangible assets		8,227		8,227
Less accumulated amortization		(8,208)		(7,016)
Intangible assets, net		\$ 19	\$	1,211

Amortization is recognized on a straight-line basis (management's best estimate of the period of economic benefit) over the respective useful lives. Amortization expense was \$1,192,000 and \$1,643,000 for the years ended September 30, 2019 and 2018, respectively.

Estimated amortization expense for each future fiscal year is as follows (in thousands):

<i>Years ended September 30,</i>	
2020	\$ 19

The weighted-average remaining useful life for the intangible assets was approximately one month as of September 30, 2019.

6. Members' Equity

In accordance with the Amended & Restated Limited Liability Company Agreement of PCC ("LLC Agreement"), the profit or loss of PCC is to be allocated to the members based on their Adjusted Capital Contribution, as defined in the LLC Agreement. Total member contributions were \$27,997,000 and \$9,847,000 for the years ended September 30, 2019 and 2018, respectively. For the year ended September 30, 2019 and 2018, contributions were non-cash transactions. All of these contributions were made by Prospect and are accounted for as additional member contributions, however, in accordance with the LLC Agreement, the contributions were allocated 85% to Prospect and 15% to CharterCARE Community Board, consistent with their ownership percentages.

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The following is a summary of the members' capital accounts (in thousands):

	Prospect	CharterCARE Community Board	Total
Balance at October 1, 2017	\$ 45,702	\$ 8,065	\$ 53,767
Allocated contributions	8,370	1,477	9,847
Net loss	(30,764)	(5,429)	(36,193)
Balance at September 30, 2018	23,308	4,113	27,421
Allocated contributions	23,798	4,199	27,997
Net loss	(9,108)	(1,607)	(10,715)
Balance at September 30, 2019	\$ 37,998	\$ 6,705	\$ 44,703

7. Related Party Transactions

The Company and Prospect East Hospital Advisory Services, LLC ("PEHAS"), a wholly-owned subsidiary of Prospect, entered into a Management Services Agreement ("MSA") as of June 20, 2014, under which PEHAS provides certain administrative and management services to PCC and its Subsidiaries. Management fees due to PEHAS under the MSA consist of 2% of net revenues monthly. The Company recognized management fees of \$7,395,000 and \$7,298,000 for the years ended September 30, 2019 and 2018, respectively, which is included within management fees expense in the accompanying consolidated statements of operations. As of September 30, 2019 and 2018, the Company had liabilities related to the MSA due PEHAS of \$17,938,000 and \$30,568,000, respectively.

In May 2019, Prospect East, which owns 85% of the Company, made a non-cash capital contribution in the amount of approximately \$24.7 million, which consisted of converting unpaid management fees due to PEHAS of approximately \$20.0 million and approximately \$4.7 million of unpaid invoices that Prospect paid on behalf of the Company at April 30, 2019, into equity.

8. Commitments and Contingencies

Leases

The Company leases various office facilities and equipment from third parties under non-cancelable operating and capital lease arrangements expiring at various dates through 2021. Capital leases bear interest at rates ranging from 1.5% to 4.3% per annum.

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The future minimum annual lease payments (net of anticipated sublease income) required under leases in effect at September 30, 2019, are as follows (in thousands):

<i>For the Years ending September 30,</i>	Capital Leases	Operating Leases
2020	\$ 50	\$ 400
2021	44	34
2022	-	15
2023	-	-
2024	-	-
Total minimum lease payments	94	\$ 449
Less: amounts representing interest	(2)	
	92	
Less: current portion	(49)	
	\$ 43	

Lease and rental expense was \$5,185,000 and \$5,438,000 for the years ended September 30, 2019 and 2018, respectively.

Contingent Liability for Borrowings by Prospect under Credit Facilities

The Company is contingently liable as a guarantor, among others, for amounts borrowed by PMH on senior secured notes (through August 23, 2019), and credit facilities at September 30, 2019 and 2018.

The obligations and related interest expense related to these credit facilities are not reflected in the Company's consolidated financial statements as of and for the years ended September 30, 2019 and 2018, as the borrowings are reflected in the separate consolidated financial statements of PMH.

Total borrowings outstanding as of September 30, 2019, reflected in the consolidated financial statements of PMH, but for which the Company is contingently liable as a guarantor, were (in thousands):

<i>September 30,</i>	2019	2018
Senior secured credit facility (net of discount of \$0 and \$20,085, respectively)	\$ -	\$ 1,094,315
Less: Deferred financing costs, net ("DFC")	-	(16,214)
Total Debt, net of discount, premium and DFC	\$ -	\$ 1,078,101

On June 30, 2016, PMH entered into a six-year \$625,000,000 senior secured term loan B (the "Original Term Loan"). The Original Term Loan was issued with an original discount of 1.50%, or \$9,375,000. Additionally, PMH refinanced the previous revolver with a new \$100,000,000 asset-based revolving

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credit facility (“Original ABL Facility” and together with the Original Term Loan, the “New Senior Secured Credit Facilities”). Pursuant to various amendments from August 2016 through October 2017, the aggregate commitment amount under the Original ABL facility was increased in stages to \$175,000,000. The original maturity date for the Original ABL Facility was June 30, 2021, and the original maturity date for the Term Loan was June 30, 2022.

On February 22, 2018, PMH refinanced and replaced both the Original Term Loan and the Original ABL Facility, and entered into an Amended and Restated Term Loan Credit Agreement (the “Amended TL Agreement”), by and among PMH (as the borrower), the lenders party thereto and JPMorgan Chase Bank, N.A. (“JPMorgan”), as administrative agent and collateral agent. The Amended TL Agreement replaced the Original Term Loan with a new Term B-1 Loan (“Term B-1 Loan”). The principal amount of the Term B-1 Loan is \$1,120.0 million and such loan incurred interest at LIBOR (subject to a 1.0% floor) plus 5.5%. The Term B-1 Loan was issued with an original discount of 2% and was originally scheduled to mature on February 22, 2024. The Term B-1 Loan was repaid on August 23, 2019 by the proceeds totaling \$1.55 billion from a series of transactions that PMH entered into with affiliates of Medical Properties Trust, Inc. (“MPT”), a publicly traded Real Estate Investment Trust (see further discussion below).

Additionally, on February 22, 2018, PMH entered into an Amended and Restated ABL Credit Agreement (the “Amended ABL Agreement”), by and among PMH (as the borrower), the lenders party thereto and JPMorgan, as administrative agent and collateral agent. The Amended ABL Agreement replaced the Original ABL Facility. Under the Amended ABL Agreement, the maximum revolving commitment was \$250,000,000 with ability to expand the facility to \$325,000,000, and the new ABL facility (the “New ABL Facility”) bears interest at a variable base rate plus an applicable spread that is based on excess availability under the New ABL Facility, as further described in the Amended ABL Agreement, which was 6.0% as of September 30, 2019. From January 2019 through July 2019 PMH entered into various amendments to the Amended ABL Agreement. Such amendments (i) waived certain events of default at September 30, 2018; (ii) increased the maximum revolving commitment from \$250.0 million to \$280.0 million, and further to \$285.0 million, while simultaneously reducing and removing future expansion of the facility; (iii) introduced \$40.0 million of a first in last out (“FILO”) revolving facility, which incurred interest at either 2.5% or 3.5% per annum depending on whether they are Eurodollar loans or ABR loans (which were repaid on August 23, 2019); (iv) provides for a reduction in the maximum revolving commitment by \$20.0 million and \$10.0 million upon the future planned closure or disposition of Nix Health and EOGH, respectively. The New ABL Facility matures on February 22, 2023. As of September 30, 2019, the outstanding balance and the available balance on the New ABL facility was approximately \$70.0 million and \$175.6 million, respectively. On August 23, 2019, PMH closed a series of transactions with affiliates of MPT. Under these transactions, PMH sold to MPT its hospital buildings in California (excluding Foothill Regional Medical Center (“Foothill”), Connecticut and Pennsylvania for an aggregate purchase price of \$1,386,000,000. Concurrent with the sale transactions, PMH entered into two master lease agreements whereby the sold hospital properties and related medical office buildings were leased back for an initial 15 year term, with options to extend twice for an additional 5 years each and for a further 4.75 year extension. Monthly rent is defined as 7.5% of the lease base, subject to annual escalation of consumer price index, limited to a minimum of 2% and a maximum of 4%. For the first master lease, PMH has the option to buy the properties at their fair value at the end of the lease term. For the second master lease, PMH has the option to purchase at a price that is fixed at the time of entering into the lease (the “Option Price”). If PMH chooses not to exercise this option, and the fair value at the end of the lease is below the Option Price, then PMH must pay MPT a sum equal to the difference between the fair value and the Option Price. All of the legal entities that are parties to the master lease agreement (which are the

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hospital entities in California, Connecticut and Pennsylvania themselves) provide cross guarantees on all of the obligations to MPT, which guarantees include both lease payments under the master lease as well as indebtedness due to MPT. The balance under sale-leaseback liabilities was \$1,331,000,000 at September 30, 2019, as reflected in PMH's consolidated financial statements. Neither the Company nor any of its subsidiaries (a) are parties to any agreement with MPT, (b) are guarantors of the obligations of PMH, or any of its other subsidiaries, owed to MPT or otherwise under the various agreements with MPT or (c) have pledged any of their assets as collateral for any obligations owed to MPT or otherwise pursuant to any agreement with MPT.

Further, PMH obtained a mortgage on the Foothill property. This mortgage is secured by the buildings at Foothill. The interest on this mortgage is 7.5% per annum and is subject to annual escalation of consumer price index, limited to a minimum of 2% and a maximum of 4%. The maturity date of this loan is in August 2034. MPT can purchase the property on event of default or at end of term, or if Company does not exercise purchase rights for the aforementioned leased properties. Additionally, if the Foothill property is no longer used as collateral for a promissory note payable to Prospect Medical Group, Inc. ("PMG"), , then MPT shall have the right to purchase the Foothill property and lease it back to PMH under the second master lease agreement, for an amount equal to the outstanding principal balance. The referenced promissory note payable to PMG has been included in the calculation of PMG's Tangible Net Equity in connection with requirements of the California Department of Managed Health Care. The balance under this mortgage loan was \$51,276,000 at September 30, 2019, as reflected in PMH's consolidated financial statements.

Additionally, PMH entered into a promissory note (the "TRS Note"), under which MPT has advanced to PMH \$112,937,000. The interest on this note is 7.5% per annum and is subject to annual escalation of consumer price index, limited to a minimum of 2% and a maximum of 4%. The maturity date of this note is the earlier of July 2022 or, if it occurs, a sale-leaseback of the properties in Rhode Island. The balance under this promissory note was \$112,215,000 at September 30, 2019, as reflected in PMH's consolidated financial statements.

All of the agreements with MPT are cross-collateralized and cross defaulted among the parties and assets included therein (which do not include PCC or its subsidiaries). The MPT transaction documents contain certain customary covenants and restrictions and a financial covenant based on EBITDAR performance, and PMH was in compliance with such covenants at September 30, 2019.

Litigation

The Company is subject to a variety of claims and suits that arise from time to time in the ordinary course of its business, acquisitions, or other transactions. While the Company's management currently believes that resolving all of these matters, individually or in the aggregate, will not have a material adverse impact on the Company's consolidated financial position or results of operations, the litigation and other claims that the Company faces are subject to inherent uncertainties and management's view of these matters may change in the future. Should an unfavorable final outcome occur, there exists the possibility of a material adverse impact on the Company's consolidated financial position, results of operations and cash flows for the period in which the effect becomes probable and reasonably estimable.

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Legislation and HIPAA

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

The Company believes that it is in compliance with fraud and abuse regulations as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

The Health Insurance Portability and Accountability Act ("HIPAA") assures health insurance portability, reduces healthcare fraud and abuse, guarantees security and privacy of health information, and enforces standards for health information. The Health Information Technology for Economic and Clinical Health Act ("HITECH Act") expanded upon HIPAA in a number of ways, including establishing notification requirements for certain breaches of protected health information. In addition to these federal rules, states have also developed their own standards for the privacy and security of health information as well as for reporting certain violations and breaches (for example, California's Confidentiality of Medical Information Act and Lanterman-Petris Short Act) which in some cases are more stringent. Other federal privacy laws may also apply to certain services provided by the Company, including 42 C.F.R. Part 2, which addresses the confidentiality of substance use disorder records. The Company may be subject to significant fines and penalties if found not to be compliant with these state or federal provisions.

Affordable Care Act

The Patient Protection and Affordable Care Act ("PPACA") has made significant changes to the United States health care system. The legislation impacted multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Under this legislation, 33 states have expanded their Medicaid programs to cover previously uninsured childless adults, and four additional states voted in 2018 to expand Medicaid or to elect a governor that pledged to expand Medicaid. In addition, many uninsured individuals have had the opportunity to purchase health insurance via state-based marketplaces, state-based marketplaces using a federal platform, state-partnership marketplaces or the federally-facilitated marketplace. PPACA also implemented a number of health insurance market reforms, such as allowing children to remain on their parents' health insurance until age 26 or prohibiting certain plans from denying coverage based on pre-existing conditions. Nationally, these reforms have reduced the number of uninsured individuals.

It is unclear what changes may be made to PPACA with the divided Congress, current presidential administration, and pending litigation over the validity of PPACA. The Administration has promulgated rules to broaden the availability of coverage options that do not comply with the full range of PPACA requirements for individual market coverage, namely Association Health Plans and Short-Term Limited-Duration Insurance. The Administration has also provided additional guidance on state PPACA

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waivers. These executive actions have been or may be challenged in court. In addition, the Tax Cuts and Jobs Act (“TCJA”), passed in December 2017, eliminates the individual mandate penalty under PPACA, effective January 1, 2019. The individual mandate penalty was included in PPACA to address concerns that other market reforms expanding access to coverage might produce adverse selection and higher premiums. The extent to which the repeal of the individual mandate penalty will impact the uninsured rate and future premiums are unclear at this juncture. On December 14, 2018, the United States District Court for the Northern District of Texas ruled that the individual mandate without the penalty is unconstitutional and that PPACA is therefore invalid in its entirety. Litigation on this issue is ongoing, with a decision pending from a panel of the United States Court of Appeals for the Fifth Circuit following oral arguments in July 2019. This litigation along with any future legislative changes to PPACA or other federal and state legislation could have a material impact on the operations of the Company. The Company is continuing to monitor the legislative environment and developments in pending litigation for risks and uncertainties.

Collective Bargaining Agreements

The Company has 304 employees that are subject to a collective bargaining agreement with United Nurses and Allied Professionals (“UNAP”), which was effective beginning July 15, 2019 and expires July 31, 2019. During April 2015, a hospital unit consisting of approximately 430 service employees of Fatima elected to be represented by UNAP. The parties entered into a new collective bargaining agreement which was effective beginning July 2, 2019 and expires on June 30, 2022. A small number of employees are subject to a collective bargaining agreement with the Federation of Nurses and Health Professionals (“FNHP”), which expires on July 30, 2021.

Provider Contracts

Many of the Company’s payer and provider contracts are complex in nature and may be subject to differing interpretations regarding amounts due for the provision of medical services. Such differing interpretations may not come to light until a substantial period of time has passed following contract implementation. Liabilities for claims disputes are recorded when the loss is probable and can be estimated. Any adjustments to reserves are reflected in current operations.

9. Defined Contribution Plan

Prospect sponsors defined contribution plans (the “Plans”) covering substantially all employees who meet certain eligibility requirements. Under the Plans, employees can contribute up to 100% of their compensation up to the IRS deferred annual maximum. Effective May 1, 2018, the plans covering employees at Prospect’s facilities in Connecticut and Pennsylvania merged into the plans covering employees at CharterCARE, and the two remaining plans were renamed and segregated between union and non-union employees. The Company may make discretionary matching contributions to the Plans. Employer contributions to the Plan were \$1,981,000 and \$1,925,000 for the years ended September 30, 2019 and 2018, respectively.

10. Equity Method Investments

RWMC and an unrelated third party are owners of Roger Williams Radiation Therapy (“RWRT”) and Southern New England Regional Cancer Center, LLC (“SNERCC”), which provide radiation therapy services. Roger Williams accounts for these investments using the equity method of accounting.

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RWMC is not liable for any obligations insured by RWRT or SNERCC nor is it obligated to make any further capital contributions or lend funds to RWRT or SNERCC. As of September 30, 2019 and 2018, the Company's investments in RWRT, SNERCC, and other minor investments under the equity method were approximately \$3,675,000 and \$4,088,000, respectively, and are included in equity method investments in the accompanying consolidated balance sheets. For the years ended September 30, 2019 and 2018, the Company recognized approximately \$560,000 and \$589,000, respectively, as its share of the financial results of RWRT, SNERCC, and other minor investments and received \$973,000 and \$614,000, respectively, in distributions.

Summarized combined unaudited financial information for RWRT and SNERCC as of and for the years ended September 30, 2019 and 2018 is as follows (in thousands):

<i>September 30,</i>	2019	2018
Cash	\$ 1,905	\$ 2,515
Receivables and other current assets	1,683	3,756
Total current assets	3,588	6,271
Property, improvements and equipment, net	3,849	3,502
Goodwill	7,142	7,142
Intangible assets	821	851
Other long-term assets	1,532	1,569
Total assets	\$ 16,932	\$ 19,335
Accounts payable and accrued liabilities	\$ 1,304	\$ 1,052
Other long-term liabilities	948	420
Equity	14,680	17,863
Total liabilities and partner's capital	\$ 16,932	\$ 19,335

<i>For the Years Ended September 30,</i>	2019	2018
Revenues	\$ 16,678	\$ 17,278
Net income	\$ 2,461	\$ 2,953
Income from equity method investments	\$ 560	\$ 589

11. Subsequent Events

The Company has evaluated subsequent events through February 6, 2020, the date the Company's consolidated financial statements were available for issuance.