STATE OF CONNECTICUT

OFFICE OF THE ATTORNEY GENERAL

DEPARTMENT OF PUBLIC HEALTH

GEORGE JEPSEN
ATTORNEY GENERAL

DR. JEWEL MULLEN
COMMISSIONER

December 11, 2015

VIA U.S. and ELECTRONIC MAIL

Jonathan Spees
Senior VP, Mergers and Acquisitions
Prospect Medical Holdings, Inc.
10780 Santa Monica Blvd., Suite 400
Los Angeles, CA 90025

Dennis P. McConville
Senior VP and Chief Strategy Officer
Eastern Connecticut Health Network, Inc.
71 Haynes Street
Manchester, CT 06040

Re: Eastern Connecticut Health Network, Inc. Proposed Asset Purchase by Prospect Medical Holdings, Inc.; OHCA Docket Number: 15-32016-486 and Attorney General Docket Number: 15-486-01.

Dear Mr. Spees and Mr. McConville:

On November 23, 2015, the Response to Completeness Questions ("Response") of Eastern Connecticut Health Network, Inc. ("ECHN"), including Manchester Memorial Hospital ("MMH") and Rockville General Hospital ("RGH"), and Prospect Medical Holdings, Inc. ("PMH") was filed with the Office of Health Care Access, Department of Public Health ("OHCA/DPH") and Office of the Attorney General ("OAG").

OHCA/DPH has determined that there are deficiencies in the Response that require clarification and/or additional production. Conn. Gen. Stat. § 19a-486a(d). The OAG has no further questions at this time. Accordingly, please respond to the following questions and/or submit the following materials to the OAG and OHCA by January 9, 2016.

1. On page 2148 of the Response, Applicants state that ECHN is expected to secure a bank loan for $5 million dollars to cover costs of planned capital projects. With respect to this $5 million dollar loan and the referenced capital projects, please answer the following:

a) Clarify whether the $5 million is intended to be expended exclusively on the

behavioral health expansion at RGH mentioned on page 2149 or additional planned capital projects, and, if the latter, identify the projects and estimated expenditure amounts.

b) Elaborate on the specific types of behavioral health conditions the behavioral unit at RGH expects to treat and whether this unit will be utilized for inpatient or outpatient treatment.

2. In connection with Response 2(b) at page 2150, relating to the joint ventures in which ECHN has an ownership interest, please respond to the following questions.

a) Please provide the information on Exhibit A for Connecticut Occupational Partners, LLC.

b) If a joint venture cannot be transferred to PMH, the parties contemplate that ECHN will issue a note to PMH, in an amount equal to the value of that joint venture. The note would be secured by ECHN's interest in the joint venture and payable from future distributions from the joint venture. If the joint venture fails or it does not generate sufficient funds to enable the note to be repaid, will ECHN have any liability?

3. The Applicants state in page 2158 of the Response that PMH has established an independent practice association in Connecticut, Prospect Provider Group CT-ECHN, LLC ("PPGCTE") and a preferred provider network/health system risk taking entity, Prospect Health Services, CT, Inc. ("PHS"), and that physicians currently represented by Eastern Connecticut Individual Provider Group, Inc. ("ECIPG") will make individual decisions about whether to participate in PPGCTE. Please respond to the following questions regarding these entities:

a) Will ECIPG be dissolved after the Closing?

b) If ECIPG physicians do not elect to join PPGCTE, will they still have privileges at the Hospitals?

4. On pages 2158-2159 of the Response, Applicants identify two types of physicians that participate in the PMH physician network, fully contracted physicians ("FCP") and those identified as operating under a Memorandum of Understanding ("MOU"). Please elaborate on the differences between the two categories of physicians. In the detailed response, please clarify the following:

a) The typical scenarios in which a physician chooses to be an MOU affiliated physician versus an FCP;

b) Any differences in the types or frequency of services an MOU physician would provide versus an FCP;

c) The typical circumstance where an MOU physician's service would be limited to a particular patient.

5. On page 2162 of the Response and at Exhibit F, Applicants provided a summary of performance metrics for Prospect Health Services in Texas. With respect to this summary, please address the following:

a) Explain what differentiates an acute patient versus a non-acute patient.

b) Whether this Exhibit includes Medicare Advantage Performance patients only and the meaning of the term "Seniors".

c) Explain what the Goals identified in the top right corner of the Exhibit signify.

d) Applicants stated with respect to the trends in Texas that they were "encouraging and positive, but show room for improvement." Please specifically identify those areas needing improvement and explain the specific strategies being implemented to address these deficiencies.

6. On page 2149 of the Response, Applicants state that a $5 million planned renovation at RGH which is expected to be completed by September 2016 will result in RGH having the ability to accommodate an additional 30 patients with behavioral health conditions. Additionally, Applicants state that the acquisition of physicians from Mansfield OB/GYN Associates has added demand for OB services. However, in the table on page 2173 of the Response and the subsequent explanation, Applicants state that projected growth for inpatient discharges is attributable to Medical/Surgical discharges and not to the maternity or behavioral health units at either hospital "as both the maternity unit and behavioral health unit are operating at capacity [at MMH] and RGH does not provide either services at the present time. Based on this assumption, discharge volume for maternity, pediatric (newborn) and psychiatric services will remain constant at the levels projected for FY 2016 through FY 2019." Please clarify why the planned behavioral health unit renovation at RGH and the increased demand for OB services do not result in increases FY 2016 through FY 2019 for Inpatient Discharges in maternity patients for MMH (as the hospital's maternity unit apparently has overflow capacity on the Third West unit) and psychiatric patients for RGH.

7. Applicants indicate on page 2175 of the Response that ECHN has struggled to retain, in particular, primary care providers. Tables E and F on page 2174 of the Application indicates an increase to date in Allied Health Professionals employed in the ECHN Medical Foundation. Please elaborate on the role Applicants envision for AHPs post-closing, addressing specifically:

a) Whether AHPs will be utilized to compensate for the lack of primary care physicians.

b) Whether AHPs would be eligible to join PPGTCE or the Medical Foundation PMH will utilize post-closing.

c) Whether AHPs participate as members in any of PMH's existing physician networks and, if not, why not.

8. On page 2175 of the Response, Applicants indicate that a decline in participants in the ECHN Medical Foundation from 2013 to 2014 was related to a decision to contract with a third party for hospitalist services at both Hospitals. Please indicate whether PMH intends to continue outsourcing hospitalists post-closing.

9. Referencing Applicants' response to Question 53 of the Application and page 2178 of the Response, please address the following:

a) Applicants have projected a 1% increase in spending for Community Building Activities through FY 2019. With respect to the screenings and educational programs listed in Exhibit H of the Response, please indicate whether PMH intends to allocate more resources for screenings versus educational programs than is currently the case;

b) Certain screening programs identified in Exhibit H had low utilization rates. Please elaborate how PMH intends to increase community utilization of those screening programs specifically, and screening programs, generally, in coordination with the planned 1% increase in spending year over year.

10. For those Community Health Improvement Services and Community Benefit Operations programs identified on pages 2183-2185 of the Response, please indicate which programs PMH intends to continue funding post-closing and whether any material changes in funding are expected for any of the programs listed.

11. Please explain the role, purpose and function of the Nurse and Survivorship Navigator Program listed on page 2183 of the Response.

12. In reference to Exhibit M, page 2381 of the Response, the Patient Experience survey indicates patient satisfaction levels for Hollywood Community Hospital of Hollywood and Los Angeles Community Hospital well below the national average. Please elaborate on the factors causing these results and detail what policy, programs and procedures PMH has implemented to increase patient satisfaction levels at these hospitals.

13. Please provide clarification as to whether the amounts provided on Table 8, Exhibit B, page 2209, are actual or estimated and if amounts were submitted as of 9/30/15 or 11/4/15.

14. Please provide documentation that supports PMH's available funds in excess of $110 million and its generation of $7.5 million in free cash flow per month as of September 30, 2015, as stated on page 2192.

15. In reference to PMH's Capital Investments and Cost Savings Table, Exhibit L, page 2327, address the following:

a) What do the amounts listed under the columns Profitability, Liquidity and Solvency represent (e.g. total margin, operating margin, EBITDA, cash and cash equivalents, net assets, stock holder's equity, etc.)? Provide documentation that supports the data, for example, calculation methodology, etc. and the measurement period that applies to each of the entries;

b) As previously requested in Question 37(b), for each of the five entities, elaborate on how the cost savings listed were the result of economies of scale inherent of a larger organization;

c) The table shows references to footnotes labeled as "(g)" and "(h)" but the information related to these footnotes is missing. Please provide the missing information.

16. In reference to the Revised Financial Worksheets (C), Exhibit I, pages 2312-2317 and related assumptions, for ECHN, MMH and RGH, explain the following:

a) The factors driving the gains in incremental gross patient revenue for each entity;

b) The positive net income "without the CON" in FY 2019 for MMH and RGH; and

c) The reductions in "other operating revenue" between FY 2014 actual and FY 2015 projected for each entity.

17. In reference to PMH'S credit rating and the revolving line of credit with Morgan Stanley information provided on page 2191 of the Response, address the following:

a) Provide the specific time period (e.g. month, quarter) associated with the credit ratings referenced for PMH; and

b) Provide the total amount available and principal amount related to the credit line. Elaborate on the ability to retain this funding once the engagement with Morgan

Stanley and PMH concludes *"within the next year"* as indicated on page 2206 of the Response.

18. On page 2194 of the Response, the Applicants indicated that PMH's FY 2015 financial statements, reflecting twelve months of financial activity, are not available and that a copy will be provided once they have been received and publicly disclosed. In reference to this response, please provide an estimate for when the copy of the audited financial statements will be available.

19. On page 2195 of the Response, the Applicants indicated that the Other Operating Revenue Detail report, Exhibit J, submission was corrected to reflect the removal of the amount for "Public Support" in the "with CON" scenario. Please define what encompasses "Public Support."

20. In reference to the California Quality Assurance Fee (SB 239) program referred to on page 2192, elaborate on the impact on PMH's future ability to support the cost of this proposal and future capital needs for MMH and RGH in excess of the $75 million, without the additional dollar amounts generated by this program in the form of revenue and cash receipts.

Please mail one (1) complete hard copy and one (1) complete electronic copy of the requested materials for approval to each of the following addresses:

Office of the Attorney General
55 Elm Street, P.O. Box 120
Hartford, Connecticut 06141-0120
Attn: Gary W. Hawes, AAG

Office of Health Care Access, Dept. of Public Health
410 Capitol Avenue
Hartford, Connecticut 06134
Attn: Steven W. Lazarus

After receipt of these requested materials, the OAG and OHCA shall review the submission to determine whether the application for approval is complete. If not, they shall provide written notice of any deficiencies within twenty (20) days of receipt of the information requested.

Should you have any questions regarding these requests or any other issues relating to the Commissioner's and Attorney General's review, please do not hesitate to contact either Steven W. Lazarus at the Department of Public Health (860-418-7012; Steven.Lazarus@ct.gov)

or Assistant Attorney General Gary W. Hawes at the Office of the Attorney General (860-808-5020; gary.hawes@ct.gov).

Very truly yours,

Gary Hawes
Assistant Attorney General
Office of the Attorney General

Very truly yours

Kimberly R. Martone
Director of Operations
Office of Health Care Access

cc: Steven Lazarus (via electronic mail)
Rebecca Matthews, Esq. Wiggin and Dana LLP
Melinda Agsten, Esq. Wiggin and Dana, LLP