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**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION**

In re: §
§ Chapter 11
PROSPECT MEDICAL HOLDINGS, INC., *et al.*¹, §
§ Case No. 25-80002 (SGJ)
Debtors. §
§ (Jointly Administered)
§

**STATEMENT BY THE STATE OF CONNECTICUT
IN CONNECTION WITH PROSPECT’S CHAPTER 11 CASES**

In connection with the bankruptcy cases of Prospect Medical Holdings, Inc., and its affiliated debtors (collectively, the “**Debtors**” or “**Prospect**”), the State of Connecticut² submits this statement to provide the Bankruptcy Court, the Debtors, and parties in interest with additional

¹ A complete list of each of the Debtors in these chapter 11 cases may be obtained on the website of the Debtors’ proposed claims and noticing agent at <https://omniagentsolutions.com/Prospect>. The Debtors’ mailing address is 3824 Hughes Ave., Culver City, CA, 90232.

² The State of Connecticut (“**Connecticut**”) hereby acts through the Office of the Attorney General and the Office of the Governor, on behalf of Connecticut and Connecticut’s various agencies.

information regarding Connecticut's key role in these bankruptcy cases, its long-standing concerns with the Debtors' operations in Connecticut and its hopes for a cooperative path forward.

INTRODUCTION

1. The Debtors' bankruptcy is the latest chapter in a history of mismanagement and plunder stretching back to 2016, which has harmed Connecticut's patients, residents, communities, and taxpayers alike. In 2016, Prospect, backed by private equity sponsor Leonard Green Partners, bought three of Connecticut's nonprofit, community hospitals (Manchester Memorial Hospital in Manchester, CT, Rockville General Hospital in Vernon, CT, and Waterbury Hospital in Waterbury, CT), together with their affiliated healthcare operations, the "**Connecticut Hospitals**"), promising robust investment and careful quality control. Prospect said that it would improve the hospitals' facilities and expand their services, that it would scrupulously guard their patients' sensitive health information, and above all else, that it would faithfully care for the health of Connecticut's residents. Prospect broke each of these promises.

2. Instead, Prospect took the Connecticut Hospitals private and then sold the ground out from under them to fund dividends to its shareholders. Those shareholders profited from Prospect throttling Connecticut's healthcare infrastructure, stiffing vendors and staff, shortchanging Connecticut through material unpaid taxes, and – worst of all – endangering its residents through compromising on vital medical care. This unfortunate pattern is not unique to Prospect's operations in Connecticut. Similar schemes played out in Rhode Island, *see* [Dkt. No. 54] and Pennsylvania, *see Commonwealth of Pennsylvania v. Prospect Medical Holdings, Inc., et al*, E.D. Pa. Case No. 2:24-cv-05853-JP, and have now culminated in the Debtors' bankruptcy filing.

3. **Despite its misgivings, to be clear, Connecticut supports the Debtors' stated goal of transitioning the Connecticut Hospitals to a new operator – indeed, that is the only**

acceptable outcome for the Connecticut Hospitals at this juncture – and will work with the Debtors to ensure that the sale process can move quickly forward, subject to regulatory approvals.

4. The Debtors (and relevant non-debtor parties) must, however, also be accountable for the harm that they have caused to Connecticut and its citizens, through their disastrous operation of the Connecticut Hospitals, promises broken following the 2016 sale, and substantial unpaid obligations to Connecticut, including more than \$100 million in unpaid taxes necessary to fund Connecticut's Medicaid program which support numerous healthcare operations throughout the state for the benefit of Connecticut's residents.

**PROSPECT'S HISTORY OF FALSE
PROMISES AND NEGLECT IN CONNECTICUT**

5. The Connecticut Hospitals have been mainstays of Connecticut's healthcare system since as early as 1883, and prior to 2016, were operating as non-profit hospitals. In the aggregate, these hospitals service ten of thousands of Connecticut residents each year and are a critical component of Connecticut's healthcare system.

A. The Prospect Acquisition and the Incurrence of Substantial New Debt

6. When Prospect sought to acquire the Connecticut Hospitals in 2016, it was required to, in accordance with applicable Connecticut laws and regulations, apply for and receive a state-issued Certificate of Need for the purchases, explaining Prospect's intentions; and to enter into a state-approved asset purchase agreement.

7. Prospect's Certificate of Need application, submitted in October 2015, promised not to compromise the hospitals' Connecticut assets, and Prospect's officers at the time asserted that Prospect had the financial wherewithal to safely operate the Connecticut Hospitals, as well as

to reinvest profits in their operations – which was an important representation to the state. But shortly after the sale to Prospect closed, reality reflected dramatically changed circumstances.

8. In 2018, Prospect took out a \$1.12 billion loan secured by the physical assets of the Connecticut Hospitals and other hospitals owned by Prospect. To pay back that loan, Prospect sold the hospitals' land and buildings to Medical Properties Trust, which in return, leased the properties back to Prospect. As a result, the Connecticut Hospitals are on the hook indefinitely for substantial annual lease payments simply to use their own facilities. Shortly thereafter, Prospect issued a \$457mm dividend to its shareholders and executives. The Connecticut Hospitals saw little, if any, of the proceeds of the sale of their real property.³

B. The Deterioration of Patient Care

9. To add insult to injury, Prospect choked off funding to the Connecticut Hospitals, sweeping cash received by the Connecticut Hospitals on a daily basis and allocating them insufficient operating funds in return. The Connecticut Hospitals were not able to make their own decisions about expenditures, but were forced to go through Prospect's corporate headquarters in California, which repeatedly refused to allow the Connecticut Hospitals to pay their vendors. This caused vendors to delay or refuse to provide necessary services and equipment to the Connecticut Hospitals.

10. Nowhere is this operational downturn more evident than at Rockville General Hospital. Before the Prospect acquisition, more than half of Rockville's 102 licensed beds were in use, staffed by 465 full-time employees. By September 2022, Rockville had only 11 staffed beds. And in 2022, all patients spent only a total 304 days in Rockville's beds – down from 14,571

³ Connecticut reserves all rights with respect to the Medical Properties Trust sale-leaseback transaction.

bed/days just three years earlier. In other words: the average number of patients sleeping at the hospital each night dropped to less than one.

11. Today, because of Prospect's disinvestment and neglect, Rockville General Hospital performs no inpatient surgeries and has far fewer full-time employees than it did historically. Once a full-service hospital, Rockville General Hospital, a safety net hospital in an underserved community, "now offers only emergency, one-day surgery, and behavioral health services."⁴

12. Prospect's neglect had dire consequences: patient deaths potentially due to mishandling of their treatment; delayed testing where Prospect had refused to timely pay the vendor; borrowing medications from other facilities to fill patient orders where Prospect failed to fund disbursements; inability to print prescriptions and discharge instructions as a result of failure to pay a vendor who provided printing services; inability to run criminal background checks on applicants; inoperable elevators requiring patients to be carried up and down stairs; backed-up and rescheduled procedures where Prospect refused to repair or replace broken equipment; delays in patient care caused by the refusal to fund necessary software upgrades; delaying and rescheduling surgeries where Prospect refused to pay for anesthesia services; and failing to meet Prospect's pension plan obligations, resulting in liens asserted by the Pension Benefit Guaranty Corporation and negatively impacting morale of employees who are fundamental to patient care.

C. *Unpaid Bills to the State*

13. Prospect has also short-changed Connecticut itself. In Connecticut, hospitals and other healthcare providers pay an annual tax based on revenues, the proceeds of which are used to

⁴ Katy Golvala & Jenna Carlesso, *In 2016, Rockville Was a Bustling Local Hospital. Then Prospect Medical Took Over*, CT Mirror (Feb. 9, 2025), <https://tinyurl.com/2j83pb64>.

fund Medicaid payments across all Connecticut hospitals. Prospect has failed to pay those taxes since Spring 2022, and in December 2023, Connecticut filed tax liens against Prospect for \$67 million in provider unpaid taxes. Unpaid taxes are now in excess of **\$100 million**.

D. The Data Breach

14. In the regular course of business, Prospect collects and maintains sensitive personal information – information that can be associated with individuals, including patients, employees, contractors, and members of health plans. That information varies by individual but includes many of the most private kinds of financial and health information, like names, addresses, dates of birth, Social Security numbers, health insurance information, diagnosis and treatment information, and prescription information. Prospect is obligated by contract and by statute to keep that information confidential. It failed to do so.

15. In July 2023, a third-party gained access to Prospect’s IT systems, and conducted reconnaissance through Prospect’s network for days, moving throughout multiple systems, enabling remote access, and installing malware that permitted exfiltration of files containing personal information. Once it got the information it sought, the third party employed ransomware to encrypt files on Prospect’s servers and locked Prospect out of some of its own systems. The data breach was a predictable threat that Prospect should have been ready for, especially given the stakes. Ransomware is a known, persistent threat among hospitals and hospital systems. Prospect failed to implement reasonable data security measures to prevent, detect, limit, or recover from the data breach.

16. During the breach, Prospect took its systems offline, with serious negative consequences for patient care. On August 3, 2023, the Connecticut Hospitals were forced to implement “downtime procedures,” with medical staff resorting to burdensome manual paper

charting and reporting. At the same time, the hospitals activated “Full Code Triage,” diverting all incoming ambulance traffic, stroke, and trauma patients to other area hospitals – in some cases, for more than five weeks. Hundreds of thousands of Connecticut residents saw their private data compromised by the breach. Some of that private data was later posted for sale on the dark web.

CASE OBJECTIVES

A. Transitioning the Connecticut Hospitals

17. Given its concerns with Prospect’s operation of the Connecticut Hospitals, Connecticut was supportive of Prospect’s efforts to sell the hospitals to Yale New Haven. In April 2022, Yale New Haven and Prospect entered into an asset purchase agreement under which Yale New Haven would purchase the Connecticut Hospitals for \$435 million and return the hospitals to non-profit status.

18. Any sale must (i) be approved by Connecticut’s Office of Health Strategy (“**OHS**”), which reviews and approves the Certificate of Need, (ii) have a Cost and Market Impact Review conducted by OHS and approved by the Attorney General, and (iii) be accompanied by a Change of Ownership application, approved by the Department of Public Health (“**DPH**”).

19. Connecticut approved the proposed sale in March 2024, subject to certain conditions, including resolution of outstanding issues between Yale New Haven and Prospect. Yale New Haven and Prospect did not come to terms on whether any modifications should be made to the asset purchase agreement to address, among other things, the degrading financial condition of the Connecticut hospitals as alleged by Yale New Haven. On May 1, 2024, Yale New Haven sued Prospect in Connecticut state court, seeking to render the asset purchase agreement unenforceable; the next month, Prospect counter-sued, seeking to enforce the asset purchase agreement. That litigation remains pending.

20. The real victims of Yale New Haven's and Prospect's continued disputes, however, are Connecticut's residents, who do not have a clear path forward on essential healthcare needs. It is critical that the Connecticut Hospitals be transitioned to a new operator, one who will ensure that the hospitals are adequately funded and safely run. To be very clear, that operator is not Prospect. However, **Connecticut is remains ready and willing to work with Prospect to, if possible, move forward with the proposed sale to Yale New Haven, and if not, to identify a new potential operator (or operators) for the hospitals on an expedited basis.** Connecticut's first priority is ensuring that these hospitals remain open and functional, and continue playing their key role in Connecticut's healthcare system. **Connecticut is committing to working with the Debtors and their advisors in a cooperative manner to help facilitate that goal.**

B. Recovering the State's Claims

21. In addition to being one of the key parties in any sale process for the Connecticut Hospitals, Connecticut is also one of the Debtors' largest creditors. Prospect owes Connecticut more than \$100 million in prepetition provider taxes, and those obligations are, among other rights, secured by a first priority lien on the Connecticut hospital's assets. Connecticut is also accruing postpetition secured claims against the Debtors, as Connecticut continues to make Medicaid payments to and for the benefit of the Connecticut Hospitals for which Connecticut has recoupment and/or setoff rights, giving rise to secured claims under sections 553 and 506(a).

22. More broadly, however, Connecticut has substantial contingent claims against the Debtors, their non-Debtor affiliates, the Debtors' former owners, and certain of the Debtors' current and former directors and officers for numerous violations of Connecticut law, including consumer protection statutes, and other claims sounding in tort. These claims arise from Prospect's disastrous management of the Connecticut Hospitals as well its breach of promises made in the 2016 asset purchase agreement and Certificate of Need.

23. To be clear, Connecticut is committed to ensuring the survival of the Connecticut Hospitals for the benefit of its residents, and looks forward to working cooperatively with the Debtors on the sale process as a top priority. At the appropriate time, Connecticut will address its rights pursuant to its police and regulatory powers to address all potential claims against the Debtors and their affiliates – and the relevant non-debtors – for the harm that they have caused to Connecticut and its citizens.⁵

CONCLUSION

24. Connecticut is committed to ensuring that the Connecticut Hospitals can be transitioned to a responsible, appropriate operator (or operators). That is the only way for the citizens of Connecticut to receive the care they need and deserve. But at the appropriate time, the Debtors and relevant non-debtors must also be held accountable for the substantial harm they have caused in Connecticut. Connecticut reserves all rights, regulatory powers, and privileges under state law and the Bankruptcy Code, and waives none, including, without limitation, approval over any sale transaction, subject to conditions Connecticut has or may impose under state law.

⁵ Connecticut reserves all rights with respect to its claims against the Debtors and their non-Debtor affiliates.

Dated: February 10, 2025

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that on February 10, 2025, a true and correct copy of the foregoing document was electronically filed with the Court and served through the CM-ECF system to all counsel of record registered to receive a Notice of Electronic Filing in this case.

/s/ Jeff P. Prostok

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