



AG Henry Sues Prospect Medical Holdings over Breach of Contract, Mismanagement of Crozer Health System Resulting in Closures, Disruptions of Services

Action also seeks a preliminary injunction to preserve current service lines, and the appointment of a receiver to manage the system for the immediate future

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HARRISBURG — Attorney General Michelle Henry announced the filing of a lawsuit against Prospect Medical Holdings, Inc., regarding years of the company’s mismanagement and neglect of Delaware County-based Crozer Health System, which has resulted in closures of facilities and shattered a network of care for hundreds of thousands of Pennsylvanians.

The lawsuit alleges Prospect Medical has broken an Asset Purchase Agreement, approved by a court in 2016, by cutting services and closing facilities, while diverting funds to private shareholders and investors, rather than supporting the healthcare network.

The Office of Attorney General filed a civil complaint Tuesday to redress Prospect Medical's management and require the company to fund operating costs until a new owner is in place.

The lawsuit is also seeking a preliminary injunction to preserve existing service lines, the appointment of a receiver to manage the Crozer Health System for the immediate future to avoid additional closures and cuts to services.

The Office of Attorney General, which has oversight authority of transactions involving certain non-profit entities and assets, had concerns about the 2016 purchase, but ultimately agreed to the transaction when certain conditions of sale were incorporated in a Delaware County Orphans Court order.

“We are taking legal action against a company which agreed to prioritize affordable, accessible healthcare — but instead broke their promise with years of neglectful, self-serving practices that have put lives at risk,” Attorney General Henry said. “My office is the last line of defense for Pennsylvanians who are losing quality, convenient healthcare due to corporate greed. We had no choice but to file suit as Prospect Medical's conduct will almost certainly result in future closures that will force patients to travel distances for emergency care.”

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The purchase agreements included keeping all acute care hospitals open for at least 10 years. Prospect's mismanagement and diversion of more than \$450 million to private investors — through sophisticated financial transactions like real estate sale-lease agreements of hospital assets — resulted in an additional annual lease liability of \$35 million to operate the facilities.

Additionally, Prospect Medical has failed to fully fund the pension accounts for Crozer Keystone retirees, the complaint alleges.

The mismanagement led to closures of Delaware County Memorial Hospital and Springfield Hospital and suspensions of related healthcare services. Crozer-Chester Medical Center and Taylor Hospital remain open, but Prospect recently anticipated suspensions of trauma, burn, maternal child services and women's health services at Crozer-Chester Hospital.

Currently, Crozer-Chester Medical Center and Taylor Hospital provide services to more than 500 patients each day, on average.

The closures and suspensions violate the obligations of Prospect Medical, under the 2016 Asset Purchase Agreement, according to the Office of Attorney General's complaint. The civil complaint seeks payment of costs to keep the two hospitals open at full service, as a receiver is put in place until an approved acquisition of the health system.

Nationally, there have been other private equity acquisitions of hospitals with catastrophic results for patients and staff. The practice involves for-profit companies purchasing hospital networks, then selling properties and engaging in lease-back transactions, which pad investor dividends while burdening patients, employees, their families, and the broader community.

While no timeline is articulated in the court filings, the Office of Attorney General is seeking the injunction and court appointed receiver as soon as possible.

[CLICK HERE TO READ THE INJUNCTION](#)

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Pennsylvania Office of Attorney General
Strawberry Square
Harrisburg, PA 17120
717-787-3391