YesCare Dodges Liability for Prison Conditions

Merger, Division, and Bankruptcy

PRIVATE EQUITY STAKEHOLDER PROJECT

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OCTOBER 2023

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Key Points

- YesCare is “the pioneer and foremost provider” of healthcare in U.S. prisons and jails, claiming more than 40 years of industry experience. As of late 2021, the company had faced more than 1,000 lawsuits alleging substandard care
- YesCare was known as Corizon Health until May 2022, when its owners took a series of steps to restructure the company and divide it into two entities: YesCare and Corizon Health
- The company has been owned by private equity firms for at least 16 years— including BPOC, BlueMountain Capital, Flacks Group, and Perigrove Capital
- The May 2022 restructuring gave Corizon most of the company’s liabilities and service provider contracts; YesCare received most of the company’s money, its employees, and its existing client contracts
- Corizon filed for bankruptcy in February 2023, pausing legal action against Corizon in multiple states, including claims alleging medical malpractice, wrongful death, and deliberate indifference in violation of the Eight Amendment
- Corizon’s bankruptcy may allow the company to evade accountability for upwards of $50 million in liabilities

YesCare Debuts After 40 Pioneering Years

YesCare is "the pioneer and foremost provider" of healthcare in U.S. prisons and jails, claiming more than 40 years of industry experience.[1] As of late 2021, the company had faced more than 1,000 lawsuits alleging substandard care.[2] In mid-2022, the company commenced a series of legal maneuvers that may allow it to evade accountability for upwards of $50 million in liabilities.[3]

As of 2020, more than 60% of top U.S. jails were contracted with private companies for healthcare services. Private equity-owned providers YesCare (previously Corizon Health) and Wellpath are among the most dominant companies in the prison healthcare industry.[4] Private equity-owned companies also provide prisons with phone services, commissary, and other services.[5]

YesCare has been owned by private equity firms for at least 16 years. It was owned by private equity firm BPOC from 2007 to 2017.[6] In 2017, BlueMountain Capital Management became the company's largest shareholder.[7] In June 2020 investment firm Flacks Group bought YesCare to become its sole owner.[8] As of August 2023, the company is owned by private equity investor Perigrove Capital.[9]

YesCare was known as Corizon Health until May 2022,[10] when its owners took a series of steps to restructure the company and divide it into two entities.[11] One entity was given a majority of the company's liabilities[12] and service provider contracts,[13] but left with only $1 million in cash from the Corizon bank account.[14] The other entity was given the rest of the company's money,[15] its employees,[16] and its existing client contracts.[17]

Dozens of lawsuits filed against Corizon were still proceeding through various state and federal courts shortly before it filed for bankruptcy in February 2023.[18] The bankruptcy has paused legal action against Corizon in multiple states, including claims alleging medical malpractice, wrongful death, and deliberate indifference in violation of the Eight Amendment.[19]

For clarity, this report will refer to YesCare at various times by its different context-dependent names, including Corizon, Valitas, Correctional Medical Services, YesCare, and other legal titles.

YesCare Is Corizon Is YesCare

Corizon's restructuring and bankruptcy have been to the financial benefit of the company's owners and directors, who have distanced the new company from its withered host, emphasizing that Corizon is a "completely separate legal and financial entity."[20]

YesCare has taken a contradictory stance on its relationship to Corizon. Its website says YesCare has been "the correctional healthcare pioneer leader for 40 years," over which time YesCare (founded in 2022) has provided services to "more than 1,000,000 patients at 475 correctional facilities across the country."[21] YesCare also declared that **"the dedicated employees of Corizon Health are now YesCare"**—this announcing "the company's next chapter."[22]

YesCare's founding involved adopting prison and jail contracts that had originated with Corizon, and using services from Corizon-contracted professionals. YesCare also assumed copyrights on Corizon policy manuals, procedures, and nursing protocols.[23]

> *"the dedicated employees of Corizon Health are now YesCare"*

YesCare has profited from Corizon's misdeeds but claims no responsibility for the costs. "YesCare guarantees transparency," according to its website.[24] But through its recent division, bankruptcy, and rebrand, the company has taken steps to obscure public understanding of its history.

In addition to this legal evasion, rebranding as YesCare allows the company to evade reputational damage done to the Corizon name.[25]

History of Corizon's Private Equity Ownership

"YesCare" claims to be a pioneer in correctional healthcare with more than 40 years of industry experience.[26] The entity was extracted from Corizon Health, which private equity established a decade earlier after consolidating multiple correctional healthcare companies.

Private equity firm Beecken Petty O'Keefe & Company (BPOC) owned Corizon—also known as Valitas—from 2007 to 2017.[27] In 2011 Valitas Health Services combined its subsidiary, Correctional Medical Services, with correctional healthcare provider America Service Group (ASG), which Valitas had acquired that year for $250 million. The newly combined company was renamed Corizon Health.[28]

"We think the idea of outsourcing this type of service will be an attractive option as states try to cut budgets," said the company's chief executive in February 2009. One BPOC partner expected up to $500 million worth of contracts to be put up for bid that year.[29]

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BlueMountain Capital Management acquired Corizon in April 2017.[30] In June 2020, Corizon was acquired by Flacks Group, an investment firm focused on acquiring struggling companies.[31]

As of August 2023, private equity firm Perigrove Capital lists YesCare as one of its portfolio companies.[32] An executive director at Perigrove has been on YesCare's executive board since December 2021, according to his LinkedIn profile.[33]

Corizon's Declining Financial Performance

Credit rating agency Moody's Investor Service repeatedly downgraded Valitas/Corizon's credit ratings starting in 2011 until 2016, ultimately downgrading the company's Corporate Family and Probability of Default Ratings to Caa1—considered to be poor quality and very high risk.[34]

Moody's had initially expected that the company would quickly reduce debt it had taken on to fund the America Service Group acquisition.[35] However, in April 2013 Moody's downgraded Corizon's credit, with expectations that its debt would remain high at least into 2014. Corizon had recently lost contracts in Maine, Maryland, and Pennsylvania.[36]

In September 2013, Corizon received another downgrade, including a rating outlook change from "stable" to "negative," reflecting the company's continued financial deterioration.[37] Again in August 2014, Moody's downgraded the company's credit, this time from B3 to Caa1 [38]—meaning that the credit raters considered Corizon's debt to be of poor standing and highly risky.[39]

In 2016 Corizon received another credit downgrade citing the termination of the company's largest contract with Florida.[40] Corizon had signed a five-year contract with Florida providing the company $229 million per year, but in late 2015, the company gave the state notice that it would be ending the agreement early because it was "too constraining."[41] Patient deaths in the state had spiked to a 10-year high shortly after Corizon took over its prison healthcare services.[42]

Corizon's 2016 credit downgrade would be its last: Moody's stopped monitoring Valitas/Corizon's credit that year due to lack of information following the company's decision to stop participating in the rating process.[43] This final credit downgrade also cited more than $300 million in Valitas/Corizon debt that was coming due in the following year.[44]

Despite the company's credit downrating, it was estimated to consistently generate between $1.2 and $1.4 billion in annual revenue from 2011 to 2016.[45]

Corizon's Declining Number Of Contracts

Corizon saw a decline in its number of contracts since its formation until the beginning of 2020. When its predecessors merged and formed Corizon in 2011, the company was contracted with around 400 facilities.[46] By the beginning of 2020, it was operating in 220 facilities.[47]

Corizon lost contracts gradually over years. In the three years up to 2015, it lost contracts in Minnesota, Maine, Maryland, Tennessee, and Pennsylvania.[48] In late 2015, the company announced it would end its Florida contract early because the agreement was "too constraining."[49]

Also in 2015, New York City announced the end of its Corizon contract after an investigation reported that the company had hired workers with convictions for crimes including for murder and kidnapping. The investigation also found that Corizon employees might have contributed to at least two recent patient deaths.[50]

In 2016, Corizon lost a county contract it had held in Georgia since the early 1990s after the local sheriff became "very critical of Corizon's record."[51] The same year, New Mexico state officials declined to renew its Corizon contract and switched to a different healthcare provider.[52]

In Arizona in 2019, Corizon lost its $188.6 million contract with the state after allegations of serious medical neglect.[53] The contract's "per inmate day" rate "created an almost irresistible incentive to deny care," according to the director of the ACLU National Prison Project.[54]

In 2021, Corizon lost its contract with the Idaho Department of Correction,[55] and also lost a $1.4 billion bid to provide healthcare services in Missouri, where it had provided prison healthcare since 1992.[56]

YesCare's Checkered Legal History

YesCare's legal history is broad and concerning. According to the ACLU, in the period from 2011 to 2016, Corizon was sued 660 times for medical malpractice.[83] **The company faced more than 1,000 lawsuits alleging substandard care by late 2021.**[84] According to one estimate for a five-year period, it was sued for wrongful death and sexual abuse more than 1,300 times.[85]

The company faced more than 1,000 lawsuits alleging substandard care by late 2021.

The notable number of lawsuits against Corizon has in some cases resulted in large settlement amounts. In 2015, Corizon was part of an $8.3 million settlement paid to a family of a patient beaten to death by staff at a California jail.[86] In 2016, it paid more than $4.5 million to settle claims by New Mexico patients who accused a Corizon physician of sexually abusing them.[87]

In Florida in 2017, Corizon agreed to pay $1.7 million in a settlement over allegations that it denied medical care for hernias for about 1,800 patients.[88] In 2018, a Colorado court approved a $3.7 million Corizon settlement related to a patient death.[89] In Oregon that same year, a judge approved a $10 million judgment against Corizon over a patient death.[90]

Dozens of lawsuits against the company were still proceeding through various state and federal courts shortly before it filed for bankruptcy in February 2023.[91]

May 2022, Corizon-YesCare Split

Around early May 2022, Corizon Health's owners took a series of steps to restructure the company. The first step was to convert the company into a Texas corporation. Next, various affiliated companies were merged into the one Texas-based Corizon Health entity.[57] The owners finally performed a "divisional merger" on the consolidated company, dividing it into two companies: the original Corizon Health (sometimes referred to as "RemainCo" in documents planning the divisional merger) and CHS, TX (sometimes referred to as "NewCo").[58]

The relevant portion of the Texas Business Organizations Code defines a "merger" to mean "the division of a [Texas-based] entity into two or more" entities.[59] Under Texas law, companies performing a divisional merger must file a Plan of Merger with the Secretary of State,[60] which must include an allocation plan for the assets and liabilities between the resulting entities.[61]

Corizon Health's Plan of Divisional Merger outlines a plan in which Corizon ("RemainCo") kept expired contracts and most of its legal liabilities, while CHS TX ("NewCo") retained Corizon's ongoing contracts but took on a limited number of its lawsuits.[62]

The divisional merger documents include more than 460 professional liability claims and lawsuits which Corizon ("RemainCo") would retain post-merger, including cases from Alabama, Arizona, Colorado, Florida, Georgia, Idaho, Indiana, Kansas, Kentucky, Maryland, Michigan, Missouri, New Jersey, New Mexico, New York, Oregon, Pennsylvania, Tennessee, and Virginia. The lawsuits stem from alleged incidents occurring from 2010 to 2021, and include claims related to mental health, medication, and excessive force, among other claims.[63]

In comparison, CHS TX ("NewCo") took on only about 160 professional liability claims and lawsuits originating from incidents occurring between 2012 and 2021.[64]

The divisional merger also left Corizon ("RemainCo") liable for about 380 contracts with service providers;[65] more than 275 service agreements with physicians and medical groups;[66] more than 30 agreements with supplier vendors;[67] 8 finance agreements;[68] more than 25 HR agreements;[69] around 40 consulting agreements;[70] 15 employment agreements, including with company executives;[71] 7 legal agreements;[72] 55 independent contractor agreements;[73] and 37 agreements with staffing agencies.[74] Corizon was also left responsible for four property leases;[75] seven property subleases;[76] and 55 information technology agreements.[77]

Although the restructured Corizon Health had the burden of carrying a majority of legal claims and provider contracts against the company, its owners left Corizon with only $1 million in cash from Corizon's bank accounts. "NewCo Assets" included "All cash in the Company's bank accounts, less $1,000,000 to be maintained in the account of Corizon, LLC."[78]

In addition to taking on most of Corizon's cash, CHS TX ("NewCo") took on all employees of the company.[79] The company owners also allocated Corizon's ongoing contracts to CHS TX, including contracts with:

- Brevard, Charlotte, Leon, Polk, and Okaloosa Counties, Florida;
- Shawnee County, Kansas;
- Lexington, Kentucky;
- Maryland's Department of Public Safety and Correctional Services;
- Prince George's County, Maryland;
- Calhoun and St. Clair Counties, Michigan;
- St. Louis, Missouri;
- Essex and Passaic Counties, New Jersey;
- Bernalillo and Doña Ana Counties, New Mexico;
- Coxsackie, New York;
- Philadelphia, Pennsylvania; and
- Riverside, Virginia.[80]

CHS TX ("NewCo") was then acquired by YesCare.[81] Two weeks later, the company published an announcement that "the dedicated employees of Corizon Health are now YesCare."[82]

TEXAS TWO-STEP BANKRUPTCY

“[The Texas two-step] is a get out of jail free card.”

— Sen. Dick Durbin

February 2023, Corizon Files For Bankruptcy

Since the divisional merger in May 2022, YesCare has emphasized that Corizon is a “completely separate legal and financial entity.”[92] Yet, YesCare also continues to claim more than 40 years of industry experience.[93]

Corizon Health, meanwhile, changed its name to Tehum Care Services before declaring bankruptcy in February 2023.[94] Filing a bankruptcy petition automatically stops acts and proceedings against the debtor and its property, including liens granted before the bankruptcy petition was filed.[95]

Corizon’s bankruptcy filing estimates liabilities between $10 million and $50 million—at least 10 times more than the bank-account cash left to Corizon in the divisional merger.[96]

The Texas Two-Step: “Does That Sound Like Justice?”

In early 2022, Corizon’s board began to consider a divisional merger to address its declining financial situation. This is according to a declaration from Corizon’s chief restructuring officer, who noted that a divisional merger allows the company’s owner to “re-allocate assets and liabilities among the resulting entitles in a manner that is binding on creditors.”[97]

Four companies before Corizon Health have used the Texas divisional merger law to perform a split followed a bankruptcy to absorb the liability—a maneuver that has been referred to as the “Texas-two-step.”[98] Legal experts have said that the maneuver gives companies leverage in settlement talks with plaintiffs by suspending their lawsuits.[99]

The Texas Two-step’s creator has called it “the greatest innovation in the history of bankruptcy.”[100] One U.S. congressmember described it as a “get out of jail free card.”[101] In February 2022, U.S. Senator Dick Durbin criticized Johnson & Johnson’s use of the Texas two-step tactic:

> “It is a form of legal strategy that corporations are using to shield their assets from accountability. It allows wealthy corporations whose products caused harm to avoid paying damages to the victims. Not just that, the ‘Texas Two-Step’ denies the victims their right to make their case in court. And, it can stretch the process of seeking justice out for years while the victims get sicker and die. Does that sound like justice?”[102]

Conclusion

Through the two-step arrangement described here, YesCare has evaded responsibility for the potential liability for lawsuits alleging Corizon's misdeeds. The company has also rebranded and allowed YesCare to evade reputational damage done to the Corizon name.

But Corizon's restructuring into two companies and subsequent bankruptcy has implications beyond the company itself. Allowing Corizon to evade legal liabilities in this way could set a precedent for other healthcare companies struggling to cover liabilities.

Wellpath, for example, in March 2023 received a credit downgrade from B3 to Caa1[103]—meaning that the credit raters considered Wellpath's debt to be of poor standing and highly risky.[104] If Corizon is permitted to benefit through its division and bankruptcy, it may clear a path for Wellpath and other poorly performing companies to begin a new with a blank slate and new name.

Corizon Health, YesCare, Wellpath, and any other healthcare providers seeking profits from prisons and jails should be held accountable if they are found liable for harms created by poor services. This same principle applies to any other company that exists: One must not be allowed to harm others and then evade responsibility through legal maneuvers. Otherwise, more bad actors—including other private equity firms—may be drawn to do the same, exploiting patients and families for short-term gain.

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