2:19-cv-10352-DSF

UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA
WESTERN DIVISION – LOS ANGELES

In re: VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*,

Debtors and Debtors In Possession

STRATEGIC GLOBAL MANAGEMENT, INC.[1]

Appellant

v.

STATE OF CALIFORNIA; VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*

Appellees

On Appeal from the United States Bankruptcy Court for the Central District of California

Bankruptcy Court Lead Case No.: 2:18-bk-20151-ER
Chapter 11

Judge: Hon. Dale S. Fischer
Courtroom: 7D
Location: 350 W. First Street
Los Angeles, CA 90012

APPENDIX IN SUPPORT OF APPELLEES JOINT BRIEF

[1] The other Debtors in the chapter 11 cases, being jointly administered under Lead Case No. 2:18-bk-20151-ER, are O'Connor Hospital 2:18-bk-20168-ER, Saint Louise Regional Hospital 2:18-bk-20162-ER, St. Francis Medical Center 2:18-cv-20165-ER, St. Vincent Medical Center 2:18-bk-20164-ER, Seton Medical Center 2:18-cv-20167-ER, O'Connor Hospital Foundation 2:18-bk-20179-ER, Saint Louise Regional Hospital Foundation 2:18-cv-20172-ER, St. Francis Medical Center of Lynwood Foundation 2:18-cv-20178-ER, St. Vincent Foundation 2:18-cv-20180-ER, St. Vincent Dialysis Center, Inc. 2:18-cv-20171- ER Seton Medical Center Foundation 12:8-cv-20175-ER, Verity Business Services 2:18-cv-20173-ER, Verity Medical Foundation 2:18-cv-20169-ER, Verity Holdings, LLC 2:18-cv-20163-ER, DePaul Ventures, LLC 2:18-cv-20176-ER, and DePaul Ventures - San Jose Dialysis, LLC 2:18-cv-20181-ER.

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Appellees (i) Verity Health System of California, Inc. ("VHS"), and its affiliated debtors and debtors in possession (the "Debtors") in their chapter 11 cases (the "Bankruptcy Cases") pending in the United States Bankruptcy Court for the Central District of California (the "Bankruptcy Court"); (ii) the Official Committee of Unsecured Creditors (the "Committee") appointed by the Office of the United States Trustee (the "UST") in the Bankruptcy Cases; and (iii) Xavier Becerra, the Attorney General for the State of California (the "AG"), collectively the appellees herein (the "Appellees"), hereby submit this appendix in support of their concurrently-filed Appellees' Joint Opening Brief (the "Brief").[2] This Appendix consists of a Table of Contents and a consecutively paginated appendix divided into separately tabbed .pdf attachments.

[2] Unless otherwise defined herein, all abbreviated document names have the definitions set forth in the Motion.

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Respectfully submitted,

Dated: April 13, 2020

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CERTIFICATE OF SERVICE

I hereby certify that on April 13, 2020, I electronically filed the foregoing document with the Clerk of the Court for the United States District Court for the Central District of California by using the CM/ECF system.

I further certify that parties of record to this appeal who either are registered CM/ECF users, or who have registered for electronic notice, or who have consented in writing to electronic service, will be served through the CM/ECF system.

I further certify that some of the parties of record to this appeal have not consented to electronic service. I have served the foregoing document by the means set forth below:

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EXHIBIT "1"

Docket #0008 Date Filed: 8/31/2018

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UNITED STATES BANKRUPTCY COURT

CENTRAL DISTRICT OF CALIFORNIA - LOS ANGELES DIVISION

In re VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*, Debtors and Debtors In Possession.	Lead Case No. 2:18-bk-20151-ER (Proposed To Be) jointly administered with: Case No. 18-_____; Case No. 18-_____; Case No. 18-_____; Case No. 18-_____; Case No. 18-_____; Case No. 18-_____; Case No. 18-_____; Case No. 18-_____; Case No. 18-_____; Case No. 18-_____; Case No. 18-_____; Case No. 18-_____; Case No. 18-_____; Case No. 18-_____; Case No. 18-_____; Case No. 18-_____; Case No. 18-_____; Case No. 18-_____ Chapter 11 Cases **DECLARATION OF RICHARD G. ADCOCK IN SUPPORT OF EMERGENCY FIRST-DAY MOTIONS**
☒ Affects All Debtors ☐ Affects Verity Health System of California, Inc. ☐ Affects O'Connor ☐ Affects Saint Louise Regional Hospital ☐ Affects St. Francis Medical Center ☐ Affects St. Vincent Medical Center ☐ Affects Seton Medical Center ☐ Affects O'Connor Hospital Foundation ☐ Affects Saint Louise Regional Hospital Foundation ☐ Affects St. Francis Medical Center of Lynwood Foundation ☐ Affects St. Vincent Foundation ☐ Affects St. Vincent Dialysis Center, Inc. ☐ Affects Seton Medical Center Foundation ☐ Affects Verity Business Services ☐ Affects Verity Medical Foundation ☐ Affects Verity Holdings, LLC ☐ Affects De Paul Ventures, LLC ☐ Affects De Paul Ventures - San Jose Dialysis, LLC Debtors and Debtors In Possession.	

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I, Richard G. Adcock, hereby state and declare as follows:

1. I am the Chief Executive Officer of Verity Health System of California, Inc. ("VHS"). I became the Debtors' Chief Executive Officer effective January 2018. Prior thereto, I served as VHS's Chief Operating Officer since August 2017.

2. I have extensive senior-level experience in the not-for-profit healthcare arena, especially in the areas of healthcare delivery, hospital acute care services, health plan management, product management, acquisitions, integrations, population health management, budgeting, disease management and medical devices. I have meaningful experience in both the technology and healthcare industries in the areas of product development, business development, mergers and acquisitions, marketing, financing, strategic and tactical planning, human resources, and engineering.

3. Prior to VHS, from 2014 until 2017, I served as Executive Vice President and Chief Innovation Officer of Sanford Health, a large integrated health system headquartered in the Dakotas and is dedicated to health and healing. In this role, I was responsible for leading Sanford Health's growth and innovation, in addition to direct operational oversight of the following related entities: Sanford Research, Sanford Health Plan, Sanford Foundation (a philanthropic fundraising foundation), Sanford Frontiers (a commercial and real estate company), Profile by Sanford (a scientific weight loss program), and Sanford World Clinic (which operates clinics in multiple countries).

4. From 2012 to 2017, I served as the President of Sanford Frontiers and was responsible for starting a new entity within Sanford Health focused on innovative ventures. From 2008 to 2012, I served as Executive Vice President of Sanford Clinic. I was responsible both for (i) working directly with the President of the Clinic to the lead team of Vice Presidents in all aspects of management, and (ii) Sanford World Clinics operations, including the design, opening and operation of several global clinics. From 2006 to 2008, I served as the Vice President of Sanford Clinic and was responsible for leading strategic, operational and financial aspects within Sanford Clinic. From 2004 to 2006, I served as Director of Clinical Operations at Sanford

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Children's Specialty Clinic and was responsible for leading the Pediatric Subspecialty Physician program and the clinical practice through all facets of the operation.

5. Prior to Sanford Health, I served as the Director of Engineering and Six Sigma Master Black Belt at GE Medical Systems, and before that I was the Vice President of Research and Development and the Co-Owner/Founder of Micro Medical Systems. I have a bachelor of science in business administration and a masters of business administration in healthcare management.

6. On the date hereof (the "Petition Date"), VHS and certain of its subsidiaries (collectively, the "Debtors" or "Verity") filed voluntary petitions for relief under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Central District of California, Los Angeles Division (the "Bankruptcy Court"). I am knowledgeable and familiar with the Debtors' day-to-day operations, business and financial affairs, and the circumstances leading to the commencement of these chapter 11 cases (the "Chapter 11 Cases").

7. Except as otherwise indicated herein, this Declaration is based upon my personal knowledge, my review of relevant documents, information provided to me by employees of the Debtors and Integrity Healthcare, LLC ("Integrity") or the Debtors' legal and financial advisors, or my opinion based upon my experience, knowledge, and information concerning the Debtors' operations and the healthcare industry. If called upon to testify, I would testify competently to the facts set forth in this Declaration.

8. I make this declaration for the purpose of apprising the Court and parties in interest of the circumstances that compelled the commencement of these Chapter 11 Cases and in support of the First-Day Motions (as defined below).

9. To enable the Debtors to minimize the adverse effects of the commencement of these Chapter 11 Cases on their business, the Debtors have requested various types of relief in a number of applications and motions (each a "First Day Motion," and, collectively, the "First Day Motions"). The First-Day Motions seek relief intended to maintain the Debtors' business operations; to preserve value for the Debtors, its stakeholders, and parties in interest; and, most

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importantly, to protect the health and wellbeing of the patients who are being treated at the Hospitals (defined below) operated by the Debtors and the employees of the Debtors. Each First Day Motion is crucial to the Debtors' reorganization efforts and to the health and wellbeing of the patients. Any capitalized term not expressly defined herein shall have the meaning ascribed to that term in the relevant First-Day Motion.

10. Section I provides an overview of the Debtors and these Chapter 11 Cases. Section II describes the Debtors' businesses. Section III describes the circumstances that compelled the commencement of the Chapter 11 Cases. Section IV describes the Debtors' corporate and capital structure. Section V describes the Debtors' sales efforts. Section VI provides a summary of the First-Day Pleadings and factual bases for the relief requested therein.

I. OVERVIEW[1]

11. Debtor VHS, a California nonprofit public benefit corporation, is the sole corporate member of the following five Debtor California nonprofit public benefit corporations that operate six acute care hospitals, O'Connor Hospital, Saint Louise Regional Hospital, St. Francis Medical Center, St. Vincent Medical Center, Seton Medical Center, and Seton Medical Center Coastside (collectively, the "Hospitals") and other facilities in the state of California. Seton Medical Center and Seton Medical Center Coastside operate under one consolidated acute care license.

12. VHS, the Hospitals, and their affiliated entities (collectively, "Verity Health System") operate as a nonprofit health care system in the state of California, with approximately 1,680 inpatient beds, six active emergency rooms, a trauma center, and a host of medical specialties, including tertiary and quaternary care. The scope of the services provided by the Verity Health System (defined below) is exemplified by the fact that in 2017, the Hospitals provided medical services to over 50,000 inpatients and approximately 480,000 outpatients.

13. The VHS affiliated entities, including the Debtors, are as follows:

- O'Connor Hospital
- Saint Louise Regional Hospital

[1] Capitalized terms used but not defined in this overview section shall have the meanings assigned to them below.

- St. Francis Medical Center
- St. Vincent Medical Center
- Seton Medical Center, including
- Seton Medical Center Coastside campus
- Verity Business Services
- Marillac Insurance Company, Ltd.
- O'Connor Hospital Foundation
- Saint Louise Regional Hospital Foundation
- St. Francis Medical Center of Lynwood Foundation
- St. Vincent Medical Center Foundation
- Seton Medical Center Foundation
- St. Vincent de Paul Ethics Corporation
- St. Vincent Dialysis Center
- De Paul Ventures, LLC
- De Paul Ventures San Jose Dialysis, LLC
- De Paul Ventures San Jose ASC, LLC
- Verity Medical Foundation
- Verity Holdings, LLC

14. Verity Medical Foundation ("VMF"), incorporated in 2011, is a medical foundation, exempt from licensure under California Health & Safety Code § 1206(l). VMF contracts with physicians and other healthcare professionals to provide high quality, compassionate, patient-centered care to individuals and families throughout California. With more than 100 primary care and specialty physicians, VMF offers medical, surgical and related healthcare services for people of all ages at community-based, multi-specialty clinics conveniently located in areas served by the Debtor Hospitals. VMF holds long-term professional services agreements with the following medical groups: (a) Verity Medical Group; (b) All Care Medical Group, Inc.; (c) CFL Children's Medical Associates, Inc.; (d) Hunt Spine Institute, Inc.; (e) San Jose Medical Clinic, Inc., D/B/A San Jose Medical Group; and (f) Sports, Orthopedic And Rehabilitation Associates.

15. Verity Holdings LLC ("Holdings"), a direct subsidiary of its sole member VHS, was created in 2016 to hold and finance Verity's interests in six medical office buildings whose tenants are primarily physicians, medical groups, healthcare providers, and certain of the VHS Hospitals. Holdings' real estate portfolio includes over 30 properties, as more fully described below.

16. Saint Louise Regional Hospital Foundation, St. Francis Medical Center Foundation, St. Vincent Medical Center Foundation, Seton Medical Center Foundation, and

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O'Connor Medical Center Foundation handle fundraising and grant-making programs for each of their respective Debtor Hospitals.

17. As of August 30, 2018, the Debtors' facilities had approximately 850 patients, and are currently at approximately 50% occupancy.

18. As of August 31, 2018, the Debtors have approximately 7,385 employees, of whom 4,733 are full-time employees. Approximately 74% of these employees are represented by collective bargaining units. Specifically, 72% of the Debtors' Employees – approximately 5,331 Employees in total – are represented through California Nurses Associations ("CNA"), Service Employees International Union ("SEIU"), National Union Healthcare Workers ("NUHW") and United Nurses Association of California/Union of Health Care Professionals ("UNAC").

19. As part of the mission of Verity Health System to serve the community, VHS provides care to patients even though they may lack adequate insurance or may participate in programs that do not pay full charges.

20. All of the Debtors' Hospitals are licensed as general acute care hospitals by the California Department of Public Health, certified to participate in the Medicare and Medicaid programs, and managed by VHS.

21. Each of the Debtors are exempt from federal income taxation as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, except for Verity Holdings, LCC, DePaul Ventures, LLC, and DePaul Ventures - San Jose Dialysis, LLC.

22. St. Francis Medical Center owns real property commonly known as: (i) 3630 E. Imperial Highway Lynwood, CA 90262, including the patient tower and all of the facilities thereon; (ii) 2700 E. Slauson Ave, Huntington Park, CA 90255, and the Huntington Park Medical Office Building thereon; and (iii) 5953 S. Atlantic Blvd. 5, Maywood, CA 90270, and Maywood Medical Office Building thereon.

23. St. Vincent Medical Center owns real property commonly known as: (i) 2131 W 3rd Street, Los Angeles, CA 90057, including the hospital and all of the facilities located thereon; and (ii) vacant land in Salton Sea, California.

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24. Saint Vincent Medical Foundation owns: (i) a fractional timeshare of a condominium commonly known as 2600 Avenida Del Presidente, San Clemente, CA 92672; and (ii) Lot 10 of Block 572 of Rio Grande Estates, Unit 25, Valencia, NM.

25. O'Connor Hospital owns real property commonly known as: (i) 455 O'Connor Dr. San Jose, CA 95128, and partial interest in the medical office building thereon; (ii) 2105 Forest Ave, San Jose, CA 95128 and the acute hospital, medical office building, and all of the facilities located thereon.

26. Saint Louise Regional Hospital owns real property commonly known as: (i) 9400 No Name Uno, Gilroy, CA 95020, and the hospital and helipad thereon; and (ii) 705 Las Animas Road, Gilroy, CA 95020.

27. Seton Medical Center owns (i) real property commonly known as 1900 Sullivan Avenue, Daly City, CA 94015, and the Hospital and the facilities thereon (the "Daly Property"), and (ii) an employee parking lot on the Daly Property.

II. The Debtors' Businesses

A. The Debtors' Current Business Operations.

28. A description of VHS, each Hospital and its respective subsidiaries and affiliates is described below, all of which are jointly-administered Debtors in these cases.

29. **Verity Health Systems.** As set forth above, VHS is a nonprofit regional healthcare system headquartered in El Segundo, California. VHS was originally established by the Daughters of Charity of St. Vincent de Paul, Province of the West, to support the mission of the Catholic Church through a commitment to the sick and poor. VHS operates six hospitals in California.

30. **Verity Business Services.** VHS operates Verity Business Services ("VBS"), a nonprofit public benefit corporation. VBS provides support services to Verity and its affiliated hospitals including accounting, finance, patient financial services, supply chain management, and purchasing services for the entire health system.

31. **Verity Medical Foundation.** As set forth above, VMF operates clinics and contracts with physicians to provide high quality, compassionate, patient-centered care to

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individuals and families throughout California. With more than 100 primary care and specialty physicians, VMF offers medical, surgical and related healthcare services for people of all ages at community-based, multi-specialty clinics conveniently located in areas served by the Hospitals.

32. **O'Connor Hospital.** O'Connor Hospital is a nonprofit public benefit corporation that operates a 358 licensed-bed, general acute care hospital that serves residents from the greater San Jose area. The hospital has an emergency department with 23 emergency treatment stations. It also has 11 surgical operating rooms and two cardiac catheterization labs. The hospital offers a comprehensive range of healthcare services, including emergency, cardiac, orthopedic, cancer, obstetrics, and sub-acute care services. The hospital is accredited by The Joint Commission.

33. **O'Connor Foundation.** O'Connor Foundation was incorporated in 1983 and is governed by a Board of Trustees. Charitable donations and endowments help fund the acquisition of new equipment, the expansion of O'Connor Hospitals' facilities, healthcare services, and community outreach programs. O'Connor Hospital is the sole corporate member of O'Connor Foundation. As of May 31, 2018, O'Connor Hospital Foundation had a balance of $1,123,644.15 in temporarily restricted assets and a balance of approximately $334,802.20 in permanently restricted assets for the purpose of funding the cardiac catheterization lab capital, wound care services, surgical services, and various other programs.

34. **St. Vincent Medical Center.** St. Vincent Medical Center was founded as the first hospital in Los Angeles in 1856. In 1971, a new facility was constructed at the Hospital's current location at 2131 West Third Street, Los Angeles, CA 90057. The hospital has expanded to a 366 licensed bed, regional acute care, tertiary referral facility, specializing in cardiac care, cancer care, total joint and spine care, and multi-organ transplant services. The Hospital serves both local residents and residents from Los Angeles, San Bernardino, Riverside, and Orange Counties. As a provider of healthcare services for a high percentage of elderly patients, many of the hospital's services and programs are focused on the treatment of various chronic diseases.

35. **St. Vincent Foundation.** St. Vincent Foundation was incorporated in 1989 as a nonprofit public benefit corporation. Charitable donations and endowments raised by St. Vincent Foundation help fund the acquisition of new equipment, the expansion of the Hospital's facilities,

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healthcare services, and community outreach programs. St. Vincent Foundation raises funds through grants, special events, and individual donors. St. Vincent is governed by a Board of Trustees, and St. Vincent Medical Center is the sole corporate member of the Foundation. St. Vincent, as well as St. Vincent Foundation, holds donor-restricted funds. As of May 31, 2018, St. Vincent Foundation had a balance of approximately $1,590,149.89 in temporarily restricted assets and a balance of approximately $136,159 in board designated temporarily restricted assets for the purpose of funding programs such as bone mineral density research, transportation for low-income patients, the organ transplantation program, and oncology research and treatment.

36. **St. Vincent Dialysis Center.** St. Vincent Medical Center is the sole corporate member of the St. Vincent Dialysis Center, located on the Hospital's campus. The St. Vincent Dialysis Center provides dialysis services for kidney disease patients, including hemodialysis and isolated ultrafiltration treatments as part of the Hospital's end-stage renal disease program.

37. **St. Francis.** St. Francis Medical Center was established in 1945 and gained sponsorship from Daughters of Charity, Province of the West, in 1981. The hospital provides comprehensive healthcare services and operates one of the busiest emergency trauma centers in Los Angeles County. The Hospital serves 1.2 million residents of Southeast Los Angeles, located in the communities of Lynwood, South Gate, Downey, Huntington Park, Bell Gardens, Maywood, and Compton. As a provider of healthcare services for many Medi-Cal and uninsured patients, the hospital receives significant Disproportionate Share Hospital funding. St. Francis operates a 384 licensed bed, general acute care hospital located at 3630 East Imperial Highway in Lynwood, California. The hospital has an emergency department with 46 licensed emergency treatment stations and is designated a Level II Trauma Center. It also has nine surgical operating rooms and three cardiac catheterization labs for inpatient and outpatient cardiac catheterization services. The hospital offers a comprehensive range of services, including emergency and trauma care, neonatal intensive, cardiovascular, oncology, pediatrics, behavioral health, and maternity and child services. In addition to the inpatient programs and services, the Hospital also offers various outpatient services, including ambulatory surgical services, laboratory services, imaging services, infusion therapy, nuclear medicine services, respiratory therapy, and physical therapy.

Other outpatient services are provided at the following clinics: Orthopedics Clinic, Wound Care Clinic, Industrial Clinic, Lynwood Clinic, Downey Clinic , and Huntington Park Clinic. The Hospital is accredited by The Joint Commission.

38. **St. Francis Medical Center Foundation.** St. Francis Medical Center is the sole corporate member of St. Francis Medical Center Foundation. St. Francis Medical Center Foundation was incorporated in 1983 as a nonprofit public benefit corporation and is governed by a volunteer Board of Trustees. Charitable donations and endowments help fund the acquisition of new equipment, the expansion of the Hospital's facilities, healthcare services, and community outreach programs. St. Francis Foundation raises funds through grants, special events, and individual donors. As of May 31, 2018, St. Francis Foundation had a balance of $656,118.24 in temporarily restricted assets for the purpose of funding programs such as the Children's Counseling Center, nurse education, and the annual Women's Luncheon in support of mammogram equipment. The Foundation also funds Health Benefit Resource Center, Healthy Communities Initiative, and Trauma Recovery.

39. **Seton Medical Center.** Seton Medical Center was originally founded as Mary's Help Hospital by the Daughters of Charity of St. Vincent De Paul in 1893. The original facility was destroyed in the San Francisco Earthquake of 1906, and by 1912, Mary's Help Hospital reopened a new facility in San Francisco. In 1965, the hospital was moved to its current location at 1900 Sullivan Avenue in Daly City. The hospital was renamed Seton Medical Center in 1983, is currently licensed for 357 beds and serves residents from San Francisco and San Mateo areas. Seton Medical Center has an emergency department with 18 licensed treatment stations. It also has 13 surgical operating rooms and three cardiac catheterization labs. Of the Hospital's 83 licensed skilled nursing beds, 39 are in suspense, and the remaining 44 beds are utilized as sub-acute care beds. Additionally, the hospital has 24 licensed acute psychiatric beds which have been placed in suspense. The hospital has a broad spectrum of medical services, including cancer, cardiac, emergency, surgical, rehabilitation, respiratory, orthopedic, and sub-acute care. The hospital is accredited by The Joint Commission. Seton Medical Center and Seton Coastside share a consolidated license.

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40. **Seton Coastside.** Seton Coastside was founded as Moss Beach Rehabilitation Hospital in 1970. In 1980, the City of Half Moon Bay acquired ownership of the hospital and signed an agreement for Daughters of Charity to manage operations of the hospital and rename it St. Catherine's Hospital. In 1993, St. Catherine's Hospital became Seton Coastside as it became integrated with Seton Medical Center. Today, Seton Coastside is licensed for 116 skilled nursing beds and five general, acute-care beds. Seton Coastside also operates the only 24-hour "standby" Emergency Department along the 55-mile stretch between Santa Cruz and Daly City. Under a consolidated license, Seton Medical Center and Seton Coastside share the same Board of Directors, executive leadership team, charity care policies, and union collective bargaining agreements.

41. **Seton Foundation.** Seton Foundation, governed by a Board of Trustees, raises funds through grants, special events and individual donors. Charitable donations and endowments raised by Seton Foundation help fund the acquisition of new equipment and the expansion of facilities at the Seton Medical Center and Seton Coastside. Seton is the sole corporate member of the Seton Foundation. As of May 31, 2018, Seton Foundation had a balance of $2,693,778.66 million in temporary restricted assets and a balance of $ 2,717,591 million in permanently restricted assets for the purpose of funding programs such as oncology, the San Francisco Heart & Vascular Institute, and women and delivery services.

42. **Saint Louise Hospital.** Saint Louise Hospital opened in 1989 in the Morgan Hill area of Santa Clara County. In December 1999, the Daughters of Charity of St. Vincent de Paul relocated the hospital to Gilroy and renamed it Saint Louise Regional Hospital. Today, the Hospital's 93-bed facility and 24-hour emergency department provide services to the residents of southern Santa Clara County, including Morgan Hill, San Martin, and Gilroy. Saint Louise Regional Hospital operates a 93 licensed bed, general acute care hospital located at 9400 No Name Uno, Gilroy, California 95020. The Hospital has an emergency department with eight licensed emergency treatment stations. The Hospital also has five surgical operating rooms for inpatient and outpatient surgical procedures. Ten of the Hospital's 21 licensed skilled nursing

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beds are in suspense. The Hospital provides comprehensive healthcare services including cancer, emergency, rehabilitation, and surgical care. The Hospital is accredited by The Joint Commission.

43. Saint Louise Regional Hospital owns and operates the De Paul Urgent Care Center. The De Paul Urgent Care Center is located in Morgan Hill, and offers patients non-emergency medical services seven days a week. The De Paul Urgent Care Center treats non-life threatening cases, such as minor injuries and lacerations, strep throat, sinus infections, rashes, nausea, vomiting, colds, flu, and fever.

44. **Saint Louise Foundation.** Saint Louise Foundation, governed by a Board of Trustees, raises funds through grants, special events, and individual donors. Charitable donations and endowments raised by Saint Louise Foundation help fund the acquisition of new equipment and the expansion of the Hospital's facilities. Saint Louise is the sole corporate member of Saint Louise Foundation. As of May 31, 2018, Saint Louise Regional Hospital Foundation had a balance of approximately $561,486.86 in temporarily restricted assets.

45. **De Paul Ventures, LLC.** De Paul Ventures, LLC is a wholly-owned and operated holding company of Verity that was formed in August 2010 for the purpose of investing in a freestanding surgery center and other healthcare entities.

46. **DePaul Ventures - San Jose Dialysis, LLC.** In April, 2013, DePaul Ventures, LLC, formed DePaul Ventures - San Jose Dialysis, LLC ("Dialysis"). Dialysis is a general and limited partner of Priday Dialysis, LLC, a healthcare center specializing in end-stage renal disease treatment. Dialysis shares an interest in Priday Dialysis with Total Renal Care, Inc., which is a subsidiary of DaVita.

47. **Verity Holdings, LLC.** As set forth above, Holdings is a direct subsidiary of its sole member VHS and was created in 2016 to hold and finance Verity's interests in six medical office buildings whose tenants are primarily physicians, medical groups, healthcare providers, and certain of the VHS Hospitals. Holdings' real estate portfolio includes over 30 properties, including, but not limited to, apartment buildings, parking lots, and condominiums. Holdings is the borrower on approximately $66.2 million of non-recourse financing secured by separate deeds of trust and revenue and accounts pledges, including the rents on each medical office building

(collectively "MOB Financing").

48. **Non-Debtor VHS Entities.** The Debtors' have an interest in the entities described below that are not filing chapter 11.

49. Marillac Insurance Company, LTD. ("Marillac"), a wholly-owned subsidiary of VHS, was incorporated in the Cayman Islands on December 9, 2003, as an exempted company and was granted an Unrestricted Class "B" Insurer's License effective December 15, 2003, which it holds subject to the provisions of the Insurance Law of the Cayman Islands. On November 1, 2012, The Insurance Law, 2010 (the "Law") became effective. Under such law, Class B licenses were changed from "restricted" and "unrestricted," as they had been described in previous revisions of the law, into three separate classes "(i)," "(ii)" and "(iii)." Insurers writing at least 95% of net premiums with their related business (in this case VHS) fell into Class B(i). The Company was granted a Class B(i) license, effective April 2, 2015. Marillac provides insurance coverage to VHS and its affiliates.

50. St. Vincent De Paul Ethics Corporation does not hold any assets and is a nondebtor entity. St. Francis Medical Center is its sole corporate member.

51. VHoldings MOB, LLC ("VHoldings") is currently an inactive subsidiary of VHS and has no assets or obligations. It was created as a "special purpose entity" for a proposed financing that did not materialize. As part of the proposed transaction structure, four additional LLCs were established in which, VHoldings was the sole member of each. The four additional LLCs were dissolved on January 23, 2017.

52. De Paul Ventures – San Jose ASC, LLC ("San Jose ASC"), was formed in February 2011, by De Paul Ventures, LLC (which is a filing entity), and owns a 25% interest as a limited partner in a partnership with Physician Surgery Services, dba Advanced Surgery Center, a freestanding surgery center in San Jose. San Jose ASC's only asset is a sale contract, pursuant to which it receives payments of $125,000 every other month. Postpetition, San Jose ASC will continue to forward to VHS the $125,000 received every other month. Once all payments are received, the Debtors will dissolve San Jose.

53. Robert F. Kennedy Medical Center is a nonprofit public benefit corporation that

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operated a 229-bed general acute care hospital and served residents in Hawthorne, California, until December 31, 2004. Robert F. Kennedy Medical Center Foundation is a nonprofit public benefit corporation that raised funds for the Robert F. Kennedy Medical Center.

54. O'Connor Health Center I is a California limited partnership, formed in January 1996 ("OCH1"). O' Connor Hospital is a limited partner in OCH1 and the general partner is OCH Forest 1, LP. OCH1 owns certain real property at 455 O'Connor Drive, San Jose, California. Such property is leased by O'Connor Hospital.

55. Sports Medical Management, Inc. has no assets or obligations.

B. Integrity's Management of Debtors.

56. As set forth above, Integrity was formed in 2015 to carry out the management services under the Management Agreement, for which Integrity is paid a monthly management fee. Through June 30, 2017, Integrity was wholly owned by BlueMountain. In July 2017, NantWorks, LLC ("NantWorks"), acquired a majority stake in Integrity from BlueMountain. There were no significant changes to the terms of the Restructuring Agreement or the California Attorney General requirements as a result of this transaction.

57. On a monthly basis, VHS records management fee expense and makes payments to Integrity associated with the management services received under the Management Agreement. During the initial fiscal year which ended June, 2016, the monthly management fee was determined based on a specified percentage of trailing 12 month operating revenues for VHS. Such management fees are adjusted each succeeding fiscal year based on changes in the consumer price index. VHS defers payment for a portion of management fees based on its days' cash on hand over the most recent 90 day period. All deferred management fees accrue interest at 2.82% per annum to the extent such amounts are not paid in the fiscal year that services are received. Such deferred management fees are contingently payable based on the terms of the Management Agreement, which include annual calculations of excess cash on hand.

C. Verity's Employees.

58. As set forth above, altogether, the Debtors employ approximately 7,385 employees (the "Employees") – 6,907 excluding VMF and 478 under VMF. Almost three-quarters of the

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Debtors' Employees – approximately 5,488 Employees in total – are represented through CNA, SEIU, California Licensed Vocational Nurses' Association, and The International Union of Operating Engineers, Stationary Local No. 39, AFL-CIO.

59. For W-2 tax and payroll purposes, the Debtors are divided into eight employers:

(a) VHS, which covers the Systems Office and the Philanthropic Foundations, and as of the Petition Date employed approximately 294 employees, of which 289 are full-time, 3 are part time and 2 are employed on a per diem basis;

(b) Verity Business Services, which as of the Petition Date employed approximately 307 employees, of which 285 are full-time, 11 are part time and 11 are per diem;

(c) O'Connor Hospital, which as of the Petition Date employed approximately 1,370 employees, of which 586 are full-time, 441 are part time and 343 are per diem;

(d) Saint Louise Regional Hospital, which as of the Petition Date employed approximately 480 employees, of which 153 are full-time, 159 are part time and 168 are per diem;

(e) St. Francis Medical Center, which as of the Petition Date employed approximately 2,017 employees, of which 1,583 are full-time, 136 are part time and 298 are per diem;

(f) St. Vincent Medical Center, which as of the Petition Date employed approximately 1,099 employees, of which 897 are full-time, 42 are part time and 160 are per diem;

(g) Seton Medical Center, which includes Seton Medical Center Coastside, and as of the Petition Date employed approximately 1,340 employees, of which 516 are full-time, 551 are part time and 273 are per diem; and

(h) VMF, which as of the Petition Date employed approximately 478 employees, of which 424 are full-time, 15 are part-time and 39 are per diem.

60. The Debtors' Employees are represented by the following unions with the respective contractual obligations: (i) SEIU-UHW (Non-Nursing Service Employees) at St. Francis Medical Center, St. Vincent Medical Center, O'Connor Medical Center, Saint Louise Regional Hospital; (ii) SEIU-UHW (Non-Nursing Service Employees) at Verity Medical Foundation; (iii) NUHW (Non-Nursing Service Employees) at Verity Medical Foundation; (iv) NUHW (Non-Nursing Service Employees) at Seton Medical Center, Seton Medical Center Coastside; (v) CAN (Nurses) St.

Vincent, O'Connor, St. Louise, Seton, Seton Coastside; (vi) UNAC (Nurses) at St. Francis; (vii) CLVNA (Licensed Vocational Nurses) (O'Connor); (viii) Local 20 (Clinical Laboratory Scientists) O'Connor, St. Louise, Seton; (ix) Local 39 (Stationary and Bio-medical Engineers) and O'Connor, St. Louise, Seton.

D. Pension and Other Postretirement Benefit Plans.

61. VHS maintains two single employer defined benefit pension plans and participates in two multi-employer defined benefit pension plans. The defined benefit pension plans have been frozen for all employees, except members of the CNA at certain facilities. Defined benefit pension plan benefits are generally based on age, years of service, and employee compensation. In addition, VHS and VMF maintain several defined contribution retirement plans for employees.

62. The significant multiemployer defined benefit pension plan is the Retirement Plan for Hospital Employees ("RPHE"). The VHS entities that participate in the RPHE are Seton Medical Center, Seton Medical Center Coastside, O'Connor Hospital, Saint Louise Regional Hospital, and Verity Business Services. The RPHE is frozen as to these facilities, other than with respect to CNA members at O'Connor Hospital, Saint Louise Regional Hospital and Seton Medical Center. Benefits under the RPHE are generally based on years of service and employee compensation. Contributions to the RPHE are based on actuarially determined amounts by the RPHE Board of Trustees to meet benefits to be paid to plan participants and satisfy IRS funding requirements. VHS recorded benefit expenses of approximately $20.46 million and $17.22 million in cash contributions to the RPHE for the fiscal years ended June 30, 2017 and 2016, respectively. The VHS contributions accounted for approximately 43% and 40% of total contributions made to the RPHE for the fiscal years ending June 30, 2017 and 2016, respectively. Of the estimated remaining $4.79 million for 2018 and expected $12.68 million for 2019, VHS contributions to RPHE, approximately $3.15 million and $7.63 million, respectively, is for make-up of underfunded amounts that arose prior to VHS' acquisition from the Daughters of Charity Health System ("DCHS"). As of July 31, 2018, there were no unpaid contribution installment obligations owed by VHS to the RPHE.

63. In addition to the RPHE, Verity assumed in the Daughters of Charity restructuring

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certain obligations under a multiemployer plan commonly referred to as Stationary Engineers Local 39 Pension Plan (the "Local 39 Plan"). As of July 31, 2018, there were no unpaid contributions due on the Local 39 Plan.

64. VHS maintains two single-employer defined benefit pension plans (the "Verity A & B Plans"). VHS personnel at St. Francis Medical Center, St. Vincent Medical Center, O'Connor Hospital, Saint Louise Regional Hospital, and the VHS system office are eligible to participate in these plans. However, only CNA members continue to earn new benefits under the Verity Plan A; the Verity Plan B is completely frozen with no ongoing benefit accruals. VHS contributed approximately $41.68 million and $9.92 million during the fiscal years ended June 30, 2017 and 2016, respectively. Of the estimated remaining $10.12 million for 2018 and expected $35.53 million for 2019 VHS contributions to Verity Plan A, approximately $8.10 million and $28.05 million, respectively, is for make-up of underfunded amounts that arose prior to VHS' acquisition from the Daughters of Charity. As of July 31, 2018, there were no unpaid contribution installment obligations owed by VHS to the Verity A & B Plans.

65. VHS and VMF also maintain several active defined contribution retirement plans for eligible employees; eligibility for and benefits under the defined contribution retirement plans vary according to facility, union status, and employee classification/hire date. These defined contribution plans include the Verity Health System Supplemental Retirement Plan (TSA), the Verity Health System Supplemental Retirement Plan (401(a)), the Verity Health System Retirement Account (RPA), the Verity Medical Foundation 401(k) Plan, the Verity Medical Foundation Management Bargaining Unit Employees 401(k) Plan for represented employees and the Verity Health System Executive Long-Term Savings Plan (457(b)) Plan for nonrepresented employees. These defined contribution plans are funded from employee and/or employer contributions generally on a payroll by payroll basis. In addition to the above active defined contribution plans, there are several small, frozen ancillary retirement plans. During the fiscal years ended June 30, 2017 and 2016, the employer's contribution expense for defined contribution plans was approximately $18.48 million and $21.75 million respectively. As of July 31, 2018, there were no unpaid employer contributions owed on any of these defined contribution

plans other than unpaid contributions for current and recent payroll cycles consistent with ordinary administrative practices.

66. VHS also maintains an early retiree health insurance program (the Postretirement Healthcare Plan), which provides medical benefits to eligible retirees from early retirement to age 65 only. The postretirement health care benefits are determined based on age and years of service. Certain employees at O'Connor Hospital, St. Louise Regional Hospital, Seton Medical Center, and Seton Medical Center Coastside are eligible to participate in this plan. The Postretirement Healthcare Plan is an unfunded plan. VHS contributed $50,000 and $58,000 to the Postretirement Healthcare Plan during the fiscal years ended June 30

E. Insurance Policies

67. The Debtors maintain various insurance policies issued by several insurance carriers (collectively, the "Insurance Carriers"). Collectively, these policies provide for coverage for, among other things: storage tank liability, commercial property, workers' compensation and employers liability, commercial automobile, helipad liability & non-owned aircraft liability, sexual misconduct and molestation liability, D&O liability, general liability, and professional liability (collectively, the "Insurance Policies").[2]

68. Significant insurance is issued to the Debtors by its captive insurer Marillac. VHS is the sole owner of Marillac. The policies issued by Marillac cover professional and general liability (both at the primary and excess level) and additional excess coverage as to automobile liability, heliport and non-owned aircraft liability, employer's liability and certain other general liability. Marillac also issued a Deductible Liability Protection Policy which provides coverage for the deductible obligations on the Debtors' workers' compensation policy issued by Old Republic Insurance Company ("Old Republic").

69. Most of the Debtors' Insurance Policies will expire between September 5, 2018 and July 1, 2019. The Debtors have begun negotiating renewals, extensions and/or entries into new insurance policies with respect to the expiring Insurance Policies.

[2] The Insurance Policies include six (6) CA DHS patient Trust Bonds, which have an annual premium in the aggregate of $1,100 that was paid in full in December 2017 and will not come due for renewal until December 2018.

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70. In certain instances, the Debtors pay premiums for their Insurance Policies in full at the beginning of the policy and in other instances in quarterly installments. The total annual premium due for Insurance Policies is approximately $18,647,036. Of that amount, the Debtors pay $2,637,071 at the time of inception, and the remaining $16,009,965 is paid in quarterly installments. As of the Petition Date, there are no outstanding unpaid premiums due. The total amount of annual insurance premiums which will come due postpetition is $10,043,085.

a. Self-Insured Retentions

71. The Debtors maintain self-insured retentions of $250,000 per claim under their D&O liability coverage, $350,000 per claim under their employment practices coverage, $50,000 per claim under their fiduciary liability coverage, $100,000 per claim under their crime coverage, and $50,000 per claim under their sexual misconduct and molestation liability coverage (the "Self-Insured Retentions" or "SIRs"). A SIR is a loss amount that the insured is obligated to pay before the insurer's coverage obligation is triggered.

72. The Debtors' Self-Insured Retentions are administered so that the Debtors pay directly for the losses under each policy as they are incurred up to the amounts of the Self-Insured Retentions. Such SIRs due prepetition have been paid. For the last year, no SIR amounts have been due for (a) the D&O liability coverage, (b) the employment practices coverage, (c) the fiduciary liability coverage, and (d) the crime coverage. There have also been no SIR amounts incurred under the sexual misconduct and molestation liability policy last year.

b. Deductibles

73. The Debtors maintain a workers' compensation insurance policy with Old Republic with a $500,000 deductible for each claim. Old Republic provides coverage under the policy up to $1 million for each claim. On average, the monthly invoice amounts for deductibles (including ALAE) incurred under the workers' compensation policy is between $400,000 and $650,000, which are timely paid by Marillac under the Deductible Liability Protection Policy.

74. The deductibles included in the Debtors' other Insurance Policies are:

- Storage Tank Liability - ACE American Insurance Company (Chubb) - $5,000 per Storage Tank Incident;

- Storage Tank Liability - Tokio Marine Specialty Insurance Company (Philadelphia) - $25,000 per Confirmed Release;
- Commercial Property - American Guarantee and Liability Insurance Company (Zurich) - $100,000 Basic Policy Deductible;
- Commercial Automobile - National Union Fire Insurance Company of Pittsburg, PA (AIG) - $1,000 Comprehensive, $1,000 Collision;
- Helipad Liability & Non-Owned Aircraft Liability - StarNet Insurance Company (Berkley Aviation) - $1,000 Physical Damage per Occurrence; and
- General Liability - Chubb - $10,000 per Occurrence.

75. The Debtors expect their prepetition deductible obligations, other than those deductibles owed under the workers' compensation policy (which are paid by Marillac, a non-debtor), to be minimal.

c. Letter of Credit

76. The Debtors provide a $34,087,296 letter of credit to Old Republic as security for all of the Debtors' obligations, as required under their workers' compensation policy. Marillac is the account party on the letter of credit, and the letter of credit is fully secured by Marillac's assets - $34,087,296 of liquid securities. Pursuant to the Program Agreement Endorsement to the workers' compensation policy, Old Republic may draw upon the letter of credit to reimburse Old Republic for payment of the Debtors' deductible obligations or for payment of other obligations of the Debtors under the workers' compensation policy, if not paid by Marillac. Old Republic may also draw down the $34,087,296 letter of credit in full upon the Debtors' insolvency or filing of a bankruptcy petition.

77. The Debtors expect that Marillac will continue to honor its policy to insure the Debtors' obligations under the workers' compensation policy, and that Old Republic will not be harmed by the Debtors' chapter 11 filing.

d. Claims Administration Agreements

78. The Debtors have entered into administrative services contracts with Sedgwick Claims Management Services, Inc. ("Sedgwick"), for administration of claims submitted under

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the Debtors' workers' compensation policy as well as their professional and general liability policy.

79. The Debtors pay Sedgwick an annual estimated fee of $702,000 which is paid in quarterly installments of $175,000 for services provided by Sedgwick under the Debtor's workers' compensation policy. The actual fees owed to Sedgwick are based on the staffing necessary for Sedgwick to provide claims services and are calculated by taking the actual program salaries, bonuses and temporary expenses multiplied by the salary multiplier. Sedgwick will periodically provide an accounting to determine the actual fees incurred. The Debtors are entitled to a credit if the amount of actual fees owed to Sedgwick are less than the estimated fees paid. On the other hand, Sedgwick bills the Debtors for the additional actual fee owed if the actual fee amount is higher than the estimated fees.

80. With respect to administration of their professional and general liability policy, the Debtors pay Sedgwick $3,545 per claim and suit file, $1,825 per Potentially Compensable Event ("PCE") where an investigation has been requested, $275 for a PCE where an investigation has not been requested pursuant to this agreement. Fees are paid monthly as files are assigned to Sedgwick by the Debtors. Debtors also pay Sedgwick a program management fee of $1,250 each month.

F. Recent Financial Results.

81. As of June 30, 2018, Verity's consolidated unaudited financial statements reflected total assets of approximately $847 million and total liabilities of approximately $1,278 billion.

III. The Need For Chapter 11 Relief And The Events Leading To The Commencement Of These Chapter 11 Cases

A. Historical Challenges.

82. The Hospitals and VMF were originally owned and operated by the Daughters of Charity of St. Vincent de Paul, Province of the West (the "Daughters of Charity"), to support the mission of the Catholic Church through a commitment to the sick and poor. The Daughters of Charity began their healthcare mission in California in 1858 with the opening of Los Angeles Infirmary, now known as St. Vincent Medical Center. The Daughters of Charity expanded its

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hospitals to San Jose in 1889 and San Francisco in 1893. The Daughters of Charity ministered to ill, poverty-stricken individuals for more than 150 years.

83. In March 1995, the Daughters of Charity merged with Catholic Healthcare West ("CHW"). In June 2001, the Daughters of Charity Health System ("DCHS") was formed. In October 2001, the Daughters of Charity withdrew from CHW. In 2002, DCHS commenced operations and was the sole corporate member of the Hospitals, which at that time were California nonprofit religious corporations.

84. Between 1995 and 2015, the Daughters of Charity and DCHS struggled to find a solution to continuing operating losses, either through a sale of some or all of the hospitals or a merger with a more financially sound partner. All these efforts failed. During these efforts, however, the health system's losses continued to mount. In 2005, DCHS issued $364 million in bonds to refinance existing debt and to fund future capital expenditures. Three years later, in 2008, they issued another $143 million in bonds to refinance existing debt.

85. Between 2012 and 2014, DCHS participated in an affiliation with Ascension Health Alliance ("Ascension") in an effort to create greater operating efficiencies. Ascension is the largest Catholic health system in the world and the largest non-profit health system in the United States with facilities in 23 states and the District of Columbia. The affiliation between DCHS and Ascension failed.

86. Despite continuous efforts to improve operations, operating losses continued to plague the health system due to, among other things, mounting labor costs, low reimbursement rates and the ever-changing healthcare landscape. In 2013, DCHS actively solicited offers for O'Connor Hospital, St. Louise Regional Hospital, Seton Medical Center and Seton Medical Center Coastside. In 2013, to avoid failing debt covenants, the Daughters of Charity Foundation, an organization separate and distinct from DCHS, donated $130 million to DCHS to allow it to retire the 2008 Bonds in the total amount of $143.7 million.

87. In early 2014, DCHS announced that they were beginning a process to evaluate strategic alternatives for the health system. Throughout 2014, DCHS explored offers to sell their health system and, in October of 2014, they entered into an agreement with Prime Healthcare

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Services and Prime Healthcare Foundation (collectively, "Prime") to sell the health system. However, to keep the hospitals open, DCHS, needed to borrow another $125 million to mitigate immediate cash needs during the sale process; in other words, to allow DCHS to continue to operate until the sale could be consummated. Notably, DCHS' goal in the transaction was to basically maintain the status quo; their guiding principles for the sale included protecting existing pensions, repaying all their bond debt, continuation of all collective bargaining agreements, maintenance of existing contracts for patient services, and obtaining promises for substantial capital expenditures. In early 2015, the California Attorney General consented to the sale to Prime, subject to conditions on that sale that were so onerous that Prime terminated the transaction.

88. In 2015, DCHS again marketed their health system for sale, and, again, focused on offers that maintained the health system as a whole, and assumed all the obligations. In July 2015, the DCHS Board of Directors selected BlueMountain Capital Management LLC ("BlueMountain"), a private investment firm, to recapitalize its operations and transition leadership of the health system to the new Verity Health System (the "BlueMountain Transaction").

89. In connection with the BlueMountain Transaction, BlueMountain agreed to make a capital infusion of $100 million to the hospital system, arrange loans for another $160 million to the health system, and manage operations of the health system, with an option to buy the health system at a future time. In addition, the parties entered into a System Restructuring and Support Agreement (the "Restructuring Agreement"), DCHS's name was changed to Verity Health System, and Integrity was formed to carry out the management services under a new management agreement.

90. DCHS requested the California Attorney General's consent to enter into the Restructuring Agreement and the BlueMountain Transaction. According to report prepared by MDS Consulting, an expert consulting firm retained to prepare healthcare impact reports for the AG, DCHS outlined the following reasons why the BlueMountain Transaction was either necessary or desirable:

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- The current structure and sponsorship of DHCS was no longer plausible as a result of cash flow projections and dire financial conditions.
- In July and August of 2014, DCHS obtained a short-term financing bridge loan in the amount of $125 million to mitigate the immediate cash needs for an estimated period of time long enough to allow for the transaction to close. Repayment of the funds was due on December 15, 2015, at which time if the full amount was not repaid, DCHS would be at risk of defaulting on both their 2014 and 2005 Revenue Bonds.
- Without bankruptcy protection or additional financial support, DHCS could not continue hospital operations if there is a default.

91. On December 3, 2015, the California Attorney General approved the BlueMoutain Transaction, subject to conditions. The Attorney General conditions were imposed for periods ranging from 5 to 15 years. Generally, the terms of conditions (collectively, the "Conditions") included: (1) limits on transfers of control; (2) maintenance of specific health services and specific bed counts; (3) required participation in Medicare and Medi-Cal programs; (4) required levels of community benefit programs; (5) required levels of charity care; (6) maintenance of certain county payor contracts; (7) requirements for local governing boards; (8) requirements for medical staff compliance; and (9) an annual attestation of compliance with the AG conditions.

92. Under the Restructuring Agreement, VHS, O'Connor Hospital, Saint Louise Regional Hospital, St. Francis Medical Center, St. Vincent Medical Center, Seton Medical Center and Seton Medical Center Coastside, all of whom are members of the Obligated Group (as defined below), were converted from religious corporations to public benefit corporations.

93. Despite BlueMountain's infusion of cash and retention of various consultants and experts to assist in improving cash flow and operations, the health system did not prosper.

94. In July 2017, NantWorks, LLC acquired a controlling stake in Integrity. NantWorks brought in a new CEO, CFO, and COO. NantWorks loaned another $148 million to the Debtors.

95. Despite the infusion of capital and new management, it became apparent that the problems facing the Verity Health System were too large to solve without a formal court supervised restructuring. Thus, despite VHS' great efforts to revitalize its Hospitals and improvements in performance and cash flow, the legacy burden of more than a billion dollars of bond debt and unfunded pension liabilities, an inability to renegotiate collective bargaining

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agreements or payor contracts, the continuing need for significant capital expenditures for seismic obligations and aging infrastructure, and the general headwinds facing the hospital industry, make success impossible. Losses continue to amount to approximately $175 million annually on a cash flow basis.

96. Based on the foregoing, and while VHS has made improvements to the existing system, the Debtors have commenced these chapter 11 cases to protect the original legacy of the Daughters of Charity to the maximum extent possible by retiring debt incurred over the past 18 years and freeing the hospital facilities and work force to continue to operate as hospitals under new ownership and leadership without the accumulated crisis of the past. To do that requires the bankruptcy court supervised sale of some or all of the hospitals and related facilities, and the comprehensive resolution of the Debtors financial obligations through a court approved plan of reorganization.

97. The goals of the Debtors' restructuring are to maintain the Debtors' business operations; preserve the going-concern value of the Debtors' businesses, its stakeholders, and parties in interest; and, most importantly, to protect the health and wellbeing of the patients who are treated at the Hospitals and the jobs of the Debtors' approximately 7,000 employees.

B. <u>Current Fiscal Crisis.</u>

98. As described above, the fiscal crisis is the confluence of various factors and historical challenges. Below are a few of the most significant and expected funding requirements in the immediate future.

a. Payor Rates.

99. Verity is paid below market rates through its payor contracts with health plans. Verity's contracts are 20-43% below market. These below market rates would make it difficult for any hospital to break even. Summarized below is illustrative data, highlighting Verity's rates as a percentage of Medicare relative to the market rates.

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Managed Care Rates Expressed as a Percent of Medicare Rates (Combined Inpatient and Outpatient)

	BlueCross			BlueShield			United		
	Verity	Market	% Difference	Verity	Market	% Difference	Verity	Market	% Difference
SFMC	193%	223%	-15%	193%	226%	-17%	198%	237%	-20%
SVMC	139%	206%	-48%	156%	202%	-29%	139%	195%	-40%
OCH	164%	237%	-44%	229%	244%	-6%	151%	242%	-60%
SMC	207%	252%	-22%	235%	254%	-8%	228%	262%	-15%
SLRH	202%	280%	-38%	204%	280%	-37%	159%	289%	-82%
Average			**-34%**			**-20%**			**-43%**

b. Labor Rates.

100. Payroll costs in the last twelve months have increased nearly $65,000,000 partially related to Verity's union contracts (~5% increases year over year forward).

c. Pension Obligations.

101. Under the Pension Plans (as defined above), there are expected pension funding requirements in the next year of over $66 million. Only ~$20M relates to current year costs. In other words, most is funding the underfunded status of the plans.

d. IT Investment.

102. VHS' system requires IT investment in the amount of nearly $50 million over the next year alone. There is outdated electronic health records and enterprise resource planning (i.e., human resources, supply chain management, inventory management, etc.). Further, VHS needs significant upgrades to its IT assets in order to modernize its Hospitals and remain able to continue providing quality patient care services. For example, VHS needs to (i) immediately replace its outdated local area and wireless networking equipment with modern equipment to enable reliable access by all VHS system users (estimated cost $15 million over a one-year implementation period), (ii) replace VHS' obsolete clinical systems — including its medical record systems and financial systems — in order to provide up-to-date patient records, improved clinical planning, care management, and better charge control (estimated cost $220 million over a period of two years), and (iii) replace and upgrade such other information technology hardware and software, including for imaging clinics, that are necessary for operating a full range of healthcare services.

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e. Seismic and Energy Requirements.

103. The Verity system requires seismic and energy expenditures of over $150 million over the next few years. By way of example, there are significant improvements (including demolishment of certain buildings) required by 2020 to St. Vincent Medical Center, Seton Medical Center, and O'Connor Medical Center. There are additional improvement required by 2030 to St. Vincent, Seton Medical Center, O'Connor Medical Center, and St. Louise Regional Hospital. These seismic improvement deadlines are part of the conditions imposed by the Attorney General in the BlueMountain Transaction, as well as mandated by the California Office of Statewide Health Planning and Development (OSHPD).

f. Medical Equipment.

104. The Verity system requires over $100 million in medical equipment expenditures over a period of several years.

C. <u>Working Capital Shortages.</u>

105. The Debtors, like other hospitals serving similar communities, rely on HQAF, DSH and other government support to help bridge the gap between what they get reimbursed by Medicare and Medi-Cal and their cost of providing care. The Hospital Quality Assurance Fee (HQAF), established in 2010, provides funding for supplemental payments to California hospitals that serve Medi-Cal and uninsured patients. The program has been very successful, providing billions of dollars in supplemental payments to California hospitals. The Medicare and Medi-cal programs also provide funding to hospitals that treat indigent patients through the Disproportionate Share Hospital (DSH) programs, under which facilities are able to receive at least partial compensation. Under the Patient Protection and Affordable Care Act of 2010 (ACA, P.L. 111-148, as amended), Congress would have reduced federal DSH allotments beginning in 2014, to account for the decrease in uncompensated care anticipated under health insurance coverage expansion. However, several pieces of legislation have been enacted since 2010 have since delayed the ACA's Medicaid DSH reduction schedule. Unfortunately, both HQAF and DSH have proven difficult to rely on, as payments are reduced and delayed.

106. Relying on the HQAF payments has led to working capital shortages due to delays

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in approval and receiving less than expected amounts. For example:

- *14-Month Delay*: QAF 5 FFS (service period 1/1/17 –6/30/19) was not approved until Dec. 2017 and the Debtors did not start receiving payments until the end of Feb. 2018 (14-month delay);
- *Potential 24 Month Delay*: QAF 5 HMO is likely not going to be approved until the end of 2018 (potentially a 24-month delay on receiving funds);
- *Receiving less than Expected*: through the first 4 cycles of QAF 5 FFS, the Debtors have received anywhere from 69.2-93.9% of expected payments.

D. Attorney General Requirements.

107. As set forth above, as part of approving the Restructuring Agreement, the AG placed certain operational restrictions on VHS and each of the Hospitals, which include certain minimum annual requirements for charity care, community benefits, and capital expenditures among other mandates. Taken separately, most of these conditions would not have contributed to the Debtors' failure to thrive. However, the cumulative effect of the conditions was to lock the Debtors into a failing business model, dictating both minute details of business operations, as well as denying the Debtors the ability to repurpose facilities. For example, SMC could better serve the community by operating as a much-needed long-term post-acute care facility, rather than as one of the many acute care hospitals in a saturated service area.

108. The AG's conditions also compelled the expenditure of millions of dollars to provide charity care even though the number of uninsured people in California has steadily decreased since passage of the Affordable Care Act. Also, as a result of a shortfall in the fiscal year 2017 charity care requirement for certain hospitals, VHS was required to make an additional contribution to the Retirement Plans of $7,619,000 in October 2017.

109. The AG's conditions denied the Debtor the benefits of the marketplace. For example, the conditions required Verity to enter into contracts with certain entities. Because those entities were well aware of the AG's requirement that Verity contract with them or be in default, Verity had no bargaining power with those entities or payors.

E. Increased Cap Volumes.

110. The Debtors have capitation contracts with health plans. Capitation is a flat periodic payment per enrollee paid to a healthcare provider; it is the sole reimbursement for

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providing services to a defined population. Under capitation, fixed payments are made to providers regardless of the volume of services rendered, so providers like the Debtors bear the risk that the costs of providing service, including opportunity costs (profits), might exceed the capitation payment. Capitation completely reverses the actions that providers must take to ensure financial success; under capitation, the keys to profitability are to work more efficiently and decrease volume. The Debtors have seen a significant increase in volume from capitated populations and therefore are bearing the loss from that increased volume.

IV. Corporate And Capital Structure

A. Corporate Structure.

111. As set forth above, VHS is a California nonprofit public benefit corporation and the sole member of O'Connor Hospital, St. Francis Medical Center, St. Vincent Medical Center, Seton Medical Center, Verity Business Services, Verity Medical Foundation, Verity Holdings, LLC, and DePaul Ventures, LLC.

112. As set forth above, each Debtor Hospital is the sole member of the Debtor nonprofit public benefit corporation that handles its fundraising and grant-making programs: St. Francis Medical Center Foundation, St. Vincent Foundation, Seton Medical Center Foundation, Saint Louise Regional Hospital Foundation, and O'Connor Hospital Foundation (collectively, the "Philanthropic Foundations").

113. St. Vincent Medical Center is the sole Member of St. Vincent Dialysis Center, Inc.

114. VHS is the sole member of DePaul Ventures, LLC. DePaul Ventures, LLC, is the sole Member of DePaul Ventures-San Jose ASC, LLC, and of DePaul Ventures-San Jose Dialysis, LLC.

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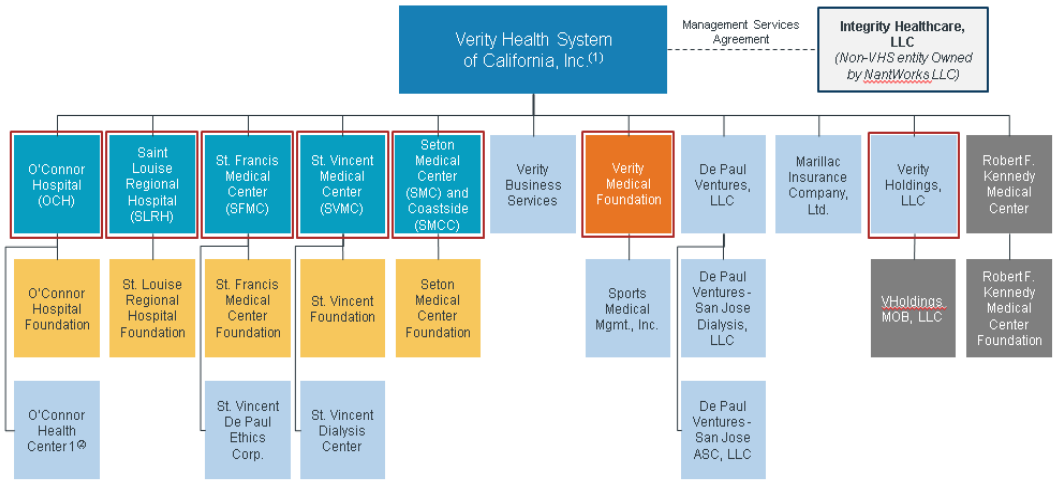
115. The following graphic depicts Verity's prepetition organizational structure:



116. Each Debtor entity has its own management and governance structure. Under the leadership of the Daughters of Charity, each Hospital operated independently except that all employees were under the same pension plans. After the transition of operations and leadership to VHS, there has been a systemizing of operations, so that functions that were being performed at each of the Debtors are being transitioned and performed by VHS and being standardized, such as pharmacy operations, credentialing, IT, case management, etc.

117. As set forth above, VMF offers medical, surgical and related healthcare services for people of all ages at community-based, multi-specialty clinics conveniently located in areas served by Verity hospitals. The following graphic depicts VMF's structure that is comprised of, among other things, professional service agreements with seven medical groups that provide physicians to VMF's clinics:

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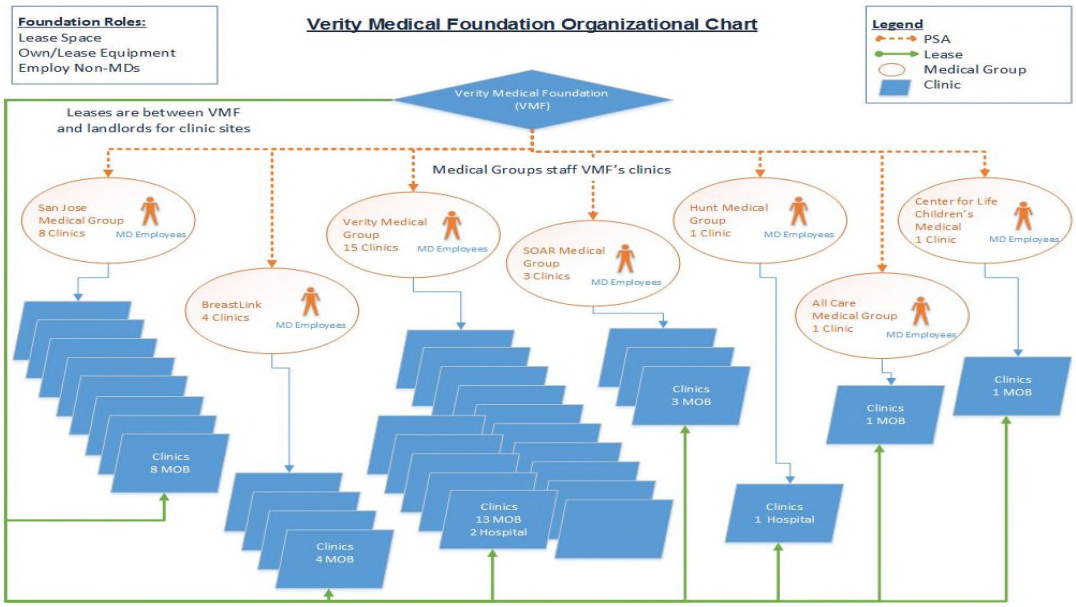

118. As stated above, I am the CEO. The remainder of the senior management follows:

Name	Position
Chief Financial Officer	Anita Chou
Chief Operating Officer	Anthony Armada
Chief Medical Officer	Tirso del Junco, Jr. M.D.

119. VHS is governed by a 7-member Board (the "VHS Board of Directors"), the membership of which follows:

Name	Position
Dr. Ernest Agatstein	Director
James Barber	Director
Terry Belmont	Secretary
Jack Krouskup	Chairman
Charles B. Patton	Director
Christobel Selecky	Director
Andrew Pines	Vice Chair

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120. Verity Holdings, LLC, De Paul Ventures, LLC, and De Paul - San Jose Dialysis, LLC, are all limited liability companies that do not have Boards of Directors. The sole Member of Verity Holdings, LLC, and De Paul Ventures, LLC, is VHS. The sole member of De Paul Ventures - San Jose Dialysis, LLC, is De Paul Ventures, LLC. I am the President and Eleanor Ramirez and Art Huber were appointed Vice Presidents of Verity Holdings, LLC, on November 17, 2017. I am the managing member for De Paul Ventures, LLC. Dr. Tirso del Junco, Jr., is the managing member for De Paul Ventures - San Jose Dialysis, LLC.

B. Capital Structure.

121. As more fully set forth in the declaration of Anita Chou in support of the Debtors' *Emergency Motion Of Debtors For Interim And Final Orders (A) Authorizing The Debtors To Obtain Post Petition Financing (B) Authorizing The Debtors To Use Cash Collateral And (C) Granting Adequate Protection To Prepetition Secured Creditors Pursuant To 11 U.S.C. §§ 105, 363, 364, 1107 And 1108*, VHS, Verity Business Services ("VBS"), the Hospitals, and one operating division are jointly obligated parties on approximately $461.4 million of outstanding secured debt consisting of: (a) $259.4 million outstanding tax exempt revenue bonds, Series 2005 A, G and H issued by the California Statewide Communities Development Authority (the "2005 Bonds"), which loaned the bond proceeds to VHS to provide funds for capital improvements and to refinance certain tax exempt bonds previously issued in 2001 by the DCHS, a religious not-for-profit enterprise and VHS's reorganization predecessor; and (b) $202 million outstanding tax exempt revenue notes, Series 2015 A, B, C, and D and Series 2017 issued by the California Public Finance Authority, which loaned the proceeds to VHS to provide working capital (the "Working Capital Notes"). Wells Fargo Bank, N.A. ("Wells Fargo") is the Bond Trustee and UMB Bank National Association ("UMB Bank") is the successor Master Trustee and for the prepetition secured 2005 Bonds. U.S. Bank, National Association ("U.S. Bank") is the Note Trustee and also the Collateral Agent for the Working Capital Notes.

122. Except for the taxable Series 2015C Working Capital Notes, the 2005 Bonds and the Working Capital notes are all tax exempt, meaning interest on the bonds is not taxable to the holders so long as the issuer maintains its qualified tax exempt status and the proceeds of the

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bonds were used for the tax exempt purposes for which they were originally intended. The Series 2005 A Bonds are comprised four term bonds maturing on July 1, 2024, 2030 and 2035 bearing interest at 5.75% (Series 2005A-2024), (Series 2005A-2030), (Series 2005A-2035) and one maturing July 1, 2039 bearing interest at 5.50% (Series 2005A-2039). The Series 2005G term bond matures on July 1, 2022 and bears interest at 5.50%. The Series 2005H- term bond matures on July 1, 2025 and bears interest at 5.75%. The Working Capital Notes mature on June 10, 2019 (Series 2015A, Series 2015B, Series 2015C and Series 2015D) and on December 10, 2020 (Series 2017A, 2017B). Series 2015A and B and Series 2017 and 2017B bear interest at 7.25%, while the Series 2015D carries an 8.75% interest rate and Series 2015C accrues interest at 9.5%.

123. As set forth above, Holdings, a direct subsidiary of its sole member Verity, was created in 2016 to hold and finance Verity's interests in six medical office buildings whose tenants are primarily physician and other practicing medical groups and certain of the Verity Hospitals. Holdings is the borrower on approximately of $66 million on two series of non-recourse financing secured by separate deeds of trust, revenue and accounts pledges, including lease rents on each medical buildings (collectively "MOB Financing"). The MOB Financings bear interest at a variable interest rate based on equal to One Month LIBOR plus a spread of 5.0% with a floor of 6.23%. The secured lenders for the MOB Financings are affiliates of NantWorks, LLC, which is an affiliate of Integrity.

124. During May 2017, the California Statewide Communities Development Authority issued $20 million of limited obligation tax exempt bonds, pursuant to the CaliforniaFIRST Clean Fund Program in five series all with the same maturity date of September 2, 2047 (the "Clean Fund Bonds") as the conduit issuer for the benefit and obligation of Verity. The purpose of the bond funding was to assist with clean energy construction efforts of the Seaton Medical Center and are secured by Seton Medical Center's voluntary agreement to special tax assessments by Daley City. No other Debtor is liable for repayment of the Clean Fund Bonds. Wilmington Trust National Association ("WTNA") is the Trustee holding the construction funds, and a pre funded capitalized interest fund and is the collateral agent for collection of the special tax assessments for use in paying interest and principal on the Clean Fund Bonds. Interest on the Clean Fund Bonds

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accrues at 6.4%. The special assessment runs for a period which is the shorter of 30 years or the early full defeasement of the Clean Fund Bonds.

125. Also in September 2017, the California Statewide Communities Development Authority issued a single series $20 million of limited obligation tax exempt bonds pursuant to the CaliforniaFIRST Program for the purpose of assisting with clean energy and seismic improvement construction at Seton Medical Center ("NR2 Petros Bonds"). The NR2 Petros Bonds also mature on September 2, 2047, but carry an interest rate of 6.45%. The NR2 Petros Bonds are also California tax exempt and are secured by a special Daly City tax assessment on Seton Medical Center property. No other Debtor is liable for repayment of the NR2 Petros Bonds. The special assessment runs for a period which is the shorter of 30 years or the early full defeasement of the NR2 Petros Bonds. WTNA is the Trustee holding the seismic improvement funds, as well as a pre-funded interest payment fund.

126. NantCapital also provided $40 million of unsecured debt financing for Verity as reflected in two $20 million unsecured notes (the "Unsecured Notes"). The Unsecured Notes are balloon notes with interest and principal payable at maturity in 2020 and carry annual compounded interest rates of 7.25%.

C. Unsecured Debt.

127. The Debtors have approximately $500 million in total unsecured debt, including disputed, unliquidated or contingent claims, which are comprised of claims made by vendors of goods and services, cost report payables, pension obligations, management fees, and incurred but not reported third party claims.

V. Sale Efforts

128. Prior to the Petition Date, the Debtors engaged in substantial efforts to market and sell their assets. In June 2018, the Debtor engaged Cain Brothers, a division of KeyBanc Capital Markets ("Cain"), to identify potential buyers of some or all of the Verity hospitals and related assets and commenced discussions with those potential buyer.

129. Cain prepared a Confidential Investment Memorandum (the "CIM") and organized an online data site to share information with potentially buyers and contacted over 110 strategic

and financial buyers beginning in July 2018 to solicit their interest in exploring a transaction regarding the Debtors and has advanced significantly towards achieving sales.

130. In August 2018, as a result of its ongoing and broad marketing process, Cain has received 11 Indications of Interest ("IOI") to date, and expects to receive additional proposals on or near the end of August. Shortly after the Petition Date, the Debtors, in consultation with Cain and its other advisors, anticipate selecting an offer from one or more stalking horse bidder(s) to acquire some or substantially all of the Debtors' assets through a sale under § 363 of the Bankruptcy Code.

V. First-Day Pleadings

131. The Debtors request that the relief described below in the First-Day Motions be granted, as each request constitutes a critical element in achieving the successful restructuring of the Debtors for the benefit of its patients, creditors and the communities they serve.

A. Administrative Motions.

132. In the *Motion of Debtors for Entry of an Order Directing the Joint Administration of their Related Chapter 11 Cases* (the "Joint Administration Motion"), the Debtors request entry of an order directing joint administration of these chapter 11 cases for procedural purposes pursuant to Bankruptcy Rule 1015(b) and that the Court maintain one file and one docket for all of the chapter 11 cases under the lead case, Verity Health System of California, Inc.

133. Joint administration of the chapter 11 cases will provide significant administrative efficiencies without harming the substantive rights of any party in interest. Many of the motions, hearings and orders that will be filed in the chapter 11 cases almost certainly will affect each of the Debtors. The entry of an order directing joint administration of the chapter 11 cases will reduce fees and costs by avoiding duplicative filings, objections, notices, and hearings, and will allow all parties in interest to monitor the chapter 11 cases with greater ease and efficiency. The relief requested in the Joint Administration Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest and will enable the Debtors to continue to operate their businesses in chapter 11 with the least disruption.

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134. In the *Ex Parte Motion For Entry Of Order Extending Time To File Schedules Of Assets And Liabilities, Schedules Of Executory Contracts And Unexpired Leases, And Statements Of Financial Affairs* (the "Schedules and SOFA Motion"), as set forth in the declaration of Anita M. Chou, the Debtors request entry of an order granting additional time to file their schedules of assets and liabilities, schedules of executory contracts and unexpired leases, and statements of financial affairs. As a consequence of the size and complexity of the Debtors' business operations, the number of creditors likely to be involved in these chapter 11 cases, the numerous critical operational matters that the Debtors' management and employees must address, a 30-day extension (without prejudice to further extensions) is necessary and appropriate.

135. In the *Debtors' Emergency Motion (A) Approving the Debtors Filing a Consolidated List of Fifty Largest General Unsecured Creditors For All Cases; (B) Approving The Debtors Filing A Consolidated Master Mailing Matrix For All Cases; and (C) Permitting the Debtors' Claims And Noticing Agent To Maintain The Master Mailing Matrix,* the Debtors seek entry of an order approving each Debtor having filed in its respective case: a consolidated list of the fifty largest general unsecured creditors for all eighteen Debtors and a consolidated Master Mailing Matrix for all 17 Debtors; and permitting the Debtor's claims and Noticing Agent (Kurztman Carson Consultants) to maintain and update the Master Mailing Matrix. There are 17 entities that are Debtors in these chapter 11 cases. As of the Petition Date, the Debtors estimate that they have over $1 billion in liabilities and they have over 20,000-40,000 potential creditors and parties in interest (on a consolidated basis) in these chapter 11 cases. Many of the Debtors' creditors overlap. As such, requiring the Debtors to prepare individual Top 20 Lists of Creditors and individual Mailing Matrixes for each Debtor would be an exceptionally burdensome task and would greatly increase the risk and recurrence of error of information already on computer systems maintained by the Debtors or their agents.

B. Operational Motions Requesting Immediate Relief.

136. The Debtors intend to ask for immediate relief with respect to the following First Day Pleadings and, therefore, will present these motions at the First Day Hearing.

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a. Emergency Motion Of Debtors For Interim And Final Orders (A) Authorizing The Debtors To Obtain Post Petition Financing (B) Authorizing The Debtors To Use Cash Collateral And (C) Granting Adequate Protection To Prepetition Secured Creditors Pursuant To 11 U.S.C. §§ 105, 363, 364, 1107 And 1108 (the "Cash Collateral/DIP Motion").

137. By way of the Cash Collateral/DIP Motion, and as set forth in the Declaration of Anita M. Chou (the "Chou Declaration"), Chief Financial Officer of VHS ("Chou Decl."), in support of the Cash Collateral/DIP Motion, the Debtors move, on an emergency basis, for entry of an interim order (substantially in the form attached as Exhibit "A" to the Chou Declaration, the "Interim Order") and a final order (the "Final Order" and together with the Interim Order, the "DIP Orders") (i) (a) authorizing the Debtors to enter into a senior secured, superpriority debtor in possession financing facility with Ally Bank, a subsidiary of Ally Financial, Inc., (the "DIP Lender"), in an (a) interim amount not to exceed $30,000,000 and only as needed to avoid immediate and irreparable harm, and (b) after a final hearing, amount up to $185,000,000 (as amended, modified or otherwise in effect from time to time, the "DIP Facility"), substantially on the terms set forth in the Chou Declaration and the Debtors In Possession Facility Agreement, attached as Exhibit "1" to the proposed Interim Order (as amended, supplemented, or otherwise modified and in effect from time to time, the "DIP Facility Agreement," and together with all other agreements, documents, notes, certificates, and instruments executed and/or delivered with, to or in favor of the DIP Lender, (the "DIP Financing Agreements"), and (b) granting the DIP Liens and the DIP Superpriority Claims (in each case, as defined below); (ii) authorizing the interim use of Cash Collateral (as defined below) on the terms set forth in the Interim Order; (iii) granting "adequate protection" to UMB Bank, N.A., as successor Master Trustee for the Prepetition Secured Revenue Bonds, Series 2005 A, G and H ("2005 Bonds") , U.S. Bank National Association ("U.S. Bank"), as the Collateral Agent and Note Trustee for the Series 2015 A, B, C, and D and the Series 2017 A and B Revenue Notes (collectively, the "Working Capital Notes") and MOB Financing LLC and MOB Financing II LLC as holders of security interests in Verity Holdings prepetition accounts, including rents arising from the prepetition MOB Financing (described below) in the form of Adequate Protection Payments and Replacement Liens, each as defined in the Chou Decl.; (iv) modifying the automatic stay as imposed by section 362 of the

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Bankruptcy Code to the extent necessary to implement and effectuate the terms of the DIP Facility and the DIP Orders; and (v) scheduling an interim hearing to approve the proposed Interim Order and a final hearing with respect to the relief requested herein (the "Final Hearing").

138. Each Debtor has all requisite corporate power and authority to execute and deliver the DIP Financing Agreements to which it is a party and to perform its obligations thereunder.

139. Absent granting emergency access to the Debtors' cash collateral, the Debtors will not be able to made payroll or meet other obligations critical to the maintenance of safe facilities and the delivery of effective acute care services for its patients and staff during the week ending September 7, 2018. Absent emergency access to postpetition financing, the Debtors will lose vendor support for critical postpetition deliveries of goods and services further burdening the Debtors use of cash. Absent entry of an interim order granting the requested relief, the very existence of the Hospitals will be threatened and the ability of the Hospitals to survive as long term going concerns, whether or not owned by the Debtors, will be irreparably harmed.

b. Emergency Motion Of Debtors For Entry Of Order: (I) Authorizing The Debtors To (A) Pay Prepetition Employee Wages And Salaries, And (B) Pay And Honor Employee Benefits And Other Workforce Obligations; And (II) Authorizing And Directing The Applicable Bank To Pay All Checks And Electronic Payment Requests Made By The Debtors Relating To The Foregoing; Memorandum Of Points And Authorities In Support Thereof (the "Wage Motion").

140. By the Wage Motion, the Debtors move the Court for entry of an order (i) authorizing the Debtors, in their discretion, to (a) pay prepetition employee wages and salaries, and (b) pay and honor employee benefits and other workforce obligations (including remitting withholding obligations, maintaining workers' compensation and benefits programs, paying related administration obligations, making contributions to retirement plans, and paying reimbursable employee expenses) (collectively, the "Employee Obligations"); and (ii) authorizing and directing the applicable bank to pay all checks and electronic payment requests made by the Debtors relating to the foregoing.

141. Wages. The Employees are paid their wages and salaries (the "Wages") bi-weekly, in arrears, either five or six days after the end of every 14-day pay period, through direct deposit or by check. The Debtors' average bi-weekly gross payroll is approximately

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$25,394,994, which includes approximately $463,907 for executive payroll, $3,726,816 for withholding obligations (relating to various taxes, claims and other obligations) and $208,476 for retirement plan contribution matching. Under a bifurcated, constant pay cycle, Employees were last paid on August 24 and 30, 2018. The next routine payroll dates covering all Employees' accrued and unpaid prepetition Wages are scheduled for September 7, 13 and 14, 2018, and expected to include approximately $15,353,375 that is attributable to prepetition Wages (the "Requested Prepetition Payroll"), which the Debtors seek authority to pay by the Wage Motion. The Debtors do not believe payments of Wages to any individual Employee will exceed the $12,850 cap under § 507(a).

142. Withholding and Union Obligations. In the ordinary course of their business, the Debtors routinely withhold from the Wages certain amounts that the Debtors are required to transmit to third parties for purposes such as Social Security and Medicare, federal and state or local income taxes, contributions to the Debtors' benefit plans, savings and retirement plan contributions, union claims, garnishment, child support or other similar obligations pursuant to court order or law (collectively, the "Withholding Obligations"). The Debtors owe approximately $3,726,816 for Withholding Obligations in connection with the Requested Prepetition Payroll, which the Debtors seek authority to pay by the Wage Motion. The Debtors are also required to make certain Union-specific contributions, which are currently accrued and unpaid in the amount of $85,089 on account of prepetition Wages, which the Debtors seek authority to pay by the Wage Motion.

143. Bonuses. Certain Employees are eligible to receive sign-on, retention and incentive bonuses. Payout opportunity is based on Employee position, title and location (i.e., Hospital or Systems Office). The Debtors do not, by the Wage Motion, seek permission to pay any bonuses to continuing Employees but do seek the authority, in the Debtors' discretion, to pay the Employees for contractually agreed bonuses that accrued within the 180 days prior to the Petition Date when their services with the Debtors are terminated so long as the total of the payments already then made for prepetition Employee Obligations and the bonuses does not exceed the statutory limit for priority claims of $12,850.

144. Reimbursement Obligations. The Debtors customarily reimburse Employees who incur business expenses in the ordinary course of performing their duties on behalf of the Debtors. Such expenses typically include, but are not limited to, business-related travel expenses (including mileage), business meals, relocation allowances, tuition reimbursement, and other items specified in the CBAs. Based on historical experience, the Debtors anticipate that, as of the Petition Date, the Debtors owe an estimated $30,200 in Reimbursement Obligations to their Employees, which they seek authority to pay by the Wage Motion. The Debtors further seek to continue to pay Reimbursement Obligations incurred postpetition in the ordinary course of the Debtors' business.

145. Paid Time Off and Extended Sick Leave. Full-time and part-time Employees become eligible to receive employment benefits beginning the first of the month following 30 days of employment (when they become "Eligible Employees"). *Per diem* Employees are not Eligible Employees. The Debtors provide Eligible Employees with Paid Time Off ("PTO") and Extended Sick Leave ("ESL"), which are accrued annually and in increasing rates over successive years. PTO is time off due to vacation, holiday, personal or incidental sick time. ESL kicks in (a) immediately where the Eligible Employee is admitted for surgery, (b) after a 3-day waiting period for a workers' compensation injury, and (c) after a 7-day waiting period if workers' compensation is not implicated. As of the Petition Date, the Debtors are carrying approximately $36.6 million on their books for 789,942 hours of accrued and unused PTO. Eligible Employees are permitted to cash out their unused PTO on one or two occasions during the year depending on the relevant Hospital or CBA. As of the Petition Date, the Debtors are carrying approximately $17.5 million on their books for 372,000 hours of accrued and unused ESL. Some CBAs permit Eligible Employees to cash out a portion of their unused ESL at retirement. By the Wage Motion, the Debtors seek authority to honor their existing PTO and ESL policies to the extent it would permit continuing Employees to use their prepetition accrued leave in the ordinary course of business, and going forward. The Debtors are not, by the Wage Motion, seeking permission to cash out any accrued and unused PTO or ESL of continuing Employees but do seek the authority, in the Debtors' discretion, to pay the Employees for unused PTO and/or ESL, as permitted per

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Hospital policy and relevant CBA terms, that accrued within the 180 days prior to the Petition Date so long as the total of the payments for prepetition Employee Obligations does not exceed the statutory limit for priority claims of $12,850.

146. Health Benefits. The Debtors offer Eligible Employees the opportunity to participate in a number of insurance and benefit programs, including, among other things, medical, dental and vision plans, life insurance, short-term and long-term disability insurance, workers' compensation, retirement plans and other insurance plans and benefits. As of the Petition Date, the Debtors owed (a) approximately $3,162,816 to Healthnow as third-party administrator on account of accrued and unpaid prepetition claims against the self-insured medical plans; (b) approximately $48,060 to Cigna and Delta Dental for accrued and unpaid prepetition claims against the self-insured dental plans; (c) approximately $60,150 to VSP for accrued and unpaid prepetition claims on account of the self-insured vision plans. By the Wage Motion, the Debtors seek authority to pay these prepetition claims. The Debtors believe that they are current on the administration fees and premiums related to the health plans to pay their portion of any premiums or administration fees for the health plans that accrued and remain unpaid as of the Petition Date, and to turn over to Blue Shield of California any amounts sufficient to satisfy the portion of the accrued and unpaid prepetition premiums to be paid by the Employees in connection with the payment of the Wages and Withholding Obligations. By the Wage Motion, the Debtors also seek authority to continue to pay, in their discretion and in the ordinary course of their business, the administration fees, premiums for and claims under the health plans incurred postpetition. The Debtors further seek, by the Wage Motion, to continue to perform any obligations under Continuation Health Coverage (COBRA) in respect to former employees.

147. Life, Disability and Workers' Compensation. The Debtors offer Eligible Employees premium-based group life insurance and accidental death and dismemberment insurance ("AD&D") through UNUM; premium based short term ("STD") and long term disability coverage ("LTD") through Cigna; workers' compensation insurance through Old Republic Insurance; and an employee assistance program through Optum. The Debtors are also are obligated to Cigna on account of claims under the Federal Medical Leave Act (FMLA) and

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California Family Rights Act (CFRA). The Debtors believe that they are current on all the above mentioned insurance policies and claims obligations. To the extent they are not, however, the Debtors seek authority, by the Wage Motion, in their discretion, to pay any accrued and unpaid prepetition premiums and related charges and to continue these benefits postpetition and to deliver the Employees' portion of any accrued and unpaid prepetition premiums to the corresponding administrators.

148. Retirement Plans. As described in further detail above, the Debtors offer eligible Employees the opportunity to participate in various retirement plans, including defined benefit plans and defined contribution plans. By the Wage Motion, the Debtors seek authority to pay their matching contributions that accrued and remain unpaid as of the Petition Date for the retirement plans and to deliver the Employee contributions in connection with the payment of Wages and Withholding Obligations described above. The Debtors also seek authority, by the Wage Motion, to continue to pay, in their discretion and in the ordinary course of their business, matching contributions for the retirement plans incurred postpetition.

149. Miscellaneous Plans. The Debtors also offer their eligible Employees the opportunity to participate in a "Cafeteria Plan" through Alliant Choice Plus, which includes voluntary critical care insurance, pet insurance, auto and home insurance. The healthcare reimbursement account and dependent care reimbursement account are administered through Healthnow, and long-term care is administered through UNUM. All of these programs are 100% funded by the Employees and are paid for through payroll deductions. By the Wage Motion, the Debtors request authority to continue to honor these programs, in their discretion, and to continue distributing to third-parties the payments for these programs in connection with the payment of Wages and Withholding Obligations as described above, including the distributions of payments that are for prepetition amounts due.

150. The Debtors believe that substantially all of its Employees rely exclusively on their compensation to pay their daily living expenses. Also, the Employee Benefit Programs are a critical component of the Employees' total compensation package. It is imperative to the accomplishment of the Debtors' goals in this case that the Debtors minimize any adverse impact

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of the chapter 11 filing on the Debtors' workforce, patients, operations, and orderly administration of these Cases. Any disruption to payment of the payroll in the ordinary course, or to the continued implementation of employee programs in the Debtors' discretion, would adversely affect the Debtors' goals in this case because such events are likely to cause some employees to terminate their employment with the Debtors, will cause employees to be distracted from their duties to care for the patients, and will hurt employee morale at a particularly sensitive time for all employees. Failure to honor the Employee Obligations could have severe repercussions on the Debtors' ability to preserve its assets and administer its estate, to the detriment of all constituencies. Accordingly, as set forth in the Wage Motion, the Debtors request authority to continue paying the Employees and administering the Employee Benefit Programs and any obligations related to the foregoing (subject to the Budget and any applicable payment caps) in the ordinary course of business.

c. Emergency Motion Of Debtors For Authority To: (1) Continue Using Existing Cash Management System, Bank Accounts And Business Forms; (2) Implement Changes To The Cash Management System In The Ordinary Course Of Business; (3) Continue Intercompany Transactions; (4) Provide Administrative Expense Priority For Postpetition Intercompany Claims; And (5) Obtain Related Relief; Memorandum Of Points And Authorities In Support Thereof (the "Cash Management Motion").

151. By the Cash Management Motion, the Debtors move the Court for the entry of an order authorizing them, subject to the terms of the DIP Orders and DIP Financing Agreements to: (1) continue to use their cash management system, including the continued maintenance of their existing bank accounts (three of which include passive investing) and business forms; (2) implement changes to their cash management system in the ordinary course of business, including opening new or closing existing bank accounts; (3) continue to perform under and honor intercompany transactions in the ordinary course of business, in their business judgment and at their sole discretion; (4) provide administrative expense priority for postpetition intercompany claims, all as set forth in more detail below; and (5) obtain related relief.

152. The Debtors further request, by the Cash Management Motion, that the Court authorize the financial institutions at which the Debtors maintain various bank accounts to (a) continue to maintain, service and administer the Debtors' bank accounts, and (b) debit the bank

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accounts in the ordinary course of business on account of (i) wire transfers or checks drawn on the bank accounts, or (ii) undisputed service charges owed to the banks for maintenance of the Debtors' cash management system, if any.

153. The Debtors currently have 63 accounts (the "Accounts") with five commercial banks and one investment bank (collectively the "Banks"). The Debtors request authority to continue utilizing the Accounts, subject to the terms of the DIP Orders and DIP Financing Agreements. Requiring the Debtors to close certain of the Accounts and open new ones will disrupt the Debtors' cash flow – and, ultimately, impact patient care – because (i) the depositors (some of which are governmental agencies) will not respond quickly to the change and will likely continue to send deposits to the original deposit account, and (ii) the Debtors have certain obligations (including for debt, pension and defined contribution) that they pay exclusively by electronic funds transfer and changes to the payment accounts have the potential of slowing down these crucial payments. Closing the Accounts will also increase the work of the Debtors' accounting personnel, who are already dealing with the many and varied issues related to these Cases. Closing the Accounts and opening new ones under the circumstances described in the corresponding Memorandum of Points and Authorities would needlessly cost the Debtors time and money at a time when they are trying to conserve both, and would result in no discernible benefit to the Debtors' bankruptcy estates.

154. The Debtors also request in the Cash Management Motion authority to continue using their business forms without the designation "Debtors in Possession" on them *for a limited time*. The Debtors' forms are either electronically printed or can be electronically altered. The Debtors seek the authority of this Court to utilize their electronically generated forms without the "Debtors in Possession" designation until the adjustments to the software can be initiated and existing stock is exhausted.

155. Subject to the DIP Orders and DIP Financing Agreements, by the Cash Management Motion, the Debtors request that the Court authorize them to continue using their cash management system in connection with the continued use of Accounts and continued use of

the Debtors' business forms; in furtherance thereof, the Debtors further request that the Court authorize and direct the Banks to continue honoring the Debtors' transactions.

d. Emergency Motion Of Debtors For Order (A) Prohibiting Utilities From Altering, Refusing, Or Discontinuing Service And (B) Determining Adequate Assurance Of Payment For Future Utility Services (the "Utilities Motion").

156. By the Utilities Motion, the Debtors move the Court for the entry of an order authorizing them to (i) prohibiting utilities (collectively, the "Utility Companies" and individually, a "Utility Company") from altering, refusing, or discontinuing service without further order of the Court; and (ii) determining adequate assurance of payment for future utility services. The Debtors receive essential utility services from several Utility Companies. Furthermore, the Debtors seek a determination that: (i) a deposit made by the Debtors to each Utility Company in an amount equal to the average monthly invoice for prepetition services provided to the Debtors by such Utility Company (the "Deposit"); (ii) the ability of any Utility Company to obtain an initial hearing on the adequacy of the Deposit; and (iii) the ability of any Utility Company to obtain an expedited hearing regarding further adequate assurance if the Debtors fail to cure a post-petition payment default within twenty (20) days after written notice of such default, constitute adequate assurance of payment for future utility services.

157. As life-saving medical service providers, the Debtors are situated in a vulnerable position—without the continual flow of vital services of Utility Companies, the mission of the Debtors' business would unravel, irreparably harming the Debtors and their patients who seek medical care in the hospitals, medical centers, and clinics operated by the Debtors. Thus, I believe that in order to ensure the timely and proper care of the patients and maintain ongoing business operations, it is imperative the Debtors are able to rely on a consistent supply of these services.

158. Specifically, uninterrupted electricity, gas, telephone, and similar services are essential to the Debtors' provision of medical services to the Debtors' patients. Any interruption, however brief, to utility services to the Debtors' business will result in a serious disruption of the Debtors' business operations and dramatically affect patient care. Therefore, I believe that it is critical that the Court prohibit the Utility Companies from altering, refusing or discontinuing service to the Debtors without further order of this Court. The Deposit for each of the Utility

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Companies, coupled with the streamlined mechanism for requesting further adequate assurance will provide adequate assurance of payment to the Utility Companies as well as safeguard the Debtors' continuing operations.

159. The Debtors are current on payment to the Utility Companies. Further, the Debtors have sufficient cash to pay their postpetition utility bills as they come due and have specifically budgeted for such payments in the Debtors' operating budget submitted in connection with the Debtors' Cash Collateral Motion.

e. Debtors' Emergency Motion For Entry Of An Order Authorizing Debtors To Honor Prepetition Obligations To Critical Vendors (the "Critical Vendors Motion").

160. By the Critical Vendors Motion, the Debtors move the Court for the entry of an order authorizing, but not directing, the Debtors to continue to pay and/or honor the prepetition claims, up to $20 million (the "Critical Vendor Cap"), with (i) an interim amount of up to $5 Million, and (ii) an additional amount of up to $15 Million, of their most critical vendors, in the Debtors' discretion and in the ordinary course of the Debtors' business, pursuant to a carefully-designed Protocol (defined below) overseen by a core, centralized team consisting of senior members of Debtors' management and professional advisors, and subject to the terms and conditions. The Debtors will suffer irreparable harm without the relief requested in Critical Vendors Motion.

161. As life-saving medical service providers, the Debtors are situated in a vulnerable position in that their entire mission would immediately unravel, irreparably harming the Debtors and their patients without the continual flow of vital medical services, medical supplies, medical equipment, physicians, nurses, nurse practitioners, physicians assistants, professional technicians such as, imaging technicians, surgical technicians, sterile processing technicians and interim clinical/management staff, coders, admission department staff, as well as non-medical services, information technology support, and/or benefits.

162. Additionally, local, state, and federal law places certain compliance requirements on the Debtors. For example, as the operator of hospitals licensed under California state law and certified to participate in the Medicare and Medicaid programs, the Debtors must comply with all

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hospital licensing and certification requirements, including those found in the Health and Safety Code and in Title 22 of the California Code of Regulations, as well as the applicable Medicare conditions of participation and corresponding Medicaid requirements. In addition to complying with these overarching requirements, the Debtors must monitor and comply with all of the other licensing and operational requirements that apply to the different service lines and programs offered by the hospitals, including, for example, those applicable to the hospital pharmacies and laboratories. These extensive, comprehensive requirements can only be fulfilled through continued, uninterrupted access to various goods and services. Thus, in order to ensure the timely and proper care of the patients and maintain ongoing business operations, it is imperative the Debtors are able to rely on a consistent, quality supply of various physicians, nurses, nurse practitioners, physicians assistants, professional technicians such as, imaging technicians, surgical technicians, sterile processing technicians and interim clinical/management staff, coders, admission department staff, as well as certain medical supplies, medical equipment, and services provided by vendors, suppliers and/or service-providers that are "critical" to the Debtors' businesses (the "Critical Vendors").

163. The Debtors' Critical Vendors include the following categories of providers: (i) uncompensated care contract physicians and on-call coverage physicians (collectively, the "Uncompensated Care and On-Call Coverage Physicians"); (ii) medical directors (the "Medical Directors"); (iii) medical staff officers and leadership positions ("Medical Leadership"); (iv) physicians providing teaching services ("Physician Educators"); (v) medical services providers (the "Medical Services Providers"); (vi) medical supplies and medical equipment providers (collectively, the "Medical Supplies and Equipment Providers"); (vii) medical staffing agencies and hospital-based services providers (collectively, the "Clinical Staffing"); (viii) non-medical services providers (the "Non-Medical Services Providers"); (ix) information technology services providers (the "IT Services Providers"); and (x) various employee benefits providers (the "Benefits Providers").

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164. The Debtors require the use of various physicians, the Uncompensated Care and On-Call Coverage Physicians, who provide care to patients who lack the ability to compensate the Debtors for their medical treatment (individually, "Uncompensated Care Contract Physicians") and the physicians who provide on-call services to cover the Debtors' daily on-call needs (individually, "On-Call Coverage Physicians"), all in order to ensure patient care. The Uncompensated Care Contract Physicians routinely provide the following vital services: (i) Emergency Room coverage; (ii) surgical procedures for any Patient who is uninsured or underinsured; (iii) psychiatry; and (iv) cardiac services. The On-Call Coverage Physicians make themselves available to the Debtors for certain periods of time to ensure that a specialist is available at all times for emergency situations, including such emergent conditions as cardiac arrest and immediate trauma. The On-Call Coverage Physicians routinely provide the following areas of expertise: (i) urology; (ii) general surgery; (iii) orthopedics; (iv) cardiology; (v) neurosurgery; (vi) thoracic surgery; (vii) cardiac surgery; (viii) radiation oncology; (ix) neurology, (x) psychiatry; (xi) nephrology; (xii) gastroenterology; (xiii) pediatric surgery; and (xiv) obstetrics.

165. Due to the strong economy and the tight labor market for professionals with expertise, Uncompensated Care and On-Call Coverage Physicians have a vast array of working opportunities available to them, and to the extent the Debtors are unable to ensure payment for prepetition claims, these Uncompensated Care and On-Call Coverage Physicians will work at other hospitals, resulting in a devastating impact on patient care and irreparable harm to the smooth transition into chapter 11 and preservation and maximization of value for the benefit of the Debtors' creditors.

166. Further, the Debtors require the use of various physicians who serve as Medical Directors. As Medical Directors, it is their responsibility to ensure the hospital runs smoothly and efficiently and according to local, state, and federal mandates in order to ensure patient care. These Medical Directors supervise and coordinate the On-Call Coverage Physicians, provide vital operating and administrative services, such as (i) the Long Term & Sub-Acute Unit; (ii) Advanced Wound Care; (iii) the Comprehensive Spine Care Program; (iv) the Stroke Program;

(v) Cardiac & Pulmonary Rehabilitation; (vi) Oncology; (vii) Non-Invasive Cardiology; (viii) Radiation Therapy; (ix) the Intensive Care Unit and Neonatal Intensive Care Unit; (x) the Antimicrobial Stewardship Program; (xi) Interventional Neurology; (xii) the Bioethics Program; (xiii) the Catherization Laboratory; (xiv) the Skilled Nursing Facility, the Stroke Program; (xv) Thoracic Surgery; (xvi) the Dialysis Center; and (xvii) Nuclear Medicine and Vascular Laboratory. They also are vital for program quality, oversight, and risk management. There are approximately 60 physicians serving as Medical Directors. Similar to the Uncompensated Care and On-Call Coverage Physicians. I believe they also are vital for program quality, oversite, and risk management. There are approximately 68 physicians serving as Medical Directors.

167. Similar to the Uncompensated Care and On-Call Coverage Physicians, and due to the strong economy and the low labor market for professionals with expertise, Medical Directors are in demand and have a vast array of working opportunities available to them. To the extent the Debtors are unable to ensure payment for prepetition claims to Medical Directors, these Medical Directors will work at other hospitals, resulting in a devastating impact on patient care and irreparable harm to the smooth transition into chapter 11 and preservation and maximization of value for the benefit of the Debtors' creditors.

168. Debtors require the use of various physicians who serve as medical staff officers and in other leadership positions, as required by each Hospital's accreditation with The Joint Commission (the "TJC"). Medical Leadership includes the Chiefs of Staff and all Department Chairs required by each of the Debtors' Medical Staff Bylaws, and by Title 22, including physician oversight for cardiology, pulmonary, laboratory, stroke, and ST-elevation myocardial infarction departments. The Chief Medical Officers are essential to ensure quality and risk oversight. Without these physicians, who I believe can easily find competitive opportunities elsewhere, the Debtors' day-to-day programs will cease to function, resulting in a significant impact on patient care and other irreparable harm to the Debtors' Chapter 11 Cases.

169. The Debtors require the use of various physicians, the Physician Educators, who provide teaching services in the Debtors' graduate medical education (the "GME") program, a legal requirement with which the Debtors must comply. The GME program simultaneously

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provides: (i) training for interns, residents, and fellows until they become independent and licensed practitioners; and (ii) access to healthcare for elderly and impoverished patients. Physician Educators are in high demand because the State of California mandates that every teaching hospital support the efforts to provide access to high quality healthcare to its most vulnerable population. To maintain Level 2 Trauma status, the Debtors must maintain the GME program. Therefore, the Physician Educators are vital to maintaining the Debtors' teaching hospital status and affording access to healthcare, both of which are key to the Debtors' Patient care, ongoing operations, and/or potential sale of its assets for the benefit of its creditors and the Estates.

170. Debtors require the use of various Medical Services Providers, including, but not limited to, those who provide services such as surgical anesthesia coverage, organ harvesting and organ matching services, medical equipment sanitization, diagnostic interventional cardiology services, interventional neuroradiology, imaging services, advanced wound care, pathology and laboratory services, dialysis services, lithotripsy services, sterile compounding services, rehabilitation staffing and management services, subacute management services, psychiatric management services, hospitalist services, intensivist program services, medical screening services, and medical instrument repair services. These services are vital to the Debtors' day-to-day operations, in particular with regard to Patient care, and the Debtor will suffer immediate irreparable harm should the Court not grant the Debtors' request to include the Medical Services Providers as Critical Vendors.

171. Debtors require the use of various medical supplies and medical equipment from the Medical Supplies and Equipment Providers, including, but not limited to, blood and plasma, heart valves, coronary intervention products, defibrillators, laparoscopic and minimally invasive surgical supplies, neurosurgical supplies and neurology devices, other surgical medical products, bone substitute biologics, regenerative vascular grafts, vaccinations and other pharmaceuticals, nuclear medicines, medical gases, anesthesia medical equipment, laboratory medical supplies, radiation equipment, gastrointestinal supplies, cochlear implants, orthopedic implants, spinal implants, intraocular lenses and ophthalmology supplies, sterilization equipment and products,

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and fetal monitoring systems. Equipment includes medical equipment rentals, biomedical repair tools and equipment, patient beds and stretchers, vital sign monitoring, infusion pumps, medication supply stations, gastro-intestinal lab equipment, cardiac catherization lab equipment, operating room equipment, imaging equipment, laboratory equipment, pharmacy dispensing equipment, and transplant program equipment. The medical supplies and medical equipment the Debtors receive from the Medical Supplies and Equipment Providers are vital to the Debtors' day-to-day operations, to maintain Patient care, and the Debtors will suffer immediate irreparable harm should the Court not grant the Debtors' request to include the Medical Supplies and Equipment Providers as Critical Vendors.

172. The Debtors also require the Clinical Staffing, which are various medical groups, staffing agencies, and other hospital-based services providers, to meet critical thresholds of physicians, nurses, nurse practitioners, physicians assistants, professional technicians such as, imaging technicians, surgical technicians, sterile processing technicians and interim clinical/management staff, coders, and admission department staff servicing patients in emergency and non-emergency room situations. The provision of physicians, nurses, professional technicians such as, imaging technicians, surgical technicians, sterile processing technicians and interim clinical/management staff, coders, and admission department staff is vital to service the Debtors' six active emergency rooms, trauma center, and the multiple medical specialty units providing tertiary and quaternary care.

173. Additionally, regarding the provision of nurses, the staffing supplementation is essential because: (1) California has a mandatory statutory nurse to patient ratio, and so the Debtors are required by law to meet certain ratios in order to operate on a daily basis; and (2) it is difficult to recruit experienced staff—as opposed to recent graduates—for short-term assignments. Indeed, these staffing agencies provide the requisite "registry" nurses who take short single-day assignments and "traveler" nurses who take longer-term assignments to fill in during busier seasons—*e.g.*, flu season—and understaffed periods—*e.g.*, during nurses strikes of represented nurses—where the Debtors may not otherwise have sufficient numbers of nurses between their core and per diem nurses.

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174. Moreover, many of the Clinical Staffing who provide physicians, nurses, nurse practitioners, physicians assistants, professional technicians such as, imaging technicians, surgical technicians, sterile processing technicians and interim clinical/management staff, coders, and admission department staff to the Debtors will not staff the Debtors' business if there is any interruption or delay in the payment of the amounts due to them. Given the Debtors' reliance on the medical services provided by the Clinical Staffing to provide Patient care and otherwise fulfill the Debtors' daily medical services needs, and the fact that the Clinical Staffing can simply shift their services to a medical services company, it is crucial that the Debtors be authorized to pay any prepetition amounts due to the Clinical Staffing as Critical Vendors in the ordinary course of business.

175. The Debtors require use of Non-Medical Services Providers, including, but not limited to, those who provide services such as payroll tax services, financial audit services, billing services, cost reporting services, revenue cycle management services, consulting and education services for various required national, state, and local accreditations and mandates, environmental services, record retention services, building maintenance services, medical equipment maintenance services, management services, and other similar services, as well as to seismic contractors. Seismic contractors are designers, engineers, suppliers and constructors who are engaged in the statutory work of retrofitting hospital structures to meet the SB1953 and subsequent amendments that are required to be completed by December 31, 2019. Delay of the projects will cause the Debtors to miss the regulated deadlines, risking the Debtors' California Department of Public Health license and suspension of such. These non-medical services are vital to the Debtors' day-to-day operations, particular with regard to Patient care, and the Debtor's ability to comply with regulatory requirements set by the State of California legislature, and the Debtor will suffer immediate irreparable harm should the Court not grant the Debtors' request to include the Non-Medical Services Providers as Critical Vendors.

176. The Debtors require use of various IT Services Providers who provide information technology services, including, but not limited to, those who provide services such as diagnostic technology, interoperability between devices, risk management and software services, revenue

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cycle management billing software and services, teleradiology services, customer relationship management, networking solutions services, multi-function copiers, voice over internet protocol system services, hosting services for applications, and point of care data management system services. Critical patient care systems such as electronic health record systems and enterprise resource planning systems must be maintained to ensure continuity and Patient care. I believe these information technology services are vital to the Debtors' day-to-day operations, in particular with regard to Patient care, and the Debtor will suffer immediate irreparable harm should the Court not grant the Debtors' request to include the IT Services Providers as Critical Vendors.

177. The Debtors require certain Benefits Providers because the Debtors have incentivized their employees to continue working through the continuation of company-subsidized benefits, such as workers compensation, medical, dental, vision, short term and long term care, leave of absence, and life insurance. If the Debtors are not permitted to pay any prepetition premium amounts due to these Benefits Providers, the employees' insurance coverage will be jeopardized and the employees will likely seek employment elsewhere. Specifically, I believe any disruption to payment of the employee benefits in the ordinary course (and in the Debtors' discretion), would adversely affect the Debtors' goals in this Case because such events are likely to cause some employees to terminate their employment with the Debtors, will cause all employees to be distracted from their duties to care for the patients and the operations of the hospitals, and will inevitably hurt employee morale at a particularly sensitive time for all employees, resulting in severe repercussions on the Debtors' ability to provide Patient care, and to preserve their assets and administer the Estates, to the detriment of all constituencies. Since the Debtors do not have the ability to quickly or cost-effectively replace their employees who provide vital medical and non-medical services on a daily basis, it is critical that the Debtors be allowed to continue these benefits in order to retain their employees and maintain their business operations to preserve the full value of their assets for the benefit of their creditors. Therefore, the Court should include Benefits Providers as Critical Vendors.

178. I, along with the Debtors, am mindful of the Debtors' fiduciary obligations to seek to preserve and maximize the value of their Bankruptcy Estate. To that end, the Debtors and their

advisors have engaged in an intense process of reviewing and analyzing the Debtors' books and records, consulting operations management and purchasing personnel, reviewing contracts and supply agreements, and analyzing applicable laws, regulations, and historical practices to identify business relationships—which, if lost, could materially harm the Debtors' patients, the Debtors' businesses, reduce their enterprise value, and/or impair their restructuring process—all in an effort to identify only those most critical vendors using their business judgment (the "Protocol"). Such Protocol is on-going; however, the amounts proposed to be paid to the Critical Vendors are already provided for in the Debtors' operating budget submitted in connection with the Debtors' Cash Collateral Motion.

179. Indeed, during the Protocol process, the Debtors and I have deemed certain vendors as critical because each of these Critical Vendors meets the following criteria: (a) the vendor is essential to patient care, supports maintaining the Debtors' business in full compliance with California's Title XII requirements for operating general acute care hospitals in the state of California, and allows the Debtors to maintain their business postpetition until reorganization and/or sale of the Debtors' assets for the benefit of creditors; (b) the vendor is indispensable for providing vital goods or services, replacing said vendor would be prohibitively expensive, or said vendor is otherwise critical to prevent the diversion of management and key personnel to solicit other vendors to provide comparable goods or services and to prevent other unnecessary distraction during the extensive transitional period; (c) the vendor holds an unpaid prepetition claim for the provision of goods or services; (d) the vendor will refuse to deliver goods or provide services without payment of the prepetition claim and the automatic stay imposed by section 362(a) will be inadequate to address the issue; (e) cash on delivery is unlikely to provide the requisite incentive for the vendor to continue providing goods or services; (f) the Debtors lack a long-term contractual relationship with the vendor that would oblige the vendor to continue the prepetition relationship, and the Debtors are otherwise without adequate leverage to compel performance on commercially reasonable terms; and (g) the Debtors will suffer immediate and irreparable harm if the vendor is not specially incentivized to continue providing goods or services. The Debtors will use commercially reasonable efforts to require the vendor to sign a

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postpetition agreement with normalized terms and conditions that contractually bind the vendor to continue providing goods and services postpetition.

I declare under penalty of perjury that, to the best of my knowledge and after reasonable inquiry, the foregoing is true and correct.

Executed this 31st of August 2018, at Los Angeles, California.

Richard G. Adcock

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EXHIBIT "2"

Docket #1279 Date Filed: 1/17/2019

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UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA - LOS ANGELES DIVISION

In re

VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*,

Debtors and Debtors In Possession.

☒ Affects All Debtors

☐ Affects Verity Health System of California, Inc.
☐ Affects O'Connor Hospital
☐ Affects Saint Louise Regional Hospital
☐ Affects St. Francis Medical Center
☐ Affects St. Vincent Medical Center
☐ Affects Seton Medical Center
☐ Affects O'Connor Hospital Foundation
☐ Affects Saint Louise Regional Hospital Foundation
☐ Affects St. Francis Medical Center of Lynwood Foundation
☐ Affects St. Vincent Foundation
☐ Affects St. Vincent Dialysis Center, Inc.
☐ Affects Seton Medical Center Foundation
☐ Affects Verity Business Services
☐ Affects Verity Medical Foundation
☐ Affects Verity Holdings, LLC
☐ Affects De Paul Ventures, LLC
☐ Affects De Paul Ventures - San Jose Dialysis, LLC

Debtors and Debtors In Possession.

Lead Case No. 2:18-bk-20151-ER

Jointly Administered With:
Case No. 2:18-bk-20162-ER
Case No. 2:18-bk-20163-ER
Case No. 2:18-bk-20164-ER
Case No. 2:18-bk-20165-ER
Case No. 2:18-bk-20167-ER
Case No. 2:18-bk-20168-ER
Case No. 2:18-bk-20169-ER
Case No. 2:18-bk-20171-ER
Case No. 2:18-bk-20172-ER
Case No. 2:18-bk-20173-ER
Case No. 2:18-bk-20175-ER
Case No. 2:18-bk-20176-ER
Case No. 2:18-bk-20178-ER
Case No. 2:18-bk-20179-ER
Case No. 2:18-bk-20180-ER
Case No. 2:18-bk-20181-ER

Hon. Judge Ernest M. Robles

DEBTORS' NOTICE OF MOTION AND MOTION FOR THE ENTRY OF (I) AN ORDER (1) APPROVING FORM OF ASSET PURCHASE AGREEMENT FOR STALKING HORSE BIDDER AND FOR PROSPECTIVE OVERBIDDERS; (2) APPROVING AUCTION SALE FORMAT, BIDDING PROCEDURES AND STALKING HORSE BID PROTECTIONS; (3) APPROVING FORM OF NOTICE TO BE PROVIDED TO INTERESTED PARTIES; (4) SCHEDULING A COURT HEARING TO CONSIDER APPROVAL OF THE SALE TO THE HIGHEST BIDDER; AND (5) APPROVING PROCEDURES RELATED TO THE ASSUMPTION OF CERTAIN EXECUTORY CONTRACTS AND UNEXPIRED LEASES; AND (II) AN ORDER (A) AUTHORIZING THE SALE OF PROPERTY FREE AND CLEAR OF ALL CLAIMS, LIENS AND ENCUMBRANCES; MEMORANDUM OF POINTS AND AUTHORITIES IN SUPPORT THEREOF

Hearing:
Date: [TBD]
Time: [TBD]
Location: Courtroom 1568
255 E. Temple St., Los Angeles, CA

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PLEASE TAKE NOTICE that at the above referenced date, time and location, Verity Health System of California, Inc., a California nonprofit public benefit corporation and the Debtor herein ("Verity"), and the above-referenced affiliated debtors, the debtors and debtors in possession in the above-captioned chapter 11 bankruptcy cases (collectively, the "Debtors"), will move (the "Motion"), pursuant to §§ 105(a), 363, and 365 of title 11 of the United States Code, 11 U.S.C. §§ 101, *et seq*., Rules 2002, 6004, 6006, 9007, and 9014 of the Federal Rules of Bankruptcy Procedure and Rules 6004-1(b) and 9013-1 of the Local Bankruptcy Rules of the United States Bankruptcy Court for the Central District of California ("LBR"), for the entry of:

I. An order (the "Bidding Procedures Order"):

(1) approving the form of the Asset Purchase Agreement, dated January 8, 2018 (the "Stalking Horse APA") between (i) Verity, Verity Holdings, LLC, a California limited liability company ("Verity Holdings"), St. Francis Medical Center, a California nonprofit public benefit corporation ("St. Francis Medical Center"), St. Vincent Medical Center, a California nonprofit public benefit corporation ("St. Vincent Medical Center"), St. Vincent Dialysis Center, Inc., a California nonprofit public benefit corporation ("St. Vincent Dialysis Center") and Seton Medical Center, a California nonprofit public benefit corporation ("Seton Medical Center"), on the one hand; and (ii) Strategic Global Management, Inc., a California corporation ("the "Stalking Horse Purchaser"), on the other hand, a true and correct copy of which is attached as **Exhibit A** hereto; pertaining to a sale of substantially all assets of St. Francis Medical Center, St. Vincent Medical Center, St. Vincent Dialysis Center and Seton Medical Center (the "Purchased Assets") to be used by (a) the Stalking Horse Purchaser as the stalking horse bidder for the Purchased Assets, and (b) any prospective overbidders (each an "Overbidder" and collectively, the "Overbidders") who seek to participate in a hoped for auction sale ("Auction") of the Purchased Assets;

(2) approving the format, bidding procedures, and stalking horse bid protections (the "Bidding Procedures"), relating to the proposed Auction described below and in the attached Memorandum of Points and Authorities (the "Memorandum");

(3) approving the form of notice to be provided by the Debtors to their creditors and to be provided by the Debtors' investment banker to prospective Overbidders;

(4) scheduling the Auction for April 8, 2019 and April 9, 2019, and a hearing (the "Sale Hearing") on April 17, 2019, at 10:00 a.m. (subject to the availability of the Court), before the Court to consider approval of the sale of the Purchased Assets to the highest bidder;

(5) establishing procedures for the assumption and assignment to the Successful Bidder (as defined below) of executory contracts and unexpired leases in connection with the Sale and approving the form and manner of notice related thereto; and

II. An order (the "Sale Order") authorizing the Sale to the Successful Bidder, free and clear of all claims, liens and encumbrances; and

III. Granting related relief.

PLEASE TAKE FURTHER NOTICE that this Motion is based on this Notice of Motion and Motion, the Memorandum, the Declaration of Richard G. Adcock and the Declaration of James Moloney (to be filed prior to the hearing on the Motion), the *Declaration of Richard G. Adcock In Support of Emergency First-Day Motions* [Docket No. 8], supporting statements, arguments and representations of a counsel who will appear at the hearing on the Motion, the record in this case, and any other evidence properly brought before the Court in all other matters of which this Court may properly take judicial notice.

PLEASE TAKE FURTHER NOTICE that any party opposing or responding to the Motion must file and serve the response ("Response"), pursuant to LBR 9013-1(f), on the moving party and the United States Trustee not later than fourteen (14) days before the date designated for the hearing. A Response must be a complete written statement of all reasons in opposition

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thereto or in support, declarations and copies of all evidence on which the responding party intends to rely, and any responding memorandum of points and authorities.

PLEASE TAKE FURTHER NOTICE that, pursuant to LBR 9013-1(h), the failure to file and serve a timely objection to the Motion may be deemed by the Court to be consent to the relief requested herein.

Dated: January 17, 2019

DENTONS US LLP
SAMUEL R. MAIZEL
TANIA M. MOYRON

By */s/ Tania M. Moyron*
Tania M. Moyron

Attorneys for the Chapter 11 Debtors and Debtors In Possession

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MEMORANDUM OF POINTS AND AUTHORITIES

I. INTRODUCTION

Verity Health System of California, Inc., a California nonprofit public benefit corporation and the Debtor herein ("Verity"), and the above-referenced affiliated debtors, the debtors and debtors in possession in the above-captioned chapter 11 bankruptcy cases (collectively, the "Debtors"), seek entry of an order: (a) designating Strategic Global Management, Inc. ("SGM" or the "Stalking Horse Purchaser") as the stalking-horse bidder for St. Francis Medical Center, St. Vincent Medical Center, St. Vincent Dialysis Center, Seton Medical Center (collectively, the "Hospitals"), and related assets (collectively, the "Purchased Assets"), at a price of approximately $610 million ($420 million allocated to St. Francis Medical Center, $120 million allocated to St. Vincent Medical Center and $70 million allocated to Seton Medical Center and Seton Coastside combined), plus payment of Cure Costs (defined below) associated with any Assumed Leases and/or Assumed Contracts (the "Cash Consideration," and collectively, the "Stalking Horse Bid"); (b) setting bid procedures to establish guidelines for parties interesting in making an overbid; (c) scheduling an auction to be held on April 8, 2019 and April 9, 2019; and (d) scheduling a sale hearing for the Court to approve the winning bidder.

The Debtors have vigorously marketed the Purchased Assets and believe that the Stalking Horse Bid represents a fair market value for the Purchased Assets. Moreover, SGM is a buyer who will maintain the healthcare characteristics of St. Francis Medical Center, St. Vincent Medical Center, St. Vincent Dialysis Center and Seton Medical Center, continuing patient care for the communities served by the Hospitals and healthcare providers. Nonetheless, the Debtors are hopeful that there will be an auction which may result in overbids. Based on the foregoing, and for the reasons set forth below in greater detail, the Debtors respectfully request that the Court grant the Motion.

II. JURISDICTION AND VENUE

The Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334. This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2). The venue of these Cases is proper pursuant to 28 U.S.C. §§ 1408 and 1409.

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III. STATEMENT OF FACTS

A. GENERAL BACKGROUND

1. On August 31, 2018 ("Petition Date"), the Debtors each filed a voluntary petition for relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code").[1] Since the commencement of their cases, the Debtors have been operating their businesses as debtors in possession pursuant to §§ 1107 and 1108.

2. Debtor VHS, a California nonprofit public benefit corporation, is the sole corporate member of five Debtor California nonprofit public benefit corporations that operate six acute care hospitals, including the Hospitals and other facilities in the state of California. *See Declaration of Richard G. Adcock In Support of Emergency First-Day Motions* [Docket No. 8] (the "Adcock First-Day Declaration").

3. St. Francis Medical Center ("St. Francis") owns real property commonly known as: (i) 3630 E. Imperial Highway Lynwood, CA 90262, including the patient tower and all of the facilities thereon; (ii) 2700 E. Slauson Ave, Huntington Park, CA 90255, and the Huntington Park Medical Office Building thereon; and (iii) 5953 S. Atlantic Blvd. 5, Maywood, CA 90270, and Maywood Medical Office Building thereon. *See* Adcock First-Day Declaration.

4. St. Francis (i) operates a 384 licensed bed, general acute care hospital located at 3630 East Imperial Highway in Lynwood, California; (ii) has an emergency department with 46 licensed emergency treatment stations and is designated a Level II Trauma Center; (iii) has nine surgical operating rooms and three cardiac catheterization labs for inpatient and outpatient cardiac catheterization services; (iv) offers a comprehensive range of services, including emergency and trauma care, neonatal intensive, cardiovascular, oncology, pediatrics, behavioral health, and maternity and child services; and (v) offers various outpatient services, including ambulatory surgical services, laboratory services, imaging services, infusion therapy, nuclear medicine services, respiratory therapy, and physical therapy. Other outpatient services are provided at the following clinics: Orthopedics Clinic, Wound Care Clinic, Industrial Clinic, Lynwood Clinic,

[1] All references to section or chapter herein are to the Bankruptcy Code, 11 U.S.C. §§ 101, *et seq.*, as amended. All references to Rules are to the Federal Rules of Bankruptcy Procedure.

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Downey Clinic , and Huntington Park Clinic. St. Francis is accredited by The Joint Commission. *See* Adcock First-Day Declaration.

5. As of the Petition Date, St. Francis employed approximately 2,017 employees, of which 1,583 are full-time, 136 are part time, and 298 are per diem. St. Francis was incorporated in 1983 and is governed by a Board of Trustees. *See* Adcock First-Day Declaration.

6. St. Vincent Medical Center ("St. Vincent") owns real property commonly known as: (i) 2131 W 3rd Street, Los Angeles, CA 90057, including the hospital and all of the facilities located thereon; and (ii) vacant land in Salton Sea, California. St. Vincent was founded as the first hospital in Los Angeles in 1856. In 1971, a new facility was constructed at St. Vincent's current location at 2131 West Third Street, Los Angeles, CA 90057. It has expanded to a 366 licensed bed, regional acute care, tertiary referral facility, specializing in cardiac care, cancer care, total joint and spine care, and multi-organ transplant services. St. Vincent serves both local residents and residents from Los Angeles, San Bernardino, Riverside, and Orange Counties. As a provider of healthcare services for a high percentage of elderly patients, many of the St. Vincent Medical Center's services and programs are focused on the treatment of various chronic diseases. *See* Adcock First-Day Declaration.

7. As of the Petition Date, St. Vincent employed approximately 1,099 employees, of which 897 are full-time, 42 are part time and 160 are per diem. *See* Adcock First-Day Declaration.

8. St. Vincent is the sole corporate member of the St. Vincent Dialysis Center, located on the hospital's campus. The St. Vincent Dialysis Center provides dialysis services for kidney disease patients, including hemodialysis and isolated ultrafiltration treatments as part of St. Vincent's end-stage renal disease program. *See* Adcock First-Day Declaration.

9. Seton Medical Center ("Seton") owns (i) real property commonly known as 1900 Sullivan Avenue, Daly City, CA 94015, and the hospital and the facilities thereon (the "Daly Property"), and (ii) an employee parking lot on the Daly Property. Seton Medical Center was originally founded as Mary's Help Hospital by the Daughters of Charity of St. Vincent De Paul in 1893. The original facility was destroyed in the San Francisco Earthquake of 1906, and by 1912,

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Mary's Help Hospital reopened a new facility in San Francisco. In 1965, the hospital was moved to its current location at 1900 Sullivan Avenue in Daly City. The hospital was renamed Seton Medical Center in 1983, is currently licensed for 357 beds and serves residents from San Francisco and San Mateo areas. Seton has an emergency department with 18 licensed treatment stations. It also has 13 surgical operating rooms and three cardiac catheterization labs. Of the hospital's 83 licensed skilled nursing beds, 39 are in suspense, and the remaining 44 beds are utilized as subacute care beds. Additionally, the hospital has 24 licensed acute psychiatric beds which have been placed in suspense. The hospital has a broad spectrum of medical services, including cancer, cardiac, emergency, surgical, rehabilitation, respiratory, orthopedic, and sub-acute care. The hospital is accredited by The Joint Commission. Seton Medical Center and Seton Coastside share a consolidated license. *See* Adcock First-Day Declaration.

10. Seton also operates Seton Medical Center Coastside ("Seton Coastside") located at 600 Marine Blvd, Moss Beach, CA 94038. Seton Coastside was founded as Moss Beach Rehabilitation Hospital in 1970. In 1980, the City of Half Moon Bay acquired ownership of the hospital and signed an agreement for Daughters of Charity to manage operations of the hospital and rename it St. Catherine's Hospital. In 1993, St. Catherine's Hospital became Seton Coastside when it became integrated with Seton Medical Center. Today, Seton Coastside is licensed for 116 skilled nursing beds and five general, acute-care beds. Seton Coastside also operates the only 24-hour "standby" Emergency Department along the 55-mile stretch between Santa Cruz and Daly City. Under a consolidated license, Seton Medical Center and Seton Coastside share the same Board of Directors, executive leadership team, charity care policies, and union collective bargaining agreements. *See* Adcock First-Day Declaration.

11. As of the Petition Date, Seton Medical Center and Seton Coastside employed approximately 1,340 employees, of which 516 are full-time, 551 are part time and 273 are per diem. *See* Adcock First-Day Declaration.

12. Verity Holdings, LLC ("Holdings") is a direct subsidiary of its sole member VHS and was created in 2016 to hold and finance VHS' interests in four medical office buildings whose tenants are primarily physicians, medical groups, healthcare providers, and certain of the

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VHS Hospitals. Holdings' real estate portfolio includes more than 15 properties. Holdings is the borrower on approximately $66.2 Million of non-recourse financing secured by separate deeds of trust and revenue and accounts pledges, including the rents on each medical office building. *See* Adcock First-Day Declaration.

13. Previously, the Hospitals were owned by the Daughters of Charity Healthcare System ("DCHS"). Despite continuous efforts to improve operations, operating losses continued to plague the health system due to, among other things, mounting labor costs, low reimbursement rates and the ever-changing healthcare landscape. In 2013, DCHS actively solicited offers for its hospitals. *See* Adcock First-Day Declaration.

14. In early 2014, DCHS announced that they were beginning a process to evaluate strategic alternatives for the health system. Throughout 2014, DCHS explored offers to sell their hospital system, including the Hospitals, and, in October of 2014, they entered into an agreement with Prime Healthcare Services and Prime Healthcare Foundation (collectively, "Prime") to sell the health system. However, to keep the hospitals open, DCHS needed to borrow $125 Million to mitigate immediate cash needs during the sales process; in other words, to allow DCHS to continue to operate until the sale could be consummated. In early 2015, the California Attorney General consented to the sale to Prime, subject to conditions on that sale that were so onerous that Prime terminated the transaction. *See* Adcock First-Day Declaration.

15. In 2015, DCHS again marketed their health system for sale, and, again, focused on offers that maintained the health system as a whole, and assumed all the obligations. In July 2015, the DCHS Board of Directors selected BlueMountain Capital Management LLC ("BlueMountain"), a private investment firm, to recapitalize its operations and transition leadership of the health system in the restructured Verity Health System (the "BlueMountain Transaction").

16. In connection with the BlueMountain Transaction, BlueMountain agreed to make a capital infusion of $100 Million to the health system, arrange loans for another $160 Million to the health system, and manage operations of the health system, with an option to buy the health system at a future time. In addition, the parties entered into a System Restructuring and Support

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Agreement (the "Restructuring Agreement"), DCHS's name was changed to Verity Health System.

17. On December 3, 2015, the California Attorney General approved the BlueMountain Transaction, subject to conditions. Despite BlueMountain's infusion of cash and retention of various consultants and experts to assist in improving cash flow and operations, the health system did not prosper.

18. In July 2017, NantWorks, LLC ("NantWorks") acquired a controlling stake in Integrity Healthcare, LLC. NantWorks brought in a new CEO, CFO, and COO. NantWorks loaned another $148 Million to the Debtors.

19. Despite the infusion of capital and new management, it became apparent that the problems facing the Verity Health System were too large to solve without a formal court supervised restructuring. Thus, despite VHS' great efforts to revitalize its Hospitals and improvements in performance and cash flow, the legacy burden of more than a billion dollars of bond debt and unfunded pension liabilities, an inability to renegotiate collective bargaining agreements or payor contracts, the continuing need for significant capital expenditures for seismic obligations and aging infrastructure, and the general headwinds facing the hospital industry, made success impossible. Losses continue to amount to approximately $175 Million annually on a cash flow basis.

20. Prior to the Petition Date, the Debtors engaged in substantial efforts to market and sell their assets. In June 2018, the Debtor engaged Cain Brothers, a division of KeyBanc Capital Markets ("Cain"), to identify potential buyers of some or all of the Verity hospitals and related assets and commenced discussions with those potential buyer.

B. FACTS RELEVANT TO MOTION

21. Cain prepared a Confidential Investment Memorandum (the "CIM") and organized an online data site to share information with potentially buyers and contacted over 110 strategic and financial buyers beginning in July 2018 to solicit their interest in exploring a transaction regarding the Debtors.

22. By August 2018, as a result of its ongoing and broad marketing process, Cain had

received 11 Indications of Interest ("IOI"), and postpetition Cain continued to develop potential sales. The Debtors, in consultation with Cain and its other advisors, selected SGM's offer from one or more stalking horse bidder(s) to acquire the Purchased Assets through a sale under § 363.

23. Additional background facts on the Debtors, including an overview of the Debtors' business, information on the Debtors' capital structure and additional events leading up to these chapter 11 cases, are contained in the First-Day Declaration.

24. On September 14, 2018, the Office of the United States Trustee appointed an Official Committee of Unsecured Creditors (the "Official Committee") in these chapter 11 Cases. [Docket No. 197].

C. BIDDING PROCEDURES

25. As indicated above, a true and correct copy of the Stalking Horse APA, entered into between certain Debtors (Verity, Verity Holdings, St. Francis Medical Center, St. Vincent Medical Center, St. Vincent Dialysis Center and Seton Medical Center) and the Stalking Horse Purchaser, is attached hereto as **Exhibit A**. The bidding procedures (the "Bidding Procedures") are referenced, in part, in Article 6 of the Stalking Horse APA and set forth in a separate scheduled attached thereto.

26. Set forth below are the Bidding Procedures to be employed in connection with the sale of (i) the Purchased Assets, and (ii) the assets not otherwise enumerated in the Stalking Horse APA but associated with the ownership or operation of the Hospitals (the "Other Assets").

a. Provisions Governing Qualifications of Bidders

27. Unless otherwise ordered by the Court or as set forth in these procedures, in order to participate in the bidding process, each person, other than the Stalking Horse Purchaser, who wishes to participate in the bidding process must deliver, prior to the Bid Deadline (defined herein), the following to the Debtors:

a) a written disclosure of the identity of each entity that will be bidding for the Purchased Assets or and/or the Other Assets or otherwise participating in connection with such bid; and

b) an executed confidentiality agreement (to be delivered prior to the distribution of any confidential information by the Debtors) in form and substance satisfactory to the Debtors and which shall inure to the benefit

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of any purchaser of the Purchased Assets and/or the Other Assets; without limiting the foregoing, each such confidentiality agreement shall contain standard non-solicitation provisions.

28. A bidder that delivers the documents and information described above and that the Debtors determine, after consultation with the Official Committee of Unsecured Creditors, the Prepetition Secured Creditors,[2] and any other party deemed appropriate within the business judgment of the Debtors (collectively, the "Consultation Parties") in their reasonable business judgment, is likely (based on availability of financing, experience, and other considerations) to be able to consummate the sale, will be deemed a potential bidder ("Potential Bidder").

b. Due Diligence

29. The Debtors will afford any Potential Bidder such due diligence access or additional information as the Debtors, in consultation with their advisors, deem appropriate, in their reasonable discretion. The due diligence period shall extend through and including the relevant Bid Deadline; provided, however, that any bid submitted under these procedures shall be irrevocable until at least the selection of the Successful Bidder(s) (defined herein) and any Back-Up Bidder(s) (defined herein).

c. Provisions Governing Qualified Bids

30. A bid submitted by a Potential Bidder will be considered a Qualified Bid (each, a "Qualified Bid," and each such Potential Bidder thereafter a "Qualified Bidder") only if the bid complies with the following requirements:

a) it states that the applicable Qualified Bidder offers to purchase, in cash, some or all of the Purchased Assets and/or the Other Assets;

b) it identifies with particularity the portion of the Purchased Assets and/or the Other Assets the Qualified Bidder is offering to purchase;

c) it allocates with specificity the portion of the purchase price offered that the Qualified Bidder attributes to St. Francis Medical Center, St. Vincent Medical

[2] As such term is defined in the *Final Order (I) Authorizing Postpetition Financing, (II) Authorizing Use of Cash Collateral, (III) Granting Liens and Providing Superpriority Administrative Expense Status, (IV) Granting Adequate Protection, (V) Modifying Automatic Stay, and (VI) Granting Related Relief* (the "Final DIP Order") [Docket No. 409].

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Center, and Seton Medical Center, and Seton Coastside, and each of the Other Assets, respectively;[3]

d) it includes a signed writing that the Qualified Bidder's offer is irrevocable until the selection of the Successful Bidder and the Back-Up Bidder, provided that if such bidder is selected as the Successful Bidder or the Back-Up Bidder then the offer shall remain irrevocable until the earliest of (i) the closing of the transaction with the Successful Bidder, (ii) in the case of the Successful Bidder, a termination of the Qualified Bid pursuant to the terms of the Successful Bidder Purchase Agreement and (iii) with respect to the Back-up Bidder, the time specified in paragraph 44 below;

e) it includes confirmation that there are no conditions precedent to the Qualified Bidder's ability to enter into a definitive agreement and that all necessary internal governance and shareholder approvals have been obtained prior to the bid;

f) it sets forth each third-party, regulatory and governmental approval required for the Qualified Bidder to consummate the transaction and the time period within which the Qualified Bidder expects to receive such approvals and establishes a substantial likelihood that the Qualified Bidder will obtain such approvals by the stated time period;

g) it includes a duly authorized and executed copy of a purchase or acquisition agreement in the form of the Stalking Horse APA (a "Purchase Agreement"), including the purchase price for some or all of the Purchased Assets and/or the Other Assets, or both, expressed in U.S. Dollars, together with all exhibits and schedules thereto, together with copies marked to show any amendments and modifications to the Stalking Horse APA ("Marked Agreement");

h) it is not subject to any financing contingency and includes written evidence of a firm ability to have the funding necessary to consummate the proposed transaction, that will allow the Debtors to make a reasonable determination, in consultation with the Consultation Parties, as to the Qualified Bidder's financial and other capabilities to consummate the transaction contemplated by the Purchase Agreement;

i) if the bid is for all of the Purchased Assets, it must have a value to the Debtors, in the Debtors' exercise of its reasonable business judgment, after consultation with its advisors and the Consultation Parties, that is greater than or equal to the sum of the value offered under the Stalking Horse APA, plus (i) the amount of the Break-Up Fee ($21,350,000.00); (ii) the amount of the expense reimbursement ($2,000,000.00); and (iii) $7,000,000.00 (the "Initial Bidding Increment," and, together with the Break-Up Fee and the Expense Reimbursement, the "Minimum Qualified Bid");

[3] For the avoidance of doubt, such allocation shall not be binding on the Debtors, their estates or any Consultation Party.

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j) if the bid is a partial bid (the "Partial Bid"),[4] the terms of paragraph (i) immediately above shall not apply but the terms of paragraph (o) below concerning the Good Faith Deposit shall expressly apply in order to be a bid qualified to participate in the Partial Bid Auction (as defined below) (each, a "Partial Bid Auction Qualified Bid"). In the event that the Debtors aggregate Partial Bids, the Partial Bid purchasers' responsibility for the Break-Up Fee, the Expense Reimbursement, and the Initial Bidding Increment shall be reasonably allocated to each Partial Bid purchaser, and in no event shall the Stalking Horse Purchaser be entitled to more than one Break-Up Fee and/or Expense Reimbursement;

k) it identifies with particularity which (i) executory contracts and unexpired leases the Qualified Bidder wishes the Debtors to assume and assign to it, and (ii) Purchased Assets and/or Other Assets, subject to purchase money liens or the like, the Qualified Bidder wishes to acquire and therefore pay the associated purchase money financing;

l) it contains sufficient information concerning the Qualified Bidder's ability to provide adequate assurance of future performance with respect to executory contracts and unexpired leases the Qualified Bidder wishes the Debtors to assume and assign to it;

m) it includes an acknowledgement and representation that the Qualified Bidder: (A) has had an opportunity to conduct any and all required due diligence regarding the Purchased Assets and/or Other Assets prior to making its offer and that the offer is not subject to any further due diligence or the need to raise capital/financing to consummate the proposed transaction; (B) has relied solely upon its own independent review, investigation and/or inspection of any documents and/or the Purchased Assets and/or Other Assets in making its bid; (C) did not rely upon any written or oral statements, representations, promises, warranties or guaranties whatsoever, whether express or implied (by operation of law or otherwise), regarding the Purchased Assets and/or Other Assets or the completeness of any information provided in connection therewith or with the relevant Auction (defined below), except as expressly stated in the Purchase Agreement; and (D) is not entitled to any expense reimbursement, break-up fee, or similar type of payment in connection with its bid;

o) unless it is a Credit Bid (as defined below), it is accompanied by a (i) good faith deposit in the form of a wire transfer (to a bank account specified by the Debtors), certified check or such other form of cash or cash equivalent acceptable to the Debtors, payable to the order of the Debtors (or such other party as the Debtors may determine) in an amount equal to (a) 20% of purchase price for bids under $5 million; (b) for bids greater than $5 million and less than $100 million, the greater of: (i) $1 million or (ii) 10% of purchase price; (c) for bids greater than $100 million, the greater of (i) $10 million or (ii) 5% of purchase price (collectively, the "Good Faith Deposit"), which Good Faith Deposit shall, be forfeited if such bidder is the Successful Bidder and breaches its obligation to close; and (ii) if the

[4] A Partial Bid shall mean a bid for less than all of the Purchased Assets.

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Qualified Bid is a bid made by a secured creditor of the Debtors (a "Credit Bid Bidder") who intends to make a credit bid (each, a "Credit Bid Bid"), evidence of (a) the basis for and property covered by such Credit Bid Bidder's secured claim, (b) the amount of such Credit Bid Bidder's claim that is secured by the property in question, (c) whether it is the senior secured claim on the property (x) prepetition and (y) as of the date of the request to be a Qualified Bidder, as well as (d) evidence of the resolution of any Challenge to such Credit Bid Bidder's secured claim within the meaning of the Final DIP Order.

p) it contains a detailed description of how the Qualified Bidder intends to treat current employees of the Debtors;

r) it identifies the person(s) and their title(s) who will attend the relevant Auction, and confirms that such person(s) have authority to make binding Overbids (defined below) at such Auction

s) it contains such other information reasonably requested by the Debtors; and

t) it is received prior to the Bid Deadline.

31. The Debtors, in consultation with the Consultation Parties (who shall receive copies of the Purchase Agreements relating to any bids cast pursuant to these Bidding Procedures as soon as reasonably practicable), may qualify any bid that meets the foregoing requirements as a Qualified Bid. Notwithstanding the foregoing, the Stalking Horse Purchaser is deemed a Qualified Bidder and the Stalking Horse APA is deemed a Qualified Bid, for all purposes in connection with the Bidding Process, the Auctions, and the Sale.

32. The Debtors shall notify the Consultation Parties, the Stalking Horse Purchaser, all Qualified Bidders and the Notice Parties in writing as to whether or not any bids constitute Qualified Bids (and with respect to each Qualified Bidder that submitted a bid as to whether such Qualified Bidder's bid constitutes a Qualified Bid) and provide copies of the Purchase Agreements relating any such Qualified Bid to the Consultation Parties, the Stalking Horse Purchaser and such Qualified Bidders, and the Notice Parties on the earlier of (1) the date that any bid other than the Stalking Horse Bid has been deemed a Qualified Bid, or (2) two business days prior to the Partial Bid Auction.

d. Bid Deadline

33. In order to be eligible to participate in the Auction, a Qualified Bidder that desires

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to make a bid will deliver written copies of its bid to the following parties (collectively, the "Notice Parties"): (i) counsel to the Debtors: Dentons US LLP, 601 S. Figueroa Street, Suite 2500, Los Angeles, CA 90017 (Attn: Tania M. Moyron (tania.moyron@dentons.com)); (ii) the Debtors' Investment Banker: Cain Brothers, a division of KeyBanc Capital Markets, 1 California Street, Suite 2400, San Francisco, CA 94111 (Attn: James Moloney (jmoloney@cainbrothers.com)); (iii) counsel to the Official Committee: Milbank, Tweed, Hadley & McCloy LLP, 2029 Century Park East, 33rd Floor, Los Angeles, CA 90067 (Attn: Gregory A. Bray (gbray@milbank.com); (iv) counsel to the Master Trustee and Series 2005 Bond Trustee: Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, MA 02111 (Attn: Daniel S. Bleck and Paul Ricotta (dsbleck@mintz.com, pricotta@mintz.com)); (v) counsel to the Series 2015 and Series 2017 Notes Trustee: Maslon, LLP, 3300 Wells Fargo Center, 90 South Seventh Street, Minneapolis, MN 55402 (Attn: Clark Whitmore (clark.whitmore@maslon.com)), so as to be received by the Notice Parties not later than March 29, 2019, at 4:00 p.m. (prevailing Pacific Time) for partial bids (the "Partial Bid Deadline") or April 3, 2019, at 4:00 p.m. (prevailing Pacific Time) for full bids (the "Bid Deadline").

e. Credit Bidding

34. Any party with a valid, properly perfected security interest in any of the Purchased Assets and/or Other Assets (which is not subject to a pending Challenge within the meaning of the Final DIP Order) may credit bid for such Purchased Assets and/or Other Assets in connection with the Sale in accordance with and pursuant to § 363(k), except as otherwise limited by the Debtors for cause; provided, however, that any party seeking to credit bid may not credit bid unless such bid provides that all secured creditors with security interests on such Purchased Assets and/or Other Assets that are senior to such junior security interest are to be paid in cash in connection with such junior creditor's bid. Any credit bids made by secured creditors shall not impair or otherwise affect the Stalking Horse Purchaser's entitlement to the benefits of the Bidding Procedures and related protections granted under the Bidding Procedures Order.

f. Evaluation of Competing Bids

35. A Qualified Bid will be valued based upon several factors including, without

limitation: (i) the amount of such bid; (ii) the risks and timing associated with consummating such bid; (iii) any proposed revisions to the form of Stalking Horse APA; and (iv) any other factors deemed relevant by the Debtors in their reasonable discretion, in consultation with the Consultation Parties, including the amount of cash included in the bid.

g. No Qualified Bids

36. If the Debtors do not receive any Qualified Bids other than the Stalking Horse APA, the Debtors will not hold an auction and the Stalking Horse Purchaser will be named the Successful Bidder for the Purchased Assets. If the Debtors receive one or more qualified Partial Bid Auction Qualified Bids and, after the Partial Bid Auction contemplated by paragraphs 37 and 38 below (and Section H in the Bidding Procedures Schedule 6.1(b)(3) annexed to the Stalking Horse APA), the Debtors will determine, in consultation with the Consultation Parties, if there are any Partial Bidders that will not be qualified to participate at the Full Bid Auction

h. Auction Process

37. If the Debtors receive one or more Partial Bid Auction Qualified Bids as set forth above, the Debtors will conduct separate auctions of each asset or combinations thereof (each, a "Partial Bid Auction"). Any Partial Bidder holding a Partial Bid Auction Qualified Bid shall be entitled to bid on any assets in any Partial Bid Auction(s). The procedures below for the Full Bid Auction shall apply to the Partial Bid Auction, except as where otherwise indicated. The Debtors will conduct the Partial Bid Auction(s), which shall be transcribed, on April 8, 2019 at 10:00 a.m. (prevailing Pacific Time) at the offices of Dentons US LLP, 601 South Figueroa Street, Suite 2500, Los Angeles, CA 90017, or such other location as shall be timely communicated to all entities entitled to attend the Auction.

38. The Partial Bid Auction Qualified Bids determined by the Debtors, in consultation with the Consultation Parties, at the Partial Bid Auction(s) (as set forth above) to be eligible to participate at the Full Bid Auction, including (without limitation) the highest and best bids for each asset (the "Winning Partial Bids") shall be permitted to participate in the Full Bid Auction (as defined below) of the Purchased Assets and/or the Other Assets, except that:

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(a) If the Partial Bids, at the conclusion of the Partial Bid Auction, include all four APA Facilities and exceed, in the aggregate, the Purchase Price in the Stalking Horse APA, there will be a Full Bid Auction (as defined below) and (1) the Stalking Horse Purchaser may overbid in the aggregate for all four APA Facilities, or (2) the Stalking Horse Purchaser may bid for less than the four APA Facilities and be entitled to a pro-rata Break-Up Fee for the APA Facilities which the Stalking Horse Purchaser does not acquire, as specified in the Stalking Horse APA at Section 6.26 (b)(2);

(b) If the Partial Bids do not include all four APA Facilities, and if there are no other Qualified Full Bids, then Seller, in its discretion, after consultation with the Consultation Parties, may choose, at the conclusion of the Partial Bid Auction, (1) to have no Full Bid Auction and the Stalking Horse Purchaser will purchase the four APA Facilities pursuant to the Stalking Horse APA, or (2) if the Debtor and Consultation Parties deem the aggregate designated Winning Partial Bid(s) to be sufficient to warrant leaving one or more APA Facilities behind (the "Remaining Facility"), the Stalking Horse Purchaser shall have the option of (i) acquiring the Remaining Facility at the allocated price in the Stalking Horse APA, (ii) overbidding one or more of the Partial Bids, or (iii) terminating the Stalking Horse APA. In either event, the Stalking Horse Purchaser shall be entitled to the Break-Up Fee for all of the APA Facilities not acquired by the Stalking Horse Purchaser.

39. If the Debtors receive, in addition to the Stalking Horse APA, one or more Qualified Full Bids (and/or a combination of Winning Partial Bids from the Partial Bid Auction(s) seeking, on aggregate basis, to purchase all or substantially all of the Purchased Assets and/or the Other Assets), the Debtors will conduct a full bid auction of the Purchased Assets and/or the Other Assets (the "Full Bid Auction"), which shall be transcribed, on April 9, 2019 (the "Full Bid Auction Date"), at 10:00 a.m. (prevailing Pacific Time), at the offices of Dentons US LLP, 601 South Figueroa Street, Suite 2500, Los Angeles, CA 90017, or such other location as shall be timely communicated to all entities entitled to attend the Auction.

The Full Bid Auction shall be conducted in accordance with the following procedures:

a) only the Debtors, the Stalking Horse Purchaser, Qualified Bidders who have timely submitted a Qualified Bid, the U.S. Trustee, and the Consultation Parties, and their respective advisors, and other parties who request and receive authority to attend the auction in advance from the Debtors may attend the Auction;

b) only the Stalking Horse Purchaser and the Qualified Bidders who have timely submitted Qualified Bids will be entitled to make any subsequent bids at the Auction;

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c) each Qualified Bidder shall be required to confirm that it has not engaged in any collusion with respect to the bidding or the sale;

d) all Qualified Bidders who have timely submitted Qualified Bids will be entitled to be present for all Subsequent Bids (defined herein) at the relevant Auction and the actual identity of each Qualified Bidder will be disclosed on the record at the relevant Auction; provided that all Qualified Bidders wishing to attend the relevant Auction must have at least one individual representative with authority to bind such Qualified Bidder attending the relevant Auction in person;

e) the Debtors, after consultation with the Consultation Parties, and the Stalking Horse Purchaser, may employ and announce at the relevant Auction additional procedural rules that are (i) reasonable under the circumstances for conducting the relevant Auction, (ii) in the best interest of the Debtors' estates; provided, however, that rules (i) are disclosed to the Stalking Horse Purchaser and each Qualified Bidder participating in the Auction, and (ii) are not inconsistent with the Bid Protections, the Stalking Horse APA, the Bankruptcy Code, or any order of the Court entered in connection herewith;

f) bidding at the relevant Auction will begin with a bid determined by the Debtors after consulting with the Consultation Parties as being the then highest and best bid which will be announced by the Debtors prior to the commencement of the Auction (the "Baseline Bid"). The Auction will continue in bidding increments to be determined in the discretion of the Debtors, in consultation with the Consultation Parties (each a "Overbid"), and all material terms of each Overbid shall be fully disclosed to all other Qualified Bidders who submitted Qualified Bids and are in attendance at the Auction (including, without limitation, Winning Partial Bids), as well as to the Notice Parties;

g) the initial Overbid, if any, shall provide for total consideration to Debtors with a value that exceeds the value of the consideration under the Baseline Bid by an incremental amount. Additional consideration in excess of the amount set forth in the respective Baseline Bid must include: (i) cash and/or (ii) in the case of a Qualified Bidder (including, without limitation, with respect to any Winning Partial Bids) that is a Credit Bid Bidder that has a valid and perfected lien (not subject to a Challenge within the meaning the Final DIP Order) on any of the Purchased Assets and/or the Other Assets, a Credit Bid of up to the full amount of such Credit Bidder's allowed perfected lien, subject to § 363(k) and any other restrictions set forth herein; and

h) at the Full Bid Auction, the Stalking Horse Purchaser may, subject to the terms and conditions set forth herein, elect to bid for the Purchased Assets as described in the Bid Procedures Order. In the alternative, the Stalking Horse Purchaser, and any bidder with a Qualified Full Bid, (a) may elect to bid against any one or more of the Winning Partial Bidders for the assets subject to the relevant Partial Bid(s), in lieu of seeking to acquire such Purchased Assets and/or Other Assets by means of the Stalking Horse Bid or another Qualified Full Bid; and (b) if successful with its Overbids for such assets, replace the Winning Partial Bidder(s) as the proponent of the relevant Winning Partial Bids or Aggregate Winning Partial Bid as to such

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assets. In the event that the Stalking Horse Purchaser or another bidder so elects, and as long as the Stalking Horse Purchaser or another bidder so bids, the Winning Partial Bidders must continue to present qualified Winning Partial Bids (i.e., bids as to which the aggregate of all still pending Winning Partial Bids is greater than or equal to the then Prevailing Highest Bid) for the Purchased Assets and/or the Other Assets in each round to continue to bid as Winning Partial Bidders in the Full Bid Auction. In addition, the Debtors may elect, in their discretion, after consultation with the Consultation Parties, to allow Partial Bidders to bid for all or substantially all the Purchased Assets and/or the Other Assets subject to augmenting its Good Faith Deposit, as necessary, or to allow proponents of Full Bids to bid for less than all or substantially all of the Purchased Assets and/or the Other Assets in any given round of the Auction, provided that in any given round there is a Full Bid or an Aggregate Partial Bid that is superior to Prevailing Highest Bid that is then subject to acceptance by the Debtors and binding on the Stalking Horse Purchaser or another Qualified Bidder. In all events, (i) any such Overbid shall continue to comply with all of the requirements for Qualified Bids set forth in Section C of these Bidding Procedures; and (ii) the bidder submitting such a modified Qualified Bid or Qualified Partial Bid shall furnish to the Debtors and the Consultation Parties, within twenty-four (24) hours of the conclusion of the Auction, a revised Purchase Agreement and Marked Agreement showing all amendments and modifications to the Stalking Horse APA and the Sale Order.

i. Selection of Successful Bid

40. Prior to the conclusion of the relevant Auction, the Debtors, in consultation with the Consultation Parties, will review and evaluate each Qualified Bid in accordance with the procedures set forth herein and determine which offer or offers are the highest or otherwise best from among the Qualified Bids submitted at the relevant Auction (one or more such bids, collectively the "Successful Bid" and the bidder(s) making such bid, collectively, the "Successful Bidder"), and communicate to the Qualified Bidders the identity of the Successful Bidder and the details of the Successful Bid. The determination of the Successful Bid by the Debtors at the conclusion of the relevant Auction shall be subject to approval by the Court. If selected, at the conclusion of the Partial Bid Auction, as the Winning Partial Bidder or the Back-Up Bidder in accordance with by paragraphs 37 and 38 above (and Section H in the Bidding Procedures Schedule 6.1(b)(3) annexed to the Stalking Horse APA), then such party or parties, prior to the Full Bid Auction, shall increase its Good Faith Deposit in the amount set forth in above in paragraph 30, subsection (o), or as determined by the Seller in consultation with the Consultation Parties; provided, however, if a party or parties are bidding on all four APA Facilities, the deposit

will be no less than $30,000,000. If selected as the Successful Bidder or the Back-Up Bidder at the conclusion of the Full Bid Auction, each of the Successful Bidder and the Back-Up Bidder shall, within forty-eight (48) hours, increase its Good Faith Deposit to the sum of five percent (5%) of the Successful Bid or Back-Up Bid, as applicable. If the Successful Bidder fails to increase the Good Faith Deposit within forty-eight (48) hours of the Auction conclusion date (the "Final Deposit"), then (1) the Successful Bidder forfeits its Good Faith Deposit, and (2) the Successful Bid is nullified (i.e., the Back-Up Bidder becomes the Successful Bidder in the amount of its last bid).

41. Unless otherwise agreed to by the Debtors and the Successful Bidder, within two (2) business days after the conclusion of the relevant Auction, the Successful Bidder shall complete and execute all agreements, contracts, instruments, and other documents evidencing and containing the terms and conditions upon which the Successful Bid was made. Within forty-eight (48) hours following the conclusion of the relevant Auction, the Debtors shall file a notice identifying the Successful Bidder(s) and Back-Up Bidders with the Court and shall serve such notice by fax, email, or if neither is available, by overnight mail to all counterparties whose contracts are to be assumed and assigned.

42. The Debtors will sell the Purchased Assets and (to extent included in an Overbid) the Other Assets to the Successful Bidder pursuant to the terms of the Successful Bid upon the approval of such Successful Bid by the Court at the Sale Hearing and satisfaction of any other closing conditions set forth in the Successful Bidder's Purchase Agreement.

j. Return of Deposits

43. All deposits shall be returned to each bidder not selected by the Debtors as the Successful Bidder or the Back-Up Bidder (defined herein) no later than five (5) business days following the conclusion of the Auction.

k. Back-Up Bidder

44. If an Auction is conducted, the Qualified Bidder or Qualified Bidders with the next highest or otherwise best Qualified Bid, as determined by the Debtors in the exercise of their business judgment, in consultation with the Consultation Parties, at the relevant Auction shall be

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required to serve as a back-up bidder (the "Back-Up Bidder") and keep such bid open and irrevocable for thirty (30) business days after the entry of the Sale Order (the "Thirty-Day Period"). If during the Thirty-Day Period, the Successful Bidder fails to consummate the approved sale because of a breach or failure to perform on the part of such Successful Bidder, the Back-Up Bidder will be deemed to be the new Successful Bidder, and the Debtors will be authorized, but not required, to consummate the sale with the Back-Up Bidder without further order of the Court provided that the Back-Up Bidder shall thereafter keep such bid open and irrevocable in accordance with the terms of the Back-Up Bidder APA; provided further, however, that if the Back-Up Bidder is the Stalking Horse Purchaser, the Debtors will be authorized and required to consummate the sale to the Stalking Horse Purchaser. If, after the Thirty-Day Period, the Successful Bidder has failed to consummate the approved sale, the Back-Up Bidder may elect, at its discretion, to remain as the Back-Up Bidder until (a) the sale closes, (b) the Successful Bidder defaults, or (c) the Back-Up Bidder elects to terminate its participation as Back-Up Bidder. For the avoidance of doubt, after the Thirty-Day Period, if the Successful Bidder fails to consummate the approved sale because of a breach or failure to perform on the part of such Successful Bidder, the Back-Up Bidder will not be contractually obligated to be the Back-Up Bidder, and will have the option to either (i) be entitled to terminate its Back-Up Bidder APA and the return of its deposit, or (ii) remain as the Back-up Bidder, in which event, there will be no re-opening of the auction.

l. Break-Up Fee

45. In recognition of this expenditure of time, energy, and resources, the Debtors have agreed that if the Stalking Horse Purchaser is not the Successful Bidder as to the Purchased Assets, the Debtors will pay the Stalking Horse Purchaser at closing of the sale of the Purchased Assets an amount in cash equal to three and a half percent (3.5%) of the Cash Consideration ($21,350,000.00), plus reimbursement of reasonably documented reasonable costs and expenses in an amount not to exceed $2,000,000.00. The Break-Up Fee shall be payable at closing of the sale from the sale proceeds.

46. If the Stalking Horse APA is terminated because the Stalking Horse Purchaser is

not selected as the Successful Bidder or the Back-Up Bidder at Auction (or the Stalking Horse Purchaser is selected as the Back-Up Bidder but the sale of the Purchased Assets is consummated and closed with another entity), the Debtors shall pay to the Stalking Horse Purchaser the Break-Up Fee by wire transfer of immediately available funds immediately upon, and contemporaneous with, the closing of the sale of the Purchased Assets from the first cash proceeds thereof. The Break-Up Fee shall constitute an administrative expense claim with priority under § 507(a) in favor of the Stalking Horse Purchaser.

47. The Debtors acknowledge that the provision of the Break-Up Fee is an integral part of the Stalking Horse APA and are a material and necessary inducement for the Stalking Horse Purchaser to enter into the Stalking Horse APA and to consummate the transactions contemplated therein. In the event that the payment of the Breakup Fee (including any costs of collection) becomes due and payable to the Stalking Horse Purchaser, and such amounts are actually paid to the Stalking Horse Purchaser, such amounts will constitute liquidated damages (and not a penalty). In light of the difficulty of accurately determining actual damages with respect to the foregoing, the right to any such payment of the Breakup Fee (and any related collection costs) and the return of the Deposit to the Stalking Horse Purchaser constitute a reasonable estimate of the damages that will compensate the Stalking Horse Purchaser in the circumstances in which such fees and reimbursements are payable for the efforts and resources expended and the opportunities foregone while negotiating the Stalking Horse APA and in reliance on the Stalking Horse APA and on the expectation of the consummation of the transactions contemplated therein. The Debtors believe that the entry into this Stalking Horse APA provides value to the Debtors' estates and bankruptcy cases by, among other things, inducing other Qualified Bidders to submit higher or better offers for the Purchased Assets.

m. Sale Hearing

48. The Debtors will seek entry of the Sale Order, at the Sale Hearing on April 17, 2019, at 10:00 a.m. (or at another date and time convenient to the Court), to approve and authorize the sale transaction to the Successful Bidder(s) on terms and conditions determined in accordance with the Bidding Procedures.

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49. At the Sale Hearing, the Debtors will seek Court approval of the Sale to the Successful Bidder (or, in the event the Successful Bidder fails to close, the Back-Up Bidder), free and clear of all liens, claims, interests, and encumbrances pursuant to § 363, with all liens, claims, interests, and encumbrances to attach to the sale proceeds with the same validity and in the same order of priority as they attached to the Purchased Assets (and to the extent included in the Successful Bid, the Other Assets prior to the Sale), including the assumption by the Debtors and assignment to the Successful Bidder of the Assumed Executory Contracts and Leases pursuant to § 365. The Debtors will submit and present additional evidence, as necessary, at the Sale Hearing demonstrating that the Sale is fair, reasonable, and in the best interest of the Debtors' estates and all interested parties, and satisfies the standards necessary to approve a sale of the Purchased Assets and/or the Other Assets.

n. Reservation.

50. The Debtors reserve the right, as they may determine in their discretion and in accordance with their business judgment to be in the best interest of their estates, in consultation with their professionals and the Consultation Parties to: (i) modify the Bidding Procedures to discontinue incremental bidding and then require that any and all bidders or potential purchasers submit their sealed, highest and best offer for the Purchased Assets and/or the Other Assets; (ii) determine which Qualified Bid is the highest or otherwise best bid and which is the next highest or otherwise best bid; (iii) waive terms and conditions set forth herein with respect to all Potential Bidders; (iv) impose additional terms and conditions with respect to all Potential Bidders; (v) extend the deadlines set forth herein; (vi) continue or cancel an Auction and/or Sale Hearing in open court without further notice; and (vii) implement additional procedural rules that the Debtors determine, in their reasonable business judgment and in consultation with the Consultation Parties will better promote the goals of the bidding process; provided that such modifications are disclosed to each Qualified Bidder participating in the Auction; provided, however, and notwithstanding the foregoing, these Bid Procedures shall not be modified so as to alter, extinguish or modify any rights or interests of the Stalking Horse Purchaser expressly set forth herein or in the Stalking Horse APA.

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D. NOTICE PROCEDURES

51. The Debtors propose that any objections to the Sale (other than an Assumption Objection (defined herein) which shall be governed by the procedures set forth below) (a "Sale Objection"), must: (i) be in writing; (ii) comply with the Rules and the LBR; (iii) set forth the specific basis for the Sale Objection; (iv) be filed with the Court at 255 East Temple St. (Attn: Judge E. Robles), Los Angeles, CA 90012, together with proof of service, on or before the Sale Objection Deadline set forth in the Bidding Procedures Order; and (v) be served, so as to be actually received on or before the Sale Objection Deadline, upon the Notice Parties. If a Sale Objection is not filed and served on or before the Sale Objection Deadline, the Debtors request that the objecting party be barred from objecting to the Sale and not be heard at the Sale Hearing, and this Court may enter the Sale Order without further notice to such party. The Debtors also request that the Court approve the form of the Procedures Notice, substantially in the form of Exhibit 3 to the Bidding Procedures Order. The Debtors will serve a copy of the Procedures Notice on the Notice Parties and all parties which the Debtors are require to serve pursuant to LBR 6004-1(b)(3) and the *Order Granting Emergency Motion of Debtors for Order Limiting Scope of Notice* [Docket No. 132] (the "Procedures Notice Parties").

52. The Debtors propose to file with the Court and serve the Procedures Notice within one (1) business day following entry of the Bidding Procedures Order, by first-class mail, postage prepaid on the Procedures Notice Parties. The Procedures Notice provides that any party that has not received a copy of the Motion or the Bidding Procedures Order that wishes to obtain a copy of the Motion or the Bidding Procedures Order, including all exhibits thereto, may make such a request in writing to Dentons US LLP, Attn: Tania M. Moyron, 601 S. Figueroa St., Suite 2500, Los Angeles, CA 90017 or by emailing tania.moyron@dentons.com or calling (213) 623-9300.

53. The Debtors submit that the foregoing notices comply fully with Bankruptcy Rule 2002 and are reasonably calculated to provide timely and adequate notice of the Bidding Procedures, Auction and Sale, and Sale Hearing to the Debtors' creditors and other parties in interests as well as to those who have expressed an interest or are likely to express an interest in bidding on the Purchased Assets. Based on the foregoing, the Debtors respectfully request that

this Court approve these proposed notice procedures.

E. PROCEDURES FOR THE ASSUMPTION AND ASSIGNMENT OF ASSIGNED CONTRACTS AND LEASES

54. As noted above, the Debtors will seek to assume and assign certain contracts and leases to be identified in the Purchase Agreement(s) (collectively, the "Assumed Executory Contracts").

55. At least initially, the Assumed Executory Contracts will be those contracts and leases that the Debtors believe may be assumed and assigned as part of the orderly transfer of the Purchased Assets. The Successful Bidder(s) may choose to exclude (or to add) certain contracts or leases to the list of Assumed Executory Contracts, subject to further notice.

56. In the interim, the Debtors will file with the Court and serve the cure notice, substantially in the form of Exhibit 4 (the "Cure Notice") to the Bidding Procedures Order, (along with a copy of this Motion) upon each counterparty to the Assumed Executory Contracts. The Cure Notice will state the date, time and place of the Sale Hearing as well as the date by which any objection to the assumption and assignment of Assumed Executory Contracts (including the Cure Amount (defined below)) must be filed and served. The Cure Notice also will identify the amounts, if any, that the Debtors believe are owed to each counterparty to an Assumed Executory Contract in order to cure any defaults that exist under such contract (the "Cure Amounts"). To the extent there is a contract subsequently added to the list of contracts to be assumed by the Successful Bidder pursuant to the Successful Bidder's Purchase Agreement selected at the Auction, this Motion constitutes a separate motion to assume and assign that contract to the Successful Bidder pursuant to § 365; each such contract will be listed in the Successful Bidder's Purchase Agreement, and will be given a separate Cure Notice filed and served by overnight delivery within five (5) business days of the conclusion of the Auction and announcement of the Successful Bidder.

57. The inclusion of a contract, lease, or other agreement on the Cure Notice shall not constitute or be deemed a determination or admission by the Debtors and their estates or any other party in interest that such contract, lease, or other agreement is, in fact, an executory

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contract or unexpired lease within the meaning of the Bankruptcy Code, and any and all rights with respect thereto shall be reserved.

58. If a Contract or Lease is assumed and assigned pursuant to Court Order, then unless the Assumed Executory Contract counterparty properly files and serves an objection to the Cure Amount contained in the Cure Notice by the Assumption Objection Deadline (defined below), the Assumed Executory Contract counterparty will receive at the time of the Closing of the sale (or as soon as reasonably practicable thereafter), the Cure Amount as set forth in the Cure Notice, if any. If an objection is filed by a counterparty to an Assumed Executory Contract, the Debtors propose that such objection must set forth a specific default in the executory contract or unexpired lease, claim a specific monetary amount that differs from the amount, if any, specified by the Debtors in the Cure Notice, and set forth any reason why the counterparty believes the executory contract or unexpired lease cannot be assumed and assigned to the Successful Bidder.

59. If any counterparty objects for any reason to the assumption and assignment of an Assumed Executory Contract (including to a Cure Amount) (an "Assumption Objection"), the Debtors propose that the counterparty must file the objection and serve it so as to be actually received on or before the Assumption Objection Deadline established in the Bidding Procedures Order, provided, however, as to any Successful Bidder who is not the Stalking Horse Purchaser, any counterparty may raise at the Sale Hearing an objection to the assumption and assignment of the Assumed Executory Contract solely with respect to the Successful Bidder's ability to provide adequate assurance of future performance under the Assumed Executory Contract. After receipt of an Assumption Objection, the Debtors will attempt to reconcile any differences in the Cure Amount or otherwise resolve the objection with the counterparty. In the event that the Debtors and the counterparty cannot resolve an Assumption Objection, and the Court does not otherwise make a determination at the Sale Hearing regarding an Assumption Objection related to a Cure Amount, the Debtors shall segregate from the sale proceeds any disputed Cure Amounts pending the resolution of any such Cure Amount disputes by the Court or mutual agreement of the parties.

60. The Successful Bidder shall be responsible for satisfying any requirements regarding adequate assurance of future performance that may be imposed under §365(b) in

connection with the proposed assignment of any Assumed Executory Contract, and the failure to provide adequate assurance of future performance to any counterparty to any Assumed Executory Contract shall not excuse the Successful Bidder from performance of any and all of its obligations pursuant to the Successful Bidder's Purchase Agreement. The Debtors propose that the Court make its determinations concerning adequate assurance of future performance under the Assumed Executory Contacts pursuant to § 365(b) at the Sale Hearing. Cure Amounts disputed by any counterparty will be resolved by the Court at the Sale Hearing or such later date as may be agreed to or ordered by the Court.

61. Except to the extent otherwise provided in the Successful Bidder's Purchase Agreement, the Debtors and the Debtors' estates shall be relieved of all liability accruing or arising after the assumption and assignment of the Assumed Executory Contracts pursuant to § 365(k).

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F. THE PRIMARY TERMS OF THE STALKING HORSE APA

62. The Stalking Horse APA contemplates the sale of the Purchased Assets to the Stalking Horse Bidder, subject to higher or better bids, on the following material terms:[5]

Stalking Horse APA Provision	Summary Description
APA Parties	Verity Health System of California, Verity Holdings, LLC, St. Francis Medical Center, St. Vincent Medical Center, St. Vincent Dialysis Center and Seton Medical Center ("Sellers"). Strategic Global Management, Inc. ("Purchaser").
Consideration **APA § 1.1**	Six Hundred Ten Million Dollars ($610,000,000), which shall be allocated as follows: Four Hundred Twenty Million Dollars ($420,000,000) to St. Francis Medical Center, One Hundred Twenty Million Dollars ($120,000,000) to St. Vincent Medical Center and Seventy Million Dollars ($70,000,000) to Seton Medical Center for Seton Medical Center and Seton Coastside, plus assumption of the Assumed Liabilities, provided, that if the California Attorney General's approval does not include a requirement that Seton Hospital remain open as an acute care hospital or that Seton Coastside Hospital remain open as a skilled nursing facility, then an amount to be determined by

[5] The summary of the terms contained in this Motion highlights some of the material terms of the Stalking Horse APA. This summary is qualified in its entirety by reference to the provisions of the Stalking Horse APA. In the event of any inconsistencies between the provisions of the Stalking Horse APA and the summary set forth herein, the terms of the Stalking Horse APA shall govern. Unless otherwise defined in the summary set forth in the accompanying text, capitalized terms shall have the meanings ascribed to them in the Stalking Horse APA.

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Stalking Horse APA Provision	Summary Description
	Purchaser, in its sole discretion, of such Cash Consideration shall be re-allocated from St. Francis to Seton; plus payment of Cure Costs associated with any Assumed Leases and/or Assumed Contracts.
QAF Adjustment **APA § 1.1(c), 1.1(d)**	At Closing, Sellers shall credit against the cash consideration, the amount by which payments received by Sellers under QAF IV and QAF V between the Signing Date and Closing exceed the sum of (i) fees paid under QAF IV and QAF V during such period plus (ii) the amount of fees which are unpaid and owing as of the Closing in respect of invoices received by Sellers prior to Closing under QAF IV and QAF V (the "Net QAF Reduction Amount"), or Purchaser shall pay Sellers (as an increase to the cash consideration) the amount by which the sum of (i) fees paid under QAF IV and QAF V between the Signing Date and Closing plus (ii) the amount of fees which are unpaid and owing as of Closing in respect of invoices received by Sellers prior to Closing under QAF IV and QAF V exceeds payments received under QAF IV and QAF V during such period (the "Net QAF Increase Amount").
Assets; Avoidance Actions **APA § 1.7**	In each case, solely to the extent used primarily in the conduct of the Business, "Assets" shall mean (a) all of the tangible personal property owned by such Seller and used by such Seller in the operation of the Hospital of such Seller, or in the case of St. Vincent Dialysis Center, the operation of its dialysis business, including equipment, furniture, fixtures, machinery, vehicles, office furnishings and leasehold improvements; (b) all of such Seller's rights, to the extent assignable or transferable, in and to all Licenses; (c) all of such Seller's right, title and interest in and to the Owned Real Property and all of such Seller's interest, to the extent assignable or transferable, in and to the Assumed Leases; (d) all of such Seller's right, title and interest in and to any and all Assumed Contracts; (e) all claims, rights, interests and proceeds with respect to amounts overpaid by such Seller to any third party health plans with respect to periods prior to the Effective Time, except with respect to any causes of action or proceeds thereof arising under Chapter 5 of the Bankruptcy Code other than with respect to Assumed Contracts and Assumed Leases; (f) all Inventory; (g) all Prepaids; (h) all operating manuals, files and computer software, including all patient records, medical records, employee records, financial records, equipment records, construction plans and specifications and medical and administrative libraries; (i) all systems, servers, computers, hardware, firmware, middleware, telecom equipment, networks, data communications lines, routers, hubs, switches and all other information technology equipment, and all associated documentation; (j) all Measure B trauma funding received after the Signing Date; (k) all Accounts Receivable; (l) all rights, claims and causes of action of such Seller arising out of the Accounts Receivable acquired by Purchase; (m) all regulatory settlements, rebates, adjustments, refunds or group appeals; (n) all casualty insurance proceeds arising in respect of casualty losses occurring after the Signing Date in connection with the ownership or operation of the Assets; (o) all surpluses arising out of any risk pools, shared savings program or accountable care organization arrangement; (p) all transferable unclaimed property of any Person in Sellers' possession as of the Closing Date; (q) all warranties in favor of the Hospitals or Sellers; (r) certain intellectual property rights, as further described in the Transition Services

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Stalking Horse APA Provision	Summary Description
	Agreement; (s) all goodwill; (t) all rights and interest in the telephone and facsimile numbers and uniform resource locaters; (u) all Medicare and Medi-Cal provider agreements and lockbox accounts identified on Schedule 1.7(u) to the Stalking Horse APA; (v) all documents, records, correspondence, work papers and other documents, other than patient records, relating to the Accounts Receivable; (w) the Purchased Verity Holdings Assets; (x) except for the Excluded Assets, any other asset owned by the Seller; (y) all of Seton's interest in and to the PACE Obligations; and (z) all QAF V and subsequent QAF program payments received after the Closing (e.g., QAF VI and QAF VII).
Excluded Assets **APA § 1.8**	"Excluded Assets" include cash, cash equivalents and investments; all Seller Plans and the assets of all Seller Plans; all contracts and leases that are not Assumed Contracts or Assumed Leases; inventory and assets disposed of by any Seller in the ordinary course of business after the Signing Date but prior to the Effective Time; all claims, counterclaims, and causes of action of each Seller or each Seller's bankruptcy estate; (except as otherwise provided) all insurance policies and contracts and coverages obtained by any Seller or listing a Seller as insured party, a beneficiary or loss payee; all Utility Deposits; all bank accounts of each Seller (except as otherwise provided); all tax refunds of each Seller; all QAF IV and QAF V payments actually received prior to the Signing Date.
Assumed Obligations **APA § 1.9**	"Assumed Obligations" include all Assumed Contracts and Assumed Leases and all liabilities and obligations arising thereunder on and after the Effective Time, including any related Cure Costs; all liabilities and obligations arising out of or relating to any act, omission, event, or occurrence connected with the use, ownership, or operation by Purchaser of the Hospital or any of the Assets on or after the Effective Time; all unpaid real and personal property taxes that are attributable to the Assets after the Effective Time, subject to prorations; and all liabilities and obligations arising on or following the Effective Time relating to utilities being furnished to the Assets, subject to prorations and all accrued vacation and other paid time off, to the extent assumed under Section 1.1(a)(ii).
Excluded Liabilities **APA § 1.10**	Purchaser shall not assume or become responsible for any duties, obligations, or liabilities of any Seller other than the Assumed Obligations.
Assumption of Transferred Contracts and Assignment **APA § 1.11**	Not later than seven (7) days prior to the date of the Auction (i) Purchaser shall notify each Seller in writing of which Evaluated Contracts are to be assumed by such Seller and assigned to Purchaser, and (ii) Purchaser shall notify each Seller in writing signed and dated by Purchaser of which Evaluated Contracts are to be rejected by such Seller (collectively, the "Rejected Contracts"). Each Seller shall file such motions in the Bankruptcy Court and take such other actions as are reasonably necessary to ensure that final and non-appealable orders (x) assuming and assigning the respective Assumed Contracts or Assumed Leases applicable to such Seller to Purchaser are entered, and (y)

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Stalking Horse APA Provision	Summary Description
	rejecting the Rejected Contracts are entered. With respect to each Assumed Lease, the applicable Seller shall execute and deliver to Purchaser an Assignment and Assumption of Lease. Notwithstanding anything to the contrary set forth in this Agreement, the Rejected Contracts shall constitute part of the Excluded Assets pursuant to, and as defined in, this Agreement. At Closing and pursuant to an order of the Bankruptcy Court, each Seller will assume and immediately assign to Purchaser the leases of such Seller for Leased Real Property and the Tenant Leases.
Good Faith Deposit **APA § 1.2**	Purchaser has made a good faith deposit in the amount of Thirty Million Dollars ($30,000,000.00) (the "Deposit") by wire transfers to an account designated by Sellers. The Deposit shall be non-refundable in all events, except in the event Purchaser is not the winning bidder at the Auction, in the event Purchaser terminates the Stalking Horse APA if a stay of the sale order has not been vacated on or before 180 days following issuance of such stay, or in the event Purchaser has terminated the Stalking Horse APA pursuant to Section 9.1 (other than Section 9.1(b)). Upon Closing, the Deposit will be credited against the Purchase Price.
Closing Date **APA § 1.3**	The Closing Date shall occur within ten (10) business days following the satisfaction or waiver of the conditions precedent to Closing set forth in in Articles 7 and 8 of the Stalking Horse APA.
Employment Provisions **APA § 5.3**	Purchaser agrees to make offers of employment, effective as of the Effective Time, to substantially all employees (the "Hospital Employees") who, immediately prior to the Effective Time are: (i) employees of either Seller; (ii) employees of any affiliate of either Seller which employs individuals at the Hospital and are listed on Schedule 5.3; or (iii) employed by an affiliate of either Seller and are listed on Schedule 5.3. Any of the Hospital Employees who accept an offer of employment with Purchaser as of or after the Effective Time shall be referred to in this Agreement as the "Hired Employees." All employees who are Hired Employees shall cease to be employees of the applicable Seller or its affiliates as of the Effective Time.
Payment of Cure Costs **APA § 5.8**	Purchaser, upon assumption, shall pay the Cure Costs for each Assumed Contract and Assumed Lease so that each such Assumed Contract and Assumed Lease may be assumed by the applicable Seller and assigned to Purchaser in accordance with the provisions of section 365 of the Bankruptcy Code.
Break-Up Fee and Minimum Bid **APA § 6.1**	Any full overbids must be in a minimum amount of Six Hundred Ten Million Dollars ($610,000,000.00), plus Cure Costs and the Break-Up Fee, and accompanied by a deposit in the form of cash or a cashier's check in the amount of Thirty Million Dollars ($30,000,000.00). The "Break-Up Fee" shall mean a breakup fee in the amount totaling three and

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Stalking Horse APA Provision	Summary Description
	a half percent (3.5%) of the Cash Consideration (or $21,350,000.00) plus reimbursement of reasonably documented reasonable costs and expenses incurred by Purchaser related to its due diligence, and pursuing, negotiating, and documenting the transactions contemplated by this Agreement in an amount not to exceed $2,000,000.00; provided, however, that in the event that the Purchaser is successful in acquiring some but not all of the Assets, the Break-Up Fee shall be reduced pro rata to the percentage of Assets actually purchased by the Purchaser, based on the allocation of the Purchase Price as described in Section 1.1(a)(i) of the Stalking Horse APA. The Break-Up Fee will be subject to Bankruptcy Court approval and shall be deemed to be an allowed expense of the kind specified in § 503(b) of the Bankruptcy Code to be paid solely from the proceeds of an alternate transaction, pursuant to the Sale Order. Purchaser shall be allowed to credit bid the Break-Up Fee in any overbids that Purchaser may elect to make with respect to the Assets.
Requested Findings as to Good Faith, APA § 6.1	Each Seller agrees to proceed in good faith to obtain Bankruptcy Court approval of the sale contemplated herein with a determination that Purchaser is a good faith purchaser pursuant to § 363(m) and to file such declarations and other evidence as may be required to support a finding of good faith.
Buyer's Termination Rights APA § 9.1	The Stalking Horse APA may be terminated by Purchaser if it is not satisfied with either (i) the results of its due diligence examination of the Hospitals, or (ii) the contents of any schedule or exhibit that was not completed and attached to the Stalking Horse APA, but which has been provided to Purchaser after the Signing Date, and Purchaser has notified Seller of its election to terminate the Agreement under Section 9.1(c) on or prior to January 8, 2019, by Purchaser if a material breach of the Agreement has been committed by Sellers and such breach has not been (i) waived in writing by Purchaser or (ii) cured by Sellers to the reasonable satisfaction of Purchaser within fifteen (15) business days after service by Purchaser and by Purchaser or Sellers or if the Closing has not occurred on or before December 31, 2019. The Stalking Horse APA may also be terminated by Purchaser if satisfaction of any condition in Article 8 has not occurred by December 31, 2019 or becomes impossible and Purchaser has not waived such condition in writing. The Stalking Horse APA may also be terminated by Purchaser if the Bankruptcy Court enters an order dismissing the Bankruptcy Case or fails to approve the sale of the Assets to Purchaser.

Stalking Horse APA Provision	Summary Description
Record Retention **APA § 10.2**	From the Closing Date until seven (7) years after the Closing Date or such longer period as required by law (the "Document Retention Period"), Purchaser shall keep and preserve all medical records, patient records, medical staff records and other books and records which are among the Assets as of the Effective Time, but excluding any records which are among the Excluded Assets. After the expiration of the Document Retention Period, if Purchaser intends to destroy or otherwise dispose of any of the documents, Purchaser shall provide written notice to Sellers of Purchaser's intention no later than forty-five (45) calendar days prior to the date of such intended destruction or disposal.
Limitation on Liability **APA § 11.1**	If Purchaser commits any material default under the APA, Sellers shall have the right to sue for damages; provided, however that the amount of such damages shall never exceed $60,000,000.00. For the avoidance of doubt, Sellers shall have no right to sue for specific performance under the APA.

IV. ARGUMENT

A. APPROVAL OF THE BIDDING PROCEDURES IS APPROPRIATE AND IN THE BEST INTERESTS OF THE DEBTORS' ESTATES AND STAKEHOLDERS.

Section 363(b)(1) provides that "[t]he trustee, after notice and a hearing, may use, sell, or lease, other than in the ordinary course of business, property of the estate [.]" 11 U.S.C. § 363(b)(1). Section 105(a) provides in pertinent part that "[t]he Court may issue any order, process or judgment that is necessary and appropriate to carry out the provisions of this title." 11 U.S.C. § 105(a). Rules 2002 and 6004 of the Federal Rules of Bankruptcy Procedure (the "Rules") govern the scope of the notice to be provided in the event a debtor elects to sell property of the estate under § 363.

With respect to the procedures to be adopted in conducting a sale outside the ordinary course of a debtor's business, Rule 6004 provides only that such sale may be by private sale or public auction, and requires only that the debtor provide an itemized list of the property sold together with the prices received upon consummation of the sale. Fed. R. Bankr. P. 6004(f). LBR 6004-1 provides, in pertinent part, as follows:

> **(b) Motion for Order Establishing Procedures for the Sale of Estate Property.**
>
> (2) Contents of Notice [of a Sale Procedure Motion]. The notice must describe the proposed bidding procedures and include a copy of the

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> proposed purchase agreement. If the purchase agreement is not available, the moving party must describe the terms of the sale proposed, when a copy of the actual agreement will be filed with the court, and from whom it may be obtained. The notice must describe the marketing efforts undertaken and the anticipated marketing plan, or explain why no marketing is required. […]
>
> (3) Service of the Notice and Motion. The moving party must serve the motion and notice of the motion and hearing by personal delivery, messenger, telephone, fax, or email to the parties to whom notice of the motion is required to be given by the FRBP or by these rules, any other party that is likely to be adversely affected by the granting of the motion, and the United States trustee. The notice of hearing must state that any response in opposition to the motion must be filed and served at least 1 day prior to the hearing, unless otherwise ordered by the court. […]
>
> (6) Break-Up Fees. If a break-up fee or other form of overbid protection is requested in the Sale Procedure Motion, the request must be supported by evidence establishing: (A) That such a fee is likely to enhance the ultimate sale price; and (B) The reasonableness of the fee. […]

LBR 6004-1(b).

Neither the Bankruptcy Code nor the Rules contain specific provisions with respect to the procedures to be employed by a debtor in conducting a public or private sale. Nonetheless, as one court has stated, "[i]t is a well-established principle of bankruptcy law that the objective of bankruptcy rules and the [debtors'] duty with respect to such sales is to obtain the highest price or greatest overall benefit possible for the estate." *In re Atlanta Packaging Prods., Inc.*, 99 B.R. 124, 131 (Bankr. N.D. Ga. 1988). Additionally, courts have long recognized the need for competitive bidding at hearings; "[c]ompetitive bidding yields higher offers and thus benefits the estate. Therefore, the objective is 'to maximize bidding, not restrict it.'" *Id.*; *see also Burtch v. Ganz (In re Mushroom Transp. Co.)*, 382 F.3d 325, 339 (3d Cir. 2004) (finding that debtor's fiduciary duties included maximizing and protecting the value of the estate's assets); *Four B. Corp. v. Food Barn Stores, Inc. (In re Food Barn Stores, Inc.)*, 107 F.3d 558, 564-65 (8th Cir. 1997) ("[A] primary objective of the [Bankruptcy] Code [is] to enhance the value of the estate at hand."). Courts uniformly recognize that procedures established for the purpose of enhancing competitive bidding are consistent with the fundamental goal of maximizing the value of a debtor's estate and, therefore, are appropriate. *See Calpine Corp. v. O'Brien Envtl. Energy, Inc. (In re O'Brien Envtl.*

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Energy, Inc.), 181 F.3d 527, 536-37 (3d Cir. 1999) (noting that bidding procedures that promote competitive bidding provide benefit to debtor's estate); *Official Comm. of Subordinated Bondholders v. Integrated Res. Inc. (In re Integrated Res. Inc.)*, 147 B.R. 650, 659 (S.D.N.Y. 1992) (such sale procedures "encourage bidding and to maximize the value of the Assets").

Here, the Bidding Procedures are designed to promote the paramount goal of any proposed sale of property of the Debtors' estates: maximizing the value of sale proceeds received by the estates. The Bidding Procedures provide for an orderly and appropriately competitive process through which interested parties may submit offers to purchase the Purchased Assets and/or the Other Assets. Specifically, the Debtors, with the assistance of their advisors, have structured the Bidding Procedures to promote active bidding by interested parties and to confirm the highest or otherwise best offer reasonably available for the Purchased Assets and/or the Other Assets. Additionally, the Bidding Procedures will allow the Debtors to conduct the Auction in a fair and transparent manner that will encourage participation by financially capable bidders with demonstrated ability to consummate a timely Sale. Accordingly, the Bidding Procedures should be approved because, under the circumstances, they are reasonable, appropriate and in the best interests of the Debtors, their estates, creditors, and all parties in interest.

B. THE BREAK-UP FEE HAS A SOUND BUSINESS PURPOSE AND IS NECESSARY TO PRESERVE THE VALUE OF THE DEBTORS' ESTATES.

The Debtors submit that the Break-Up Fee is a normal and oftentimes necessary component of sales outside the ordinary course of business under § 363 of the Bankruptcy Code. In particular, such a protection encourages a potential purchaser to invest the requisite time, money, and effort to conduct due diligence and sale negotiations with a debtor despite the inherent risks and uncertainties of the chapter 11 process. *See*, *e.g.*, *Integrated Resources*, 147 B.R. at 660 (noting that fees may be legitimately necessary to convince a "white knight" to offer an initial bid, for the expenses such bidder incurs and the risks such bidder faces by having its offer held open, subject to higher and better offers); *In re Hupp Indus.*, 140 B.R. 191, 194 (Bankr. N.D. Ohio 1997) (without any reimbursement, "bidders would be reluctant to make an initial bid for fear that their first bid will be shopped around for a higher bid from another bidder who would

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capitalize on the initial bidder's. . . due diligence"); *In re Marrose Corp.*, 1992 WL 33848, at *5 (Bankr. S.D.N.Y. 1992) (stating that "agreements to provide reimbursement of fees and expenses are meant to compensate the potential acquirer who serves as a catalyst or 'stalking horse' which attracts more favorable offers"); *In re 995 Fifth Ave. Assocs.*, 96 B.R. 24, 28 (Bankr. S.D.N.Y. 1989) (finding that bidding incentives may be "legitimately necessary to convince a white knight to enter the bidding by providing some form of compensation for the risks it is undertaking") (citations omitted).

A proposed bidding incentive, such as the Break-Up Fee, should be approved when it is in the best interests of the estate. *See In re S.N.A. Nut Co.*, 186 B.R. 98, 104 (Bankr. N.D. Ill. 1995); *see also In re America West Airlines, Inc.*, 166 B.R. 908 (Bankr. D. Ariz. 1994); *In re Hupp Indus., Inc.*, 140 B.R. 191 (Bankr. N.D. Ohio 1992). Typically, this requires that the bidding incentive provide some benefit to the debtor's estate. *Calpine Corp. v. O'Brien Envtl. Energy, Inc. (In re O'Brien Envtl. Energy, Inc.)*, 181 F.3d 527, 533 (3d Cir. 1999) (holding even though bidding incentives are measured against a business judgment standard in non-bankruptcy transactions the administrative expense provisions of § 503(b) govern in the bankruptcy context).

In evaluating the appropriateness of a break-up fee, the appropriate question for the Court to consider is "whether the break-up fee served any of three possible useful functions: (1) to attract or retain a potentially successful bid; (2) to establish a bid standard or minimum for other bidders to follow; or (3) to attract additional bidders." *In re Integrated Resources, Inc.*, 147 B.R. at 662 (where the Court heard testimony that the average breakup fee in the industry is 3.3%). Break-up fees in the same general range as the Break-Up Fee have been routinely approved in the context of bankruptcy sales. *See In re CXM, Inc.*, 307 B.R. 94, 103–04 (Bankr. N.D. Ill. 2004) (court approved break-up fee in amount equal to the actual expenses that the stalking horse incurred in connection with its bid to buy the Sale Assets, subject to a maximum cap of $200,000, which equaled 3% of the cash purchase price); *In re Women First Healthcare, Inc.*, 332 B.R. 115, 118 (Bankr. D. Del. 2005) (court approved break-up fee that equaled 4.7% percent of the purchase price; *In re Dan River, Inc.*, No. 04-10990 (Banker. N.D. Ga. Dec. 17, 2004) (court approved break-up fee equal to 5.3% of the cash purchase price); *In re Lake Burton Dev., LLC*,

2010 WL 5563622, *43 (Bankr. N.D. Ga. Mar. 18, 2010) (court approved break-up fee equal to 4.75% of cash purchase price); *In re Case Engineered Lumber, Inc.*, No. 09–22499 (Bankr. N.D.Ga. Sept. 1, 2009)(J. Brizendine) (approving break-up fee equal to 3.5% of the cash purchase price); *In re Tama Beef Packing Inc.*, 321 B.R. 469, 498 (8th Cir. BAP 2005) (noting that the bankruptcy court correctly concluded that break-up fees are "usually limited to one to four perfect of the purchase price"). Notably, this Court has also approved break-up fees within the range of the Break-Up Fee. *See In re Verity Health System of California, Inc.*, No. 18-20151 (Bankr. C.D. Cal. Oct. 30, 2018) (J. Robles) (approving break-up fee equal to 4% of the cash purchase price); *In re T Asset Acquisition Company, LLC*, No. 09-31853 (Bankr. C.D. Cal. Jan. 28, 2010) (J. Robles) (approving break-up fee equal to 3% of the cash purchase price).

The Debtors submit that all of the bidding procedures the Debtors are seeking to have the Court approve, including the proposed Break-Up Fee to the Stalking Horse Purchaser, satisfies all three of the useful functions set forth above: (1) to attract or retain a potentially successful bid; (2) to establish a bid standard or minimum for other bidders to follow; and (3) to attract additional bidders. The proposed break-up fee of 3.5% of the purchase price is well within the percentage parameters that have been approved by many other courts. Thus, the Debtors believe that the proposed Break-Up Fee is fair and reasonably compensates the Stalking Horse Purchaser for taking actions that will benefit the Debtors' estates. The Break-Up Fee compensates the Stalking Horse Purchaser for diligence and professional fees incurred in negotiating the terms of the Stalking Horse APA on an expedited timeline.

Additionally, the Debtors do not believe that the Break-Up Fee will have a chilling effect on the sale process. Rather, the Stalking Horse Purchaser will increase the likelihood that the best possible price for the Purchased Assets will be received, by permitting other qualified bidders to rely on the diligence performed by the Stalking Horse Purchaser, and moreover, by allowing qualified bidders to utilize the Stalking Horse APA as a platform for negotiations and modifications in the context of a competitive bidding process.

Finally, the Break-Up Fee will be paid only if, among other things, the Debtors enter into a transaction for the Purchased Assets with a bidder other than the Stalking Horse Purchaser.

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Accordingly, no Break-Up Fee will be paid unless a higher and better offer is achieved and consummated. In sum, the Break-Up Fee is reasonable under the circumstances and will enable the Debtors to maximize the value for the Purchased Assets while limiting any chilling effect in the sale process.

C. THE PROCEDURE FOR ASSUMPTION AND ASSIGNMENT OF CERTAIN EXECUTORY CONTRACTS AND UNEXPIRED LEASES IS APPROPRIATE

Section 365(a) provides that, subject to the court's approval, a trustee "may assume or reject any executory contracts or unexpired leases of the debtor." 11 U.S.C. § 365(a). Upon finding that a trustee has exercised its sound business judgment in determining to assume an executory contract or unexpired lease, courts should approve the assumption under § 365(a). *See Nostas Assocs. v. Costich (In re Klein Sleep Prods., Inc.)*, 78 F.3d 18, 25 (2d Cir. 1996); *see also Orion Pictures Corp. v. Showtime Networks, Inc. (In re Orion Pictures Corp.)*, 4 F.3d 1095, 1099 (2d Cir. 1993).

Pursuant to § 365(f)(2), a trustee may assign an executory contract or unexpired lease of nonresidential real property if:

(A) the trustee assumes such contract or lease in accordance with the provisions of this section; and

(B) adequate assurance of future performance by the assignee of such contract or lease is provided, whether or not there has been a default in such contract or lease.

11 U.S.C. § 365(f)(2).

The meaning of "adequate assurance of future performance" depends on the facts and circumstances of each case, and should be given "practical, pragmatic construction." *See Carlisle Homes, Inc. v. Arrari (In re Carlisle Homes, Inc.)*, 103 B.R. 524, 538 (Bankr. D.N.J. 1989); *see also In re Natco Indus., Inc.*, 54 B.R. 436, 440 (Bankr. S.D.N.Y. 1985) (adequate assurance of future performance does not mean absolute assurance that debtor will thrive and pay rent); *In re Bon Ton Rest. & Pastry Shop, Inc.*, 53 B.R. 789, 803 (Bankr. N.D. Ill. 1985) ("Although no single solution will satisfy every case, the required assurance will fall considerably short of an absolute guarantee of performance.").

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Among other things, adequate assurance may be given by demonstrating the assignee's financial health and experience in managing the type of enterprise or property assigned. *In re Bygaph, Inc.*, 56 B.R. 596, 605-6 (Bankr. S.D.N.Y. 1986) (adequate assurance of future performance is present when prospective assignee of lease has financial resources and expressed willingness to devote sufficient funding to business to give it strong likelihood of succeeding; chief determinant of adequate assurance is whether rent will be paid).

The Debtors and the Successful Bidder will present evidence at the Sale Hearing to prove the financial credibility, willingness, and ability of the Successful Bidder to perform under the contracts or leases. The Court and other interested parties therefore will have the opportunity to evaluate the ability of any Successful Bidder to provide adequate assurance of future performance under the contracts or leases, as required by § 365(b)(1)(C).

In addition, the Debtors submit that the cure procedures set forth herein are appropriate, reasonably calculated to provide notice to any affected party, and afford the affected party to opportunity to exercise any rights affected by the Motion, and consistent with § 365. To the extent that any defaults exist under any Assumed Executory Contracts, any such defaults will be cured pursuant to the Successful Bidder's Purchase Agreement. Except as otherwise limited by § 365 of the Bankruptcy Code, any provision in the Assumed Executory Contracts that would restrict, condition, or prohibit an assignment of such contracts will be deemed unenforceable pursuant to § 365(f)(1) of the Bankruptcy Code.

Accordingly, the Debtors submit that the cure procedures for effectuating the assumption and assignment of the Assumed Executory Contracts as set forth herein are appropriate and should be approved.

D. APPROVAL OF THE SALE IS WARRANTED UNDER § 363

As discussed above, § 363(b)(1) of the Bankruptcy Code provides that a debtor "after notice and a hearing, may use, sell, or lease, other than in the ordinary course of business, property of the estate." 11 U.S.C. § 363(b)(1).

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i. The Sale of the Assets is Authorized by § 363 as a Sound Exercise of the Debtors' Business Judgment

In accordance with Rule 6004, sales of property rights outside the ordinary course of business may be by private sale or public auction. The Debtors have determined that the Sale of the Purchased Assets and/or the Other Assets by public auction will enable it to obtain the highest and best offer for these assets (thereby maximizing the value of the estate) and is in the best interests of the Debtors' creditors. In particular, the Stalking Horse APA is the result of comprehensive arms' length negotiations for the Sale of the Purchased Assets and/or the Other Assets and the Sale pursuant to the terms of the Stalking Horse APA, subject to higher or otherwise better offers at the Auction, will provide a greater recovery for the Debtors' creditors than would be provided by any other existing alternative. The Debtors similarly have determined in their business judgment that a sale of the Purchased Assets and/or the Other Assets through a competitive, public auction is the best way to maximize the value of those assets.

Sections 363 provides that a trustee, "after notice and a hearing, may use, sell, or lease, other than in the ordinary course of business, property of the estate." 11 U.S.C. § 363(b). Although § 363 does not specify a standard for determining when it is appropriate for a court to authorize the use, sale or lease of property of the estate, a sale of a debtor's assets should be authorized if a sound business purpose exists for doing so. *See, e.g., Meyers v. Martin (In re Martin)*, 91 F.3d 389, 395 (3d Cir. 1996); *In re Abbotts Dairies of Pa., Inc*., 788 F.2d 143 (2d Cir. 1986); *In re Titusville Country Club*, 128 B.R. 396 (W.D. Pa. 1991); *In re Delaware & Hudson Ry. Co*., 124 BR. 169, 176 (D. Del. 1991); *see also Official Comm. of Unsecured Creditors v. The LTV Corp. (In re Chateaugay Corp.)*, 973 F.2d 141, 143 (2d Cir. 1992); *Committee of Equity Sec. Holders v. Lionel Corp. (In re Lionel Corp.)*, 722 F.2d 1063, 1070 (2d Cir. 1983); *Committee of Asbestos-Related Litigants and/or Creditors v. Johns-Manville Corp. (In re Johns-Manville Corp.)*, 60 B.R. 612, 616 (Bankr. S.D.N.Y. 1986).

The paramount goal in any proposed sale of property of the estate is to maximize the proceeds received by the estate. *See, e.g., In re Food Barn Stores, Inc*., 107 F.3d 558, 564-65 (8th Cir. 1997) (in bankruptcy sales, "a primary objective of the Code [is] to enhance the value of

the estate at hand"); *Integrated Resources*, 147 B.R. at 659 ("It is a well-established principle of bankruptcy law that the. . . [trustee's] duty with respect to such sales is to obtain the highest price or greatest overall benefit possible for the estate.") (*quoting In re Atlanta Packaging Prods., Inc*., 99 BR. 124, 130 (Bankr. N.D. Ga. 1988)). As long as the sale appears to enhance a debtor's estate, court approval of a debtor's decision to sell should only be withheld if the debtor's judgment is clearly erroneous, too speculative, or contrary to the provisions of the Bankruptcy Code. *GBL Holding Co., Inc. v. Blackburn/Travis/Cole, Ltd*., 331 B.R. 251, 255 (N.D. Tex. 2005); *In re Lajijani*, 325 B.R. 282, 289 (B.A.P. 9th Cir. 2005); *In re WPRV-TV, Inc*., 143 B.R. 315, 319 (D.P.R. 1991) ("The trustee has ample discretion to administer the estate, including authority to conduct public or private sales of estate property. Courts have much discretion on whether to approve proposed sales, but the trustee's business judgment is subject to great judicial deference.").

Applying § 363, the proposed Sale of the Purchased Assets and/or the Other Assets should be approved. As set forth above, the Debtors have determined that the best method of maximizing the recovery of the Debtors' creditors would be through the Sale of the Purchased Assets. As assurance of value, bids will be tested through the Auction consistent with the requirements of the Bankruptcy Code, the Bankruptcy Rules, and pursuant to the Bidding Procedures approved by the Court. Consequently, the fairness and reasonableness of the consideration to be paid by the Successful Bidder ultimately will be demonstrated by adequate "market exposure" and an open and fair auction process—the best means, under the circumstances, for establishing whether a fair and reasonable price is being paid.

In addition to the Debtors' prior marketing efforts, the Debtors' investment banker has been contacting potential interested parties and has assembled a data room which is available upon the execution of an appropriate confidentiality agreement. There is a limited universe of potential acquirers of the Purchased Assets, and the Debtors and their advisors have been in active discussions with many of these potential purchasers.

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ii. The Sale of the Debtors' Assets Free and Clear of Liens and Other Interests is Authorized by § 363(f) of the Bankruptcy Code

The Debtors further submit that it is appropriate to sell the Purchased Assets free and clear of liens pursuant to § 363(f), with any such liens attaching to the sale proceeds of the Purchased Assets to the extent applicable. Section 363(f) authorizes a trustee to sell assets free and clear of liens, claims, interests and encumbrances if:

(1) applicable nonbankruptcy law permits the sale of such property free and clear of such interests;

(2) such entity consents;

(3) such interest is a lien and the price at which such property is to be sold is greater than the value of all liens on such property;

(4) such interest is in bona fide dispute; or

(5) such entity could be compelled, in a legal or equitable proceeding, to accept a money satisfaction of such interest.

11 U.S.C. § 363(f).

This provision is supplemented by § 105(a), which provides that "[t]he Court may issue any order, process or judgment that is necessary or appropriate to carry out the provisions of [the Bankruptcy Code]." 11 U.S.C. § 105(a).

Because § 363(f) of the Bankruptcy Code is drafted in the disjunctive, satisfaction of any one of its five requirements will suffice to permit the sale of the Debtor's Assets "free and clear" of liens and interests. *In re Dundee Equity Corp*., 1992 Bankr. LEXIS 436, at *12 (Bankr. S.D.N.Y. Mar. 6, 1992) ("Section 363(f) is in the disjunctive, such that the sale free of the interest concerned may occur if any one of the conditions of § 363(f) have been met.*"); In re Bygaph, Inc*., 56 B.R. 596, 606 n.8 (Bankr. S.D.N.Y. 1986) (same); *Michigan Employment Sec. Comm'n v. Wolverine Radio Co. (In re Wolverine Radio Co.)*, 930 F.2d 1132, 1147 n.24 (6th Cir. 1991) (stating that § 363(f) is written in the disjunctive; holding that the court may approve the sale "free and clear" provided at least one of the subsections of § 363(f) is met).

The Debtors believe that at least one of the tests of § 363(f) of the Bankruptcy Code is satisfied with respect to the transfer of the Purchased Assets and/or the Other Assets pursuant to

the Stalking Horse APA. Additionally, at least § 363(f)(2) will be met in connection with the transactions proposed under the Purchase Agreement because each of the parties holding liens on the Purchased Assets and/or the Other Assets will consent or, absent any objection to this motion, will be deemed to have consented to the Sale. Any lienholder also will be adequately protected by having its liens, if any, in each instance against the Debtors or their estates, attach to the sale proceeds ultimately attributable to the Purchased Assets and/or the Other Assets in which such creditor alleges an interest, in the same order of priority, with the same validity, force and effect that such creditor had prior to the Sale, subject to any claims and defenses the Debtors may possess with respect thereto. Accordingly, § 363(f) authorizes the transfer and conveyance of the Purchased Assets free and clear of any such claims, interests, liabilities, or liens.

Although § 363(f) provides for the sale of assets "free and clear of any interests," the term "any interest" is not defined anywhere in the Bankruptcy Code. *Folger Adam Security v. DeMatteis/MacGregor JV*, 209 F.3d 252, 257 (3d Cir. 2000). Courts have interpreted "any interest" expansively to include not only in rem interests in property, but also other obligations that are "connected to or arise from the property being sold" or that could "potentially travel with the property being sold." *In re Gardens Regional Hospital and Medical Center, Inc.*, 567 B.R. 820, 825 (Bankr. C.D. Cal. 2017) (California Attorney General imposed conditions are an "interest in property" that can be stripped off the assets through a sale under § 363); *In re La Paloma Generating, Co.*, 2017 WL 5197116, *4 (Bankr. D. Del. Nov. 9, 2017) (holding that emission surrender obligations created by California regulations and statutes and enforced by the California Air Resources Board are an interest in property which can be cut off by a § 363 sale) *See also In re Trans World Airlines, Inc.*, 322 F.3d 283, 285, 288 (3d Cir. 2001) (holding that plaintiff's interests in travel vouchers that were issued to settle employment discrimination are an interest under § 363 because they arise from the property being sold); *PBBPC, Inc. v. OPK Biotech, LLC (In re PBBPC, Inc.)*, 484 B.R. 860, 867-870 (1st Cir. B.A.P. 2013) (holding that debtor's assets could be sold free and clear of Commonwealth of Massachusetts's right to treat a purchaser of substantially all of the assets of chapter 11 debtor as a "successor employer" to which debtor's experience rating could be imputed to determine purchaser's unemployment

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insurance contribution); *In re ARSN Liquidating Corp. Inc.*, 2017 WL 279472, *5 (Bankr. D.N.H. Jan. 20, 2017) (Nat'l Council on Compensation Ins. violated sale order by imputing debtor's workers' compensation experience rating to buyer in setting buyer's workers' compensation experience rating); *In re Vista Marketing Group Ltd.*, 557 B.R. 630, 635-39 (Bankr. N.D. Ill. 2016) (free and clear language in sale order prevented a state sanitary district from asserting claim against asset purchaser for connection fee surcharge that was calculated based entirely on debtor's use of the district's sewer facilities); *United Mine Workers of Am. Combined Benefit Fund v. Walter Energy, Inc.*, 551 B.R. 631, 641 (N.D. Ala. 2016) (sale under § 363 cuts off Coal Act obligations despite language in Act imposing successor liability on buyer); *In re Christ Hospital*, 502 B.R. 158, 76-79 (Bankr. D.N.J. 2013) (section 363 sales cut off tort claims against purchaser of nonprofit hospital); *In re Tougher Indus.*, 2013 WL 1276501 at **6-9 (Bankr. N.D.N.Y. Mar. 27, 2013) (holding that debtor's assets could be sold free and clear of New York State Department of Labor's right to use the debtor's experience rating to access the buyer's tax liability as successor to the debtor); *In re Grumman Olson Indus. Inc.*, 467 B.R. 694, 702–03 (S.D.N.Y 2012) ("Section 363(f) can be used to sell property free and clear of claims that could otherwise be assertable against the buyer of the assets under the common law doctrine of successor liability"); *WBO P'ship v. Va. Dep't of Med. Assistance Servs. (In re WBO P'ship)*, 189 B.R. 97, 104–05 (Bankr. E.D. Va. 1995) (holding that Commonwealth of Virginia's right to recapture depreciation is an "interest" as that term is used in § 363(f))

In the case of *In re Trans World Airlines, Inc.*, 322 F.3d 283, 288-89 (3d Cir. 2003), the Third Circuit specifically addressed the scope of the term "any interest." The Third Circuit observed that while some courts have "narrowly interpreted that phrase to mean only in rem interests in property," the trend in modern cases is towards "a more expansive reading of 'interests in property' which 'encompasses other obligations that may flow from ownership of the property.'" *Id*. at 289 (*citing* 3 Collier on Bankruptcy, ¶ 363.06[1] (L. King, 15th rev. ed. 1988)). As determined by the Fourth Circuit in *In re Leckie Smokeless Coal Co*., the scope of § 363(f) is not limited to *in rem* interests. 99 F.3d 573, 581-582 (4th Cir. 1996) (holding that coal mine operators could sell their assets free and clear of their obligations to a benefits plan and fund

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under the Coal Act). Thus, debtors "could sell their assets under § 363(f) free and clear of successor liability that otherwise would have arisen under federal statute." *Folger*, 209 F.3d at 258 (*citing Leckie*, 99 F.3d at 582).

Courts have consistently held that a buyer of a debtor's assets pursuant to a § 363 sale takes such assets free from successor liability resulting from pre-existing claims. *See The Ninth Avenue Remedial Group v. Allis-Chalmers Corp*., 195 B.R. 716, 732 (Bankr. N.D. Ind. 1996) (stating that a bankruptcy court has the power to sell assets free and clear of any interest that could be brought against the bankruptcy estate during the bankruptcy); *MacArthur Company v. Johns-Manville Corp. (In re Johns-Manville Corp.)*, 837 F.2d 89, 93-94 (2d Cir. 1988) (channeling of claims to proceeds consistent with intent of sale free and clear under § 363(f)). The purpose of an order purporting to authorize the transfer of assets free and clear of all "interests" would be frustrated if claimants could thereafter use the transfer as a basis to assert claims against the purchaser arising from the Debtors' pre-sale conduct. Under § 363(f), the purchaser is entitled to know that the Purchased Assets and/or the Other Assets are not infected with latent claims that will be asserted against the purchaser after the proposed transaction is completed. Accordingly, consistent with the above-cited case law, the order approving the Sale should state that the Successful Bidder is not liable as a successor under any theory of successor liability, for claims that encumber or relate to the Purchased Assets and/or the Other Assets.

iii. The Successful Bidder Should be Afforded All Protections Under § 363(m) as A Good Faith Purchaser

Section 363(m) protects a good-faith purchaser's interest in property purchased from the debtor's estate notwithstanding that the sale conducted under § 363(b) is later reversed or modified on appeal. Specifically, § 363(m) states that:

> The reversal or modification on appeal of an authorization under [section 363(b)] . . . does not affect the validity of a sale . . . to an entity that purchased . . . such property in good faith, whether or not such entity knew of the pendency of the appeal, unless such authorization and such sale were stayed pending appeal.

11 U.S.C. § 363(m). Section 363(m) "codifies Congress's strong preference for finality and efficiency" in bankruptcy proceedings. *In re Energytec, Inc*. 739 F.3d 215, 218-19 (5th Cir.

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2013). The Ninth Circuit has repeatedly held that, under § 363(m), "[w]hen a sale of assets is made to a good faith purchaser, it may not be modified or set aside unless the sale was stayed pending appeal." *Paulman v. Gateway Venture Partners III, L.P. (In re Filtercorp, Inc).*, 163 F.3d 570, 576 (9th Cir. 1998) ; *In re Ewell*, 958 F.2d 276, 282 (9th Cir. 1992) ("Because the Buyer was a good faith purchaser, under 11 U.S.C. § 363(m) the sale may not be modified or set aside on appeal unless the sale was stayed pending appeal."); *Onouli-Kona Land Co. v. Estate of Richards (In re Onouli-Kona Land Co.)*, 846 F.2d 1170, 1172 (9th Cir. 1988) ("Finality in bankruptcy has become the dominant rationale for our decisions […]").

The selection of the Successful Bidder will be the product of arms' length, good faith negotiations in an anticipated competitive purchasing process. The Debtors intend to request at the Sale Hearing a finding that the Successful Bidder is a good faith purchaser entitled to the protections of § 363(m).

E. RELIEF FROM THE 14-DAY WAITING PERIOD UNDER RULES 6004(H) AND 6006(D) IS APPROPRIATE

Rule 6004(h) provides that an "order authorizing the use, sale, or lease of property . . . is stayed until the expiration of 14 days after entry of the order, unless the court orders otherwise." Similarly, Rule 6006(d) provides that an "order authorizing the trustee to assign an executory contract or unexpired lease . . . is stayed until the expiration of 14 days after the entry of the order, unless the court orders otherwise." The Debtors request that the Order be effective immediately by providing that the 14-day stays under Rules 6004(h) and 6006(d) are waived.

The purpose of Rules 6004(h) and 6006(d) is to provide sufficient time for an objecting party to appeal before an order can be implemented. *See* Advisory Committee Notes to Fed. R. Bankr. P. 6004(h) and 6006(d). Although Rules 6004(h) and 6006(d) and the Advisory Committee Notes are silent as to when a court should "order otherwise" and eliminate or reduce the 14-day stay period, *Collier* suggests that the 14-day stay period should be eliminated to allow a sale or other transaction to close immediately "where there has been no objection to the procedure." *Collier on Bankruptcy*, ¶ 6004.11 (Alan N. Resnick & Henry J. Sommer eds., 16th ed.). Furthermore, *Collier* provides that if an objection is filed and overruled, and the objecting

party informs the court of its intent to appeal, the stay may be reduced to the amount of time actually necessary to file such appeal. *Id.*

The Debtors hereby request that the Court waive the 14-day stay periods under Rules 6004(h) and 6006(d) or, in the alternative, if an objection to the Sale is filed, reduce the stay period to the minimum amount of time needed by the objecting party to file its appeal.

F. THE APPLICABLE REQUIREMENTS OF LBR 6004-1 HAVE BEEN SATISFIED

Here all of the applicable requirements of LBR 6004-1(b) pertaining to the Motion and the request therein to approve the Bidding Procedures have been satisfied. First, as required by LBR 6004-1(b)(2), the Notice of Motion describes the proposed Bidding Procedures and includes a copy of the Stalking Horse APA. Second, as required by LBR 6004-1(b)(2), the Notice of the Bid Procedures Motion and this Memorandum describe marketing efforts undertaken and the anticipated marketing of the Purchased Assets through the deadline for prospective Overbidders to submit bids for the Auction. Third, the Debtors provided notice of the Notice of Motion, Motion, and this Memorandum pursuant to LBR 6004-1(b)(3) and the *Order Granting Emergency Motion of Debtors for Order Limiting Scope of Notice* [Docket No. 132]. Therefore, the Debtors submit that service of the Notice of Motion, Motion, and this Memorandum by such means was adequate and appropriate.

V. CONCLUSION

WHEREFORE, the Debtors respectfully request that the Court enter an order: (i) granting the relief requested herein; and (ii) granting such other and further relief as the Court may deem proper.

Dated: January 17, 2019

DENTONS US LLP
SAMUEL R. MAIZEL
TANIA M. MOYRON

By */s/ Tania M. Moyron*
Tania M. Moyron

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EXHIBIT A

ASSET PURCHASE AGREEMENT

By and Among

Verity Health System of California, Inc., Verity Holdings, LLC,

St. Francis Medical Center, St. Vincent Medical Center, St. Vincent Dialysis Center, Inc., Seton Medical Center

and

Strategic Global Management, Inc.

Dated January 8, 2019

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ASSET PURCHASE AGREEMENT

This Asset Purchase Agreement (the "**Agreement**") is made and entered into as of the 8th day of January, 2019 (the "**Signing Date**") by and among Verity Health System of California, Inc., a California nonprofit public benefit corporation ("**Verity**"), Verity Holdings, LLC, a California limited liability company ("**Verity Holdings**"), St. Francis Medical Center, a California nonprofit public benefit corporation ("**St. Francis**"), St. Vincent Medical Center, a California nonprofit public benefit corporation ("**St. Vincent**"), St. Vincent Dialysis Center, Inc., a California nonprofit public benefit corporation ("**St. Vincent Dialysis**"), and Seton Medical Center, a California nonprofit public benefit corporation ("**Seton**" and together with St. Francis Medical Center, St. Vincent Medical Center and St. Vincent Dialysis, collectively, the "**Hospital Sellers**") (Verity, Verity Holdings, St. Francis, St. Vincent, St. Vincent Dialysis and Seton are each referred to herein individually as a "**Seller**" and collectively as the "**Sellers**"), and Strategic Global Management, Inc., a California corporation ("**Purchaser**").

R E C I T A L S:

A. St. Francis engages in the business of the operation of the hospital known as St. Francis Medical Center, located at 3630 E. Imperial Highway, Lynwood, CA 90262, including the hospital pharmacy, laboratory and emergency department as well as through the medical office buildings and clinics owned or operated by St. Francis (collectively, the "**St. Francis Hospital**").

B. St. Vincent engages in the business of the operation of the hospital known as St. Vincent Medical Center, located at 2131 W 3rd Street, Los Angeles, CA 90057, including the hospital pharmacy, laboratory and emergency department as well as through the medical office buildings and clinics owned or operated by St. Vincent (collectively, the "**St. Vincent Hospital**").

C. Seton engages in the business of the operation of two general acute care hospitals under a single license, consisting of: (i) the hospital known as Seton Medical Center, located at 1900 Sullivan Avenue, Daly City, CA 94015, including the hospital pharmacy, laboratory and emergency department as well as through the medical office buildings and clinics owned or operated by Seton (collectively, the "**Seton Hospital**") and (ii) the hospital known as Seton Medical Center Coastside, located at 600 Marine Blvd, Moss Beach, CA 94038, including the hospital pharmacy, laboratory and emergency department as well as through the medical office buildings and clinics owned or operated by Seton (collectively, the "**Seton Coastside Hospital**" and together with the St. Francis Medical Center Hospital, the St. Vincent Medical Center Hospital and the Seton Hospital, the "**Hospitals**"; the business of the operation of the Hospitals is referred to herein as the "**Businesses**").

D. Purchaser desires to purchase from Sellers, and Sellers desire to sell to Purchaser, the assets described in Section 1.7 below (the "**Assets**") owned by Sellers and used with respect to the Businesses, for the consideration and upon the terms and conditions contained in this Agreement.

E. Sellers filed voluntary petitions for relief under Chapter 11 of Title 11 of the United States Code (the "**Bankruptcy Code**") with the United States Bankruptcy Court for the Central District of California, Los Angeles Division (the "**Bankruptcy Court**"), lead Case No. 2:18-bk-201510ER, jointly administered or to be jointly administered with their affiliates (the "**Bankruptcy Cases**").

F. The parties intend to effectuate the transactions contemplated by this Agreement through a sale of the Assets approved by the Bankruptcy Court pursuant to Section 363 of Title 11 of the Bankruptcy Code.

NOW, THEREFORE, in consideration of the foregoing premises and the mutual promises and covenants contained in this Agreement, and for their mutual reliance and incorporating into this Agreement the above recitals, the parties hereto agree as follows:

ARTICLE 1

SALE AND TRANSFER OF ASSETS; CONSIDERATION; CLOSING

1.1 Purchase Price.

(a) Subject to the terms and conditions of this Agreement, the purchase price ("**Purchase Price**") shall consist of the following:

(i) Cash payment to Sellers (the "**Cash Consideration**") of Six Hundred Ten Million Dollars ($610,000,000.00), which shall be allocated Four Hundred Twenty Million Dollars ($420,000,000) to St. Francis Medical Center, One Hundred Twenty Million Dollars ($120,000,000) to St. Vincent Medical Center, and Seventy Million Dollars ($70,000,000) to Seton for Seton Hospital and Seton Coastside Hospital, provided, that if the CA AG's approval does not include a requirement that Seton Hospital remain open as an acute care hospital or that Seton Coastside Hospital remain open as a skilled nursing facility, then an amount to be determined by Purchaser, in its sole discretion, of such Cash Consideration shall be re-allocated from St. Francis to Seton;

(ii) Assumption of Sellers' accrued vacation and other paid time off as of the Closing, to be provided only with respect to Hired Employees (as defined in Section 5.3(a)) in the form of credited vacation and PTO, subject to compliance with applicable law and regulation, including consent of such employees if required;

(iii) Assumption of all liabilities of Seton as Obligated Party and Property Owner under the (i) Agreement to Pay Assessment and Finance Improvements dated May 17, 2017 with California Statewide Communities Development Authority ("**CSCDA**") and (ii) Agreement to Pay Assessment and Finance Improvements dated May 18, 2017 with CSCDA (collectively

the "**Special Assessments**") each associated with of the Property Assessed Clean Energy ("**PACE**") (seismic and clean energy) loans (collectively the "**PACE Obligations**"); and

(iv) Payment of Cure Costs (defined below) associated with any Assumed Leases and/ or Assumed Contracts and assumption of the other Assumed Obligations (as defined below).

(b) Purchaser (i) is acquiring the Assets and (ii) is only assuming (x) the PACE Obligations and (y) the Assumed Obligations (as defined below).

(c) At the Closing, Purchaser shall pay to Sellers, by wire transfer of immediately available funds to the accounts specified by Sellers to Purchaser in writing, an aggregate amount equal to the Cash Consideration, minus the Net QAF Reduction Amount (defined below), if any, plus the Net QAF Increase Amount (defined below), if any, plus any amounts (x) held by the PACE Trustee as an interest or fee reserve on account the PACE Obligations on the Closing Date and (y) remitted to CSCDA by Seton pursuant to the Special Assessments from and after the date of execution of this Agreement by Buyer up to and including the Closing Date, minus the Deposit (defined below).

(d) For purposes of this Agreement, the "**QAF Program**" means the California Department of Health Care Services Hospital Quality Assurance Fee Programs IV ("**QAF IV**") and V ("**QAF V**"). During the period prior to Closing, Sellers shall pay any fees owing under QAF IV and QAF V, and Sellers shall be entitled to retain all payments received under QAF IV and QAF V. At Closing, Sellers shall credit to the Cash Consideration the amount by which payments received under QAF IV and QAF V between the Signing Date and Closing exceed the sum of (i) fees paid under QAF IV and QAF V during such period plus (ii) the amount of fees which are unpaid and owing as of the Closing in respect of invoices received by Sellers prior to Closing under QAF IV and QAF V (the "**Net QAF Reduction Amount**"), as provided above in Section 1.1(c). At Closing, Purchaser shall pay Sellers (as an increase to the Cash Consideration) the amount by which the sum of (i) fees paid under QAF IV and QAF V between the Signing Date and Closing plus (ii) the amount of fees which are unpaid and owing as of Closing in respect of invoices received by Sellers prior to Closing under QAF IV and QAF V exceeds payments received under QAF IV and QAF V during such period (the "**Net QAF Increase Amount**"), as provided above in Section 1.1(c).

(e) Purchaser shall, prior to Closing, be permitted to communicate with holders of secured debt of the Sellers regarding the possible assumption by Purchaser of all or a portion of such debt at the Closing. If Purchaser agrees to assume any such debt at the Closing, Purchaser and Sellers shall negotiate an appropriate credit to the Purchase Price for such assumption of debt.

1.2 Deposit. Purchaser, by wire transfer to an account designated by Sellers has made a good faith deposit in the amount of Thirty Million Dollars ($30,000,000) on the date hereof (the "**Deposit**"). The Deposit shall be non-refundable in all events, except as provided in Section 6.1(b) or Section 6.2, or in the event Purchaser has terminated this Agreement pursuant to Section 9.1 (other than Section 9.1(b)) or as set forth in Section 9.2, in which case Seller shall immediately return the Deposit to Purchaser with all interest earned thereon. Upon Closing, the Deposit will

be credited against the Purchase Price. Pending the Closing, or until this Agreement is terminated, the Deposit shall be deposited in an interest bearing account, with interest credited to Purchaser, at a federally-insured financial institution mutually acceptable to Purchaser and Sellers. In addition, on the Signing Date, Purchaser shall deliver to Sellers executed letters from its financing sources, in form and substance satisfactory to Sellers in their discretion.

1.3 Closing Date. The consummation of the transactions contemplated by this Agreement (the "**Closing**") shall take place at 10:00 a.m. local time at the offices of Dentons US LLP, 601 South Figueroa St., Suite 2500, Los Angeles, CA 90017-5704 (the day on which Closing actually occurs, the "**Closing Date**") promptly but no later than ten (10) business days following the satisfaction or waiver of the conditions set forth in ARTICLE 7 and ARTICLE 8, other than those conditions that by their nature are to be satisfied at Closing but subject to fulfillment or waiver of those conditions. The Closing shall be deemed to occur and to be effective as of 11:59 p.m. Pacific time on the Closing Date (the "**Effective Time**").

1.4 Items to be Delivered by Sellers at Closing. At or before the Closing, Sellers shall deliver, or cause to be delivered, to Purchaser the following:

1.4.1 a Bill of Sale substantially in the form of **Exhibit 1.4.1** attached hereto (the "**Bill of Sale**"), duly executed by each Seller, with respect to the Assets;

1.4.2 Real Estate Assignment and Assumption Agreements (the "**Real Estate Assignments**") in the form of **Exhibit 1.4.2** attached hereto with respect to (i) the Leased Real Property, and (ii) the Tenant Leases, each duly executed by each Seller;

1.4.3 a Quitclaim Deed (the "**Deed**") in the form of **Exhibit 1.4.2** attached hereto with respect to the real property listed in Schedule 1.4.3, together with all plant, buildings, structures, installments, improvements, fixtures, betterments, additions and constructions in progress situated thereon (collectively, the "**Owned Real Property**") duly executed by each Seller;

1.4.4 an Assumption Agreement (the "**Assumption Agreement**") in the form of **Exhibit 1.4.2** attached hereto with respect to the Assumed Obligations duly executed by each Seller;

1.4.5 favorable original certificates of good standing, of each Seller, issued by the State of California, dated no earlier than a date which is fifteen (15) calendar days prior to the Closing Date;

1.4.6 a duly executed certificate of an officer of each Seller certifying to Purchaser (i) the incumbency of the officers of such Seller on the Signing Date and on the Closing Date and bearing the authentic signatures of all such officers who shall execute this Agreement and any additional documents contemplated by this Agreement and (ii) the due adoption and text of the resolutions or consents of the Board of Directors of such Seller authorizing (I) the transfer of the Assets and transfer of the Assumed Obligations by such Seller to Purchaser and (II) the due execution, delivery and performance of this Agreement and all additional documents contemplated

by this Agreement, and that such resolutions have not been amended or rescinded and remain in full force and effect on the Closing Date;

1.4.7 a certified copy of the Sale Order (as defined below);

1.4.8 a Transition Services Agreement (the "**Transition Services Agreement**") in form and substance satisfactory to Sellers and Purchaser, in their reasonable discretion, granting to Sellers use of certain assets, systems and personnel identified in such agreement solely in connection with Sellers' wind-down of the Businesses, the completion of the Bankruptcy Cases and the dissolution of Sellers (and following completion of such wind-down, Bankruptcy Cases and dissolution of Sellers, such Transition Services Agreement shall automatically terminate);

1.4.9 acknowledgements by CSCDA and the PACE Trustee that Purchaser is the Successor Property Owner and Obligated Party under the PACE Obligations and releases of the Sellers from any and all claims arising or accruing prior to the Closing Date, and

1.4.10 any such other instruments, certificates, consents or other documents which Purchaser and Sellers mutually deem reasonably necessary to carry out the transactions contemplated by this Agreement and to comply with the terms hereof.

1.5 Items to be Delivered by Purchaser at Closing. At or before the Closing, Purchaser shall deliver or cause to be delivered to Sellers the following:

1.5.1 payment of the Cash Consideration subject to credits or plus payment to Sellers of all amounts as provided under Section 1.6;

1.5.2 evidence of payment of all Cure Costs required hereunder to be paid by Purchaser;

1.5.3 a duly executed certificate of the Secretary of Purchaser certifying to Sellers (a) the incumbency of the officers of Purchaser on the Signing Date and on the Closing Date and bearing the authentic signatures of all such officers who shall execute this Agreement and any additional documents contemplated by this Agreement and (b) the due adoption and text of the resolutions of the Board of Directors of Purchaser authorizing the execution, delivery and performance of this Agreement and all additional documents contemplated by this Agreement, and that such resolutions have not been amended or rescinded and remain in full force and effect on the Closing Date;

1.5.4 favorable original certificate of good standing, of Purchaser, issued by the California Secretary of State dated no earlier than a date which is fifteen (15) calendar days prior to the Closing Date;

1.5.5 the Bill of Sale, duly executed by Purchaser;

1.5.6 the Real Estate Assignment(s), duly executed by Purchaser;

1.5.7 the Assumption Agreement, duly executed by Purchaser;

1.5.8 the License Agreement referenced in Section 1.7(q);

1.5.9 the Transition Services Agreement; and

1.5.10 any such other instruments, certificates, consents or other documents which Purchaser and Sellers mutually deem reasonably necessary to carry out the transactions contemplated by this Agreement and to comply with the terms hereof.

1.6 Prorations and Utilities. All items of income and expense listed below with respect to the Assets shall be prorated in accordance with the principles and the rules for the specific items set forth hereafter:

1.6.1 All transfer, conveyance, sales, use, stamp, similar state and local taxes arising from the sale of the Assets hereunder shall be the responsibility of, and allocated to, Purchaser.

1.6.2 Other than the Utility Deposits (defined below), which are governed by Section 1.8(j), and other than with respect to Cure Costs payable by Purchaser, the following costs and expenses shall be prorated based upon the payment period (*i.e.*, calendar or other tax fiscal year) to which the same are attributable: all real estate and personal property lease payments, real estate and personal property taxes, real estate assessments, other than the PACE Special Assessments and other similar charges against real estate, and power and utility charges (collectively, the "**Prorated Charges**") on the Assets. Each Seller shall pay its respective portion at or prior to the Closing (or Purchaser shall receive credit for) of any unpaid Prorated Charges attributable to periods or portions thereof occurring prior to the Effective Time, and Purchaser shall assume as an Assumed Liability or, to the extent previously paid by any Seller, pay to such Seller at the Closing all Prorated Charges attributable to periods or portions thereof occurring from and after the Effective Time. In the event that as of the Closing Date the actual tax bills for the tax year or years in question are not available and the amount of taxes to be prorated as aforesaid cannot be ascertained, then rates, millages and assessed valuation of the previous year, with known changes, shall be used. The parties agree that if the real estate and personal property tax prorations are made based upon the taxes for the preceding tax period, the prorations shall be re-prorated after the Closing. As to power and utility charges, "final readings" as of the Closing Date shall be ordered from the utilities; the cost of obtaining such "final readings," if any, shall be paid by Purchaser.

1.6.3 Sellers shall be entitled to all rents and other payments under Tenant Leases accruing for the period prior to the Effective Time ("**Pre Effective Time Lease Amounts**"), and Purchaser shall be entitled to all rents and other payments under tenant leases accruing for the period after the Effective Time ("**Post Effective Time Lease Amounts**" and together with the Pre Effective Time Lease Amounts, the "**Lease Amounts**"). All Lease Amounts that are collected prior to the Closing shall be prorated as of the Closing in accordance with the immediately preceding sentence. All Lease Amounts that are accrued but uncollected as of the Closing (including, without limitation, rents and other payments accrued prior to the Closing but payable in arrears after the Closing) (collectively, the "**Unpaid Amounts**") shall belong to Sellers, and Purchaser shall, upon receipt of said rents and other payments, receive the same in trust for Sellers and shall promptly remit any of such amounts to the applicable Seller within ten (10) days after

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Purchaser's receipt of same. For the avoidance of doubt, all rental payments received after Closing shall be first applied to any amounts owed to the Sellers under this Section 1.6.3.

1.6.4 All prorations and payments to be made under the foregoing provisions shall be agreed upon by Purchaser and Sellers prior to the Closing and shall be binding upon the parties; provided, however, with respect to the Unpaid Amounts, in the event any proration, apportionment or computation shall prove to be incorrect for any reason, then either the applicable Seller or Purchaser shall be entitled to an adjustment to correct the same, provided that said party makes written demand on the party from whom it is entitled to such adjustment within thirty (30) calendar days after the erroneous payment or computation was made, or such later time as may be required, in the exercise of due diligence, to obtain the necessary information for proration. This Section 1.6 shall survive Closing.

1.7 Transfer of Assets of Sellers. On the Closing Date and subject to the terms and conditions of this Agreement, each Seller shall sell, assign, transfer, convey and deliver to Purchaser, free and clear of all liens, claims, interests and encumbrances other than the Permitted Exceptions (defined below), and Purchaser shall acquire, all of each Seller's right, title and interest in and to only the following assets and properties, as such assets shall exist on the Closing Date, in each case (notwithstanding anything else in this Agreement) solely to the extent used primarily in the conduct of the Businesses and to the extent not included among the Excluded Assets, such transfer being deemed to be effective at the Effective Time:

(a) all of the tangible personal property owned by such Hospital Seller, or to the extent assignable or transferable by each Hospital Seller, leased, subleased or licensed by such Hospital Seller, and used by such Seller in the operation of the Hospital of such Hospital Seller, including equipment, furniture, fixtures, machinery, vehicles, office furnishings and leasehold improvements (the "**Personal Property**");

(b) all of such Hospital Seller's rights, to the extent assignable or transferable, to all Medicare and Medi-Cal provider agreements, permits, approvals, certificates of exemption, franchises, accreditations and registrations and other governmental licenses, permits or approvals issued to such Seller for use in the operation of the Hospital of such Hospital Seller (the "**Licenses**"), including, without limitation, the Licenses and Medicare/Medi-Cal Provider Agreements set forth on **Schedule 1.7(b)**, except to the extent Purchaser elects, in its discretion, not to take assignment of any such Licenses;

(c) all of such Hospital Seller's interest in and to the Owned Real Property and all of such Hospital Seller's interest, to the extent assignable or transferable, in and to all of the following (the "**Assumed Leases**"): (i) personal property leases with respect to the operation of the Hospital of such Hospital Seller (including leases for assets described in Section 1.7(i), (ii) the real property leases for all real property leased by such Hospital Seller and set forth on **Schedule 1.7(c)(ii)** (the "**Leased Real Property**"), and (iii) the real property leased or subleased by such Seller to a third party and set forth on **Schedule 1.7(c)(iii)** (the "**Tenant Leases**");

(d) all of such Hospital Seller's interest, to the extent assignable or transferable, in and to all contracts and agreements (including, but not limited to, purchase orders) with respect

to the operation of the Hospital of such Hospital Seller that have been designated by Purchaser as a contract to be assumed pursuant to Section 1.11 (the "**Assumed Contracts**");

(e) other than the Excluded Settlements and Actions (defined below), all claims, rights, interests and proceeds (whether received in cash or by credit to amounts otherwise due to a third party) with respect to amounts overpaid by such Seller to any third party health plans with respect to periods prior to the Effective Time (e.g. such overpaid amounts may be determined by billing audits undertaken by such Seller or such Seller's consultants), except with respect to any causes of action or proceeds thereof arising under Chapter 5 of the Bankruptcy Code other than with respect to Assumed Contracts and Assumed Leases and other items described in Section 1.8(h);

(f) to the extent assignable or transferable, all inventories of supplies, drugs, food, janitorial and office supplies and other disposables and consumables (i) located at the Hospital of such Seller or (ii) used in the operation of the Hospital of such Seller (the "**Inventory**") except as set forth in Section 1.8(e);

(g) other than Utility Deposits, all prepaid rentals, deposits, prepayments (excluding prepaid insurance and prepaid taxes) and similar amounts relating to the Assumed Contracts and/or the Assumed Leases, which were made with respect to the operation of the Hospital of such Hospital Seller (the "**Prepaids**");

(h) to the extent assignable or transferrable, all of the following that are not proprietary to such Seller and/or owned by or proprietary to such Hospital Seller's affiliates: operating manuals, files and computer software with respect to the operation of the Hospital of such Hospital Seller, including, without limitation, all patient records, medical records, employee records, financial records, equipment records, construction plans and specifications, and medical and administrative libraries; *provided*, *however*, that any patient records and medical records which are not required by law to be maintained by such Hospital Seller as of the Effective Time shall be an Excluded Asset;

(i) to the extent assignable or transferrable (and if leased, to the extent the associated lease is transferrable), including any assignment which is made effective pursuant to the Sale Order where the consent of a third party is required pursuant to the terms of an applicable agreement but not obtained, all systems, servers, computers, hardware, firmware, middleware, telecom equipment, networks, data communications lines, routers, hubs, switches and all other information technology equipment, and all associated documentation owned, leased or licensed by Sellers and used by Sellers with respect to the operations of the Hospitals;

(j) all Measure B trauma funding received after the Signing Date to be paid related to service periods ending on or after the Signing Date (pro rated between Purchaser and Sellers for any such payments covering service periods which include days both before and after the Signing Date based upon the number of days in the relevant payment period before the Signing Date (for the account of Sellers) and after the Signing Date (for the account of Purchaser));

(k) Except for as stated in Section 1.7(j), all accounts and interest thereupon, notes and interest thereupon and other receivables of such Seller, including, without limitation,

accounts, notes or other amounts receivable, disproportionate share payments and all claims, rights, interests and proceeds related thereto, including all accounts and other receivables, and Seller Cost Report settlements related thereto, in each case arising from the rendering of services or provision of goods, products or supplies to inpatients and outpatients at the Hospital of such Seller, billed and unbilled, recorded and unrecorded, for services, goods, products and supplies provided by such Seller prior to the Effective Time whether payable by Medicare, Medicaid, or any other payor (including an insurance company), or any health care provider or network (such as a health maintenance organization, preferred provider organization or any other managed care program) or any fiscal intermediary of the foregoing, private pay patients, private insurance or by any other source (collectively, "**Accounts Receivable**");

(l) all rights, claims and causes of action of such Seller to the extent related to and/or to the extent arising out of the Accounts Receivable acquired by Purchaser at the Closing;

(m) other than the Excluded Settlements and Actions, all regulatory settlements, rebates, adjustments, refunds or group appeals, including without limitation pursuant to all cost reports filed by Sellers for payment or reimbursement from government payment programs and other payors with respect to periods after the Signing Date;

(n) other than the Excluded Settlements and Actions, all casualty insurance proceeds arising in respect of casualty losses occurring after the Signing Date in connection with the ownership or operation of the Assets;

(o) other than the Excluded Settlements and Actions, all surpluses arising out of any risk pools, shared savings program or accountable care organization arrangement to which any Seller is party on the Closing Date, in each case to the extent Purchaser assumes the underlying contract relating to such risk pools, shared savings program or accountable care organization arrangement;

(p) all transferable unclaimed property of any Person in Sellers' possession as of the Closing Date, including, without limitation, property which is subject to applicable escheat laws;

(q) to the extent assignable or transferable by Sellers without out-of-pocket expense to Sellers, all warranties (including warranties of any manufacturer or vendor) on or in connection with the Assets (including the Personal Property) in favor of the Hospitals or Sellers;

(r) the right to use the names "St. Francis Medical Center", "St. Vincent Medical Center", "Seton Medical Center" and "Seton Medical Center Coastside", including any trademarks, service marks, trademark and service mark registrations and registration applications, trade names, trade name registrations, logos, domain names, trade dress, copyrights, copyright registrations, website content, know- how, trade secrets and the corporate or company names of Sellers and the names of the Hospitals, together with all rights to sue and recover damages for infringement, dilution, misappropriation or other violation or conflict associated with any of the foregoing; at the Closing, Purchaser will execute and deliver to Sellers the Transition Services Agreement granting to Sellers an unlimited, royalty free, irrevocable license to use any and all of the foregoing solely in connection with the wind-down of the Businesses, the completion of the

Bankruptcy Cases and the dissolution of Sellers (and following completion of such wind-down, Bankruptcy Cases and dissolution of Sellers, such license shall automatically terminate);

(s) all goodwill of the Hospital of such Hospital Seller evidenced by or associated with any of the Assets;

(t) to the extent transferable or assignable, such Hospital Seller's right or interest in the telephone and facsimile numbers and uniform resource locaters used with respect to the operation of the Hospital of such Hospital Seller;

(u) each such Hospital Seller's Medicare and Medi-Cal provider agreements and lockbox account(s) identified on **Schedule 1.7(u)**;

(v) all documents, records, correspondence, work papers and other documents, other than patient records, primarily relating to the Accounts Receivable;

(w) with respect to Verity Holdings, the assets represented by the assessor's parcel numbers (APN's) listed in **Schedule 1.7(w)** hereof (the "**Purchased Verity Holdings Assets**");

(x) except for the Excluded Assets, to the extent assignable or transferable, and subject to the Permitted Exceptions, any other assets owned by such Hospital Seller (which are not otherwise specifically described above in this Section 1.7) that are used in the operation of the Hospital of such Hospital Seller;

(y) all of Seton's interest in and to the PACE Obligations; and

(z) all QAF V and subsequent QAF program payments received after the Closing (e.g., QAF VI and QAF VII).

As used herein, the term "**Permitted Exceptions**" means (i) the Assumed Obligations; (ii) the PACE Obligations; (iii) liens for taxes not yet due and payable (iv) easements, rights of way, zoning ordinances and other similar encumbrances affecting real property; (v) other imperfections of title or encumbrances, if any, which are not monetary in nature and that are not, individually or in the aggregate, material to the business of the Hospital; (vi) any agreements made with any governmental authority in order to obtain any consent or approval, including, without limitation, in connection with the Medicare and Medi-Cal provider agreements; and (vii) other imperfections of title or encumbrances that are expressly identified on **Schedule 1.7** hereof.

1.8 Excluded Assets. Notwithstanding anything to the contrary in Section 1.7, each Seller shall retain all interests, rights and other assets owned directly or indirectly by it (or any of such Seller's affiliates) which are not among the Assets, including, without limitation, the following interests, rights and other assets of such Seller (collectively, the "**Excluded Assets**"):

(a) cash, cash equivalents and short-term investments;

(b) all Seller Plans (defined below) and the assets of all Seller Plans and any asset that would revert to the employer upon the termination of any Seller Plan, including, without limitation, any assets representing a surplus or overfunding of any Seller Plan;

(c) all contracts that are not Assumed Contracts;

(d) all leases that are not Assumed Leases;

(e) the portions of Inventory, Prepaids, and other assets disposed of, expended or canceled, as the case may be, by such Seller after the Signing Date and prior to the Effective Time in the ordinary course of business;

(f) assets owned and provided by vendors of services or goods to the Hospital of such Hospital Seller;

(g) all of such Seller's organizational or corporate record books, minute books, tax returns, tax records and reports, data, files and documents, including electronic data related thereto;

(h) all claims, counterclaims and causes of action of such Seller or such Seller's bankruptcy estate (including parties acting for or on behalf of such Seller's bankruptcy estate, including, but not limited to, the official committee of unsecured creditors appointed in the Bankruptcy Cases), including, without limitation, rights of recovery or set-off of every kind and character against third parties, causes of action arising out of any claims and causes of action under chapter 5 of the Bankruptcy Code and any related claims, counterclaims and causes of action under applicable non-bankruptcy law, and any rights to challenge liens asserted against property of such Seller's bankruptcy estate, including, but not limited to, liens attaching to the Purchase Price paid to such Seller, and the proceeds from any of the foregoing;

(i) other than casualty insurance proceeds described in Section 1.7(m), all insurance policies and contracts and coverages obtained by such Seller or listing such Seller as insured party, a beneficiary or loss payee, including prepaid insurance premiums, and all rights to insurance proceeds under any of the foregoing, and all subrogation proceeds related to any insurance benefits arising from or relating to Assets prior to the Closing Date;

(j) all deposits made with any entity that provides utilities to the Hospital (the "**Utility Deposits**");

(k) all rents, deposits, prepayments, and similar amounts relating to any contract or lease that is not an Assumed Contract or Assumed Lease;

(l) all non-transferrable unclaimed property of any third party as of the Effective Time, including, without limitation, property which is subject to applicable escheat laws;

(m) all other bank accounts of such Sellers not listed on **Schedule 1.7(u)**;

(n) all writings and other items that are protected from discovery by the attorney-client privilege, the attorney work product doctrine or any other cognizable privilege or protection;

(o) the rights of such Seller to receive mail and other communications with respect to Excluded Assets or Excluded Liabilities;

(p) all director and officer insurance;

(q) all tax refunds of such Seller;

(r) all documents, records, operating manuals and film pertaining to the Hospital that the parties agree that such Seller is required by law to retain;

(s) all patient records and medical records which are not required by law to be maintained by such Seller as of the Effective Time;

(t) all documents, records, correspondence, work papers and other patient records that may not be transferred under applicable law, and any other documents, records, or correspondence (including with respect to any employees) that may not be transferred under applicable law;

(u) any rights or documents relating to any Excluded Liability or other Excluded Asset;

(v) any rights or remedies provided to such Seller under this Agreement and each other document executed in connection with the Closing;

(w) any (i) personnel files for employees of such Seller who are not hired by Purchaser; (ii) other books and records that such Seller is required by Law to retain; provided, however, that except as prohibited by Law and subject to Article 5, Purchaser shall have the right to make copies of any portions of such retained books and records that relate to the business of the Hospital as conducted before the Closing or that relate to any of the Assets; (iii) documents which such Seller is not permitted to transfer pursuant to any contractual obligation owed to any third party; (iv) documents primarily related to any Excluded Assets; and (v) documents necessary to prepare tax returns (Purchaser shall be entitled to a copy of such documents). With respect to documents necessary to prepare cost reports, Purchaser shall receive the original document and such Seller shall be entitled to retain a copy of such documents for any period ending on or prior to the Closing Date;

(x) all deposits or other prepaid charges and expenses paid in connection with or relating to any other Excluded Assets;

(y) all rights, claims and causes of action of such Seller to the extent related to and/or to the extent arising out of the receivables identified in **Schedule 1.8(y)** and rights to settlements and retroactive adjustments, if any, whether arising under a Seller Cost Report or otherwise, for any reporting periods ending on or prior to the Effective Time, whether open or closed, arising from or against the United States government under the terms of the Medicare

program or TRICARE (formerly the Civilian Health and Medical Program of the Uniformed Services);

(z) all pre-Closing settlements or settlements pursuant to adversary proceedings in the Bankruptcy Cases, including, without limitation, any proceedings identified in Section 1.8(h) or 1.8(y) (together with the items identified in Section 1.8(h) and 1.8(y), the "**Excluded Settlements and Actions**");

(aa) for the avoidance of doubt, all QAF IV and QAF V payments actually received prior to the Signing Date;

(bb) all assets of Verity Holdings other than the Purchased Verity Holdings Assets and all assets of any of the tenants located in the leased premises of the purchased Verity Holdings properties; and

(cc) any assets identified in **Schedule 1.8(cc)**.

1.9 Assumed Obligations. On the Closing Date, each Seller shall assign, and Purchaser shall assume and agrees to discharge, perform and satisfy fully, on and after the Effective Time, the following liabilities and obligations of such Seller and only the following liabilities and obligations (collectively, the "**Assumed Obligations**"):

(a) the Assumed Contracts and all liabilities of such Seller under the Assumed Contracts, including related Cure Costs;

(b) the Assumed Leases and all liabilities of such Seller under the Assumed Leases, including related Cure Costs;

(c) all liabilities and obligations arising out of or relating to any act, omission, event or occurrence connected with the use, ownership or operation by Purchaser of the Hospital or any of the Assets on or after the Effective Time;

(d) all accrued vacation and other paid time off, to the extent assumed under Section 1.1(a)(ii);

(e) all liabilities and obligations of such Seller related to the Hired Employees arising on or following the Effective Time;

(f) all unpaid real and personal property taxes, if any, that are attributable to the Assets after the Effective Time, subject to the prorations provided in Section 1.6;

(g) all liabilities and obligations relating to utilities being furnished to the Assets, subject to the prorations provided in Section 1.6;

(h) any documentary, sales and transfer tax liabilities of such Seller incurred as a result of the consummation of the transaction contemplated by this Agreement;

(i) all liabilities or obligations provided for in Section 5.3;

(j) any obligations or liabilities Purchaser may desire or need to assume in order to have the Certifications/Licenses/Permits identified on Schedule 1.7(b) reissued to Purchaser, as well as any liabilities or obligations associated with Sellers' Medicare and Medi-Cal provider agreements, but only to the extent assumed by Purchaser, and any Medi-Cal liabilities or obligations needed to support ongoing Hospital Quality Assurance Fee Program payments; and

(k) any other obligations and liabilities identified in **Schedule 1.9(k)**.

1.10 Excluded Liabilities. Purchaser shall not assume or become responsible for any duties, obligations or liabilities of any Seller that are not assumed by Purchaser pursuant to the terms of this Agreement, the Bill of Sale, the Assumption Agreement or the Real Estate Assignment(s) (the "**Excluded Liabilities**"), and each Seller shall remain fully and solely responsible for all of such Seller's debts, liabilities, contract obligations, expenses, obligations and claims of any nature whatsoever related to the Assets or the Hospital unless assumed by Purchaser under this Agreement, in the Bill of Sale, the Assumption Agreement or in the Real Estate Assignment(s).

1.11 Designation of Assumed Contracts and Assumed Leases.

(a) Except as provided in Section 1.11(b), all contracts and leases will be subject to evaluation by Purchaser for assumption or rejection (collectively "**Evaluated Contracts**"). Not later than seven (7) days prior to the date of the auction for the Assets (i) Purchaser shall notify each Seller in writing of which Evaluated Contracts are to be assumed by such Seller and assigned to Purchaser and (ii) Purchaser shall notify each Seller in writing signed and dated by Purchaser of which Evaluated Contracts are to be rejected by such Seller (collectively, the "**Rejected Contracts**"); provided, that Purchaser shall have the right to designate additional Evaluated Contracts for assumption up to thirty (30) days prior to Closing. Each Seller shall file such motions in the Bankruptcy Court and take such other actions as are reasonably necessary to ensure that final and non-appealable orders are entered (x) assuming and assigning the respective Assumed Contracts or Assumed Leases applicable to such Seller to Purchaser and (y) rejecting the Rejected Contracts. With respect to each Assumed Lease, the applicable Seller shall execute and deliver to Purchaser an Assignment and Assumption of Lease. Notwithstanding anything to the contrary set forth in this Agreement, the Rejected Contracts shall constitute part of the Excluded Assets pursuant to, and as defined in, this Agreement.

(b) At Closing and pursuant to an order of the Bankruptcy Court, each Seller will assume and immediately assign to Purchaser the leases of such Seller for Leased Real Property and the Tenant Leases.

(c) Notwithstanding the foregoing, Purchaser's obligation to consummate the transactions contemplated by this Agreement are not contingent upon the assumption, assignment or rejection of any contract or lease, or on the amount of any payment or other performance needed to cure any default thereunder.

1.12 Disclaimer of Warranties; Release.

(a) THE ASSETS TRANSFERRED TO PURCHASER WILL BE SOLD BY SELLERS AND PURCHASED BY PURCHASER IN THEIR PHYSICAL CONDITION AT THE EFFECTIVE TIME, "AS IS, WHERE IS AND WITH ALL FAULTS AND NONCOMPLIANCE WITH LAWS" WITH NO WARRANTIES, INCLUDING, WITHOUT LIMITATION, THE WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, SUITABILITY, USAGE, WORKMANSHIP, QUALITY, PHYSICAL CONDITION, OR VALUE, AND ANY AND ALL SUCH OTHER REPRESENTATIONS AND WARRANTIES ARE HEREBY EXPRESSLY DISCLAIMED, AND WITH RESPECT TO THE LEASED REAL PROPERTY WITH NO WARRANTY OF HABITABILITY OR FITNESS FOR HABITATION, INCLUDING, WITHOUT LIMITATION, THE LAND, THE BUILDINGS AND THE IMPROVEMENTS. ALL OF THE PROPERTIES, ASSETS, RIGHTS, LICENSES, PERMITS, PRIVILEGES, LIABILITIES, AND OBLIGATIONS OF SELLERS INCLUDED IN THE ASSETS AND THE ASSUMED OBLIGATIONS ARE BEING ACQUIRED OR ASSUMED "AS IS, WHERE IS" ON THE CLOSING DATE AND IN THEIR PRESENT CONDITION, WITH ALL FAULTS. ALL OF THE TANGIBLE ASSETS SHALL BE FURTHER SUBJECT TO NORMAL WEAR AND TEAR AND NORMAL AND CUSTOMARY USE OF THE INVENTORY AND SUPPLIES IN THE ORDINARY COURSE OF BUSINESS UP TO THE EFFECTIVE TIME.

(b) Purchaser acknowledges that Purchaser will be examining, reviewing and inspecting all matters which in Purchaser's judgment bear upon the Assets, the Sellers, the Hospitals, the business of the Hospitals and their value and suitability for Purchaser's purposes and is relying solely on Purchaser's own examination, review and inspection of the Assets and Assumed Obligations. Purchaser releases each Seller and its affiliates from all responsibility and liability regarding the condition, valuation, salability or utility of the business of the Hospitals or the Assets, or their suitability for any purpose whatsoever. Purchaser further acknowledges that the representations and warranties of Sellers contained in ARTICLE 2 of this Agreement are the sole and exclusive representations and warranties made by Sellers to Purchaser (including with respect to the Hospitals, the Assets and the Assumed Obligations) and shall expire, and be of no further force or effect after January 8, 2019 (the period from the Signing Date until January 8, 2019, the "**Final Diligence Period**"), except that the Sale Order Date Representations shall expire, and be of no further force or effect upon the Sale Order Date, and in each case Sellers shall not have any liability in respect of any breach thereof following such expiration.

ARTICLE 2

REPRESENTATIONS AND WARRANTIES OF SELLERS

Each Seller hereby represents, warrants and covenants to Purchaser, severally (and not jointly) with respect to such Seller that the following matters are true and correct as of the Signing Date and as of the last day of the Final Diligence Period, except as would not have a material adverse effect upon the Hospitals, taken as a whole (a "**Material Adverse Effect**") and except as disclosed in the disclosure schedule, as may be amended pursuant to the terms of this Agreement (the "**Disclosure Schedule**"), provided that the representations and warranties set forth in Sections 2.1 (Authorization), 2.2 (Binding Agreement), 2.3 (Organization and Good Standing; No Violation), 2.8 (Compliance with Legal Requirements), 2.9 (Required Consents), 2.11 (Title) and 2.14 (Legal Proceedings) (the "**Sale Order Date Representations**") shall also be made as of immediately prior to the entry of the Sale Order (the "**Sale Order Date**"):

2.1 Authorization. Such Seller has all necessary corporate power and authority to enter into this Agreement and, subject to Bankruptcy Court approval, to carry out the transactions contemplated hereby.

2.2 Binding Agreement. This Agreement has been duly and validly executed and delivered by such Seller and, assuming due and valid execution by Purchaser, this Agreement constitutes a valid and binding obligation of such Seller enforceable in accordance with its terms subject to (a) applicable bankruptcy, reorganization, insolvency, moratorium and other laws affecting creditors' rights generally from time to time in effect and (b) limitations on the enforcement of equitable remedies. Except for such corporate actions which have been taken on or before the date hereof, no other corporate action on the part of Sellers is necessary to authorize the execution, delivery and performance of this Agreement and the transactions contemplated hereby and thereby.

2.3 Organization and Good Standing; No Violation.

(a) Such Seller is an entity duly organized, validly existing and in good standing under the laws of the State of California. Such Seller has all necessary power and authority to own, operate and lease its properties and to carry on its businesses as now conducted.

(b) Neither the execution and delivery by such Seller of this Agreement nor the consummation of the transactions contemplated hereby by such Seller nor compliance with any of the material provisions hereof by such Seller, will violate, conflict with or result in a breach of any material provision of such Seller's articles of incorporation or bylaws or any other organizational documents of such Seller.

2.4 Contracts. Except as set forth in Schedule 2.4, upon entry of the Sale Order and Purchaser's payment of the Cure Costs, to Seller's knowledge, Seller is not in material breach or default of the Assumed Contracts or Assumed Leases. No provision of this Section 2.4 shall apply to any failure to obtain consents to the assignment of the Assumed Contracts and Assumed Leases from third parties to the Assumed Contracts and Assumed Leases for which consent is required to

assign the Assumed Contracts and Assumed Leases to Purchaser (the "**Contract and Lease Consents**").

2.5 Brokers and Finders. Except as set forth on Schedule 2.5, neither such Seller nor any affiliate thereof, nor any officer or director thereof, have engaged or incurred any liability to any finder, broker or agent in connection with the transactions contemplated hereunder.

2.6 Seller Knowledge. References in this Agreement to "Sellers' knowledge or "the knowledge of Sellers" means the actual knowledge of the Chief Executive Officer or Chief Financial Officer of the applicable Seller, without independent research. No constructive or imputed knowledge shall be attributed to any such individual by virtue of any position held, relationship to any other Person or for any other reason.

2.7 Non-Contravention. Neither the execution and delivery by Sellers of this Agreement and each Ancillary Agreement nor performance of any of the material provisions hereof by Sellers, will violate, conflict with or result in a breach of any material provisions of the articles of incorporation or bylaws of Sellers.

2.8 Compliance with Legal Requirements. Except as set forth in Schedule 2.8, to the knowledge of Sellers: each Seller, with respect to the operation of the Hospitals, is in material compliance with all applicable laws, statutes, ordinances, orders, rules, regulations, policies, guidelines, licenses, certificates, judgments or decrees of all judicial or governmental authorities (federal, state, local, foreign or otherwise) (collectively, "**Legal Requirements**"). Except as set forth in Schedule 2.8, to the knowledge of Sellers, none of the Sellers, with respect to the operation of the Hospitals, has been charged in writing with or been given written notice of or is under investigation with respect to, any material violation of, or any obligation to take material remedial action under, any applicable Legal Requirements.

2.9 Required Consents. Except as set forth in Schedule 2.9, and other than in connection with any Licenses, any provider agreements (including any such agreements with a governmental authority) and the CA AG (defined below), Sellers are not a party to or bound by, nor are any of the Assets subject to, any mortgage, or any material lien, deed of trust, material lease, or material contract or any material order, judgment or decree which, after giving effect to the Sale Order (a) will require the consent of any third party to the execution of this Agreement or (b) will require the consent of any third party to consummate the transactions contemplated by this Agreement.

2.10 Environmental Matters.

(a) Sellers have provided Purchasers with the Phase I Environmental Site Assessments set forth in said Schedule 2.10(a).

(b) Except as disclosed in Schedule 2.10(b), to the knowledge of Sellers, the operations of the Hospitals are not in material violation of any applicable limitations, restrictions, conditions, standards, prohibitions, requirements and obligations of Environmental Laws and related orders of any court or any other governmental authority.

(c) For the purposes of this Section, the term "**Environmental Laws**" shall mean all state, federal or local laws, ordinances, codes or regulations relating to Hazardous Substances or to the protection of the environment, including, without limitation, laws and regulations relating to the storage, treatment and disposal of medical and biological waste. For purposes of this Agreement, the term "**Hazardous Substances**" shall mean (i) any hazardous or toxic waste, substance, or material defined as such in (or for the purposes of) any Environmental Laws, (ii) asbestos-containing material, (iii) medical and biological waste, (iv) polychlorinated biphenyls, (v) petroleum products, including gasoline, fuel oil, crude oil and other various constituents of such products, and (vi) any other chemicals, materials or substances, exposure to which is prohibited, limited or regulated by any Environmental Laws.

2.11 Title. Prior to December 21, 2018, Sellers have delivered at their own expense (i) for all the Real Property preliminary title reports issued by First American Title Insurance Company (the "**Title Commitments**"), (ii) for all of the Real Property all underlying title documents listed on the Title Commitments (the "**Underlying Title Documents**"), and (iii) for all of the Hospitals an as-built ALTA Surveys (the "**Surveys**", and collectively with the Title Commitment and the Underlying Title Documents, the "**Title Documents**").

2.12 Certain Other Representations with Respect to the Hospitals.

(a) Except as set forth in Schedule 2.12, all Licenses which are material and necessary to the operation of the Hospitals or the Hospitals by Sellers are valid and in good standing and Sellers are in compliance with the terms and conditions of all such Licenses in all material respects, in each case except where the failure to be valid and in good standing or in compliance would not have a material adverse effect on the Assets or the Hospitals. Except as set forth in Schedule 2.12, as of the Closing Date Sellers will have any and all material Licenses required under Legal Requirements to conduct the Hospitals as presently conducted by Sellers, except where the failure to have any such License would not have a material adverse effect on the Assets or the Hospitals. To the knowledge of Sellers, no loss or expiration of any License is pending or threatened.

(b) Sellers are certified for participation in the Medicare, Medi-Cal and TRICARE programs and any other federal or state health care reimbursement programs in which they participate, and have current and valid provider agreements with each such program, except where the failure to be so certified or have such provider agreements would not have a material adverse effect.

(c) Sellers have not been excluded from Medicare, Medi-Cal or any federal or state health care reimbursement program, and, to the knowledge of Sellers, there is no pending or threatened exclusion action by a governmental authority against Sellers.

2.13 Financial Statements.

(a) Schedule 2.13(a) hereto contains the following financial statements (the "Historical Financial Statements"): (i) the unaudited balance sheets of the Sellers as of June 30,

2018; (ii) unaudited income statements of the Sellers for the twelve-month periods ended June 30, 2018; (iii) the audited consolidated income statements of Sellers for the years ended 2016 and 2017; and (iv) the unaudited consolidated balance sheet of Sellers as of June 30, 2018.

(b) the income statements contained in the Historical Financial Statements present, fairly in all material respects the results of the operations of the Sellers as of and for the periods covered therein and, except as set forth on Schedule 2.13(b), the balance sheets contained in the Historical Financial Statements (i) are true, complete and correct in all material respects; (ii) present, fairly in all material respects the financial condition of the Sellers as of the dates indicated thereon; and (iii) to the extent prepared by an independent certified public accounting firm, have been prepared in accordance with generally accepted accounting principles consistently applied throughout the periods covered, except as disclosed therein.

2.14 Legal Proceedings. Except as set forth on Schedule 2.14, and except for any and all cases and/or pleadings filed or to be filed in the Bankruptcy Court, which shall be available through Sellers' claims and noticing agent's website at http://www.kcclcc.com/VERITYHEALTH/, to the knowledge of Sellers, there are no material claims, proceedings or investigations pending or threatened with respect to the ownership of the Assets or the operation of the Hospitals or the Hospitals by Sellers before any governmental authority. Except as set forth on Schedule 2.14, and other than any action or proceeding brought in the Bankruptcy Court, to the knowledge of Sellers, Sellers are not subject to any government order with respect to the ownership or operation by Sellers of the Hospitals or the other Assets or the Hospitals and are in substantial compliance with respect to each such government order.

2.15 Employee Benefits. Schedule 2.15(a) contains a list of (i) each pension, profit sharing, bonus, deferred compensation, or other retirement plan or arrangement of Seller with respect to the operation of the Hospital, whether oral or written, which constitutes an "employee pension benefit plan" as defined in Section 3(2) of ERISA, (ii) each medical, health, disability, insurance or other plan or arrangement of Seller with respect to the operation of the Hospital, whether oral or written, which constitutes an "employee welfare benefit plan" as defined in Section 3(1) of ERISA, and (iii) each other employee benefit or perquisite provided by Seller with respect to the operation of the Hospital, in which any employee of Seller participates in his capacity as such (collectively, the "**Seller Plans**").

2.16 Personnel. Schedule 2.16 sets forth a complete list (as of the date set forth therein) of names, positions and current annual salaries or wage rates and scheduled bonus, and the accrued paid time off pay of all employees of Sellers (including employees of the Hospitals and employees of Verity and Verity Holdings) immediately prior to December 21, 2018, whether such employees are full time employees, part-time employees, on short-term or long-term disability or on leave of absence pursuant to Sellers's policies, the Family and Medical Leave Act of 1993 or other similar Legal Requirements (the "**Hospital Employees**") and indicating whether the Hospital Employee is full- time or part-time. Sellers shall have the right to update to Schedule 2.16(a) to reflect changes in employment status or new hires and terminations occurring after December 21, 2018 by providing a revised schedule to Purchase no later than five (5) Business Days before the date scheduled for the Closing.Insurance. Schedule 2.17 contains a list of all material insurance maintained by Sellers with respect to the Assets and the Businesses, as of the Signing Date.

2.18 Accounts Receivable. To the knowledge of Sellers, all Accounts Receivable included in the Assets at Closing result from the bona fide provision of products or services in the ordinary course of business. All Sellers Accounts Receivable are currently deposited, either electronically or manually, into the bank accounts listed on Schedule 4.25(b).

2.19 Payer Contracts. To the knowledge of Sellers, and subject to Section 365 of the Bankruptcy Code, Schedule 2.19 sets forth a complete list of all written contracts with private third party payers including insurance companies and HMOs ("**Payer Contracts**"). Sellers have provided Purchasers with a true and correct copy of all material Payer Contracts, whether or not entered into in the ordinary course of business, or otherwise required to be disclosed on Schedule 2.20, in each case together with all amendments thereto.

2.20 Excluded Individuals. Except as set forth on Schedule 2.20, to the knowledge of Sellers: neither Sellers, Hospitals nor any director, officer or employee of Sellers or Hospitals (a) was, is or is proposed to be, suspended, excluded from participation in, or sanctioned under, any federal or state health care program (including, without limitation, Medicare and Medicaid) (an "**Excluded Individual**"); (b) has been convicted of any criminal offense related to the delivery of any medical or health care services or supplies, or related to the neglect or abuse of patients; (c) has failed to maintain its current License to provide the services required to be provided by it to or on behalf of Sellers and Hospitals; or (d) is unable to obtain or maintain liability insurance consistent with commercially reasonable industry practices.

ARTICLE 3

REPRESENTATIONS AND WARRANTIES OF PURCHASER

As an inducement to Sellers to enter into this Agreement and to consummate the transactions contemplated by this Agreement, Purchaser hereby represents, warrants and covenants to Sellers as to the following matters as of the Signing Date and, except as otherwise provided herein, shall be deemed to remake all of the following representations, warranties and covenants as of the Closing Date:

3.1 Authorization. Purchaser has full power and authority to enter into this Agreement and has full power and authority to perform its obligations hereunder and to carry out the transactions contemplated hereby. No additional internal consents are required in order for Purchaser to perform its obligations and agreements hereunder.

3.2 Binding Agreement. This Agreement has been duly and validly executed and delivered by Purchaser and, assuming due and valid execution by Sellers, this Agreement constitutes a valid and binding obligation of Purchaser enforceable in accordance with its terms subject to (a) applicable bankruptcy, reorganization, insolvency, moratorium and other laws affecting creditors' rights generally from time to time in effect and (b) limitations on the enforcement of equitable remedies.

3.3 Organization and Good Standing. Purchaser is a corporation duly organized, validly existing and in good standing under the laws of the State of California, is or will be duly

authorized to transact business in the State of California, and has full power and authority to own, operate and lease its properties and to carry on its business as now conducted.

3.4 No Violation. Except as set forth in **Schedule 3.4**, neither the execution and delivery by Purchaser of this Agreement nor the consummation of the transactions contemplated hereby nor compliance with any of the material provisions hereof by Purchaser will (a) violate, conflict with or result in a breach of any material provision of the Articles of Incorporation, Bylaws or other organizational documents of Purchaser or any contract, lease or other instrument by which Purchaser is bound; (b) require any approval or consent of, or filing with, any governmental agency or authority, (c) violate any law, rule, regulation, or ordinance to which Purchaser is or may be subject, (d) violate any judgment, order or decree of any court or other governmental agency or authority to which Purchaser is subject.

3.5 Brokers and Finders. Neither Purchaser nor any affiliate thereof nor any officer or director thereof has engaged any finder or broker in connection with the transactions contemplated hereunder.

3.6 Representations of Sellers. Purchaser acknowledges that it is purchasing the Assets on an "AS IS, WHERE IS" basis (as more particularly described in Section 1.12), and that Purchaser is not relying on any representation or warranty (expressed or implied, oral or otherwise) made on behalf of any Seller other than as expressly set forth in this Agreement. Purchaser further acknowledges that no Seller is making any representations or warranties herein relating to the Assets or the operation of the Hospital on and after the Effective Time.

3.7 Legal Proceedings. Except as described on **Schedule 3.7**, there are no claims, proceedings or investigations pending or, to the best knowledge of Purchaser, threatened relating to or affecting Purchaser or any affiliate of Purchaser before any court or governmental body (whether judicial, executive or administrative) in which an adverse determination would materially adversely affect the properties, business condition (financial or otherwise) of Purchaser or any affiliate of Purchaser or which would adversely affect Purchaser's ability to consummate the transactions contemplated hereby. Neither Purchaser nor any affiliate of Purchaser is subject to any judgment, order, decree or other governmental restriction specifically (as distinct from generically) applicable to Purchaser or any affiliate of Purchaser which materially adversely affects the condition (financial or otherwise), operations or business of Purchaser or any affiliate of Purchaser or which would adversely affect Purchaser's ability to consummate the transactions contemplated hereby.

3.8 No Knowledge of a Seller's Breach. Neither Purchaser nor any of its affiliates has knowledge of any breach of any representation or warranty by any Seller or of any other condition or circumstance that would give Purchaser a right to terminate this Agreement pursuant to Section 9.1(c). If information comes to Purchaser's attention on or before the Closing Date (whether through a Seller or otherwise and whether before or after the Signing Date) which indicates that Sellers have breached any of its representations and warranties under this Agreement, then the effect shall be as if the representations and warranties had been modified in this Agreement in accordance with the actual state of facts existing prior to the Effective Time such that there will be no breach under Sellers' representations and warranties in relation to such information; *provided*, *however*, that Purchaser must immediately notify Sellers if any such breach comes to its attention

on or before the Closing Date, and Purchaser's failure to so notify Sellers shall constitute a waiver by Purchaser of Sellers' breach, if any, of any representation or warranty. If any such information comes to Purchaser's attention on or before the Closing Date (whether through a Seller or otherwise, including through updated schedules, and whether before or after the Signing Date) that would give Purchaser a right to terminate this Agreement pursuant to Section 9.1(c), Purchaser must immediately notify Sellers if any such information comes to its attention on or before the Closing Date, and Purchaser's failure to so notify Sellers shall constitute a waiver of such right in relation to the relevant breach.

3.9 Ability to Perform. Purchaser has the ability to obtain funds in cash in amounts equal to the Purchase Price by means of credit facilities or otherwise and will at the Closing have immediately available funds in cash, which are sufficient to pay the Purchase Price and to pay any other amounts payable pursuant to this Agreement and to consummate the transactions contemplated by this Agreement.

3.10 Purchaser Knowledge. References in this Agreement to "Purchaser's knowledge" or "the knowledge of Purchaser" means the actual knowledge of the Chief Executive Officer, Chief Financial Officer or Chief Operating Officer of Purchaser, without independent research. No constructive or imputed knowledge shall be attributed to any such individual by virtue of any position held, relationship to any other Person or for any other reason.

3.11 Investigation. Purchaser has been afforded reasonable access to, and has been provided adequate time to review, the books, records, information, operations, facilities and personnel of each Seller and the Hospital for purposes of conducting a due diligence investigation of each Seller and the Hospital. Purchaser has conducted a reasonable due diligence investigation of each Seller and the Hospital and has received satisfactory answers to all inquiries it has made respecting each Seller and the Hospital and has received all information it considers necessary to make an informed business evaluation of each Seller and the Hospital. In connection with its due diligence investigation of each Seller and the Hospital, Purchaser has not relied upon any books, records, information, operations, facilities and personnel provided by any Seller, including in making its determination to enter into this Agreement and/or consummate the transactions contemplated hereby.

ARTICLE 4

COVENANTS OF SELLERS

4.1 Access and Information; Inspections.

4.1.1 From the Signing Date through the Effective Time, (a) each Seller shall afford to the officers and agents of Purchaser (which shall include accountants, attorneys, bankers and other consultants and authorized agents of Purchaser) reasonable access during normal business hours at Seller's corporate headquarters in El Segundo, California to, and the right to inspect, the books, accounts, records and all other relevant documents and information with respect to the assets, liabilities and business of the Hospital of such Seller and the plant and property of the Hospital of such Seller at the Hospital of such Seller and (b) each Seller shall furnish Purchaser with such additional financial and operating data and other information in such Seller's possession

as to businesses and properties of the Hospital of such Seller as Purchaser or its representatives may from time to time reasonably request; *provided*, *however*, that such Seller is not obligated to disclose information which is proprietary to such Seller and would not be essential to the ongoing operation of the Hospital of such Seller by Purchaser; *provided*, *further*, that all disclosures of information shall be consistent with the confidentiality agreements and any other non-disclosure agreements entered into (or to be entered into) among Purchaser, its representatives and such Seller. Purchaser's right of access and inspection shall be exercised in such a manner as not to interfere unreasonably with the operations of any Seller or the Hospital.

4.1.2 Notwithstanding anything contained herein, no Seller shall be required to provide Purchaser or its representatives or agents access to or disclose information where such access or disclosure would violate the rights of its patients, jeopardize the attorney-client or similar privilege with respect to such information or contravene any law, judgment, fiduciary duty or contract entered into prior to or on the date of this Agreement with respect to such information.

4.2 Cooperation.

4.2.1 Each Seller shall reasonably cooperate with Purchaser and its authorized representatives and attorneys: (a) in Purchaser's efforts to obtain all consents, approvals, authorizations, clearances and licenses required to carry out the transactions contemplated by this Agreement (including, without limitation, those of governmental and regulatory authorities) or which Purchaser reasonably deems necessary or appropriate, (b) in the preparation of any document or other material which may be required by any governmental agency as a predicate to or result of the transactions contemplated in this Agreement, and (c) in Purchaser's efforts to effectuate the assignment of Assumed Contracts to Purchaser as of the Closing Date. Except as may be otherwise requested by a Seller in order to comply with applicable law or regulatory guidance, notwithstanding anything contained herein, other than Bankruptcy Court orders and authorizations, it shall be Purchaser's sole responsibility (including payment of any fees, expenses, filings costs or other amounts) to obtain the Contract and Lease Consents, as well as all governmental consents, approvals, assignments, authorizations, clearances and licenses required to (x) carry out the transactions contemplated by this Agreement, including but not limited to medical licenses and/or (y) transfer any of the Assets, including any Licenses. To the extent Purchaser needs certain information and data which is in the possession of a Seller in order for Purchaser to complete Purchaser's license and permit approval applications, Purchaser shall receive, upon request, reasonable assistance from such Seller in connection with the provision of such information.

4.2.2 Notwithstanding any provision to the contrary contained in this Agreement (including Section 8.7), no Seller shall be obligated to obtain the approval or consent to the assignment, to Purchaser, of any Assumed Contracts or Assumed Leases, from any party to any of the Assumed Contracts or Assumed Leases even if any such contract or lease states that it is not assignable without such party's consent.

4.3 Other Bidders. Purchaser expressly acknowledges and agrees that each Seller has an obligation to seek out and determine the best and highest offer reasonably available for such

Seller's assets in accordance with the Bankruptcy Code, and nothing herein shall amend, modify, alter, diminish or affect such obligation.

4.4 Sellers' Efforts to Close. Each Seller shall use its reasonable commercial efforts to satisfy all of the conditions precedent set forth in ARTICLE 7 and ARTICLE 8 to its or Purchaser's obligations under this Agreement to the extent that such Seller's action or inaction can control or materially influence the satisfaction of such conditions; provided, however, that such Seller shall not be required to pay or commit to pay any amount to (or incur any obligation in favor of) any person (other than filing or application fees).

4.5 Termination Cost Reports. Each Seller shall file all Medicare, Medi-Cal and any other termination cost reports required to be filed as a result of the consummation of (a) the transfer of the Assets of such Seller to Purchaser and (b) the transactions contemplated by this Agreement with respect to such Seller, provided that Purchaser shall fund reasonable costs and expenses of preparation, filing and audit of such reports. Purchaser shall permit each Seller access to all Hospital books and records to prepare such reports and shall assist such Seller in the process of preparing, filing, and reviewing the termination cost reports. All such termination cost reports shall be filed by the applicable Seller in a manner that is consistent with current laws, rules and regulations. Each Seller shall be responsible for filing governmental cost reports for the period of January 1, 2019 through the Closing Date. Purchaser shall be responsible for its own cost report filings relating to the Hospitals beginning on the day immediately following the Effective Time.

4.6 Conduct of the Business. From the Signing Date until the Closing, or the earlier termination of this Agreement, without the prior written consent of Purchaser, Sellers shall, with respect to the ownership of the Assets and the operation of the Hospitals, use commercially reasonable efforts to, in each case except as would not have a Material Adverse Effect (except as otherwise noted):

(a) without regard to Material Adverse Effect, carry on Sellers' ownership of the Assets and the operation of the Hospitals consistent with past practice, but subject to the Bankruptcy Cases and Sellers' obligations and actions in connection therewith;

(b) maintain in effect the insurance and equipment replacement coverage with respect to the Assets;

(c) if and as permitted by the Bankruptcy Court, pay any bonuses payable under the Key Employee Retention Plan and Key Employee Incentive Plan of Sellers;

(d) maintain the Assets in materially the same condition as at present, ordinary wear and tear excepted;

(e) perform its obligations under all contracts with respect to the Assets in compliance with the Bankruptcy Code;

(f) following entry of the Sale Order, permit and allow reasonable access by Purchaser and its representatives (which shall include the right to send written materials, all of which shall be subject to Sellers' reasonable approval prior to delivery) to make offers of post-

Closing employment to any of Sellers' personnel (including access by Purchasers and their representatives for the purpose of conducting open enrollment sessions for Purchasers' employee benefit plans and programs) and to establish relationships with physicians, medical staff and others having business relations with Sellers;

(g) with respect to material deficiencies, if any, cited by any governmental authority (other than the Attorney General of the State of California and other than with respect to Seismic requirements) or accreditation body in the most recent surveys conducted by each, cure or develop and timely implement a plan of correction that is acceptable to such governmental authority or such accreditation body;

(h) timely file or cause to be filed all material reports, notices and tax returns required to be filed and pay all required taxes as they come due;

(i) without regard to Material Adverse Effect, beginning on February 21, 2019 and in accordance with the Sellers' budget under their debtor in possession financing, timely pay any fees that are or become due and payable under QAF IV and QAF V;

(j) comply in all material respects with all Legal Requirements (including Environmental Laws) applicable to the conduct and operation of the Hospitals; and

(k) without regard to Material Adverse Effect, maintain all material approvals, permits and environmental permits relating to the Hospitals and the Assets.

4.7 Contract With Unions. Representatives of Sellers who are parties to collective bargaining agreements and Purchaser shall meet and confer from time to time as reasonably requested by either party to discuss strategic business options and alternative approaches in negotiating each collective bargaining agreement. The applicable Sellers and Purchaser shall each participate in all union negotiations related to any specific collective bargaining agreement. Promptly following the Signing Date, applicable Sellers shall use commercially reasonable efforts to initiate discussions with Purchaser and conduct discussions to renegotiate each collective bargaining agreement currently in effect with each applicable union. The applicable Sellers will not unreasonably withhold, condition or delay approval or implementation of any successfully renegotiated collective bargaining agreement. The parties recognize that an applicable Seller's failure to secure a modification to any collective bargaining agreement, or to conclude a successor collective bargaining agreement shall not be a breach of Sellers' obligation under this Agreement, provided that if the unions refuse to negotiate, or otherwise are not timely, reasonable or realistic in renegotiating, the collective bargaining agreements during the period between the Signing Date and the Closing Date, Sellers and Purchaser will jointly consider, and negotiate mutually in good faith, alternative approaches that may be available and/or necessary to reduce Sellers' labor cost structure, including, but not limited to, seeking to reject the collective bargaining agreement(s).

ARTICLE 5

COVENANTS OF PURCHASER

5.1 Purchaser's Efforts to Close. Purchaser shall use its reasonable commercial efforts to satisfy all of the conditions precedent set forth in ARTICLE 7 and ARTICLE 8 to its or Sellers' obligations under this Agreement to the extent that Purchaser's action or inaction can control or materially influence the satisfaction of such conditions. Prior to consummation of the transactions contemplated hereby or the termination or expiration of this Agreement, Purchaser shall be permitted to communicate and meet with (a) counter-parties to the agreements and contracts of the Hospitals, included those included in Assumed Obligations, regarding the terms and conditions under which they may be assumed and assigned to Purchaser, and (b) applicable governmental and regulatory authorities regarding prospective compliance with regulatory requirements and related issues; so long as, in the case of each of (a) and (b) (i) such communications and meetings do not interfere with the operation of the Businesses or the conduct of the Bankruptcy Cases and (ii) any communications or meetings with any governmental authority are approved in advance by Sellers as to timing and content (and Sellers are copied on such communications and afforded the opportunity to participate in such meetings).

5.2 Required Governmental Approvals.

(a) Purchaser, at its sole cost and expense (a) shall use its best efforts to secure, as promptly as practicable before the Closing Date, all consents, approvals (or exemptions therefrom), authorizations, clearances and licenses required to be obtained from governmental and regulatory authorities in order to carry out the transactions contemplated by this Agreement and to cause all of its covenants and agreements to be performed, satisfied and fulfilled (and provide Sellers copies of all materials relating to such consents, approvals, authorizations, clearances and licenses upon submission and all materials received from third parties in connection with such consents, approvals, authorizations, clearances and licenses upon receipt), and (b) will provide such other information and communications to governmental and regulatory authorities as any Seller or such authorities may reasonably request. Purchaser will provide Sellers periodic and timely updates regarding all such consents, approvals, authorizations, clearances and licenses. Purchaser is responsible for all filings with and requests to governmental authorities necessary to enable Purchaser to operate the Hospital at and after the Effective Time. Purchaser shall, promptly, but no later than thirty (30) business days after the entry of the Sale Order or sooner if required by applicable governmental or regulatory authorities, file all applications, licensing packages and other similar documents with all applicable governmental and regulatory authorities which are a prerequisite to obtaining the material licenses, permits, authorizations and provider numbers described in Section 8.1. Purchaser shall be entitled, but not obligated, to obtain the Contract and Lease Consents. Purchaser shall be entitled, but not obligated, to solicit and obtain estoppel certificates from any third party to any Leased Real Property. Purchaser's failure to obtaining any or all of the Contract and Lease Consents or estoppel certificates as of the Closing Date shall not be a condition precedent to either party's obligation to close the transactions contemplated by this Agreement.

(b) Purchaser and Sellers agree that because the change of ownership and regulatory approval process in connection with the transactions contemplated by this Agreement may take an extended period of time, Purchaser and Sellers agree to an initial closing effective upon the approval of the court and upon the approval of the transaction by the CA AG (as defined below) in accordance with Sections 7.5 and 8.6, at which time the Assets (less the portion of the Assets constituting drugs or other pharmacy assets) will be sold to Purchaser and immediately leased back

to Sellers, with a concurrent management agreement entered into at that time upon terms mutually agreeable to the parties in their reasonable business judgment. The Sale Leaseback Agreement and Interim Management Agreement will terminate at the Closing when the Purchaser is issued the Licenses necessary to operate the Hospitals directly (namely, the Hospital Licenses and pharmacy permits).

5.3 Certain Employee Matters.

(a) Purchaser agrees to make offers of employment, effective as of the Effective Time, to substantially all persons (whether such persons are full time employees, part-time employees, on short-term or long-term disability or on leave of absence, military leave or workers compensation leave) (the "**Hospital Employees**") who, immediately prior to the Effective Time are: (i) employees of any Seller; (ii) employees of any affiliate of any Seller which employs individuals at the Hospital and are listed on **Schedule 5.3**; or (iii) employed by an affiliate of any Seller and are listed on **Schedule 5.3**. For the avoidance of doubt, the Hospital Employees shall not include any employees of Verity or any other affiliate of Seller unless such individual is listed on **Schedule 5.3**. Any of the Hospital Employees who accept an offer of employment with Purchaser as of or after the Effective Time shall be referred to in this Agreement as the "**Hired Employees**." All employees who are Hired Employees shall cease to be employees of the applicable Seller or its affiliates as of the Effective Time.

(b) Purchaser shall give all Hired Employees full credit for paid time off pay to such employees as of the Closing Date by crediting such employees the time off reflected in the employment records of the applicable Seller and/or any of its affiliates immediately prior to the Effective Time, subject to compliance with applicable law and regulation, including consent of such employees if required.

(c) After the Closing Date, Purchaser's human resources department will give reasonable assistance to each Seller and its affiliates with respect to such Seller's and such Seller's affiliates' post-Closing administration of such Seller's and such Seller's affiliates' pre-Closing employee benefit plans for the Hospital Employees. Within five (5) days after the Closing Date, Purchaser shall provide to each Seller a list of all the Hospital Employees who were offered employment by Purchaser but refused such employment along with a list of all Hired Employees (which such list Purchaser shall periodically update).

(d) With respect to any collective bargaining agreements or labor contract with respect to any employees, Purchaser shall comply with the applicable laws and bankruptcy court orders relating to collective bargaining agreements or labor contracts.

(e) The provisions of this Section 5.3 are solely for the benefit of the parties to this Agreement, and no employee or former employee or any other individual associated therewith or any employee benefit plan or trustee thereof shall be regarded for any purpose as a third party beneficiary of this Agreement, and nothing herein shall be construed as an amendment to any employee benefit plan for any purpose.

5.4 Excluded Assets. As soon as practicable after the Closing Date, Purchaser shall deliver to each Seller or such Seller's designee any Excluded Assets of such Seller found at the

Hospital on and after the Effective Time, without imposing any charge on any Seller for Purchaser's storage or holding of same on and after the Effective Time.

5.5 Waiver of Bulk Sales Law Compliance. Purchaser hereby waives compliance by Sellers with the requirements, if any, of Article 6 of the Uniform Commercial Code as in force in any state in which the Assets are located and all other laws applicable to bulk sales and transfers.

5.6 Attorney General. Promptly after entry of the Sale Order, but in any event within ten (10) calendar days, Purchaser shall, at its sole cost and expense, make any notices or other filings with the Attorney General of the State of California (the "**CA AG**"). Each Seller shall reasonably cooperate with Purchaser in such notices or other filings.

5.7 Conduct Pending Closing. Prior to consummation of the transactions contemplated hereby or the termination or expiration of this Agreement pursuant to its terms, unless Sellers shall otherwise consent in writing, Purchaser shall not take any action or fail or omit to take any action which would cause any of Purchaser's representations and warranties set forth in ARTICLE 4 to be inaccurate or untrue as of the Closing.

5.8 Cure Costs. Purchaser, upon assumption, shall pay the Cure Costs for each Assumed Contract and Assumed Lease so that each such Assumed Contract and Assumed Lease may be assumed by the applicable Seller and assigned to Purchaser in accordance with the provisions of section 365 of the Bankruptcy Code. For purposes of this Agreement, "**Cure Costs**", means all amounts that must be paid and all obligations that otherwise must be satisfied, including pursuant to Sections 365(b)(1)(A) and (B) of the Bankruptcy Code in connection with the assumption and/or assignment of the Assumed Contracts and Assumed Leases to Purchaser as provided herein.

5.9 Operating Covenant. Purchaser shall act in good faith and use Purchaser's commercially reasonable efforts to serve the medical needs of each Hospital's service area.

5.10 HSR Filing. Purchaser and each Seller will as promptly as practicable, and in any event no later than five business days after the date of the Sale Order, file with the Federal Trade Commission and the Department of Justice the notification and report forms required for the transactions contemplated hereby and any supplemental information that may be reasonably requested in connection therewith pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "**HSR Act**"), which notification and report forms and supplemental information will comply in all material respects with the requirements of the HSR Act. Purchaser shall pay all filing fees required with respect to the notification, report and other requirements of the HSR Act. Each of Purchaser and Sellers shall furnish to the other such information and assistance as the other shall reasonably requires in connection with the preparation and submission to, or agency proceedings by, any governmental authority under the HSR Act, and each of Purchaser and Sellers shall keep the other promptly apprised of any communications with, and inquires or requests for information from, such governmental authorities. Purchaser shall take such action (including divestitures or hold separate arrangements) as may be required by any governmental authority in order to resolve with the minimum practicable delay any objections such governmental authorities may have to the transactions contemplated by this Agreement under the HSR Act.

5.11 Contract with Unions. Representatives of Sellers who are parties to collective bargaining agreements and Purchaser shall meet and confer from time to time as reasonably requested by either party to discuss strategic business options and alternative approaches in negotiating each collective bargaining agreement. The applicable Sellers and Purchaser shall each participate in all union negotiations related to any specific collective bargaining agreement. Promptly following the Signing Date, applicable Sellers shall use commercially reasonable efforts to initiate discussions with Purchaser and conduct discussions to renegotiate each collective bargaining agreement currently in effect with each applicable union. The applicable Sellers will not unreasonably withhold, condition or delay approval or implementation of any successfully renegotiated collective bargaining agreement to be assumed by Purchaser. The parties recognize that an applicable Seller's failure to secure a modification to any collective bargaining agreement, or to conclude a successor collective bargaining agreement shall not be a breach of Sellers' obligation under this Agreement. In addition, Sellers may, in their discretion, seek to reject any or all of the collective bargaining agreement(s).

ARTICLE 6

SELLERS' BANKRUPTCY AND BANKRUPTCY COURT APPROVAL

6.1 Bankruptcy Court Approval; Overbid Protection and Break-Up Fee.

(a) Sellers and Purchaser acknowledge that this Agreement and the sale of the Assets and the assumption and assignment of the Assumed Contracts and Assumed Leases are subject to Bankruptcy Court approval, and that this Agreement is subject to termination in its entirety in the event any Seller receives a better and higher offer for the Assets in accordance with the Bankruptcy Code and subject to the terms stated herein.

(b) Promptly following the execution of this Agreement by all parties, the Seller shall file a motion with the Bankruptcy Court (the "**Sales Procedures Motion**"), the content of which shall be subject to the reasonable approval by Purchaser, for entry of an order approving bid procedures and overbid protections containing substantially the following terms and conditions:

(1) the Seller shall not accept any offer to sell the Assets subject to this Agreement ("**Overbid**") to another purchaser ("**Overbidder**") unless that offer exceeds the Purchase Price by an amount sufficient to pay the Break-Up Fee and such offer includes the purchase of substantially all Assets subject of this Agreement;

(2) in the event that an overbidder (and not the Purchaser) is the successful bidder for the purchase of the Assets (the "**Alternate Transaction**") and the Alternative Transaction is approved by the Bankruptcy Court, (a) the Deposit, and any interest earned thereon, shall be returned to Purchaser immediately upon the entry of such sale order, and (b) Purchaser shall be paid a break-up fee of three and one-half percent (3.5%) of the Cash Consideration ($21,350,000.00) plus reimbursement of reasonably documented reasonable costs and expenses incurred by Purchaser related to its due diligence, and pursuing, negotiating, and documenting the transactions contemplated by this Agreement in an amount not to exceed $2,000,000.00 ((the "**Break-Up Fee**"); provided, however, that in the event that

the Purchaser is successful as to some but not all of the Assets, the Break-Up Fee shall be reduced pro rata to the percentage of Assets not actually purchased by the Purchaser, based on the allocation of the Purchase Price as described in Section 1.1(a)(i), as compared to the Assets which were the subject of this Agreement.; and

(3) The Break-Up Fee shall be deemed to be an allowed expense of the kind specified in Section 503(b) of the Bankruptcy Code to be paid solely from the proceeds of the Alternate Transaction, pursuant to the Sale Order. The Break-Up Fee shall not be paid if the Alternate Transaction was pursued due to a material breach by the Purchaser or the Purchaser's failure or refusal to consummate the transaction after the satisfaction or waiver of all closing conditions.

The Sales Procedures Motion will contain bid procedures as set forth in the bid procedures attached hereto as **Schedule 6.1(b)(3)**.

If Sellers fails to obtain Bankruptcy Court approval for the Sales Procedures Motion by no later than four weeks after the end of the Final Diligence Period, Purchaser shall have the right to terminate this Agreement, without recourse or liability, and Seller shall immediately thereafter return to Purchaser the Deposit and any interest earned thereon.

(c) Each Seller shall at the Sale Hearing exercise reasonable efforts to obtain a "Sale Order" approving this Agreement, subject to its obligations in respect of any better and higher offer for such Seller's assets in accordance with the Bankruptcy Code. For purposes of this Agreement, the term "**Sale Order**" shall mean an order of the Bankruptcy Court authorizing the sale of the Assets (including the assumption and assignment of the Assumed Contracts and Assumed Leases) to Purchaser consistent with this Agreement and in a form reasonably satisfactory to Purchaser.

(d) Each Seller agrees to proceed in good faith to obtain Bankruptcy Court approval of the sale contemplated herein with a determination that Purchaser is a good faith purchaser pursuant to Bankruptcy Code section 363(m) and to file such declarations and other evidence as may be required to support a finding of good faith.

(e) Each Seller shall seek an order from the Bankruptcy Court retaining jurisdiction over all matters relating to claims against such Seller as debtor solely in the Bankruptcy Court.

6.2 Appeal of Sale Order. In the event an appeal is taken or a stay pending appeal is requested from the Sale Order, Sellers shall immediately notify Purchaser of such appeal or stay request and shall provide to Purchaser promptly a copy of the related notice of appeal or order of stay. Sellers shall also provide Purchaser with written notice of any motion or application filed in connection with any appeal from either of such orders. In the event of an appeal of the Sale Order, Sellers shall be primarily responsible for drafting pleadings and attending hearings as necessary to defend against the appeal; provided, however, Purchaser, at its option, shall have the right to participate as a party in interest in such appeal. In the event a stay is issued by any appellate court, including the United States District Court, which prevents the sale from closing, as scheduled, Purchaser shall have the right to terminate this Agreement if such stay is not vacated on or before

45 days from the date of the stay is issued, and Purchaser shall be entitled to the prompt return of the Deposit and any interest earned thereon.

ARTICLE 7

CONDITIONS PRECEDENT TO OBLIGATIONS OF SELLERS

Sellers' obligation to sell the Assets and to close the transactions as contemplated by this Agreement shall be subject to the satisfaction of each of the following conditions on or prior to the Closing Date unless specifically waived in writing by Sellers in whole or in part at or prior to the Closing:

7.1 Signing and Delivery of Instruments. Purchaser shall have executed and delivered all documents, instruments and certificates required to be executed and delivered pursuant to the provisions of this Agreement.

7.2 No Restraints. No temporary restraining order, preliminary or permanent injunction or other order preventing the consummation of the transactions contemplated in this Agreement shall have been issued by any court of competent jurisdiction or any other governmental body and shall remain in effect on the Closing Date, and further, no governmental entity shall have commenced any action or suit before any court of competent jurisdiction or other governmental authority that seeks to restrain or prohibit the consummation of the transactions contemplated hereby.

7.3 Performance of Covenants. Purchaser shall have in all respects performed or complied with each and all of the obligations, covenants, agreements and conditions required to be performed or complied with by it on or prior to the Closing Date.

7.4 Governmental Authorizations. Purchaser shall have obtained all material licenses, permits and authorizations from governmental agencies or governmental bodies that are necessary or required for completion of the transactions contemplated by this Agreement, including reasonable assurances that any material licenses, permits and authorizations not actually issued as of the Closing will be issued following Closing (which may include oral assurances from appropriate governmental agencies or bodies).

7.5 Attorney General Provisions. The conditions to Purchaser's obligations to close set forth in Section 8.6 shall have been satisfied.

7.6 Bankruptcy Court Approval. The Bankruptcy Court shall have entered the Sale Order.

7.7 HSR Act. The applicable waiting period under the HSR Act shall have expired or been earlier terminated.

7.8 CSCDA Acknowledgement. The CSCDA and PACE Trustee shall have executed acknowledgements in form and substance acceptable to Sellers that Purchaser is the Successor Property Owner and Obligated Party under the PACE Obligations, and releases of the Sellers from any and all claims arising or accruing prior to the Closing Date.

ARTICLE 8

CONDITIONS PRECEDENT TO OBLIGATIONS OF PURCHASER

Purchaser's obligation to purchase the Assets and to close the transactions contemplated by this Agreement shall be subject to the satisfaction of each of the following conditions on or prior to the Closing Date unless specifically waived in writing by Purchaser in whole or in part at or prior to the Closing.

8.1 Governmental Authorizations. Except as otherwise set forth in this Agreement, Purchaser and Sellers shall have obtained licenses, permits and authorizations from governmental agencies or governmental bodies that are required for the purchase, sale and operation of the Hospitals, including without limitation approval of the CA AG (subject to Section 8.6), except in such case where failure to obtain such license, permit or authorizations from a governmental agency or governmental body does not have a Material Adverse Effect.

8.2 Bankruptcy Court Approval. The Bankruptcy Court shall have entered the Sale Order and made a finding that Purchaser is a "good faith" purchaser under Section 363(m) of the Bankruptcy Code.

8.3 Signing and Delivery of Instruments. Sellers shall have executed and delivered all documents, instruments and certificates required to be executed and delivered pursuant to all of the provisions of this Agreement.

8.4 Performance of Covenants. Sellers shall have in all material respects performed or complied with each and all of the obligations, covenants, agreements and conditions required to be performed or complied with by Sellers on or prior to the Closing Date; *provided*, *however*, this condition will be deemed to be satisfied unless (a) Sellers were given written notice of such failure to perform or comply and did not or could not cure such failure to perform or comply within fifteen (15) business days after receipt of such notice and (b) the respects in which such obligations, covenants, agreements and conditions have not been performed have had or would have a Material Adverse Effect.

8.5 No Restraints. No temporary restraining order, preliminary or permanent injunction or other order preventing the consummation of the transactions contemplated in this Agreement shall have been issued by any court of competent jurisdiction and shall remain in effect on the Closing Date, and further, no governmental entity shall have commenced any action or suit before any court of competent jurisdiction or other governmental authority that seeks to restrain or prohibit the consummation of the transactions contemplated hereby.

8.6 Attorney General Provisions. Purchaser recognizes that the transactions contemplated by this Agreement may be subject to review and approval of the CA AG. Purchaser agrees to close the transactions contemplated by this Agreement so long as any conditions imposed by the CA AG are substantially consistent with the conditions set forth in Schedule 8.6. In the event the CA AG imposes conditions on the transactions contemplated by this Agreement which are not as set forth on Schedule 8.6 (the **"Additional Conditions"**), Sellers shall have the opportunity to file a motion with the Bankruptcy Court seeking the entry of an order finding that

the Additional Conditions are an "interest in property" for purposes of 11 U.S.C. § 363(f), and that the Assets can be sold free and clear of the Additional Conditions. If Sellers obtain such an order, from the Bankruptcy Court or another court, Purchaser shall have a period of 21 business days from the entry of such order to determine, in Purchaser's sole and absolute discretion, and in consultation with Purchaser's financing sources, whether to proceed to consummate the transactions contemplated by this Agreement. If Purchaser determines not to proceed, Purchaser shall have the right to terminate this Agreement and receive the return of its Good Faith Deposit.

8.7 Medicare and Medi-Cal Provider Agreements. Sellers shall transfer their Medicare provider agreements pursuant to a settlement agreement with the Centers for Medicare and Medicaid Services (**"CMS"**) and shall transfer their Medi-Cal provider agreements pursuant to a settlement agreement with the California Department of Health Care Services (**"DHCS"**), which such settlement agreements shall result in: (i) resolution of all outstanding financial defaults under any of Sellers' Medicare and Medi-Cal provider agreements and (ii) full satisfaction, discharge, and release of any claims under the Medicare or Medi-Cal provider agreements, whether known or unknown, that CMS or DHCS, as applicable, has against the Seller or Purchaser for monetary liability arising under the Medicare or Medi-Cal provider agreements before the Effective Time; provided, however, that Purchaser acknowledges that it will succeed to the quality history associated with the relevant Medicare or Medi-Cal provider agreements assigned and shall be treated, for purposed of survey and certification issues as if it is the relevant Seller and no change of ownership occurred.

8.8 HSR Act. The applicable waiting period under the HSR Act shall have expired or been earlier terminated.

ARTICLE 9

TERMINATION

9.1 Termination. This Agreement may be terminated at any time prior to Closing:

(a) by the mutual written consent of the parties;

(b) by Sellers if a material breach of this Agreement has been committed by Purchaser and such breach has not been (i) waived in writing by Sellers or (ii) cured by Purchaser to the reasonable satisfaction of Sellers within fifteen (15) business days after service by Sellers upon Purchaser of a written notice which describes the nature of such breach;

(c) by Purchaser if, in its sole and absolute discretion, it is not satisfied with either (i) the results of its due diligence examination of the Hospitals, or (ii) the contents of any schedule or exhibit that was not completed and attached to this Agreement, but which has been provided to Purchaser after the Signing Date, and Purchaser has notified Seller of its election to terminate the Agreement under this Section 9.1(c) on or prior to January 8, 2019, which notice may be given by facsimile or email correspondence; provided, that for the avoidance of doubt, following expiration of the Final Diligence Period, notwithstanding anything else in this Agreement, Purchaser shall not be entitled to terminate this Agreement (or not Close) as a result of the breach of any representation or warranty made by Sellers (or any of them) other than the

breach of a Sale Order Date Representation, but in each case solely to the extent such breach of a Sale Order Date Representation would result in a Material Adverse Effect; provided, further, that any dispute between Purchaser and Sellers as to whether a Material Adverse Effect has occurred for any purpose under this Agreement shall be exclusively settled by a determination made by the Bankruptcy Court;

(d) by Purchaser if a material breach of this Agreement has been committed by Sellers and such breach has not been (i) waived in writing by Purchaser or (ii) cured by Sellers to the reasonable satisfaction of Purchaser within fifteen (15) business days after service by Purchaser upon Sellers of a written notice which describes the nature of such breach;

(e) by Purchaser if satisfaction of any of the conditions in ARTICLE 8 has not occurred by December 31, 2019 or becomes impossible, and Purchaser has not waived such condition in writing (provided that the failure to satisfy any of the applicable condition or conditions in Sections 8.1 through 8.5 inclusive has occurred by reason other than (i) through the failure of Purchaser to comply with its obligations under this Agreement or (ii) Sellers' failure to provide their closing deliveries on the Closing Date as a result of Purchaser not being ready, willing and able to close the transaction on the Closing Date); provided that upon the imposition of Additional Conditions by the CA AG, Section 8.6 must be satisfied or waived by Purchaser by no later than sixty (60) days thereafter.

(f) by Sellers if satisfaction of any of the conditions in ARTICLE 7 has not occurred by December 31, 2019 or becomes impossible, and Sellers have not waived such condition in writing (provided that the failure to satisfy the applicable condition or conditions has occurred by reason other than (i) through the failure of Sellers to comply with their obligations under this Agreement or (ii) Purchaser's failure to provide its closing deliveries on the Closing Date as a result of Sellers not being ready, willing and able to close the transaction on the Closing Date);

(g) by either Purchaser or Sellers if the Bankruptcy Court enters an order dismissing the Bankruptcy Cases or fails to approve the Sales Procedures Motion by the date specified in Section 6.1(b);

(h) by Sellers if, in connection with the Bankruptcy Cases, any Seller accepts an Alternate Transaction and pays the Break-Up Fee;

(i) by either Purchaser or Sellers if the Closing has not occurred (other than through the failure of any party seeking to terminate this Agreement to comply fully with its obligations under this Agreement) on or before December 31, 2019; or

(j) by Purchaser if a force majeure event (such as acts of God, storms, floods, landslides, earthquakes, lightning, riots, fires, pandemics, sabotage, civil commotion or civil unrest, interference by civil or military authorities, acts of war (declared or undeclared) or armed hostilities, other national or international calamity, one or more acts of terrorism, or failure of energy sources) shall have occurred between the Signing Date and Closing Date, which event is reasonably likely to have a Material Adverse Effect.

9.2 Termination Consequences. If this Agreement is terminated pursuant to Sections 6.1(b), 6.2 or 9.1: (a) all further obligations of the parties under this Agreement shall terminate (other than Purchaser's right to receive the Break-Up Fee if applicable), provided that the provisions of ARTICLE 12, shall survive; and (b) each party shall pay only its own costs and expenses incurred by it in connection with this Agreement; provided, in the case of any termination based on Sections 9.1(b) or (d) the consequences of such termination shall be determined in accordance with ARTICLE 11 hereof. In addition, if this Agreement is terminated pursuant to Sections 6.1(b), 6.2 or 9.1 (other than Section 9.1(b)), Seller shall immediately return the Deposit to Purchaser with all interest earned thereon. Each Party acknowledges that the agreements contained in this Section 9.2 are an integral part of the transactions contemplated by this Agreement, that without these agreements such Party would not have entered into this Agreement.

ARTICLE 10

POST-CLOSING MATTERS

10.1 Excluded Assets.

Subject to Section 10.2 hereof, any Excluded Asset (or proceeds thereof) (a) pursuant to the terms of this Agreement, (b) as otherwise determined by the parties' mutual written agreement or (c) absent such agreement, as determined by adjudication by the Bankruptcy Court, which comes into the possession, custody or control of Purchaser (or its respective successors-in-interest, assigns or affiliates) shall, within five (5) business days following receipt, be transferred, assigned or conveyed by Purchaser (and its respective successors-in-interest, assigns and affiliates) to the applicable Seller. Purchaser (and its respective successors-in-interest, assigns and affiliates) shall have neither the right to offset amounts payable to any Seller under this Section 10.1 against, nor the right to contest its obligation to transfer, assign and convey to any Seller because of, outstanding claims, liabilities or obligations asserted by Purchaser against any Seller. If Purchaser does not remit any monies included in the Excluded Assets (or proceeds thereof) to the applicable Seller in accordance with the first sentence of this Section 10.1, such withheld funds shall bear interest at the Prime Rate in effect on the calendar day upon which such payment was required to be made to Seller (the "**Excluded Asset Due Date**") plus five percent (5%) (or the maximum rate allowed by law, whichever is less), such interest accruing on each calendar day after the Excluded Asset Due Date until payment of the Excluded Assets and all interest thereon is made to the applicable Seller.

10.2 Preservation and Access to Records After the Closing.

(a) From the Closing Date until seven (7) years after the Closing Date or such longer period as required by law (the "**Document Retention Period**"), Purchaser shall keep and preserve all medical records (including, without limitation, electronic medical records), patient records, medical staff records and other books and records which are among the Assets as of the Effective Time, but excluding any records which are among the Excluded Assets. Purchaser will afford to the representatives of Sellers, any of their affiliates, the Official Committee of the Unsecured Creditors of the Sellers, Sellers' estate representative or any liquidating trustee of the Sellers' bankruptcy estate ("**Seller Parties**"), including their counsel and accountants, full and complete access to, and copies (including, without limitation, color laser copies) of, such records

with respect to time periods prior to the Effective Time (including, without limitation, access to records of patients treated at the Hospital prior to the Effective Time) during normal business hours after the Effective Time, to the extent reasonably needed by any Seller Party for any lawful purpose. Purchaser acknowledges that, as a result of entering into this Agreement and operating the Hospital, it will gain access to patient records and other information which are subject to rules and regulations concerning confidentiality. Purchaser shall abide by any such rules and regulations relating to the confidential information it acquires. Purchaser shall maintain the patient and medical staff records at the Hospital in accordance with applicable law and the requirements of relevant insurance carriers. After the expiration of the Document Retention Period, if Purchaser intends to destroy or otherwise dispose of any of the documents described in this Section 10.2(a), Purchaser shall provide written notice to Sellers of Purchaser's intention no later than forty-five (45) calendar days prior to the date of such intended destruction or disposal. Any of the Seller Parties shall have the right, at its sole cost, to take possession of such documents during such forty-five (45) calendar day period. If any of the Seller Parties does not take possession of such documents during such forty-five (45) calendar day period, Purchaser shall be free to destroy or otherwise dispose of such documentation upon the expiration of such forty-five (45) calendar day period.

(b) Provided that Purchaser shall not incur any out of pocket costs, Purchaser shall give full cooperation to the Seller Parties and their insurance carriers in connection with the administration of Sellers' estate, including, without limitation, in connection with all claims, actions, causes of action or audits relating to the Excluded Assets, Excluded Liabilities or pre-Closing operation of the Sellers or the Hospital that any Seller Party may elect to pursue, dispute or defend, in respect of events occurring prior to the Effective Time with respect to the operation of the Hospital. Such cooperation shall include, without limitation, making the Hired Employees available for interviews, depositions, hearings and trials and other assistance in connection with the administration of Sellers' estate and such cooperation shall also include making all of its employees available to assist in the securing and giving of evidence and in obtaining the presence and cooperation of witnesses (all of which shall be done without payment of any fees or expenses to Purchaser or to such employees); provided that Purchaser shall not be required to incur any out of pocket costs in association therewith. In addition, Sellers and their affiliates shall be entitled to remove from the Hospital originals of any such records, but only for purposes of pending litigation involving the persons to whom such records refer, as certified in writing prior to removal by counsel retained by Sellers or any of their affiliates in connection with such litigation. Any records so removed from the Hospital shall be promptly returned to Purchaser following Sellers' or their applicable affiliate's use of such records.

(c) In connection with (i) the transition of the Hospital pursuant to the transaction contemplated by this Agreement, (ii) Sellers' rights to the Excluded Assets, (iii) any claim, audit, or proceeding, including, without limitation, any tax claim, audit, or proceeding and (iv) the Sellers' obligations under the Excluded Liabilities, Purchaser shall after the Effective Time give Sellers access during normal business hours to Purchaser's books, personnel, accounts and records and all other relevant documents and information with respect to the assets, liabilities and business of the Hospital as representatives of Sellers and their affiliates may from time to time reasonably request, all in such manner as not to unreasonably interfere with the operations of the Hospital.

(d) Purchaser and its representatives shall be given access by Sellers during normal business hours to the extent reasonably needed by Purchaser for business purposes to all documents, records, correspondence, work papers and other documents retained by Sellers pertaining to any of the Assets prior to the Effective Time (excluding confidential employee information, privileged materials and patient records), all in such manner as to not interfere unreasonably with Sellers. Such documents and other materials shall be, at Sellers' option, either (i) copied by Sellers for Purchaser at Purchaser's expense, or (ii) removed by Purchaser from the premises, copied by Purchaser and promptly returned to Sellers.

(e) Purchaser shall comply with, and be solely responsible for, all obligations under the Standards for Privacy of Individually Identifiable Health Information (45 CFR Parts 160 and 164) promulgated pursuant to the Health Insurance Portability and Accountability Act of 1996 with respect to the operation of the Hospital on and after the Effective Time.

(f) Purchaser shall cooperate with Sellers, on a timely basis and as reasonably requested by Sellers, in connection with the provision of all data of the Hospital and other information required by Sellers for reporting to HFAP for the remainder of the quarterly period in which the Closing has occurred.

(g) To the maximum extent permitted by law, if any Person requests or demands, by subpoena or otherwise, any documents relating to the Excluded Liabilities or Excluded Assets, including without limitation, documents relating to the operations of any of the Hospital or any of the Hospital's committees prior to the Effective Time, prior to any disclosure of such documents, Purchaser shall notify Sellers and shall provide Sellers with the opportunity to object to, and otherwise coordinate with respect to, such request or demand.

(h) Provision of Benefits of Certain Contracts. Notwithstanding anything contained herein to the contrary, this Agreement shall not constitute an agreement to assign any Assumed Contract or Assumed Lease, if, notwithstanding the provisions of Sections 363 and 365 of the Bankruptcy Code, an attempted assignment thereof, without the consent of the third party thereto, would constitute a breach thereof or in any way negatively affect the rights of Sellers or Purchaser, as the assignee of such Assumed Contract or Assumed Lease, as the case may be, thereunder. If, notwithstanding the provisions of Sections 363 and 365 of the Bankruptcy Code, such consent or approval is required but not obtained, Sellers will cooperate with Purchaser in any reasonable arrangement designed to both (a) provide Purchaser with the benefits of or under any such Assumed Contract or Assumed Lease, and (b) cause Purchaser to bear all costs and obligations of or under any such Assumed Contract or Assumed Lease. Further, notwithstanding anything contained in this Agreement to the contrary, this Agreement shall not constitute an agreement to assign any Account Receivable the assignment of which is either prohibited by law or by the terms of any contract with a payor without the consent of such payor. Any payments received by Sellers after the Closing Date from patients, payors, clients, customers, or others who are the obligors on Accounts Receivables transferred to Purchaser as a part of the Assets on the Closing Date shall be paid over to Purchaser within ten (10) business days after receipt by Seller.

10.3 Closing of Financials. Provided that Purchaser shall not incur any out of pocket costs, Purchaser shall cause the individual acting as the chief financial officer of the Hospital after the Effective Time (the "**Post-Effective Time CFO**") to cooperate with Sellers' representatives in

order to complete the standardized closing of Sellers' financial records through the Closing Date including, without limitation, the closing of general ledger account reconciliations (collectively, the "**Closing of Financials**"). Purchaser shall cause the Post-Effective Time CFO to use his or her good faith efforts to cooperate with Sellers' representatives in order to complete the Closing of Financials by no later than the date which is thirty (30) calendar days after the Closing Date. The Post-Effective Time CFO and other appropriate personnel shall be reasonably available to Sellers for a period of no less than one hundred eighty (180) calendar days after the Closing Date to assist Sellers in the completion of Sellers' post-Closing audit, such assistance not to interfere unreasonably with such Post-Effective Time CFO's other duties.

10.4 Medical Staff. To ensure continuity of care in the community, Purchaser agrees that the Hospital's medical staff members in good standing as of the Effective Time shall maintain medical staff privileges at the Hospital as of the Effective Time. On and after the Effective Time, the medical staff will be subject to the Hospital's Medical Staff Bylaws then currently in effect, provided that such Bylaws are in compliance with all applicable laws and regulations and contain customary obligations.

10.5 Shared Intangible Assets. In the event and to the extent that certain intangible Assets transferred by Sellers have been used to operate businesses of Verity or Verity Holdings or their affiliates which are not being sold to Purchaser ("**Shared Intangible Assets**") and such Shared Intangible Assets continue to be used by Verity or Verity Holdings or their affiliates to operate such businesses after Closing, Verity and Verity Holdings retain the rights to continue to use such Assets notwithstanding their sale to Purchaser. Purchaser shall reasonably cooperate with Verity and Verity Holdings and their affiliates to give effect to such rights and shall provide Verity and Verity Holdings and their affiliates such documentation, records and information and reasonable access to such systems as necessary for Verity and Verity Holdings and their affiliates to continue to operate such businesses; all in such manner as not to reasonably interfere with the operations of the Hospitals; provided, however, Purchaser shall not be required to incur any out-of-pocket costs in association therewith unless reimbursed by Verity and Verity Holdings and their affiliates.

ARTICLE 11

DEFAULT, TAXES AND COST REPORTS

11.1 Purchaser Default. If Purchaser commits any material default under this Agreement, Sellers shall have the right to sue for damages; provided, however that the amount of such damages shall never exceed $60,000,000.00. For the avoidance of doubt, Sellers shall have no right to sue for specific performance under this Agreement.

11.2 Seller Default. If Sellers commit any material default under this Agreement, Purchaser shall have the right to demand and receive a refund of the Deposit, and Purchaser may, in addition thereto, pursue any rights or remedies that Purchaser may have under applicable law, including the right to sue for damages or specific performance.

11.3 Tax Matters; Allocation of Purchase Price.

(a) After the Closing Date, the parties shall cooperate fully with each other and shall make available to each other, as reasonably requested, all information, records or documents relating to tax liabilities or potential tax liabilities attributable to Sellers with respect to the operation of the Hospital for all periods prior to the Effective Time and shall preserve all such information, records and documents at least until the expiration of any applicable statute of limitations or extensions thereof. The parties shall also make available to each other to the extent reasonably required, and at the reasonable cost of the requesting party (for out-of-pocket costs and expenses only), personnel responsible for preparing or maintaining information, records and documents in connection with tax matters and as Sellers reasonably may request in connection with the completion of any post-Closing audits of the Hospital.

(b) The Purchase Price (including any liabilities that are considered to be an increase to the Purchase Price for United States federal income Tax purposes) shall be allocated among the Assets in accordance with Section 1060 of the Code and the Treasury Regulations promulgated thereunder as set forth in **Schedule 11.3(b)** (such schedule the "**Allocation Schedule**"). The Allocation Schedule shall be for Sellers' and Purchaser's tax purposes only, and shall not limit the Sellers' creditors in any way.

11.4 Cost Report Matters.

(a) Consistent with Section 4.5, Sellers shall, at Purchaser's expense, prepare and timely file all cost reports relating to the periods ending prior to the Effective Time or required as a result of the consummation of the transactions described in this Agreement, including, without limitation, those relating to Medicare, Medicaid, and other third party payors which settle on a cost report basis (the "**Seller Cost Reports**").

(b) Upon reasonable notice and during normal business office hours, Purchaser will cooperate reasonably with Sellers in regard to Sellers' preparation and filing of the Seller Cost Reports. Such cooperation shall include, at no cost to Sellers, obtaining access to files at the Hospital and Purchaser's provision to Sellers of data and statistics, and the coordination with Sellers pursuant to reasonable notice of Medicare and Medicaid exit conferences or meetings. Sellers shall have no obligations after the Effective Time with respect to Seller Cost Reports except for preparation and filing thereof.

ARTICLE 12

MISCELLANEOUS PROVISIONS

12.1 Further Assurances and Cooperation. Sellers shall execute, acknowledge and deliver to Purchaser any and all other assignments, consents, approvals, conveyances, assurances, documents and instruments reasonably requested by Purchaser at any time and shall take any and all other actions reasonably requested by Purchaser at any time for the purpose of more effectively assigning, transferring, granting, conveying and confirming to Purchaser, the Assets. After consummation of the transaction contemplated in this Agreement, the parties agree to cooperate with each other and take such further actions as may be necessary or appropriate to effectuate, carry out and comply with all of the terms of this Agreement, the documents referred to in this Agreement and the transactions contemplated hereby.

12.2 Successors and Assigns. All of the terms and provisions of this Agreement shall be binding upon and shall inure to the benefit of and be enforceable by the respective successors and assigns of the parties hereto; *provided, however,* that no party hereto may assign any of its rights or delegate any of its duties under this Agreement without the prior written consent of the other parties which consent shall not be unreasonably withheld or delayed, except that Purchaser may, without the prior written consent of Sellers, assign all or any portion of its rights under this Agreement to one or more of its affiliates prior to the Closing Date.

12.3 Governing Law; Venue. This Agreement shall be construed, performed, and enforced in accordance with, and governed by, the laws of the State of California (without giving effect to the principles of conflicts of laws thereof), except to the extent that the laws of such State are superseded by the Bankruptcy Code or other applicable federal law. For so long as Sellers are subject to the jurisdiction of the Bankruptcy Court, the parties irrevocably elect, as the sole judicial forum for the adjudication of any matters arising under or in connection with the Agreement, and consent to the exclusive jurisdiction of, the Bankruptcy Court. The parties hereby consent to the jurisdiction of such court and waive their right to challenge any proceeding involving or relating to this Agreement on the basis of lack of jurisdiction over the Person or forum non conveniens.

12.4 Amendments. This Agreement may not be amended other than by written instrument signed by the parties hereto.

12.5 Exhibits, Schedules and Disclosure Schedule. The Disclosure Schedule and all exhibits and schedules referred to in this Agreement shall be attached hereto and are incorporated by reference herein. From the Signing Date until the Closing, the parties agree that Sellers may update the Disclosure Schedule as necessary upon written notice to Purchaser, and the applicable representation and warranty shall thereafter be deemed amended for all purposes by such updated Disclosure Schedule. Notwithstanding the foregoing, but subject to Section 9.2(c), should any exhibit or schedule not be completed and attached hereto as of the Signing Date, Sellers and Purchaser shall promptly negotiate in good faith any such exhibit or schedule, which exhibit or schedule must be acceptable to each of Sellers and Purchaser in their reasonable discretion prior to being attached hereto. Any matter disclosed in this Agreement or in the Disclosure Schedule with reference to any Section of this Agreement shall be deemed a disclosure in respect of all sections to which such disclosure may apply. The headings, if any, of the individual sections of the Disclosure Schedule are provided for convenience only and are not intended to affect the construction or interpretation of this Agreement. The Disclosure Schedule is arranged in sections and paragraphs corresponding to the numbered and lettered sections and paragraphs of Article III merely for convenience, and the disclosure of an item in one section of the Disclosure Schedule as an exception to a particular representation or warranty shall be deemed adequately disclosed as an exception with respect to all other representations or warranties to the extent that the relevance of such item to such representations or warranties is reasonably apparent on the face of such disclosure, notwithstanding the presence or absence of an appropriate section of the Disclosure Schedule with respect to such other representations or warranties or an appropriate cross reference thereto.

12.6 Notices. Any notice, demand or communication required, permitted, or desired to be given hereunder shall be deemed effectively given when personally delivered, when received by telegraphic or other electronic means (including facsimile) or overnight courier, or five (5)

calendar days after being deposited in the United States mail, with postage prepaid thereon, certified or registered mail, return receipt requested, addressed as follows:

If to Sellers:	Verity Health System of California, Inc. 2040 East Mariposa St. El Segundo, CA 90245 Attention: Rich Adcock, CEO Telephone: 424-367-0630
With copies to: (which copies shall not constitute notice)	Dentons US LLP 601 South Figueroa St., Suite 2500 Los Angeles, CA 90017-5704 Attention: Samuel R. Maizel, Esq. Telephone: 213-892-2910 Facsimile: 213-623-9924
If to Purchaser:	Strategic Global Management, Inc. 9 KPC Parkway, Suite 301 Corona, CA 92879 Attention: William E. Thomas Facsimile: 951-782-8850
With copies to: (which copies shall not constitute notice)	Levene, Neale, Bender, Yoo & Brill L.L.P. 10250 Constellation Blvd., Suite 1700 Los Angeles, CA 90067 Attention: Gary E. Klausner, Esq. Facsimile: 310-229-1244 and Loeb & Loeb LLP 10100 Santa Monica Blvd., Suite 2200 Los Angeles, California 90067 Attention: Allen Z. Sussman, Esq. Facsimile: 310-919-3934

or at such other address as one party may designate by notice hereunder to the other parties.

12.7 Headings. The section and other headings contained in this Agreement and in the Disclosure Schedule, exhibits and schedules to this Agreement are included for the purpose of convenient reference only and shall not restrict, amplify, modify or otherwise affect in any way the meaning or interpretation of this Agreement or the Disclosure Schedule, exhibits and schedules hereto.

12.8 Publicity. Prior to the Closing Date, Sellers and Purchaser shall consult with each other as to the form and substance of any press release or other public disclosure materially related

to this Agreement or any other transaction contemplated hereby and each shall have the right to review and comment on the other's press releases prior to issuance; *provided*, *however*, that nothing in this Section 12.8 shall be deemed to prohibit either Sellers or Purchaser from making any disclosure that its counsel deems necessary or advisable in order to satisfy either party's disclosure obligations imposed by law subject to reasonable prior notice to the other party thereof.

12.9 Fair Meaning. This Agreement shall be construed according to its fair meaning and as if prepared by all parties hereto.

12.10 Gender and Number; Construction; Affiliates. All references to the neuter gender shall include the feminine or masculine gender and vice versa, where applicable, and all references to the singular shall include the plural and vice versa, where applicable. Unless otherwise expressly provided, the word "including" followed by a listing does not limit the preceding words or terms and shall mean "including, without limitation." Any reference in this Agreement to an "affiliate" shall mean any Person directly or indirectly controlling, controlled by or under common control with a second Person. The term "control" (including the terms "controlled by" and "under common control with") means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. A "Person" shall mean any natural person, partnership, corporation, limited liability company, association, trust or other legal entity.

12.11 Third Party Beneficiary. None of the provisions contained in this Agreement are intended by the parties, nor shall they be deemed, to confer any benefit on any person not a party to this Agreement, except for the parties' successors and permitted assigns, and except for any liquidating trustee or plan administrator for Sellers' estate.

12.12 Expenses and Attorneys' Fees. Except as otherwise provided in this Agreement, each party shall bear and pay its own costs and expenses relating to the preparation of this Agreement and to the transactions contemplated by, or the performance of or compliance with any condition or covenant set forth in, this Agreement, including without limitation, the disbursements and fees of their respective attorneys, accountants, advisors, agents and other representatives, incidental to the preparation and carrying out of this Agreement, whether or not the transactions contemplated hereby are consummated. The parties expressly agree that all sales, transfer, documentary transfer and similar taxes, fees, surcharges and the like in connection with the sale of the Assets shall be borne by Purchaser. If any action is brought by any party to enforce any provision of this Agreement, the prevailing party shall be entitled to recover its court costs and reasonable attorneys' fees.

12.13 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same Agreement, binding on all of the parties hereto. The parties agree that facsimile copies of signatures shall be deemed originals for all purposes hereof and that a party may produce such copies, without the need to produce original signatures, to prove the existence of this Agreement in any proceeding brought hereunder.

12.14 Entire Agreement. This Agreement, the Disclosure Schedule, the exhibits and schedules, and the documents referred to in this Agreement contain the entire understanding

between the parties with respect to the transactions contemplated hereby and supersede all prior or contemporaneous agreements, understandings, representations and statements, oral or written, between the parties on the subject matter hereof (the "**Superseded Agreements**"), which Superseded Agreements shall be of no further force or effect; provided, that notwithstanding the foregoing, the letter Confidentiality Agreement dated July 12, 2018 between Purchaser and Cain Brothers, a division of KeyBanc Capital Markets Inc., on behalf of Sellers and their related entities shall not be a Superseded Agreement and shall continue in full force in effect in accordance with its terms.

12.15 No Waiver. Any term, covenant or condition of this Agreement may be waived at any time by the party which is entitled to the benefit thereof but only by a written notice signed by the party expressly waiving such term or condition. The subsequent acceptance of performance hereunder by a party shall not be deemed to be a waiver of any preceding breach by any other party of any term, covenant or condition of this Agreement, other than the failure of such other party to perform the particular duties so accepted, regardless of the accepting party's knowledge of such preceding breach at the time of acceptance of such performance. The waiver of any term, covenant or condition shall not be construed as a waiver of any other term, covenant or condition of this Agreement.

12.16 Severability. If any term, provision, condition or covenant of this Agreement or the application thereof to any party or circumstance shall be held to be invalid or unenforceable to any extent in any jurisdiction, then the remainder of this Agreement and the application of such term, provision, condition or covenant in any other jurisdiction or to persons or circumstances other than those as to whom or which it is held to be invalid or unenforceable, shall not be affected thereby, and each term, provision, condition and covenant of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

12.17 Time is of the Essence. Time is of the essence for all dates and time periods set forth in this Agreement and each performance called for in this Agreement.

[*Signature Page Follows*]

IN WITNESS WHEREOF, this Agreement has been entered into as of the day and year first above written.

PURCHASER:

STRATEGIC GLOBAL MANAGEMENT, INC.,
a California corporation

Signature By: _____
Print Name: KAL P. CHAUDHURI
Title: CHAIRMAN & CEO
Date: JANUARY 9, 2019

SELLERS:

ST. FRANCIS MEDICAL CENTER,
a California nonprofit public benefit corporation

Signature By: _____
Print Name: _____
Title: _____
Date: _____

ST. VINCENT MEDICAL CENTER,
a California nonprofit public benefit corporation

Signature By: _____
Print Name: _____
Title: _____
Date: _____

ST. VINCENT DIALYSIS CENTER, INC.
a California nonprofit public benefit corporation

Signature By:_____
Print Name:_____
Title:_____
Date:_____

SETON MEDICAL CENTER,
a California nonprofit public benefit corporation

Signature By:_____
Print Name:_____
Title:_____
Date:_____

VERITY HOLDINGS, LLC,
a California limited liability company

Signature By:_____
Print Name:_____
Title:_____
Date:_____

VERITY HEALTH SYSTEM OF CALIFORNIA, INC.,
a California nonprofit public benefit corporation

Signature By:_____
Print Name:_____
Title:_____
Date:_____

SCHEDULE 6.1(b)(3)

(Bidding Procedures)

BIDDING PROCEDURES

Set forth below are the bidding procedures (the "Bidding Procedures")[1] to be employed in connection with the sale of (i) the assets (the "Purchased Assets") enumerated in the Stalking Horse APA (as defined below), including, but not limited to, St Francis Medical Center, St. Vincent Medical Center, and Seton Medical Center (including Seton Coastside) (collectively, the "APA Facilities"); and (ii) assets not otherwise enumerated in the APA, but associated with the ownership or operation of the APA Facilities and available for purchase (the "Other Assets"), in connection with the chapter 11 cases pending in the United States Bankruptcy Court for the Central District of California (the "Bankruptcy Court"), jointly administered as case number 2:18-bk-20151-ER, in the form to be approved by the Bankruptcy Court, by Order dated _____ __, 2019 (the "Bidding Procedures Order").

The Debtors entered into that certain Asset Purchase Agreement, dated January 8, 2019 between the Debtors, on the one hand, and Strategic Global Management, Inc., a California corporation (the "Stalking Horse Purchaser") on the other hand, pursuant to which the Stalking Horse Purchaser shall acquire the Purchased Assets on the terms and conditions specified therein (together with the schedules and related documents thereto, the "Stalking Horse APA"). The sale transaction pursuant to the Stalking Horse APA is subject to competitive bidding as set forth herein. Capitalized terms used herein and not otherwise defined shall have the meanings set forth in the *Debtors' Notice of Motion and Motion for the Entry of (I) an Order (1) Approving Form of Asset Purchase Agreement for Stalking Horse Bidder and for Prospective Overbidders to Use, (2) Approving Auction Sale Format, Bidding Procedures and Stalking Horse Bid Protections, (3) Approving Form of Notice to be Provided to Interested Parties, (4) Scheduling a Hearing to Consider Approval of the Sale to the Highest Bidder, (5) Approving Procedures Related to the Assumption of Certain Executory Contracts and Unexpired Leases; and (II) an Order Authorizing the Sale of Property Free and Clear of All Claims, Liens and Encumbrances* (the "Sale Motion") or the Bidding Procedures Order.

I. ASSETS TO BE SOLD

The Debtors seek to complete a sale of substantially all assets of APA Facilities, including both the Purchased Assets and the Other Assets (the "Sale"). The Stalking Horse APA will serve as the "stalking-horse" bid for the Purchased Assets.

II. THE BIDDING PROCEDURES

In order to ensure that the Debtors receive the maximum value for the Purchased Assets and/or the Other Assets, they intend to hold a sale process for the Purchased Assets and/or the Other Assets pursuant to the procedures and on the timeline proposed herein.

[1] Unless otherwise defined, all capitalized terms shall have the meanings ascribed to them in the Stalking Horse APA.

A. Provisions Governing Qualifications of Bidders

Unless otherwise ordered by the Court or as set forth in these procedures, in order to participate in the bidding process, each person, other than the Stalking Horse Purchaser, who wishes to participate in the bidding process must deliver, prior to the Bid Deadline (defined herein), the following to the Debtors:

a) a written disclosure of the identity of each entity that will be bidding for the Purchased Assets or and/or the Other Assets or otherwise participating in connection with such bid; and

b) an executed confidentiality agreement (to be delivered prior to the distribution of any confidential information by the Debtors) in form and substance satisfactory to the Debtors and which shall inure to the benefit of any purchaser of the Purchased Assets and/or the Other Assets; without limiting the foregoing, each such confidentiality agreement shall contain standard non-solicitation provisions.

A bidder that delivers the documents and information described above and that the Debtors determine, after consultation with the Official Committee of Unsecured Creditors, the Prepetition Secured Creditors, and any other party deemed appropriate within the business judgment of the Debtors (collectively, the "Consultation Parties") in their reasonable business judgment, is likely (based on availability of financing, experience, and other considerations) to be able to consummate the sale, will be deemed a potential bidder ("Potential Bidder").

B. Due Diligence

The Debtors will afford any Potential Bidder such due diligence access or additional information as the Debtors, in consultation with their advisors, deem appropriate, in their reasonable discretion. The due diligence period shall extend through and including the relevant Bid Deadline; provided, however, that any bid submitted under these procedures shall be irrevocable until at least the selection of the Successful Bidder(s) (defined herein) and any Back-Up Bidder(s) (defined herein).

C. Provisions Governing Qualified Bids

A bid submitted by a Potential Bidder will be considered a Qualified Bid (each, a "Qualified Bid," and each such Potential Bidder thereafter a "Qualified Bidder") only if the bid complies with the following requirements:

a) it states that the applicable Qualified Bidder offers to purchase, in cash, some or all of the Purchased Assets and/or the Other Assets;

b) it identifies with particularity the portion of the Purchased Assets and/or the Other Assets the Qualified Bidder is offering to purchase;

c) it allocates with specificity the portion of the purchase price offered that the Qualified Bidder attributes to St. Francis Medical Center, St. Vincent Medical

Center, Seton Medical Center, and Seton Coastside, and each of the Other Assets, respectively;[2]

d) it includes a signed writing that the Qualified Bidder's offer is irrevocable until the selection of the Successful Bidder and the Back-Up Bidder, provided that if such bidder is selected as the Successful Bidder or the Back-Up Bidder then the offer shall remain irrevocable until the earliest of (i) the closing of the transaction with the Successful Bidder, (ii) in the case of the Successful Bidder, a termination of the Qualified Bid pursuant to the terms of the Successful Bidder Purchase Agreement and (iii) with respect to the Back-Up Bidder, the time specified in Section II (K) below;

e) it includes confirmation that there are no conditions precedent to the Qualified Bidder's ability to enter into a definitive agreement and that all necessary internal governance and shareholder approvals have been obtained prior to the bid;

f) it sets forth each third-party, regulatory and governmental approval required for the Qualified Bidder to consummate the transaction and the time period within which the Qualified Bidder expects to receive such approvals and establishes a substantial likelihood that the Qualified Bidder will obtain such approvals by the stated time period;

g) it includes a duly authorized and executed copy of a purchase or acquisition agreement in the form of the Stalking Horse APA (a "Purchase Agreement"), including the purchase price for some or all of the Purchased Assets and/or the Other Assets, or both, expressed in U.S. Dollars, together with all exhibits and schedules thereto, together with copies marked to show any amendments and modifications to the Stalking Horse APA ("Marked Agreement");

h) it is not subject to any financing contingency and includes written evidence of a firm ability to have the funding necessary to consummate the proposed transaction, that will allow the Debtors to make a reasonable determination, in consultation with the Consultation Parties, as to the Qualified Bidder's financial and other capabilities to consummate the transaction contemplated by the Purchase Agreement;

i) if the bid is for all of the Purchased Assets, it must have a value to the Debtors, in the Debtors' exercise of its reasonable business judgment, after consultation with its advisors and the Consultation Parties, that is greater than or equal to the sum of the value offered under the Stalking Horse APA, plus (i) the amount of the Break-Up Fee ($21,350,000.00); (ii) the amount of the Expense Reimbursement ($2,000,000.00); and (iii) $7,000,000.00 (the "Initial Bidding Increment," and, together with the Break-Up Fee and the Expense Reimbursement, the "Minimum Qualified Bid");

[2] For the avoidance of doubt, such allocation shall not be binding on the Debtors, their estates or any Consultation Party.

j) if the bid is a partial bid (the "Partial Bid"),[3] the terms of paragraph (i) immediately above shall not apply but the terms of paragraph (o) below concerning the Good Faith Deposit shall expressly apply in order to be a bid qualified to participate in the Partial Bid Auction (as defined below) (each, a "Partial Bid Auction Qualified Bid"). In the event that the Debtors aggregate Partial Bids, the Partial Bid purchasers' responsibility for the Break-Up Fee, the Expense Reimbursement, and the Initial Bidding Increment shall be reasonably allocated to each Partial Bid purchaser, and in no event shall the Stalking Horse Purchaser be entitled to more than one Break-Up Fee and/or Expense Reimbursement;

k) it identifies with particularity which (i) executory contracts and unexpired leases the Qualified Bidder wishes the Debtors to assume and assign to it, and (ii) Purchased Assets and/or Other Assets, subject to purchase money liens or the like, the Qualified Bidder wishes to acquire and therefore pay the associated purchase money financing;

l) it contains sufficient information concerning the Qualified Bidder's ability to provide adequate assurance of future performance with respect to executory contracts and unexpired leases the Qualified Bidder wishes the Debtors to assume and assign to it;

m) it includes an acknowledgement and representation that the Qualified Bidder: (A) has had an opportunity to conduct any and all required due diligence regarding the Purchased Assets and/or Other Assets prior to making its offer and that the offer is not subject to any further due diligence or the need to raise capital/financing to consummate the proposed transaction; (B) has relied solely upon its own independent review, investigation and/or inspection of any documents and/or the Purchased Assets and/or Other Assets in making its bid; (C) did not rely upon any written or oral statements, representations, promises, warranties or guaranties whatsoever, whether express or implied (by operation of law or otherwise), regarding the Purchased Assets and/or Other Assets or the completeness of any information provided in connection therewith or with the relevant Auction (defined below), except as expressly stated in the Purchase Agreement; and (D) is not entitled to any expense reimbursement, break-up fee, or similar type of payment in connection with its bid;

o) unless it is a Credit Bid (as defined below), it is accompanied by a (i) good faith deposit in the form of a wire transfer (to a bank account specified by the Debtors), certified check or such other form of cash or cash equivalent acceptable to the Debtors, payable to the order of the Debtors (or such other party as the Debtors may determine) in an amount equal to: (a) 20% of purchase price for bids under $5 million; (b) for bids greater than $5 million and less than $100 million, the greater of: (i) $1 million or (ii) 10% of purchase price; (c) for bids greater than $100 million, the greater of (i) $10 million or (ii) 5% of purchase price (collectively, the "Good Faith Deposit"), which Good Faith Deposit shall, be forfeited if such bidder

[3] A Partial Bid shall mean a bid for less than all of the Purchased Assets.

is the Successful Bidder and breaches its obligation to close; and (ii) if the Qualified Bid is a bid made by a secured creditor of the Debtors (a "Credit Bid Bidder") who intends to make a credit bid (each, a "Credit Bid Bid"), evidence of (a) the basis for and property covered by such Credit Bid Bidder's secured claim, (b) the amount of such Credit Bid Bidder's claim that is secured by the property in question, (c) whether it is the senior secured claim on the property (x) prepetition and (y) as of the date of the request to be a Qualified Bidder, as well as (d) evidence of the resolution of any Challenge to such Credit Bid Bidder's secured claim within the meaning of the Final DIP Order.

p) it contains a detailed description of how the Qualified Bidder intends to treat current employees of the Debtors;

r) it identifies the person(s) and their title(s) who will attend the relevant Auction, and confirms that such person(s) have authority to make binding Overbids (defined below) at such Auction

s) it contains such other information reasonably requested by the Debtors; and

t) it is received prior to the Bid Deadline.

The Debtors, in consultation with the Consultation Parties (who shall receive copies of the Purchase Agreements relating to any bids cast pursuant to these Bidding Procedures as soon as reasonably practicable), may qualify any bid that meets the foregoing requirements as a Qualified Bid. Notwithstanding the foregoing, the Stalking Horse Purchaser is deemed a Qualified Bidder and the Stalking Horse APA is deemed a Qualified Bid, for all purposes in connection with the Bidding Process, the Auctions, and the Sale.

The Debtors shall notify the Consultation Parties, the Stalking Horse Purchaser, all Qualified Bidders and the Notice Parties in writing as to whether or not any bids constitute Qualified Bids (and with respect to each Qualified Bidder that submitted a bid as to whether such Qualified Bidder's bid constitutes a Qualified Bid) and provide copies of the Purchase Agreements relating any such Qualified Bid to the Consultation Parties, the Stalking Horse Purchaser and such Qualified Bidders, and the Notice Parties on the earlier of: (1) the date that any bid other than the Stalking Horse Bid has been deemed a Qualified Bid, or (2) two business days prior to the Partial Bid Auction.

D. Bid Deadline

In order to be eligible to participate in the Auction, a Qualified Bidder that desires to make a bid will deliver written copies of its bid to the following parties (collectively, the "Notice Parties"): (i) counsel to the Debtors: Dentons US LLP, 601 S. Figueroa Street, Suite 2500, Los Angeles, CA 90017 (Attn: Tania M. Moyron (tania.moyron@dentons.com)); (ii) the Debtors' Investment Banker: Cain Brothers, a division of KeyBanc Capital Markets, 1 California Street, Suite 2400, San Francisco, CA 94111 (Attn: James Moloney (jmoloney@cainbrothers.com)); (iii) counsel to the Official Committee: Milbank, Tweed, Hadley & McCloy LLP, 2029 Century Park East, 33rd Floor, Los Angeles, CA 90067 (Attn: Gregory A. Bray (gbray@milbank.com); (iv) counsel to the Master Trustee and Series 2005 Bond Trustee: Mintz, Levin, Cohn, Ferris, Glovsky and Popeo,

P.C., One Financial Center, Boston, MA 02111 (Attn: Daniel S. Bleck and Paul Ricotta (dsbleck@mintz.com, pricotta@mintz.com)); (v) counsel to the Series 2015 and Series 2017 Notes Trustee: Maslon, LLP, 3300 Wells Fargo Center, 90 South Seventh Street, Minneapolis, MN 55402 (Attn: Clark Whitmore (clark.whitmore@maslon.com)), so as to be received by the Notice Parties not later than March 29, 2019, at 4:00 p.m. (prevailing Pacific Time) for partial bids (the "Partial Bid Deadline") or April 3, 2019, at 4:00 p.m. (prevailing Pacific Time) for full bids (the "Bid Deadline").

E. Credit Bidding

Any party with a valid, properly perfected security interest in any of the Purchased Assets and/or Other Assets (which is not subject to a pending Challenge within the meaning of the Final DIP Order) may credit bid for such Purchased Assets and/or Other Assets in connection with the Sale in accordance with and pursuant to § 363(k), except as otherwise limited by the Debtors for cause; provided, however, that any party seeking to credit bid may not credit bid unless such bid provides that all secured creditors with security interests on such Purchased Assets and/or Other Assets that are senior to such junior security interest are to be paid in cash in connection with such junior creditor's bid. Any credit bids made by secured creditors shall not impair or otherwise affect the Stalking Horse Purchaser's entitlement to the benefits of the Bidding Procedures and related protections granted under the Bidding Procedures Order.

F. Evaluation of Competing Bids

A Qualified Bid will be valued based upon several factors including, without limitation: (i) the amount of such bid; (ii) the risks and timing associated with consummating such bid; (iii) any proposed revisions to the form of Stalking Horse APA; and (iv) any other factors deemed relevant by the Debtors in their reasonable discretion, in consultation with the Consultation Parties, including the amount of cash included in the bid.

G. No Qualified Bids

If the Debtors do not receive any Qualified Bids other than the Stalking Horse APA, the Debtors will not hold an auction and the Stalking Horse Purchaser will be named the Successful Bidder for the Purchased Assets. If the Debtors receive one or more qualified Partial Bid Auction Qualified Bids and, after the Partial Bid Auction contemplated by Section (H) of these Bidding Procedures, the Debtors will determine, in consultation with the Consultation Parties, if there are any Partial Bidders that will not be qualified to participate at the Full Bid Auction

H. Auction Process

If the Debtors receive one or more Partial Bid Auction Qualified Bids as set forth above, the Debtors will conduct separate auctions of each asset or combinations thereof (each, a "Partial Bid Auction"). Any Partial Bidder holding a Partial Bid Auction Qualified Bid shall be entitled to bid on any assets in any Partial Bid Auction(s). The procedures below for the Full Bid Auction shall apply to the Partial Bid Auction, except as where otherwise indicated. The Debtors will conduct the Partial Bid Auction(s), which shall be transcribed, on April 8, 2019 at 10:00 a.m. (prevailing Pacific Time) at the offices of Dentons US LLP, 601 South Figueroa Street, Suite 2500, Los

Angeles, CA 90017, or such other location as shall be timely communicated to all entities entitled to attend the Auction.

The Partial Bid Auction Qualified Bids determined by the Debtors, in consultation with the Consultation Parties, at the Partial Bid Auction(s) (as set forth above) to be eligible to participate at the Full Bid Auction, including (without limitation) the highest and best bids for each asset (the "Winning Partial Bids"), shall be permitted to participate in the Full Bid Auction (as defined below) of the Purchased Assets and/or the Other Assets; except that:

(a) If the Partial Bids, at the conclusion of the Partial Bid Auction, include all four APA Facilities and exceed, in the aggregate, the Purchase Price in the Stalking Horse APA, there will be a Full Bid Auction (as defined below) and (1) the Stalking Horse Purchaser may overbid in the aggregate for all four APA Facilities, or (2) the Stalking Horse Purchaser may bid for less than the four APA Facilities and be entitled to a pro-rata Break-Up Fee for the APA Facilities which the Stalking Horse Purchaser does not acquire, as specified in the Stalking Horse APA at Section 6.26 (b)(2);

(b) If the Partial Bids do not include all four APA Facilities, and if there are no other Qualified Full Bids, then Seller, in its discretion, after consultation with the Consultation Parties, may choose, at the conclusion of the Partial Bid Auction, (1) to have no Full Bid Auction, and the Stalking Horse Purchaser will purchase the four APA Facilities pursuant to the Stalking Horse APA, or (2) if the Debtor and Consultation Parties deem the aggregate designated Winning Partial Bid(s) to be sufficient to warrant leaving one or more APA Facilities behind (the "Remaining Facility"), the Stalking Horse Purchaser shall have the option of (i) acquiring the Remaining Facility at the allocated price in the Stalking Horse APA, (ii) overbidding one or more of the Partial Bids, or (iii) terminating the Stalking Horse APA. In either event, the Stalking Horse Purchaser shall be entitled to the Break-Up Fee for all of the APA Facilities not acquired by the Stalking Horse Purchaser.

If the Debtors receive, in addition to the Stalking Horse APA, one or more Qualified Full Bids (and/or a combination of Winning Partial Bids from the Partial Bid Auction(s) seeking, on aggregate basis, to purchase all or substantially all of the Purchased Assets and/or the Other Assets), the Debtors will conduct a full bid auction of the Purchased Assets and/or the Other Assets (the "Full Bid Auction"), which shall be transcribed, on April 9, 2019 (the "Full Bid Auction Date"), at 10:00 a.m. (prevailing Pacific Time), at the offices of Dentons US LLP, 601 South Figueroa Street, Suite 2500, Los Angeles, CA 90017, or such other location as shall be timely communicated to all entities entitled to attend the Auction.

The Full Bid Auction shall be conducted in accordance with the following procedures:

a) only the Debtors, the Stalking Horse Purchaser, Qualified Bidders who have timely submitted a Qualified Bid, the U.S. Trustee, and the Consultation Parties, and their

respective advisors, and other parties who request and receive authority to attend the auction in advance from the Debtors may attend the Auction;

b) only the Stalking Horse Purchaser and the Qualified Bidders who have timely submitted Qualified Bids will be entitled to make any subsequent bids at the Auction;

c) each Qualified Bidder shall be required to confirm that it has not engaged in any collusion with respect to the bidding or the sale;

d) all Qualified Bidders who have timely submitted Qualified Bids will be entitled to be present for all Subsequent Bids (defined herein) at the relevant Auction and the actual identity of each Qualified Bidder will be disclosed on the record at the relevant Auction; provided that all Qualified Bidders wishing to attend the relevant Auction must have at least one individual representative with authority to bind such Qualified Bidder attending the relevant Auction in person;

e) the Debtors, after consultation with the Consultation Parties and the Stalking Horse Purchaser, may employ and announce at the relevant Auction additional procedural rules that are (i) reasonable under the circumstances for conducting the relevant Auction, (ii) in the best interest of the Debtors' estates; provided, however, that rules (i) are disclosed to the Stalking Horse Purchaser and each Qualified Bidder participating in the Auction, and (ii) are not inconsistent with the Bid Protections, the Stalking Horse APA, the Bankruptcy Code, or any order of the Court entered in connection herewith;

f) bidding at the relevant Auction will begin with a bid determined by the Debtors after consulting with the Consultation Parties as being the then highest and best bid which will be announced by the Debtors prior to the commencement of the Auction (the "Baseline Bid"). The Auction will continue in bidding increments to be determined in the discretion of the Debtors, in consultation with the Consultation Parties (each a "Overbid"), and all material terms of each Overbid shall be fully disclosed to all other Qualified Bidders who submitted Qualified Bids and are in attendance at the Auction (including, without limitation, Winning Partial Bids), as well as to the Notice Parties;

g) the initial Overbid, if any, shall provide for total consideration to Debtors with a value that exceeds the value of the consideration under the Baseline Bid by an incremental amount. Additional consideration in excess of the amount set forth in the respective Baseline Bid must include: (i) cash and/or (ii) in the case of a Qualified Bidder (including, without limitation, with respect to any Winning Partial Bids) that is a Credit Bid Bidder that has a valid and perfected lien (not subject to a Challenge within the meaning the Final DIP Order) on any of the Purchased Assets and/or the Other Assets, a Credit Bid of up to the full amount of such Credit Bidder's allowed perfected lien, subject to § 363(k) and any other restrictions set forth herein; and

i) at the Full Bid Auction, the Stalking Horse Purchaser may, subject to the terms and conditions set forth herein, elect to bid for the Purchased Assets as described in the Bid Procedures Order. In the alternative, the Stalking Horse Purchaser, and any bidder with a Qualified Full Bid, (a) may elect to bid against any one or more of the Winning Partial Bidders for the assets subject to the relevant Partial Bid(s), in lieu of seeking to acquire such Purchased Assets and/or Other Assets by means of the Stalking Horse Bid or another Qualified Full Bid; and (b) if successful with its Overbids for such assets, replace the Winning Partial Bidder(s) as the proponent of the relevant Winning Partial Bids or Aggregate Winning Partial Bid as to such assets. In the event that the Stalking Horse Purchaser or another bidder so elects, and as long as the Stalking Horse Purchaser or another bidder so bids, the Winning Partial Bidders must continue to present qualified Winning Partial Bids (i.e., bids as to which the aggregate of all still pending Winning Partial Bids is greater than or equal to the then Prevailing Highest Bid) for the Purchased Assets and/or the Other Assets in each round to continue to bid as Winning Partial Bidders in the Full Bid Auction. In addition, the Debtors may elect, in their discretion, after consultation with the Consultation Parties, to allow Partial Bidders to bid for all or substantially all the Purchased Assets and/or the Other Assets subject to augmenting its Good Faith Deposit, as necessary, or to allow proponents of Full Bids to bid for less than all or substantially all of the Purchased Assets and/or the Other Assets in any given round of the Auction, provided that in any given round there is a Full Bid or an Aggregate Partial Bid that is superior to Prevailing Highest Bid that is then subject to acceptance by the Debtors and binding on the Stalking Horse Purchaser or another Qualified Bidder. In all events, (i) any such Overbid shall continue to comply with all of the requirements for Qualified Bids set forth in Section C of these Bidding Procedures; and (ii) the bidder submitting such a modified Qualified Bid or Qualified Partial Bid shall furnish to the Debtors and the Consultation Parties, within twenty-four (24) hours of the conclusion of the Auction, a revised Purchase Agreement and Marked Agreement showing all amendments and modifications to the Stalking Horse APA and the Sale Order.

I. Selection of Successful Bid

Prior to the conclusion of the relevant Auction, the Debtors, in consultation with the Consultation Parties, will review and evaluate each Qualified Bid in accordance with the procedures set forth herein and determine which offer or offers are the highest or otherwise best from among the Qualified Bids submitted at the relevant Auction (one or more such bids, collectively the "Successful Bid" and the bidder(s) making such bid, collectively, the "Successful Bidder"), and communicate to the Qualified Bidders the identity of the Successful Bidder and the details of the Successful Bid. The determination of the Successful Bid by the Debtors at the conclusion of the relevant Auction shall be subject to approval by the Court.

If selected, at the conclusion of the Partial Bid Auction, as the Winning Partial Bidder or the Back-Up Bidder in accordance with Section H above, then such party or parties, prior to the Full Bid Auction, shall increase its Good Faith Deposit in the amount set forth in Section II(C)(o), or as determined by the Seller in consultation with the Consultation Parties; provided, however, if a party or parties are bidding on all four APA Facilities, the deposit will be no less than $30,000,000.

If selected as the Successful Bidder or the Back-Up Bidder at the conclusion of the Full Bid Auction, each of the Successful Bidder and the Back-Up Bidder shall, within forty-eight (48) hours, increase its Good Faith Deposit to the sum of five percent (5%) of the Successful Bid or Back-Up Bid, as applicable. If the Successful Bidder fails to increase the Good Faith Deposit within forty-eight (48) hours of the Auction conclusion date (the "Final Deposit"), then (1) the Successful Bidder forfeits its Good Faith Deposit, and (2) the Successful Bid is nullified (i.e., the Back-Up Bidder becomes the Successful Bidder in the amount of its last bid).

Unless otherwise agreed to by the Debtors and the Successful Bidder, within two (2) business days after the conclusion of the relevant Auction, the Successful Bidder shall complete and execute all agreements, contracts, instruments, and other documents evidencing and containing the terms and conditions upon which the Successful Bid was made. Within forty-eight (48) hours following the conclusion of the relevant Auction, the Debtors shall file a notice identifying the Successful Bidder(s) and Back-Up Bidders with the Court and shall serve such notice by fax, email, or if neither is available, by overnight mail to all counterparties whose contracts are to be assumed and assigned.

The Debtors will sell the Purchased Assets and (to extent included in an Overbid) the Other Assets to the Successful Bidder pursuant to the terms of the Successful Bid upon the approval of such Successful Bid by the Court at the Sale Hearing and satisfaction of any other closing conditions set forth in the Successful Bidder's Purchase Agreement.

J. Return of Deposits

All deposits shall be returned to each bidder not selected by the Debtors as the Successful Bidder or the Back-Up Bidder (defined herein) no later than five (5) business days following the conclusion of the Auction.

K. Back-Up Bidder

If an Auction is conducted, the Qualified Bidder or Qualified Bidders with the next highest or otherwise best Qualified Bid, as determined by the Debtors in the exercise of their business judgment, in consultation with the Consultation Parties, at the relevant Auction shall be required to serve as a back-up bidder (the "Back-Up Bidder") and keep such bid open and irrevocable for thirty (30) business days after the entry of the Sale Order (the "Thirty-Day Period"). If during the Thirty-Day Period, the Successful Bidder fails to consummate the approved sale because of a breach or failure to perform on the part of such Successful Bidder, the Back-Up Bidder will be deemed to be the new Successful Bidder, and the Debtors will be authorized, but not required, to consummate the sale with the Back-Up Bidder without further order of the Court provided that the Back-Up Bidder shall thereafter keep such bid open and irrevocable in accordance with the terms of the Back-Up Bidder APA; provided further, however, that if the Back-Up Bidder is the Stalking Horse Purchaser, the Debtors will be authorized and required to consummate the sale to the Stalking Horse Purchaser.

If, after the Thirty-Day Period, the Successful Bidder has failed to consummate the approved sale, the Back-Up Bidder may elect, at its discretion, to remain as the Back-Up Bidder until (a) the sale closes, (b) the Successful Bidder defaults, or (c) the Back-Up Bidder elects to terminate its

participation as Back-Up Bidder. For the avoidance of doubt, after the Thirty-Day Period, if the Successful Bidder fails to consummate the approved sale because of a breach or failure to perform on the part of such Successful Bidder, the Back-Up Bidder will not be contractually obligated to be the Back-Up Bidder, and will have the option to either (i) be entitled to terminate its Back-Up Bidder APA and the return of its deposit, or (ii) remain as the Back-up Bidder, in which event, there will be no re-opening of the auction.

L. Break-Up Fee

In recognition of this expenditure of time, energy, and resources, the Debtors have agreed that if the Stalking Horse Purchaser is not the Successful Bidder as to the Purchased Assets, the Debtors will pay the Stalking Horse Purchaser at closing of the sale of the Purchased Assets the Break-Up Fee and the Expense Reimbursement as set forth in the Stalking Horse APA.

III. Sale Hearing

The Debtors will seek entry of the Sale Order, at the Sale Hearing on April 17, 2019, at 10:00 a.m. (or at another date and time convenient to the Court), to approve and authorize the sale transaction to the Successful Bidder(s) on terms and conditions determined in accordance with the Bidding Procedures. The Debtors may submit and present such additional evidence, as they may deem necessary, at the Sale Hearing demonstrating that the Sale is fair, reasonable, and in the best interest of the Debtors' estates and all interested parties, and satisfies the standards necessary to approve a sale of the Purchased Assets."

IV. Sale Order

The Sale Order will provide Court approval of (i) the Sale to the Successful Bidder, free and clear of all liens, claims, interests, and encumbrances, pursuant to 11 U.S.C. § 363, with the proceeds of the Sale deposited in accordance with Paragraph 4 of the Final DIP Order, with all liens, claims, interests, and encumbrances to attach to the sale proceeds with the same validity and in the same order of priority as they attached to the Purchased Assets prior to the Sale, including, without limitation, the liens and security interests of the DIP Lender and each of the Prepetition Secured Creditors under the relevant agreements, applicable law and the Final DIP Order, and (ii) the assumption by the Debtors and assignment to the Successful Bidder of the Assumed Executory Contracts and Leases pursuant to 11 U.S.C. § 365.

VII. Reservation

The Debtors reserve the right, as they may determine in their discretion and in accordance with their business judgment to be in the best interest of their estates, in consultation with their professionals and the Consultation Parties to: (i) modify the Bidding Procedures to discontinue incremental bidding and then require that any and all bidders or potential purchasers submit their sealed, highest and best offer for the Purchased Assets and/or the Other Assets; (ii) determine which Qualified Bid is the highest or otherwise best bid and which is the next highest or otherwise best bid; (iii) waive terms and conditions set forth herein with respect to all Potential Bidders; (iv)

impose additional terms and conditions with respect to all Potential Bidders; (v) extend the deadlines set forth herein; (vi) continue or cancel an Auction and/or Sale Hearing in open court without further notice; and (vii) implement additional procedural rules that the Debtors determine, in their reasonable business judgment and in consultation with the Consultation Parties will better promote the goals of the bidding process; provided that such modifications are disclosed to each Qualified Bidder participating in the Auction; provided, however, and notwithstanding the foregoing, these Bid Procedures shall not be modified so as to alter, extinguish or modify any rights or interests of the Stalking Horse Purchaser expressly set forth herein or in the Stalking Horse APA.

SCHEDULES 1.4.3 TO 11.3(b) TO BE SUBMITTED

EXHIBIT "3"

Docket #1572 Date Filed: 2/19/2019

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Attorneys for the Chapter 11 Debtors and Debtors In Possession

FILED & ENTERED

FEB 19 2019

CLERK U.S. BANKRUPTCY COURT
Central District of California
BY gonzalez DEPUTY CLERK

UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA – LOS ANGELES DIVISION

CHANGES MADE BY COURT

In re

VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*,

Debtors and Debtors In Possession.

☒ Affects All Debtors

☐ Affects Verity Health System of California, Inc.
☐ Affects O'Connor Hospital
☐ Affects Saint Louise Regional Hospital
☐ Affects St. Francis Medical Center
☐ Affects St. Vincent Medical Center
☐ Affects Seton Medical Center
☐ Affects O'Connor Hospital Foundation
☐ Affects Saint Louise Regional Hospital Foundation
☐ Affects St. Francis Medical Center of Lynwood Foundation
☐ Affects St. Vincent Foundation
☐ Affects St. Vincent Dialysis Center, Inc.
☐ Affects Seton Medical Center Foundation
☐ Affects Verity Business Services
☐ Affects Verity Medical Foundation
☐ Affects Verity Holdings, LLC
☐ Affects De Paul Ventures, LLC
☐ Affects De Paul Ventures - San Jose Dialysis, LLC

Debtors and Debtors In Possession.

Lead Case No. 2:18-bk-20151-ER

Jointly Administered With:
Case No. 2:18-bk-20162-ER
Case No. 2:18-bk-20163-ER
Case No. 2:18-bk-20164-ER
Case No. 2:18-bk-20165-ER
Case No. 2:18-bk-20167-ER
Case No. 2:18-bk-20168-ER
Case No. 2:18-bk-20169-ER
Case No. 2:18-bk-20171-ER
Case No. 2:18-bk-20172-ER
Case No. 2:18-bk-20173-ER
Case No. 2:18-bk-20175-ER
Case No. 2:18-bk-20176-ER
Case No. 2:18-bk-20178-ER
Case No. 2:18-bk-20179-ER
Case No. 2:18-bk-20180-ER
Case No. 2:18-bk-20181-ER

Hon. Ernest M. Robles

ORDER (1) APPROVING FORM OF ASSET PURCHASE AGREEMENT FOR STALKING HORSE BIDDER AND FOR PROSPECTIVE OVERBIDDERS, (2) APPROVING AUCTION SALE FORMAT, BIDDING PROCEDURES AND STALKING HORSE BID PROTECTIONS, (3) APPROVING FORM OF NOTICE TO BE PROVIDED TO INTERESTED PARTIES, (4) SCHEDULING A COURT HEARING TO CONSIDER APPROVAL OF THE SALE TO THE HIGHEST BIDDER AND (5) APPROVING PROCEDURES RELATED TO THE ASSUMPTION OF CERTAIN EXECUTORY CONTRACTS AND UNEXPIRED LEASES; AND (II) AN ORDER (A) AUTHORIZING THE SALE OF PROPERTY FREE AND CLEAR OF ALL CLAIMS, LIENS AND ENCUMBRANCES; MEMORANDUM OF POINTS AND AUTHORITIES IN SUPPORT THEREOF

Hearing:
Date: February 6, 2019
Time: 10:00 am
Location: Courtroom 1568, 255 E. Temple St., Los Angeles, CA

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This matter coming before the Court on the motion (the "Motion")[1] of the above-captioned debtors and debtors in possession (the "Debtors") for the entry of an Order, as applicable, pursuant to Sections 105(a), 363, and 365 of Title 11 of the United States Code (the "Bankruptcy Code"), Rules 2002, 6004, 6006, 9007, and 9014 of the Federal Rules of Bankruptcy Procedure (as amended from time to time, the "Bankruptcy Rules"), and Rule 6004-1 and 9013-1 of the Local Bankruptcy Rules of the United States Bankruptcy Court for the Central District of California ("LBR") (i)(a) approving form of asset purchase agreement for the Stalking Horse Purchaser and for prospective Overbidders (the "Stalking Horse APA"); (b) approving auction sale format, bidding procedures (the "Bidding Procedures") and stalking horse bid protections; (c) approving the form of notice to be provided to interested parties; (d) scheduling the Auction and a court hearing to consider approval of the sale to the highest bidder; and (e) approving procedures related to the assumption and assignment of certain executory contracts and unexpired leases to the Successful Bidder; (ii) authorizing the sale of property free and clear of all claims, liens and encumbrances; and (iii) granting related relief; the Court having found that (i) the Court has jurisdiction to consider the Motion and the relief requested therein pursuant to 28 U.S.C. §§ 157 and 1334; (ii) venue is proper in this district pursuant to 28 U.S.C. §§ 1408 and 1409; (iii) this is a core proceeding pursuant to 28 U.S.C. § 157(b); and (iv) notice of the Motion was sufficient under the circumstances and properly given, and it appearing that no other or further notice need be provided; and a hearing on the proposed bid and sale procedures as detailed in the Motion having been held; and after due deliberation the Court having determined that the relief requested in the Motion with respect to proposed bid and sale procedures is in the best interests of the Debtors, their estates, and their creditors; ~~and for the reasons set forth in the Court's tentative~~

[1] Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Motion.

~~ruling (the "Tentative Ruling") [Doc. No. 1488], which the Court adopts as its final ruling and which is incorporated herein by reference,~~ [2] and good and sufficient cause having been shown;

AND IT IS FURTHER FOUND AND DETERMINED THAT: [3]

A. The statutory and legal predicates for the relief requested in the Motion and provided for herein are Sections 105(a), 363, and 365 of Title 11 of the Bankruptcy Code, Bankruptcy Rules 2002, 6004, 6006, 9007, 9013 and 9014, and Local Bankruptcy Rules 6004-1, and 9013-1.

B. In the Motion and at the hearing on the Motion, the Debtors demonstrated that good and sufficient notice of the relief granted by this Order has been given and no further notice is required. A reasonable opportunity to object or be heard regarding the relief granted by this Order has been afforded to those parties entitled to notice pursuant to Bankruptcy Rule 2002 and all other interested parties.

C. The Debtors' proposed notice of the Bidding Procedures, the Auction and the hearing to approve the sale (the "Sale") of the Assets (the "Sale Hearing") is appropriate and reasonably calculated to provide all interested parties with timely and proper notice, and no other or further notice is required.

D. The Bidding Procedures substantially in the form attached hereto as Exhibit 1 are fair, reasonable, and appropriate and are designed to maximize the recovery from the Sale of the Assets.

E. The Break-Up Fee, in the amount set forth below, (i) is reasonable and appropriate given, among other things, the size and nature of the Sale and the efforts that will have been

[2] Because material changes were made to the Court's Tentative Ruling on the record at the hearing, the Court has not posted the Tentative Ruling to the CM/ECF docket.

[3] The findings and conclusions set forth herein constitute the Court's findings of fact and conclusions of law pursuant to Bankruptcy Rule 7052, made applicable to this proceeding pursuant to Bankruptcy Rule 9014. To the extent that any of the following findings of fact constitute conclusions of law, they are adopted as such. To the extent that any of the following conclusions of law constitute findings of fact, they are adopted as such.

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expended, and will continue to be expended, by the Stalking Horse Purchaser, and (ii) is a material inducement for, and a condition of, the Stalking Horse Purchaser's entry into the Stalking Horse APA.

F. The form of the Stalking Horse APA is fair and reasonable and provides flexibility in the process to sell the Assets in a manner designed to maximize the value of the Assets.

G. The assumption and assignment procedures described in the Motion and provided for herein (the "Assumption and Assignment Procedures") and the Cure Notice are reasonable and appropriate and consistent with the provisions of Section 365 of the Bankruptcy Code and Bankruptcy Rule 6006. The Assumption and Assignment Procedures and the Cure Notice have been narrowly tailored to provide an adequate opportunity for all non-debtor counterparties to the Assumed Executory Contracts to assert an Assumption Objection.

H. Entry of this Order is in the best interests of the Debtors, their estates and creditors, and all other parties in interest.

NOW, THEREFORE, IT IS HEREBY ORDERED THAT:

1. The Motion is **GRANTED** as set forth herein.

2. To the extent that the International Union of Operating Engineers, Stationary Engineers Local 39 [Doc. No. 1355], the Service Employees International Union, United Healthcare WorkersWest [Doc. No. 1354], the California Nurses Association [Doc. No. 1359], and the United Nurses Association of California/Union of Health Care Professionals (collectively, the "Unions") assert that the Debtors are required to reject the Collective Bargaining Agreements prior to entering into the Stalking Horse APA, the Unions' objections are overruled. Additionally, the Union's objection that the Bidding Procedures do not sufficiently incentivize prospective purchasers to assume Collective Bargaining Agreements (the "CBAs") to which the Unions are parties is overruled. The Court finds that requiring the Debtors to provide a precise

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quantification of the value to be accorded to the assumption of liabilities arising under the CBAs would unduly impair the Debtors' flexibility in the conduct of the auction of the Debtors' assets, and would likely yield suboptimal results for all stakeholders. The Debtors must be allowed to conduct the auction in accordance with their business judgment, especially given the complexity of an auction of this type. Precise quantification of the valuation to be afforded to assumption of the CBAs would not be of material assistance to the sophisticated participants in this auction, who will be assisted by professional advisors using their own detailed financial models and projections. ~~to the Bidding Procedures are overruled as set forth in the Tentative Ruling, at Section 11 ¶ C.~~ This Order does not prevent the Unions from raising objections under § 1113 at the Sale Hearing. However, the Unions' contention that the Stalking Horse APA and the associated bidding procedures cannot be approved prior to the adjudication of § 1113 issues is without merit.

3. The objection filed by St. Vincent IPA Medical Corporation and Angeles IPA [Doc. No. 1388] is premature and may be raised at the Sale Hearing. With respect to the objection filed by Hooper Healthcare Consulting LLC ("Hooper") [Doc. No. 1397], to the extent that Hooper asserts that it is entitled to receive notification of the treatment of its Net Benefit Compensation (as that term is defined in Doc. No. 1397) prior to selection of the Successful Bidder, its objection is overruled. Hooper may raise any objections regarding its Net Benefit Compensation or the assumption and assignment of its executory contract at the Sale Hearing. Hooper's objection to the timeline proposed by the Debtors with respect to the assumption and assignment of executory contracts is overruled. ~~To the extent that Hooper The objections filed by (i) St. Vincent IPA Medical Corporation and Angeles IPA [Doc. No. 1388], and (ii) Hooper Healthcare Consulting LLC [Doc. No. 1397] are overruled for the reasons set forth in the Tentative Ruling, Section II ¶ G & J.~~

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4. The objection filed by the Official Committee of Unsecured Creditors (the "Committee") [Docket Nos. 1399, 1401, 1402] and the *Joint Supplement to Objection and Response to Debtors' Sale Motion* [Docket No. 1279] filed by the Committee, UMB Bank, N.A., and Wells Fargo Bank, National Association, is overruled in part and sustained in part with respect to the revised Section 8.6 of the Stalking Horse APA and the Break-Up Fee, as set forth below.

5. As to the objection filed by the County of San Mateo and the Health Plan of San Mateo [Doc. No. 1361], the restrictions and limitations set forth in § 5.1(b) of the Stalking Horse APA on communications between SGM and governmental authorities shall apply only to communications regarding licensing or regulation of the Hospitals with the relevant licensing or regulatory authorities. Such restrictions shall not apply to communications involving SGM (or any other prospective buyers) and any governmental authority on subjects unrelated to licensing or regulation by that authority.

6. The Court does not rule on the objections filed by MGH Painting Inc. [Doc. No. 1358], Belfor USA Group, Inc. [Doc. No. 1364], and the California Attorney General [Doc. No. 1352], ~~Centers for Medicare and Medicaid Services~~; all such objections are premature and are preserved for the Sale Hearing and may be raised at that time. All objections to the relief requested in the Motion that have not been withdrawn, waived or settled are overruled.

7. The objection of Cigna Healthcare of California, Inc. ("Cigna") [Doc. Nos. 1349 and 1459] is sustained. The Debtors shall, no later than the earlier of (i) 48 hours after the conclusion of the Auction, or (ii) thirty (30) days prior to the Closing Date, provide Cigna with written notice of its irrevocable decision as to whether or not the Debtors propose to assume and assign any or all of the Cigna Provider Agreements as part of the Sale; provided, however, that such notice shall be irrevocable only to the extent that the Successful Bidder's transaction is

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approved by this Court and an order thereon becomes final and non-appealable. The Debtors shall provide the same notice to UnitedHealthcare Insurance Company.

8. The objections filed by the U.S. Department of Health and Human Services and Centers for Medicare and Medicaid Services [Doc. No. 1346] and the California Department of Health Care Services [Doc. No. 1353] are continued, as resolved by stipulations [Docket Nos. 1458 and 1473, respectively], approved by orders entered on [Docket Nos. 1465 and 1483, respectively].

9. The Bidding Procedures attached hereto as Exhibit 1 are **APPROVED**.[4]

10. Strategic Global Management, Inc. or an affiliate to be designated (the "Stalking Horse Purchaser") is hereby **APPROVED** to be and designated as the Stalking Horse Purchaser as to the Assets, and the form of the Stalking Horse APA is hereby **APPROVED**.

11. Subject to the Bidding Procedures and approval of the Sale at the Sale Hearing, the Debtors' entry into the Stalking Horse APA (including any amendments thereto) is hereby **APPROVED** subject to the following modifications:

(i) the following language is added to Section 6.1(b)(2): "In the event that Purchaser terminates this Agreement in accordance with Section 8.6 hereof, expenses of Purchaser incurred in satisfaction of Section 8.6 shall be reimbursed up to $500,000";

(ii) Section 8.6 shall be replaced by the following revised Section 8.6:

> 8.6 **Attorney General Provisions**. Purchaser recognizes that the transactions contemplated by this Agreement may be subject to review and approval of the CA AG. Purchaser agrees to close the transactions contemplated by this Agreement so long as any conditions imposed by the CA AG are substantially consistent with the conditions set forth, as Purchaser Approved Conditions, in Schedule 8.6. In the event the CA AG imposes conditions on the transactions contemplated by this Agreement, or on Purchaser in connection therewith, which are materially different than the Purchaser Approved Conditions set forth

[4] For the convenience of parties in interest, a chart listing important dates set forth in this Order is attached hereto as Exhibit 2.

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on Schedule 8.6 (the "Additional Conditions"), Sellers shall have the opportunity to file a motion with the Bankruptcy Court seeking the entry of an order ("Supplemental Sale Order") finding that the Additional Conditions are an "interest in property" for purposes of 11 U.S.C. § 363(f), and that the Assets can be sold free and clear of the Additional Conditions without the imposition of any other conditions, which would adversely affect the Purchaser. For purposes of this Section 8.6, Additional Conditions which individually or collectively impose a direct or indirect cost to Purchaser of $5 million, or more, shall be conclusively deemed to be "materially different." If Sellers determine not to seek such Supplemental Sale Order, or fail to obtain such Supplemental Sale Order within 60 days of the Attorney General's imposition of Additional Conditions, Purchaser shall be entitled to terminate this Agreement and receive the return of its Good Faith Deposit. If Sellers timely obtain such Supplemental Sale Order from the Bankruptcy Court or another court, Purchaser shall have a period of 21 business days from the entry of such order (the "Evaluation Period") to determine, in the exercise of the Purchaser's reasonable business judgment and in consultation with Purchaser's financing sources, whether to proceed to consummate the transactions contemplated by this Agreement; provided, however, (i) Purchaser shall not terminate or provide notice of termination of the Stalking Horse APA based on the Seller's failure to satisfy the condition set forth under this Section 8.6 until the expiration of the Evaluation Period as may be extended herein, and (ii) the Evaluation Period may be extended by the Debtors, in consultation with the Consultation Parties, by up to 90 days for any appeal properly perfected with respect to the Supplemental Sale Order (the "Extended Evaluation Periods"). For the avoidance of doubt, if the Debtors or any of the Consultation Parties dispute the reasonableness of the exercise of the Purchaser's business judgment, such dispute shall be determined by the Bankruptcy Court only in the context of an adversary proceeding. If, at the conclusion of the Extended Evaluation Periods, such Supplemental Sale Order has not become a final, non-appealable order and Purchaser determines not to proceed, Purchaser shall have the right within ten (10) business days after the conclusion of the Extended Evaluation Periods to terminate this Agreement and receive the return of its Good Faith Deposit. Sellers shall provide Purchaser with prompt written notice of the conclusion of the Extended Evaluation Periods and whether the Supplemental Sale Order has become a final, non-appealable order. For purposes of this Section 8.6, "a final, non-appealable order" shall include a Supplemental Sale Order (i) which has been affirmed or the appeal of which has been dismissed by any appellate court and for which the relevant appeal period has expired (other than any right of appeal to the U.S. Supreme Court), or (ii) which has been withdrawn by the appellant. If the Supplemental Sale Order becomes a final, non-appealable order prior to the expiration of the Evaluation Period or, if applicable, the

> Extended Evaluation Periods, Purchaser shall consummate the Sale provided that all other conditions to closing have been satisfied. During any Evaluation Period or Extended Evaluation Periods, Purchaser shall reasonably cooperate in any efforts to render the Supplemental Sale Order a final, non-appealable order, including timely taking reasonable steps in preparation for closing of the transactions described in this Agreement; provided, however, Purchaser shall not be obligated to expend more than $500,000. For the avoidance of doubt, neither this provision, nor any of the rights granted to the Purchaser herein, shall constitute a waiver of any party in interest's right to argue that any appeal from the Sale Order should be dismissed on statutory, Constitutional or equitable mootness grounds.

(iii) in Section II, H(a), in Schedule 6.1(b)(3), annexed to the Stalking Horse APA [Docket No. 1279, at 111], the reference to Section 6.26(b)(2) is hereby corrected to Section 6.1(b)(2); and

(iv) other clarifications to the Bidding Procedures set forth in the attached Exhibit "1" are hereby deemed incorporated into Schedule 6.1(b)(3), annexed to the Stalking Horse APA [Docket No. 1279, at 111].

12. The Break-Up Fee, as modified, is **APPROVED** for the reasons stated on the record**.** If the Stalking Horse Purchaser is not the Successful Bidder and is not then in breach, and the Stalking Horse APA has not otherwise been terminated, the Stalking Horse Purchaser shall be paid at the closing of the Sale of the Purchased Assets (i) three and one-quarter percent (3.25%) of the Cash Consideration ($19,825,000.00), plus (ii) reimbursement of reasonably documented reasonable costs and expenses in an amount not to exceed $2,000,000.00. Notwithstanding anything to the contrary contained herein, upon payment of the Break-Up Fee to the Stalking Horse Purchaser, the Debtors and their representatives and affiliates, on the one hand, and Stalking Horse Purchaser and its respective representatives and affiliates, on the other hand, will be deemed to have fully released and discharged each other from any liability resulting from the termination of the Stalking Horse APA, and neither the Debtors and their representatives and

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affiliates, on the one hand, and the Stalking Horse Purchaser and its respective representatives and affiliates, on the other hand, nor any other Person, will have any other remedy or cause of action under or relating to the Stalking Horse APA, including for reimbursement of any additional expenses incurred by the Stalking Horse Purchaser in connection with the negotiation and documentation of the Stalking Horse APA and all proceedings held in connection therewith. Any Break-Up Fee shall be payable without any further order of the Bankruptcy Court.

13. The Partial Bid Deadline **shall be March 28, 2019 at 4:00 p.m. (prevailing Pacific Time)** and the Bid Deadline shall be **April 3, 2019 at 4:00 p.m. (prevailing Pacific Time)**.

14. The Debtors, after consultation with the Consultation Parties (as defined in the Bidding Procedures), shall have the exclusive right to determine whether a bid is a Qualified Bid and shall notify Qualified Bidders whether their bids have been recognized as such as promptly as practicable after a Qualified Bidder delivers all of the materials required by the Bidding Procedures.

15. The Partial Bid Auction, if necessary, shall be held on **April 8, 2019 at 10:00 a.m. (prevailing Pacific Time)** at the offices of Dentons US LLP, 601 South Figueroa Street, Suite 2500, Los Angeles, CA 90017, or at such other location as shall be identified in a notice filed with the Bankruptcy Court at least 24 hours before the Partial Bid Auction. The Full Bid Auction, if necessary, shall be held on **April 9, 2019 at 10:00 a.m. (prevailing Pacific Time)** at the offices of Dentons US LLP, 601 South Figueroa Street, Suite 2500, Los Angeles, CA 90017, or at such other location as shall be identified in a notice filed with the Bankruptcy Court at least 24 hours before the Full Bid Auction.

16. At each of the Partial Bid Auction and the Full Bid Auction, each Qualified Bidder shall be required to confirm that it has not engaged in any collusion with respect to the bidding or

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the sale, and the Auction shall be conducted openly and transcribed. Within twenty-four (24) hours following the conclusion of the Full Bid Auction, the Debtors shall file a notice identifying the Successful Bidder with the Court and shall serve such notice by fax, email, or if neither is available, by overnight mail to all counterparties whose contracts are to be assumed and assigned.

17. The Debtors, after consultation with the Consultation Parties, shall determine which offer is the highest and otherwise best offer for the Assets, giving effect to the Break-Up Fee payable to the Stalking Horse Purchaser as well as any additional liabilities or Cure Amounts to be assumed by the Stalking Horse Purchaser or another Qualified Bidder and any additional costs which may be imposed on the Debtors.

18. The Sale Hearing shall be held on **April 17, 2019 at 10:00 a.m. (prevailing Pacific Time)** before this Court, the U.S. Bankruptcy Court for the Central District of California, 255 E. Temple St., Los Angeles, California 90012. Any objections to the Sale (other than an Assumption Objection (defined herein) which shall be governed by the procedures set forth below) (a "Sale Objection"), must (i) be in writing; (ii) comply with the Bankruptcy Rules and the Local Rules; (iii) set forth the specific basis for the Sale Objection; (iv) be filed with the Court, 255 E. Temple St., Los Angeles, California 90012, together with proof of service, **on or before 4:00 p.m. (prevailing Pacific Time) on April 12, 2019** (the "Sale Objection Deadline") and (v) be served, so as to be actually received on or before the Sale Objection Deadline, upon: (i) counsel to the Debtors: Dentons US LLP, 601 S. Figueroa Street, Suite 2500, Los Angeles, CA 90017 (Attn: Tania M. Moyron (tania.moyron@dentons.com)); (ii) the Debtors' Investment Banker: Cain Brothers, a division of KeyBanc Capital Markets, 1 California Street, Suite 2400, San Francisco, CA 94111 (Attn: James Moloney (jmoloney@cainbrothers.com)); (iii) counsel to the Official Committee: Milbank, Tweed, Hadley & McCloy LLP, 2029 Century Park East, 33rd Floor, Los Angeles, CA 90067 (Attn: Gregory A. Bray (gbray@milbank.com); (iv) counsel to the

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Master Trustee and Series 2005 Bond Trustee: Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, MA 02111 (Attn: Daniel S. Bleck and Paul Ricotta (dsbleck@mintz.com, pricotta@mintz.com)); and (v) counsel to the Series 2015 and Series 2017 Notes Trustee: Maslon, LLP, 3300 Wells Fargo Center, 90 South Seventh Street, Minneapolis, MN 55402 (Attn: Clark Whitmore (clark.whitmore@maslon.com) (collectively, the "Notice Parties"). If a Sale Objection is not filed and served on or before the Sale Objection Deadline, the objecting party may be barred from objecting to the Sale and may not be heard at the Sale Hearing, and this Court may enter the Sale Order without further notice to such party.

19. The Sale Hearing may be adjourned from time to time without further notice to creditors or parties in interest other than by announcement of the adjournment in open court on the date scheduled for the Sale Hearing, and the Debtors shall have the exclusive right, in the exercise of its fiduciary obligations and business judgment, and after consultation with the Consultation Parties, to cancel the Sale at any time subject to the terms of this Order, in accordance with the terms of this Order and the Stalking Horse APA.

20. The following forms of notice are approved: (a) the Procedures Notice, in the form substantially similar to that attached hereto as Exhibit 3 and (b) the Cure Notice, in the form substantially similar to that attached hereto as Exhibit 4.

20. The Debtors shall, within one (1) business day after the entry of this Order, file with the Court and serve a copy of this Order and the Procedures Notice by first class mail, postage prepaid, on the Notice Parties and all parties which the Debtor are require to serve pursuant to LBR 6004-1(b)(3) and the *Order Granting Emergency Motion of Debtors for Order Limiting Scope of Notice* [Dkt. No. 132].

21. The Debtors shall file with the Court and serve the Cure Notice (along with a copy of this Motion) upon each counterparty to the Assumed Executory Contracts by no later than

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March 5, 2019. The Cure Notice shall state the date, time and place of the Sale Hearing as well as the date by which any Assumption Objection must be filed and served. The Cure Notice also will identify the amounts, if any, that the Debtors believe are owed to each counterparty to an Assumed Executory Contract in order to cure any defaults that exist under such contract (the "Cure Amounts").

22. To the extent there is a contract added to the list of contracts to be assumed by the Successful Bidder pursuant to the Successful Bidder's Purchase Agreement selected at the Auction, the Motion constitutes a separate motion to assume and assign that contract to the Successful Bidder pursuant to Section 365 of the Bankruptcy Code; each such contract will be listed on an exhibit to the Successful Bidder's Purchase Agreement, and shall be given a separate Cure Notice filed and served by overnight delivery by the Debtors within 5 business days of the conclusion of the Auction and announcement of the Successful Bidder(s).

23. The inclusion of a contract, lease, or other agreement on the Cure Notice shall not constitute or be deemed a determination or admission by the Debtors and their estates or any other party in interest that such contract, lease, or other agreement is, in fact, an executory contract or unexpired lease within the meaning of the Bankruptcy Code, and any and all rights with respect thereto shall be reserved.

24. If any counterparty to an Assumed Executory Contract wishes to file an Assumption Objection, such counterparty must file and serve it so as to be actually received by the Notice Parties by no later than: (i) **4:00 p.m. (prevailing Pacific Time) on March 22, 2019**, (ii) such later date otherwise specified in the Cure Notice, or (iii) solely with respect to those counterparties to Assumed Executory Contracts who are not served with a Cure Notice until a date after March 22, 2019, seven (7) days after service by overnight mail of such Cure Notice (the "Assumption Objection Deadline"), provided, however, that if any Successful Bidder is not the

Stalking Horse Purchaser, any counterparty may raise at the Sale Hearing (or any time before the Sale Hearing) an objection to the assumption and assignment of the Assumed Executory Contract solely with respect to such Successful Bidder's ability to provide adequate assurance of future performance under the Assumed Executory Contract. The Court will make any and all determinations concerning adequate assurance of future performance under the Assumed Executory Contracts pursuant to Sections 365(b) and (f)(2) of the Bankruptcy Code at the Sale Hearing.

25. To the extent the Assumed Executory Contract counterparty wishes to object to the Cure Amount, if any, set forth in the Cure Notice, its Assumption Objection must set forth with specificity each and every asserted default in any executory contract or unexpired lease and the monetary cure amount asserted by such counterparty to the extent it differs from the amount, if any, specified by the Debtors in the Cure Notice.

26. Any counterparty to an Assumed Executory Contract that fails to timely file and serve an objection to the Cure Amounts shall be forever barred from asserting that a Cure Amount is owed in an amount in excess of that set forth in the Cure Notice.

27. If a Contract or Lease is assumed and assigned pursuant to Court order, the Assumed Executory Contract counterparty shall receive no later than three (3) business days following the closing of the Sale, the Cure Amount, if any, as set forth in the Cure Notice. All Cure Amounts will be funded in accordance with the terms and conditions of the Stalking Horse APA and/or the Purchase Agreement(s), as applicable.

28. Assumption Objections (including those related to adequate assurance of future performance) will be resolved by the Court at the Sale Hearing. Notwithstanding, in the event that the Debtors and the counterparty cannot resolve the Cure Amount, such dispute may be

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resolved by the Court at the Sale Hearing or such later date as may be agreed to or ordered by the Court.

29. The Successful Bidder(s) shall be responsible for satisfying any requirements regarding adequate assurance of future performance that may be imposed under section 365(b) of the Bankruptcy Code in connection with the proposed assignment of any Assumed Executory Contract, and the failure to provide adequate assurance of future performance to any counterparty to any Assumed Executory Contract shall not excuse the Successful Bidder(s) from performance of any and all of its obligations pursuant to the Successful Bidder's Purchase Agreement.

30. Except to the extent otherwise provided in a Successful Bidder's Purchase Agreement, the Debtors and their estates shall be relieved of all liability accruing or arising after the assumption and assignment of the Assumed Executory Contracts pursuant to section 365(k) of the Bankruptcy Code.

31. All proceeds of the Sale shall be paid by the Successful Bidder(s) to the Debtors and such proceeds shall be deposited in accordance with paragraph 4 of the Final DIP Order, and all liens, claims, interests and encumbrances on the Assets sold pursuant to the Sale shall attach to the proceeds of Sale with the same force, effect, validity and priority as such liens, claims, interests and encumbrances had on such Assets prior to the Closing, subject to the liens and security interests of the DIP Lender and the Prepetition Secured Creditors under the relevant intercreditor agreements, applicable law and the Final DIP Order, as applicable.

32. To the extent the provisions of this Order are inconsistent with the provisions of any Exhibit referenced herein or with the Motion, the provisions of this Order shall control.

33. The Court shall retain jurisdiction over all matters arising from or related to the interpretation and implementation of this Order.

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34. Notwithstanding the possible applicability of Bankruptcy Rules 6004, 6006, 7062, 9014, or otherwise, the terms and conditions of this Order shall be immediately effective and enforceable.

###

Date: February 19, 2019

Ernest M. Robles
United States Bankruptcy Judge

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Exhibit 1

(Bidding Procedures)

BIDDING PROCEDURES

Set forth below are the bidding procedures (the "Bidding Procedures") to be employed in connection with the sale of all assets of (i) the assets (the "Purchased Assets") enumerated in the Stalking Horse APA (as defined below), including but not limited to, St. Francis Medical Center, St. Vincent Medical Center, St. Vincent Dialysis Center, Inc., Seton Medical Center and Seton Medical Center Coastside (collectively, the "APA Facilities"); and (ii) assets not otherwise enumerated in the APA, but associated with the ownership or operation of the APA Facilities and available for purchase (the "Other Assets"), in connection with the chapter 11 cases pending in the United States Bankruptcy Court for the Central District of California (the "Bankruptcy Court"), jointly administered as case number 2:18-bk-20151-ER, in the form to be approved by the Bankruptcy Court, by Order dated [_____], 2019 (the "Bidding Procedures Order").

The Debtors entered into that certain Asset Purchase Agreement, dated January 8, 2019 between the Debtors, on the one hand, and Strategic Global Management, Inc. (the "Stalking Horse Purchaser"), on the other hand, pursuant to which the Stalking Horse Purchaser shall acquire the Assets on the terms and conditions specified therein (together with the schedules and related documents thereto, the "Stalking Horse APA"). The sale transaction pursuant to the Stalking Horse APA is subject to competitive bidding as set forth herein. Capitalized terms used herein and not otherwise defined shall have the meanings set forth in the *Debtors' Notice of Motion and Motion for the Entry of (I) an Order (1) Approving Form of Asset Purchase Agreement for Stalking Horse Bidder and for Prospective Overbidders, (2) Approving Auction Sale Format, Bidding Procedures and Stalking Horse Bid Protections, (3) Approving Form of Notice to be Provided to Interested Parties, (4) Scheduling a Court Hearing to Consider Approval of the Sale to the Highest Bidder, and (5) Approving Procedures Related to the Assumption of Certain Executory Contracts and Unexpired Leases; and (II) an Order (A) Authorizing the Sale of Property Free and Clear of All Claims, Liens and Encumbrances* [Docket No. 1279] (the "Sale Motion").

I. ASSETS TO BE SOLD

The Debtors seek to complete a sale of substantially all assets of the APA Facilities, including both the Purchased Assets and the Other Assets (the "Sale"). The Stalking Horse APA will serve as the "stalking-horse" bid for the Purchased Assets.

II. THE BID PROCEDURES

In order to ensure that the Debtors receive the maximum value for the Purchased Assets and/or the Other Assets, they intend to hold a sale process for the Purchased Assets and/or the Other Assets pursuant to the procedures and on the timeline proposed herein.

A. Provisions Governing Qualifications of Bidders

Unless otherwise ordered by the Court or as set forth in these procedures, in order to participate in the bidding process, each person, other than the Stalking Horse Purchaser, who wishes to

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participate in the bidding process must deliver, prior to the Bid Deadline (defined herein), the following Debtors:

(a) a written disclosure of the identity of each entity that will be bidding for the Purchased Assets and/or the Other Assets or otherwise participating in connection with such bid; and

(b) an executed confidentiality agreement (to be delivered prior to the distribution of any confidential information by the Debtors) in form and substance satisfactory to the Debtors and which shall inure to the benefit of any purchaser of the Purchased Assets and/or Other Assets; without limiting the foregoing, each confidentiality agreement executed by a Potential Bidder shall contain standard non-solicitation provisions.

A bidder that delivers the documents and information described above and that the Debtors determine, after consultation with the Official Committee of Unsecured Creditors, the Prepetition Secured Creditors, and any other party deemed appropriate within the business judgment of the Debtors (collectively, the "Consultation Parties") in their reasonable business judgment, is likely (based on availability of financing, experience, and other considerations) to be able to consummate the sale, will be deemed a potential bidder ("Potential Bidder").

B. Due Diligence

The Debtors will afford any Potential Bidder such due diligence access or additional information as the Debtor, in consultation with their advisors, deem appropriate, in their reasonable discretion. The due diligence period shall extend through and including the relevant Bid Deadline; provided, however, that any bid submitted under these procedures shall be irrevocable until at least the selection of the Successful Bidder(s) (defined herein) and any Back-Up Bidder(s) (defined herein).

C. Provisions Governing Qualified Bids

A bid submitted by a Potential Bidder will be considered a Qualified Bid (each, a "Qualified Bid", and each such Potential Bidder thereafter a "Qualified Bidder") only if the bid complies with all of the following requirements:

a) it states that the applicable Qualified Bidder offers to purchase, in cash, some or all of the Purchased Assets and/or the Other Assets;

b) it identifies with particularity the portion of the Purchased Assets and/or the Other Assets the Qualified Bidder is offering to purchase;

c) it allocates with specificity the portion of the purchase price offered that the Qualified Bidder attributes to St. Francis Medical Center, St. Vincent Medical Center, Seton Medical Center, and Seton Coastside, and each of the Other Assets, respectively;[5]

[5] For the avoidance of doubt, such allocation shall not be binding on the Debtors, their estates or any Consultation Party.

d) it includes a signed writing that the Qualified Bidder's offer is irrevocable until the selection of the Successful Bidder and the Back-Up Bidder, provided that if such bidder is selected as the Successful Bidder or the Back-Up Bidder then the offer shall remain irrevocable until the earliest of (i) the closing of the transaction with the Successful Bidder, (ii) in the case of the Successful Bidder, a termination of the Qualified Bid pursuant to the terms of the Successful Bidder Purchase Agreement and (iii) with respect to the Back-up Bidder, the date that is thirty (30) business days after entry of the Sale Order;

e) it includes confirmation that there are no conditions precedent to the Qualified Bidder's ability to enter into a definitive agreement and that all necessary internal governance and shareholder approvals have been obtained prior to the bid;

f) it sets forth each third-party, regulatory and governmental approval required for the Qualified Bidder to consummate the transaction and the time period within which the Qualified Bidder expects to receive such approvals and establishes a substantial likelihood that the Qualified Bidder will obtain such approvals by the stated time period;

g) it includes a duly authorized and executed copy of a purchase or acquisition agreement in the form of the Stalking Horse APA (a "Purchase Agreement"), including the purchase price for some or all of the Purchased Assets and/or the Other Assets, or both, expressed in U.S. Dollars, together with all exhibits and schedules thereto, together with copies marked to show any amendments and modifications to the Stalking Horse APA ("Marked Agreement");

h) it is not subject to any financing contingency and includes written evidence of a firm ability to have the funding necessary to consummate the proposed transaction, that will allow the Debtors to make a reasonable determination, in consultation with the Consultation Parties, as to the Qualified Bidder's financial and other capabilities to consummate the transaction contemplated by the Purchase Agreement;

i) if the bid is for all of the Purchased Assets, it must have a value to the Debtors, in the Debtors' exercise of its reasonable business judgment, after consultation with its advisors and the Consultation Parties, that is greater than or equal to the sum of the value offered under the Stalking Horse APA, plus (i) the amount of the Break-Up Fee ($19,825,000.00); (ii) the amount of the expense reimbursement ($2,000,000.00); and (iii) $7,000,000.00 (the "Initial Bidding Increment," and, together with the Break-Up Fee, the "Minimum Qualified Bid");

j) if the bid is a partial bid (the "Partial Bid"),[6] the terms of paragraph (i) immediately above shall not apply but the terms of paragraph (o) below concerning the Good Faith Deposit shall expressly apply in order to be a bid qualified to participate in the Partial Bid Auction (as defined below) (each, a "Partial Bid Auction Qualified Bid"). In the event that the Debtors aggregate Partial Bids, the Partial Bid purchasers' responsibility for the Break-Up Fee, the Expense Reimbursement, and the Initial Bidding Increment shall be reasonably allocated to each Partial Bid purchaser, and (ii) in no event shall the Stalking Horse Purchaser be entitled to more than one Break-Up Fee and/or Expense Reimbursement;

k) it identifies with particularity which (i) executory contracts and unexpired leases the Qualified Bidder wishes the Debtors to assume and assign to it, and (ii)

[6] A Partial Bid shall mean a bid for less than all of the Purchased Assets.

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Purchased Assets and/or Other Assets, subject to purchase money liens or the like, the Qualified Bidder wishes to acquire and therefore pay the associated purchase money financing;

l) it contains sufficient information concerning the Qualified Bidder's ability to provide adequate assurance of performance with respect to executory contracts and unexpired leases;

m) it includes an acknowledgement and representation that the Qualified Bidder: (A) has had an opportunity to conduct any and all required due diligence regarding the Purchased Assets and/or Other Assets prior to making its offer and that the offer is not subject to any further due diligence or the need to raise capital/financing to consummate the proposed transaction; (B) has relied solely upon its own independent review, investigation and/or inspection of any documents and/or the Purchased Assets and/or Other Assets in making its bid; (C) did not rely upon any written or oral statements, representations, promises, warranties or guaranties whatsoever, whether express or implied (by operation of law or otherwise), regarding the Purchased Assets and/or Other Assets or the completeness of any information provided in connection therewith or with the relevant Auction (defined below), except as expressly stated in the Purchase Agreement; and (D) is not entitled to any expense reimbursement, break-up fee, or similar type of payment in connection with its bid;

o) unless it is a Credit Bid (as defined below), it is accompanied by a (i) good faith deposit in the form of a wire transfer (to a bank account specified by the Debtors), certified check or such other form of cash or cash equivalent acceptable to the Debtors, payable to the order of the Debtors (or such other party as the Debtors may determine) in an amount equal to: (a) 20% of purchase price for bids under $5 million; (b) for bids greater than $5 million and less than $100 million, the greater of: (i) $1 million or (ii) 10% of purchase price; (c) for bids greater than $100 million, the greater of (i) $10 million or (ii) 5% of purchase price (collectively, the "Good Faith Deposit"), which Good Faith Deposit shall, be forfeited if such bidder is the Successful Bidder and breaches its obligation to close; and (ii) if the Qualified Bid is a bid made by a secured creditor of the Debtors (a "Credit Bid Bidder") who intends to make a credit bid (each, a "Credit Bid Bid"), evidence of (a) the basis for and property covered by such Credit Bid Bidder's secured claim, (b) the amount of such Credit Bid Bidder's claim that is secured by the property in question, (c) whether it is the senior secured claim on the property (x) prepetition and (y) as of the date of the request to be a Qualified Bidder, as well as (d) evidence of the resolution of any Challenge to such Credit Bid Bidder's secured claim within the meaning of the Final DIP Order;

p) it contains a detailed description of how the Qualified Bidder intends to treat current employees of the Debtors;

r) it identifies the person(s) and their title(s) who will attend the relevant Auction, and confirms that such person(s) have authority to make binding Overbids (defined below) at such Auction;

s) it contains such other information reasonably requested by the Debtors; and

t) it is received prior to the Bid Deadline.

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The Debtors, in consultation with the Consultation Parties (who shall receive copies of the Purchase Agreement relating to any bids cast pursuant to these Bidding Procedures as soon as reasonably practicable), may qualify any bid that meets the foregoing requirements as a Qualified Bid. Notwithstanding the foregoing, the Stalking Horse Purchaser is deemed a Qualified Bidder and the Stalking Horse APA is deemed a Qualified Bid, for all purposes in connection with the Bidding Process, the Auction, and the Sale.

The Debtors shall notify the Consultation Parties, the Stalking Horse Purchaser and all Qualified Bidders and the Notice Parties in writing as to whether or not any bids constitute Qualified Bids (and with respect to each Qualified Bidder that submitted a bid as to whether such Qualified Bidder's bid constitutes a Qualified Bid) and provide copies of the Purchase Agreements relating any such Qualified Bid to the Consultation Parties, the Stalking Horse Purchaser and such Qualified Bidders and the Notice Parties on the earlier of: (1) the date that any bid other than the Stalking Horse Bid has been deemed a Qualified Bid, or (2) two business days prior to the Partial Bid Auction.

D. Bid Deadline

A Qualified Bidder that desires to make a bid or a Partial Bid will deliver written copies of its bid or Partial Bid to the following parties (collectively, the "Notice Parties): (i) counsel to the Debtors: Dentons US LLP, 601 S. Figueroa Street, Suite 2500, Los Angeles, CA 90017 (Attn: Tania M. Moyron (tania.moyron@dentons.com)); (ii) the Debtors' Investment Banker: Cain Brothers, a division of KeyBanc Capital Markets, 1 California Street, Suite 2400, San Francisco, CA 94111 (Attn: James Moloney (jmoloney@cainbrothers.com)); (iii) counsel to the Official Committee: Milbank, Tweed, Hadley & McCloy LLP, 2029 Century Park East, 33rd Floor, Los Angeles, CA 90067 (Attn: Gregory A. Bray (gbray@milbank.com); (iv) counsel to the Master Trustee and Series 2005 Bond Trustee: Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, MA 02111 (Attn: Daniel S. Bleck and Paul Ricotta (dsbleck@mintz.com,pricotta@mintz.com));and (v) counsel to the Series 2015 and Series 2017 Notes Trustee: Maslon, LLP, 3300 Wells Fargo Center, 90 South Seventh Street, Minneapolis, MN 55402 (Attn: Clark Whitmore (clark.whitmore@maslon.com)), so as to be received by the Notice Parties not later than **March 28, 2019, at 4:00 p.m.** (prevailing Pacific Time), for partial bids (the "Partial Bid Deadline") or **April 3, 2019, at 4:00 p.m.** (prevailing Pacific Time), for full bids (the "Full Bid Deadline").

A list of all Qualified Bids, as well as all adequate assurance information included in such bids as required by paragraph C(l) above, will be provided to Cigna and United (through their counsel) no later than April 4, 2018, at 4:00 p.m. (prevailing Pacific Time) to allow those parties to evaluate Qualified Bidders related to adequate assurance of future performance of the Cigna and United provider agreements.

E. Credit Bidding

Any party with a valid, properly perfected security interest in any of the Assets may credit bid for the Assets in connection with the Sale pursuant to § 363(k) of the Bankruptcy Code.

Any credit bids made by secured creditors shall not impair or otherwise affect the Stalking Horse Purchaser's entitlement to the Bidding Procedures and related protections granted under the Bidding Procedures Order.

F. Evaluation of Competing Bids

A Qualified Bid will be valued based upon several factors including, without limitation: (i) the amount of such bid; (ii) the risks and timing associated with consummating such bid; (iii) any proposed revisions to the form of Stalking Horse APA; and (iv) any other factors deemed relevant by the Debtors in its reasonable discretion, in consultation with the Consultation Parties, including the amount of cash included in the bid.

G. No Qualified Bids

If the Debtors do not receive any Qualified Bids other than the Stalking Horse APA, the Debtors will not hold an auction and the Stalking Horse Purchaser will be named the Successful Bidder for the Assets. If the Debtors receive one or more qualified Partial Bid Auction Qualified Bids and, after the Partial Bid Auction, the Debtors will determine, in consultation with the Consultation Parties, if there are any Partial Bidders that will not be qualified to participate at the Full Bid Auction.

H. Auction Process

If the Debtors receive one or more Partial Bid Auction Qualified Bids, the Debtors will conduct separate auctions of each asset or combinations thereof (each, a "Partial Bid Auction"). Any Partial Bidder holding a Partial Bid Auction Qualified Bid shall be entitled to bid on any assets in any Partial Bid Auction(s). The procedures below shall apply to the Partial Bid Auction, except as where otherwise indicated. The Debtors will conduct the Partial Bid Auction(s), which shall be transcribed on **April 8, 2019, at 10:00 a.m. (prevailing Pacific Time)** (the "Partial Bid Auction Date"), at the offices of Dentons US LLP, 601 South Figueroa Street, Suite 2500, Los Angeles, California 90017, or such other location as shall be timely communicated to all entities entitled to attend the Auction.

The Partial Bid Auction Qualified Bids determined by the Debtors, in consultation with the Consultation Parties, at the Partial Bid Auction(s) (as set forth above) to be eligible to participate at the Full Bid Auction, including (without limitation) the highest and best bids for each asset (the "Winning Partial Bids") shall be permitted to participate in the Full Bid Auction (as defined below) of the Purchased Assets and/or the Other Assets, except that:

(a) If the Partial Bids, at the conclusion of the Partial Bid Auction, include all four APA Facilities and exceed, in the aggregate, the Purchase Price in the Stalking Horse APA, there will be a Full Bid Auction (as defined below) and (1) the Stalking Horse Purchaser may overbid in the aggregate for all four APA Facilities, or (2) the Stalking Horse Purchaser may bid for less than the four APA Facilities and be entitled to a pro-rata Break-Up Fee for the APA Facilities which the Stalking Horse Purchaser does not acquire, as specified in the Stalking Horse APA at 6.1(b)(2);

(b) If the Partial Bids do not include all four APA Facilities, and if there are no other Qualified Full Bids, then Seller, in its discretion, after consultation with the Consultation Parties, may choose, at the conclusion of the Partial Bid Auction, (1) to have no Full Bid Auction and the Stalking Horse Purchaser will purchase the four APA Facilities pursuant to the Stalking Horse APA, or (2) if the Debtor and

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Consultation Parties deem the aggregate designated Winning Partial Bid(s) to be sufficient to warrant leaving one or more APA Facilities behind (the "Remaining Facility"), the Stalking Horse Purchaser shall have the option of (i) acquiring the Remaining Facility at the allocated price in the Stalking Horse APA, (ii) overbidding one or more of the Partial Bids, or (iii) terminating the Stalking Horse APA. In either event, the Stalking Horse Purchaser shall be entitled to the Break-Up Fee for all of the APA Facilities not acquired by the Stalking Horse Purchaser.

If the Debtors receive, in addition to the Stalking Horse APA, one or more Qualified Full Bids (and/or a combination of Winning Partial Bids from the Partial Bid Auction(s) seeking, on an aggregate basis, to purchase all or substantially all of the Purchased Assets and/or the Other Assets), the Debtor will conduct a full bid auction of the Purchased Assets and/or the Other Assets (the "Full Bid Auction"), which shall be transcribed, on **April 9, 2019, at 10:00 a.m. (prevailing Pacific Time)** (the "Full Bid Auction Date"), at the offices of Dentons US LLP, 601 South Figueroa Street, Suite 2500, Los Angeles, California 90017, or such other location as shall be timely communicated to all entities entitled to attend the Auction. The Partial Bid Auction and the Full Bid Auction shall run in accordance with the following procedures:

a) only the Debtors, the Stalking Horse Purchaser, Qualified Bidders who have timely submitted a Qualified Bid, the U.S. Trustee, and the Consultation Parties, and their respective advisors, and other parties who request and receive authority to attend the auction in advance from the Debtors may attend the Auction;

b) only the Stalking Horse Purchaser and the Qualified Bidders who have timely submitted Qualified Bids will be entitled to make any subsequent bids at the Auction;

c) each Qualified Bidder shall be required to confirm that it has not engaged in any collusion with respect to the bidding or the sale;

d) all Qualified Bidders who have timely submitted Qualified Bids will be entitled to be present for all Subsequent Bids (defined herein) at the relevant Auction and the actual identity of each Qualified Bidder will be disclosed on the record at the relevant Auction; provided that all Qualified Bidders wishing to attend the relevant Auction must have at least one individual representative with authority to bind such Qualified Bidder attending the relevant Auction in person;

e) the Debtors, after consultation with the Consultation Parties, the Stalking Horse Purchaser, and any other Qualified Bidders may employ and announce at the relevant Auction additional procedural rules that are (i) reasonable under the circumstances for conducting the relevant Auction, (ii) in the best interest of the Debtors' estates; provided, however, that rules (i) are disclosed to the Stalking Horse Purchaser and each Qualified Bidder participating in the Auction, and (ii) are not inconsistent with the Bidding Procedures, the Stalking Horse APA, the Bankruptcy Code, or any order of the Court entered in connection herewith;

f) bidding at the relevant Auction will begin with a bid determined by the Debtors after consulting with the Consultation Parties as being the then highest and best bid which will be announced by the Debtors prior to the commencement of the Auction (the "Baseline Bid"). The Auction will continue in bidding increments to be determined in the discretion of the Debtors, in consultation with the Consultation Parties (each a "Overbid"), and all material terms of each Overbid shall be fully disclosed to all other Qualified Bidders who submitted Qualified

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Bids and are in attendance at the Auction (including, without limitation, Winning Partial Bids), as well as to the Notice Parties;

g) the initial Overbid, if any, shall provide for total consideration to Debtors with a value that exceeds the value of the consideration under the Baseline Bid by an incremental amount. Additional consideration in excess of the amount set forth in the respective Baseline Bid must include: (i) cash and/or (ii) in the case of a Qualified Bidder (including, without limitation, with respect to any Winning Partial Bids) that is a Credit Bid Bidder that has a valid and perfected lien (not subject to a Challenge within the meaning the Final DIP Order) on any of the Purchased Assets and/or the Other Assets, a Credit Bid of up to the full amount of such Credit Bidder's allowed perfected lien, subject to § 363(k) and any other restrictions set forth herein; and

h) at the Full Bid Auction, the Stalking Horse Purchaser may, subject to the terms and conditions set forth herein, elect to bid for the Purchased Assets as described in the Bid Procedures Order. In the alternative, the Stalking Horse Purchaser, and any bidder with a Qualified Full Bid, (a) may elect to bid against any one or more of the Winning Partial Bidders for the assets subject to the relevant Partial Bid(s), in lieu of seeking to acquire such Purchased Assets and/or Other Assets by means of the Stalking Horse Bid or another Qualified Full Bid; and (b) if successful with its Overbids for such assets, replace the Winning Partial Bidder(s) as the proponent of the relevant Winning Partial Bids or Aggregate Winning Partial Bid as to such assets. In the event that the Stalking Horse Purchaser or another bidder so elects, and as long as the Stalking Horse Purchaser or another bidder so bids, the Winning Partial Bidders must continue to present qualified Winning Partial Bids (i.e., bids as to which the aggregate of all still pending Winning Partial Bids is greater than or equal to the then Prevailing Highest Bid) for the Purchased Assets and/or the Other Assets in each round to continue to bid as Winning Partial Bidders in the Full Bid Auction. In addition, the Debtors may elect, in their discretion, after consultation with the Consultation Parties, to allow Partial Bidders to bid for all or substantially all the Purchased Assets and/or the Other Assets, or to allow proponents of Full Bids to bid for less than all or substantially all of the Purchased Assets and/or the Other Assets in any given round of the Auction, provided that in any given round there is a Full Bid or an Aggregate Partial Bid that is superior to Prevailing Highest Bid that is then subject to acceptance by the Debtors and binding on the Stalking Horse Purchaser or another Qualified Bidder. In all events, (i) any such Overbid shall continue to comply with all of the requirements for Qualified Bids set forth in Section C of these Bidding Procedures; and (ii) the bidder submitting such a modified Qualified Bid or Qualified Partial Bid shall furnish to the Debtors and the Consultation Parties, within twenty-four (24) hours of the conclusion of the Auction, a revised Purchase Agreement and Marked Agreement showing all amendments and modifications to the Stalking Horse APA and the Sale Order.

I. Selection of Successful Bid

Prior to the conclusion of the Auction, the Debtors, in consultation with their advisors and the Consultation Parties, will review and evaluate each Qualified Bid in accordance with the procedures set forth herein and determine which offer or offers are the highest or otherwise best from among the Qualified Bidders submitted at the Auction (one or more such bids, collectively the "Successful Bid" and the bidder(s) making such bid, collectively, the "Successful Bidder"), and communicate to the Qualified Bidders the identity of the Successful Bidder and the details of the Successful Bid. The Successful Bid may consist of a single Qualified Bid or multiple bids.

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The determination of the Successful Bid by the Debtors at the conclusion of the Auction shall be subject to approval by the Court.

If selected, at the conclusion of the Partial Bid Auction, as the Winning Partial Bidder or the Back-Up Bidder, then such party or parties, prior to the Full Bid Auction, shall increase its Good Faith Deposit in the amount set forth in above in paragraph 30, subsection (o), or as determined by the Seller in consultation with the Consultation Parties; provided, however, if a party or parties are bidding on all four APA Facilities, the deposit will be no less than $30,000,000. If selected as the Successful Bidder or the Back-Up Bidder at the conclusion of the Full Bid Auction, each of the Successful Bidder and the Back-Up Bidder shall, within forty-eight (48) hours, increase its Good Faith Deposit to the sum of five percent (5%) of the Successful Bid or Back-Up Bid, as applicable. If the Successful Bidder fails to increase the Good Faith Deposit within forty-eight (48) hours of the Auction conclusion date (the "Final Deposit"), then (1) the Successful Bidder forfeits its Good Faith Deposit, and (2) the Successful Bid is nullified (i.e., the Back-Up Bidder becomes the Successful Bidder in the amount of its last bid).

Unless otherwise agreed to by the Debtors and the Successful Bidder, within two (2) business days after the conclusion of the Auction, the Successful Bidder shall complete and execute all agreements, contracts, instruments, and other documents evidencing and containing the terms and conditions upon which the Successful Bid was made. Within twenty-four (24) hours following the conclusion of the Full Bid Auction, and within forty-eight (48) hours following the conclusion of the Partial Bid Auction, the Debtors shall file a notice identifying the Successful Bidder(s) and Back-Up Bidders with the Court and shall serve such notice by fax, email, or if neither is available, by overnight mail to all counterparties whose contracts are to be assumed and assigned.

The Debtors will sell the Purchased Assets and (to the extent included in an Overbid) the Other Assets to the Successful Bidder pursuant to the terms of the Successful Bid upon the approval of such Successful Bid by the Court at the Sale Hearing and satisfaction of any other closing conditions set forth in the Successful Bidder's Purchase Agreement.

J. Return of Deposits

All deposits shall be returned to each bidder not selected by the Debtors as the Successful Bidder or the Back-Up Bidder no later than five (5) business days following the conclusion of the Auction.

K. Back-Up Bidder

If an Auction is conducted (whether it be a Full Bid Auction or a Partial Bid Auction), the Qualified Bidder or Qualified Bidders (including the Stalking Horse Purchaser, subject to Section II H.(b) hereof) with the next highest or otherwise best Qualified Bid, as determined by the Debtors in the exercise of their business judgment, at the Auction shall be required to serve as a back-up bidder (the "Back-Up Bidder") and keep such bid open (whether it be a Partial Bid or Full Bid) and irrevocable for thirty (30) business days after the entry of the Sale Order (the "Thirty Day Period"). If during the Thirty-Day Period, the Successful Bidder fails to consummate the approved sale because of a breach or failure to perform on the part of such Successful Bidder, the Back-Up Bidder will be deemed to be the new Successful Bidder, and the Debtors will be authorized, but not required, to consummate the sale with the Back-Up Bidder without further order of the Court provided that the Back-Up Bidder shall thereafter keep such bid

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open and irrevocable in accordance with the terms of the Back-Up Bidder APA; provided further, however, that if the Back-Up Bidder is the Stalking Horse Purchaser, the Debtors will be authorized and required to consummate the sale to the Stalking Horse Purchaser in accordance with the terms of the Stalking Horse APA, as such terms may (at the discretion of the Stalking Horse Purchaser) have been modified as a result of the Full Bid Auction or the Partial Bid Auction.

If, after the Thirty-Day Period, the Successful Bidder has failed to consummate the approved sale, the Back-Up Bidder (including the Stalking Horse Purchaser if it has been designated the Back-Up Bidder) may elect, in its discretion, to remain as the Back-Up Bidder until (a) the sale closes, (b) the Successful Bidder defaults, or (c) the Back-Up Bidder elects to terminate its participation as Back-Up Bidder. For the avoidance of doubt, after the Thirty-Day Period, if the Successful Bidder fails to consummate the approved sale because of a breach or failure to perform on the part of such Successful Bidder, the Back-Up Bidder will not be contractually obligated to be the Back-Up Bidder, and will have the option to either (i) be entitled to terminate its Back-Up Bidder APA and the return of its deposit, or (ii) remain as the Back-up Bidder, in which event, there will be no reopening of the auction.

L. Break-Up Fee

In recognition of this expenditure of time, energy, and resources, the Debtors have agreed that if the Stalking Horse Purchaser is not the Successful Bidder as to the Assets, the Debtors will pay the Stalking Horse Purchaser at closing of the sale of the Assets an amount in cash equal to three percent (3.25%) of the Cash Consideration ($19,825,000.00) plus reimbursement of reasonably documented reasonable costs and expenses in an amount not to exceed $2,000,000.00. The Break-Up Fee shall be payable at closing of the sale from the sale proceeds.

If the Stalking Horse APA is terminated because the Stalking Horse Purchaser is not selected as the Successful Bidder or the Back-Up Bidder at Auction (or the Stalking Horse Purchaser is selected as the Back-Up Bidder but the sale of the Assets is consummated and closed with another entity), the Debtors shall pay to the Stalking Horse Purchaser the Break-Up Fee by wire transfer of immediately available funds immediately, and contemporaneous with, the closing of the sale of the Assets from the first cash proceeds thereof. The Break-Up Fee shall constitute an administrative expense claim with priority under Section 507(a) of the Bankruptcy Code in favor of the Stalking Horse Purchaser.

III. Sale Hearing

The Debtors will seek entry of the Sale Order from the Court at the Sale Hearing to begin at **10:00 a.m. Pacific Time on April 17, 2019** (or at another date and time convenient to the Court) to approve and authorize the sale transaction to the Successful Bidder(s) on terms and conditions determined in accordance with the Bidding Procedures.

At the Sale Hearing, the Debtors will seek Court approval of the Sale to the Successful Bidder, (or, in the event the Successful Bidder fails to close, the Back-Up Bidder), free and clear of all liens, claims, interests, and encumbrances pursuant to § 363 of the Bankruptcy Code, with all liens, claims, interests, and encumbrances to attach to the sale proceeds with the same validity and in the same order of priority as they attached to the Purchased Assets (and to the extent included in the Successful Bid, the Other Assets prior to the Sale), including the assumption by

the Debtors and assignment to the Successful Bidder of the Assumed Executory Contracts and Leases pursuant to Section 365 of the Bankruptcy Code. The Debtors will submit and present additional evidence, as necessary, at the Sale Hearing demonstrating that the Sale is fair, reasonable, and in the best interest of the Debtors' estates and all interested parties, and satisfies the standards necessary to approve a sale of the Purchased Assets and/or the Other Assets.

IV. Reservation

The Debtors reserve the right, as they may determine in their discretion and in accordance with their business judgment to be in the best interest of their estates, in consultation with their professionals and the Consultation Parties to: (i) modify the Bidding Procedures to discontinue incremental bidding and then require that any and all bidders or potential purchasers must submit their sealed, highest and best offer for the Purchased Assets and/or Other Assets; (ii) determine which Qualified Bid is the highest or otherwise best bid and which is the next highest or otherwise best bid; (iii) waive terms and conditions set forth herein with respect to all Potential Bidders; (iv) impose additional terms and conditions with respect to all Potential Bidders; (v) extend the deadlines set forth herein; (vi) continue or cancel the Auction and/or Sale Hearing in open court without further notice; and (vii) implement additional procedural rules that the Debtors determine, in their reasonable business judgment and in consultation with the Consultation Parties will better promote the goals of the bidding process; provided that such modifications are disclosed to each Qualified Bidder participating in the Auction; provided, however, and notwithstanding the foregoing, these Bid Procedures shall not be modified so as to alter, extinguish or modify any rights or interests of the Stalking Horse Purchaser expressly set forth herein or in the Stalking Horse APA.

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Exhibit 2

(Significant Dates)

• **Service of Notice of Sale Hearing:**	March 1, 2019
• **Service of Assumption/Cure Notice:**	March 5, 2019
• **Assumption/Cure Objection Deadline:**	March 22, 2019 at 4:00 p.m. (Pacific Time)
• **Partial Bid Deadline:**	March 28, 2019 at 4:00 p.m. (Pacific Time)
• **Full Bid Deadline:**	April 3, 2019 at 4:00 p.m. (Pacific Time)
• **Partial Bid Auction:**	April 8, 2019 at 10:00 a.m. (Pacific Time)
• **Full Bid Auction:**	April 9, 2019 at 10:00 a.m. (Pacific Time)
• **Notice of Results of Auction & Memorandum**	April 10, 2019 at 10:00 a.m. (Pacific Time)
• **Service of Notice of Contracts/Leases to be Assumed and Assigned:**	April 11, 2019 at 10:00 a.m. (Pacific Time)
• **Sale Objection Deadline:**	April 12, 2019 at 4:00 p.m. (Pacific Time)
• **Assumption and Assignment Objection Deadline:**	April 12, 2019 at 4:00 p.m. (Pacific Time)
• **Reply Deadline:**	April 15, 2019 at 4:00 p.m. (Pacific Time)
• **Sale Hearing:**	April 17, 2019 at 10:00 a.m. (Pacific Time)

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Exhibit 3

(Procedures Notice)

UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA - LOS ANGELES DIVISION

In re VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*, Debtors and Debtors In Possession.	Lead Case No. 2:18-bk-20151-ER Jointly Administered With: Case No. 2:18-bk-20162-ER Case No. 2:18-bk-20163-ER Case No. 2:18-bk-20164-ER Case No. 2:18-bk-20165-ER Case No. 2:18-bk-20167-ER Case No. 2:18-bk-20168-ER Case No. 2:18-bk-20169-ER Case No. 2:18-bk-20171-ER Case No. 2:18-bk-20172-ER Case No. 2:18-bk-20173-ER Case No. 2:18-bk-20175-ER Case No. 2:18-bk-20176-ER Case No. 2:18-bk-20178-ER Case No. 2:18-bk-20179-ER Case No. 2:18-bk-20180-ER Case No. 2:18-bk-20181-ER
☒ Affects All Debtors ☐ Affects Verity Health System of California, Inc. ☐ Affects O'Connor Hospital ☐ Affects Saint Louise Regional Hospital ☐ Affects St. Francis Medical Center ☐ Affects St. Vincent Medical Center ☐ Affects Seton Medical Center ☐ Affects O'Connor Hospital Foundation ☐ Affects Saint Louise Regional Hospital Foundation ☐ Affects St. Francis Medical Center of Lynwood Foundation ☐ Affects St. Vincent Foundation ☐ Affects St. Vincent Dialysis Center, Inc. ☐ Affects Seton Medical Center Foundation ☐ Affects Verity Business Services ☐ Affects Verity Medical Foundation ☐ Affects Verity Holdings, LLC ☐ Affects De Paul Ventures, LLC ☐ Affects De Paul Ventures - San Jose Dialysis, LLC Debtors and Debtors In Possession.	

NOTICE OF SALE PROCEDURES,
AUCTION DATE, AND SALE HEARING

PLEASE TAKE NOTICE that on January 17, 2019, the above-captioned debtors and debtors in possession (the "Debtors") filed the *Debtors' Notice of Motion and Motion for the Entry of (I) an Order (1) Approving Form of Asset Purchase Agreement for Stalking Horse Bidder and for Prospective Overbidders, (2) Approving Auction Sale Format, Bidding Procedures and Stalking Horse Bid Protections, (3) Approving Form of Notice to be Provided to Interested Parties, (4) Scheduling a Court Hearing to Consider Approval of the Sale to the Highest Bidder, and (5) Approving Procedures Related to the Assumption of Certain Executory Contracts and Unexpired Leases; and (II) an Order (A) Authorizing the Sale of Property Free*

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and Clear of All Claims, Liens and Encumbrances (the "Motion").[7] The Debtors seek, among other things, to sell all assets of St. Francis Medical Center, St. Vincent Medical Center, St. Vincent Dialysis Center, Inc., Seton Medical Center and Seton Medical Center Coastside (the "Assets") to the successful bidder(s) (the "Successful Bidder"), at an auction free and clear of all liens, claims, encumbrances and other interests pursuant to Sections 363 and 365 of the Bankruptcy Code.

PLEASE TAKE FURTHER NOTICE that, on [DATE], the Bankruptcy Court entered an order (the "Bidding Procedures Order") approving the Motion and the bidding procedures (the "Bidding Procedures"), which set the key dates and times related to the Sale of the Assets. All interested bidders should carefully read the Bidding Procedures Order and the Bidding Procedures. To the extent that there are any inconsistencies between the Bidding Procedures Order (including the Bidding Procedures) and the summary description of its terms and conditions contained in this Notice, the terms of the Bidding Procedures Order shall control.

PLEASE TAKE FURTHER NOTICE that, pursuant to the terms of the Bidding Procedures, a partial bid auction (the "Partial Bid Auction") to sell the Assets will be conducted on **April 8, 2019, at 10:00 a.m. (prevailing Pacific Time)** at the offices of Dentons US LLP, 601 South Figueroa Street, Suite 2500, Los Angeles, California 90017, or at such other location as shall be identified in a notice filed with the Bankruptcy Court at least 24 hours before the Partial Bid Auction. Within forty-eight (48) hours of the conclusion of the Partial Bid Auction, the Debtors shall file a notice with the Bankruptcy Court identifying the Successful Bidder.

PLEASE TAKE FURTHER NOTICE that, pursuant to the terms of the Bidding Procedures, a fill bid auction (the "Full Bid Auction") to sell the Assets will be conducted on **April 9, 2019 at 10:00 a.m. (prevailing Pacific Time)** at the offices of Dentons US LLP, 601 South Figueroa Street, Suite 2500, Los Angeles, California 90017, or at such other location as shall be identified in a notice filed with the Bankruptcy Court at least 24 hours before the Full Bid Auction. Within twenty-four (24) hours of the conclusion of the Full Bid Auction, the Debtors shall file a notice with the Bankruptcy Court identifying the Successful Bidder.

PLEASE TAKE FURTHER NOTICE that a hearing will be held to approve the sale of the Assets to the Successful Bidder (the "Sale Hearing") before the Honorable Ernest Robles, United States Bankruptcy Judge, United States Bankruptcy Court for the Central District of California, 255 E. Temple St., Los Angeles, California 90012 , Courtroom 1568, on **April 17, 2019 at 10:00 a.m. (prevailing Pacific Time)**, or at such time thereafter as counsel may be heard or at such other time as the Bankruptcy Court may determine. The Sale Hearing may be adjourned from time to time without further notice to creditors or parties in interest other than by announcement of the adjournment in open court on the date scheduled for the Sale Hearing. Objections to the Sale shall be filed with the Bankruptcy Court and served **so as to be received no later than 4:00 p.m. (prevailing Pacific Time) on April 12, 2019** by: (i) counsel to the Debtors: Dentons US LLP, 601 S. Figueroa Street, Suite 2500, Los Angeles, CA 90017 (Attn: Tania M. Moyron (tania.moyron@dentons.com)); (ii) the Debtors' Investment Banker: Cain Brothers, a division of KeyBanc Capital Markets, 1 California Street, Suite 2400, San Francisco, CA 94111 (Attn: James Moloney (jmoloney@cainbrothers.com)); (iii) counsel to the Official Committee: Milbank, Tweed, Hadley & McCloy LLP, 2029 Century Park East, 33rd Floor, Los

[7] Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Motion.

Angeles, CA 90067 (Attn: Gregory A. Bray (gbray@milbank.com); (iv) counsel to the Master Trustee and Series 2005 Bond Trustee: Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, MA 02111 (Attn: Daniel S. Bleck and Paul Ricotta (dsbleck@mintz.com, pricotta@mintz.com)); (v) counsel to the Series 2015 and Series 2017 Notes Trustee: Maslon, LLP, 3300 Wells Fargo Center, 90 South Seventh Street, Minneapolis, MN 55402 (Attn: Clark Whitmore (clark.whitmore@maslon.com) (collectively, the "Notice Parties"); (vi) counsel to the Stalking Horse Purchaser: Levene, Neale, Bender, Yoo & Brill L.L.P., 10250 Constellation Blvd., Suite 1700, Los Angeles, CA 90067 (Attn: Gary E. Klausner, Esq. (GEK@lnbyb.com); and (vii) the Office of the United States Trustee (the "U.S. Trustee"): 915 Wilshire Blvd., Suite 1850, Los Angeles, California 90017 (Attn: Hatty Yip (Hatty.Yip@usdoj.gov)).

PLEASE TAKE FURTHER NOTICE that this Notice of the Auction and Sale Hearing is subject to the full terms and conditions of the Motion, Bidding Procedures Order and Bidding Procedures, which Bidding Procedures Order shall control in the event of any conflict, and the Debtors encourage parties in interest to review such documents in their entirety. Any party that has not received a copy of the Motion or the Bidding Procedures Order that wishes to obtain a copy of the Motion, the Bidding Procedures Order (including all exhibits thereto), the Bidding Procedures, and the Stalking Horse APA, may make such a request in writing to Dentons US LLP, Attn: Samuel R. Maizel, 601South Figueroa Street, Suite 2500, Los Angeles, CA 90017 or by emailing samuel.maizel@dentons.com or by calling (213) 892-2910.

Dated: _ __, 2019

DENTONS US LLP
SAMUEL R. MAIZEL
TANIA M. MOYRON

By:_____

Attorneys for the Chapter 11 Debtors and Debtors In Possession

DENTONS US LLP
601 SOUTH FIGUEROA STREET, SUITE 2500
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(213) 623-9300

DENTONS US LLP
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Exhibit 4

(Cure Notice)

UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA - LOS ANGELES DIVISION

In re VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*, Debtors and Debtors In Possession.	Lead Case No. 2:18-bk-20151-ER Jointly Administered With: Case No. 2:18-bk-20162-ER Case No. 2:18-bk-20163-ER Case No. 2:18-bk-20164-ER Case No. 2:18-bk-20165-ER Case No. 2:18-bk-20167-ER Case No. 2:18-bk-20168-ER Case No. 2:18-bk-20169-ER Case No. 2:18-bk-20171-ER Case No. 2:18-bk-20172-ER Case No. 2:18-bk-20173-ER Case No. 2:18-bk-20175-ER Case No. 2:18-bk-20176-ER Case No. 2:18-bk-20178-ER Case No. 2:18-bk-20179-ER Case No. 2:18-bk-20180-ER Case No. 2:18-bk-20181-ER
☒ Affects All Debtors ☐ Affects Verity Health System of California, Inc. ☐ Affects O'Connor Hospital ☐ Affects Saint Louise Regional Hospital ☐ Affects St. Francis Medical Center ☐ Affects St. Vincent Medical Center ☐ Affects Seton Medical Center ☐ Affects O'Connor Hospital Foundation ☐ Affects Saint Louise Regional Hospital Foundation ☐ Affects St. Francis Medical Center of Lynwood Foundation ☐ Affects St. Vincent Foundation ☐ Affects St. Vincent Dialysis Center, Inc. ☐ Affects Seton Medical Center Foundation ☐ Affects Verity Business Services ☐ Affects Verity Medical Foundation ☐ Affects Verity Holdings, LLC ☐ Affects De Paul Ventures, LLC ☐ Affects De Paul Ventures - San Jose Dialysis, LLC Debtors and Debtors In Possession.	

NOTICE TO COUNTERPARTIES TO EXECUTORY CONTRACTS AND UNEXPIRED LEASES OF THE DEBTORS THAT MAY BE ASSUMED AND ASSIGNED

PLEASE TAKE NOTICE that on January 17, 2019, the above-captioned debtors and debtors in possession (the "Debtors") filed the *Debtors' Notice of Motion and Motion for the Entry of (I) an Order (1) Approving Form of Asset Purchase Agreement for Stalking Horse Bidder and for Prospective Overbidders, (2) Approving Auction Sale Format, Bidding Procedures and Stalking Horse Bid Protections, (3) Approving Form of Notice to be Provided to Interested Parties, (4) Scheduling a Court Hearing to Consider Approval of the Sale to the Highest Bidder, and (5) Approving Procedures Related to the Assumption of Certain Executory*

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Contracts and Unexpired Leases; and (II) an Order (A) Authorizing the Sale of Property Free and Clear of All Claims, Liens and Encumbrances (the "Motion").[8]

PLEASE TAKE FURTHER NOTICE that, on [DATE], the Court entered an Order (the "Bidding Procedures Order") approving, among other things, the Bidding Procedures requested in the Motion, which Bidding Procedures Order governs (i) the bidding process for the sale of certain assets (the "Assets") of the Debtors and (ii) procedures for the assumption and assignment of certain of the Debtors' executory contracts and unexpired leases.

PLEASE TAKE FURTHER NOTICE that the Motion also seeks Court approval of the sale (the "Sale") of the Assets to the Successful Bidder(s), free and clear of all liens, claims, interests and encumbrances pursuant to Section 363 of the Bankruptcy Code, including the assumption by the Debtors and assignment to the buyer(s) of certain executory contracts and unexpired leases pursuant to Section 365 of the Bankruptcy Code (the "Executory Contracts Subject to Assumption"), with such liens, claims, interests and encumbrances to attach to the proceeds of the Sale with the same priority, validity and enforceability as they had prior to such Sale. Within forty eight (48) hours following the conclusion of the Auction, the Debtors shall file a notice identifying the Successful Bidder(s) with the Bankruptcy Court and serve such notice by fax, email or overnight mail to all counterparties whose contracts are to be assumed and assigned. Any counterparty to an Executory Contracts Subject to Assumption that wishes to receive such notice by email or fax, must provide their email address or fax number to Dentons US LLP, Attn: Samuel R. Maizel by emailing samuel.maizel@dentons.com or calling (213) 892-2910 before the Auction.

PLEASE TAKE FURTHER NOTICE that an evidentiary hearing (the "Sale Hearing") to approve the Sale and authorize the assumption and assignment of the Assumed Executory Contracts will be held on **April 17, 2019 at 10:00 a.m. (prevailing Pacific Time)**, before the United States Bankruptcy Court for the Central District of California, 255 E. Temple St., Los Angeles, California 90012 , Courtroom 1568. The Sale Hearing may be adjourned from time to time without further notice to creditors or parties in interest other than by announcement of the adjournment in open court on the date scheduled for the Sale Hearing.

PLEASE TAKE FURTHER NOTICE that, consistent with the Bidding Procedures Order, the Debtors may seek to assume an executory contract or unexpired lease to which you may be a party. The Executory Contracts Subject to Assumption are described on Exhibit A attached to this Notice. The amount shown on Exhibit A hereto as the "Cure Amount" is the amount, if any, which the Debtors assert is owed to cure any defaults existing under the Assumed Executory Contract.

PLEASE TAKE FURTHER NOTICE that if you disagree with the Cure Amount shown for the Executory Contract(s) Subject to Assumption on Exhibit A to which you are a party, you must file in writing with the United States Bankruptcy Court for the Central District of California, 255 E. Temple St., Los Angeles, California 90012, an objection on or before **March 22, 2019 at 4:00 p.m. (prevailing Pacific Time)**. Any objection must set forth the specific default or defaults alleged and set forth any cure amount as alleged by you. If a contract or lease is assumed and assigned pursuant to a Court order approving same, then unless you properly file

[8] Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Motion.

and serve an objection to the Cure Amount contained in this Notice, you will receive at the time of the closing of the sale (or as soon as reasonably practicable thereafter), the Cure Amount set forth herein, if any. Any counterparty to an Executory Contract Subject to Assumption that fails to timely file and serve an objection to the Cure Amounts shall be forever barred from asserting that a Cure Amount is owed in an amount in excess of the amount, if any, set forth in the attached Exhibit A.

PLEASE TAKE FURTHER NOTICE that if you have any other objection to the Debtors' assumption and assignment of the Executory Contract Subject to Assumption (including an objection based on adequate assurance of future performance by the Stalking Horse Purchaser[9] under the Assumed Executory Contract) to which you may be a party, you also must file that objection in writing no later **than 4:00 p.m. (prevailing Pacific Time) on April 12, 2019** provided, however, that if any Successful Bidder is not the Stalking Horse Purchaser, any counterparty to an Executory Contract Subject to Assumption may raise an objection to the assumption and assignment of the Executory Contracts Subject to Assumption solely with respect to such Successful Bidder's ability to provide adequate assurance of future performance under the Assumed Executory Contract at the Sale Hearing, or any time before the Sale Hearing.

PLEASE TAKE FURTHER NOTICE that any objection you may file must be served so as to be received by the following parties by the applicable objection deadline date and time: (i) counsel to the Debtors: Dentons US LLP, 601 S. Figueroa Street, Suite 2500, Los Angeles, CA 90017 (Attn: Tania M. Moyron (tania.moyron@dentons.com)); (ii) the Debtors' Investment Banker: Cain Brothers, a division of KeyBanc Capital Markets, 1 California Street, Suite 2400, San Francisco, CA 94111 (Attn: James Moloney (jmoloney@cainbrothers.com)); (iii) counsel to the Official Committee: Milbank, Tweed, Hadley & McCloy LLP, 2029 Century Park East, 33rd Floor, Los Angeles, CA 90067 (Attn: Gregory A. Bray (gbray@milbank.com); (iv) counsel to the Master Trustee and Series 2005 Bond Trustee: Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, MA 02111 (Attn: Daniel S. Bleck and Paul Ricotta (dsbleck@mintz.com, pricotta@mintz.com)); (v) counsel to the Series 2015 and Series 2017 Notes Trustee: Maslon, LLP, 3300 Wells Fargo Center, 90 South Seventh Street, Minneapolis, MN 55402 (Attn: Clark Whitmore (clark.whitmore@maslon.com) (collectively, the "Notice Parties"); (vi) counsel to the Stalking Horse Purchaser: Levene, Neale, Bender, Yoo & Brill L.L.P., 10250 Constellation Blvd., Suite 1700, Los Angeles, CA 90067 (Attn: Gary E. Klausner, Esq. (GEK@lnbyb.com); and (vii) the Office of the United States Trustee (the "U.S. Trustee"): 915 Wilshire Blvd., Suite 1850, Los Angeles, California 90017 (Attn: Hatty Yip (Hatty.Yip@usdoj.gov)).

PLEASE TAKE FURTHER NOTICE that the Successful Bidder shall be responsible for satisfying any requirements regarding adequate assurance of future performance that may be imposed under §§ 365(b) and (f) of the Bankruptcy Code, 11 U.S.C. § 101, *et seq.*, in connection with the proposed assignment of any Assumed Executory Contract. The Court shall make its determinations concerning adequate assurance of future performance under the Assumed Executory Contracts pursuant to 11 U.S.C. §§ 365(b) and (f) at the Sale Hearing.

PLEASE TAKE FURTHER NOTICE that Assumption Objections may be resolved by the Court at the Sale Hearing, or at a separate hearing either before or after the Sale Hearing.

[9] The Stalking Horse Purchaser is Strategic Global Management, Inc.

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PLEASE TAKE FURTHER NOTICE that, except to the extent otherwise provided in the Purchase Agreement with the Successful Bidder(s), pursuant to § 365(k) of the Bankruptcy Code, the Debtors and their estates shall be relieved of all liability accruing or arising after the effective date of assumption and assignment of the Assumed Executory Contracts.

PLEASE TAKE FURTHER NOTICE that nothing contained herein shall obligate the Debtors to assume any Assumed Executory Contracts or to pay any Cure Amount.[10]

PLEASE TAKE FURTHER NOTICE THAT IF YOU DO NOT TIMELY FILE AND SERVE AN OBJECTION AS STATED ABOVE, THE COURT MAY GRANT THE RELIEF REQUESTED IN THE MOTION WITH NO FURTHER NOTICE.

ANY COUNTERPARTY TO ANY ASSUMED EXECUTORY CONTRACT WHO DOES NOT FILE A TIMELY OBJECTION TO THE CURE AMOUNT FOR SUCH ASSUMED EXECUTORY CONTRACT IS DEEMED TO HAVE CONSENTED TO SUCH CURE AMOUNT.

Dated: ___, 2019

DENTONS US LLP
SAMUEL R. MAIZEL
TANIA M. MOYRON

By:_____

Attorneys for the Chapter 11 Debtors and Debtors In Possession

DENTONS US LLP
601 SOUTH FIGUEROA STREET, SUITE 2500
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[10] "Executory Contracts Subject to Assumption" are those Contracts and Leases that the Debtors believe may be assumed and assigned as part of the orderly transfer of the Assets; however, the Successful Bidder may choose to exclude certain of the Debtors' Contracts or Leases from the list of Assumed Executory Contracts as part of their Qualifying Bid, causing such Contracts and Leases not to be assumed by the Debtors.

Exhibit A

(Assumed Executory Contracts)

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EXHIBIT "4"

Docket #3583 Date Filed: 11/11/2019

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Attorneys for Strategic Global Management, Inc.

FOR COURT USE ONLY

UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA - LOS ANGELES DIVISION

In re:

VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*,

Debtor and Debtor In Possession.

☒ Affects All Debtors

☐ Affects Verity Health System of California, Inc.
☐ Affects O'Connor Hospital
☐ Affects Saint Louise Regional Hospital
☐ Affects St. Francis Medical Center
☐ Affects St. Vincent Medical Center
☐ Affects Seton Medical Center
☐ Affects O'Connor Hospital Foundation
☐ Affects Saint Louise Regional Hospital Foundation
☐ Affects St. Francis Medical Center of Lynwood Foundation
☐ Affects St. Vincent Foundation
☐ Affects St. Vincent Dialysis Center, Inc.
☐ Affects Seton Medical Center Foundation
☐ Affects Verity Business Services
☐ Affects Verity Medical Foundation
☐ Affects Verity Holdings, LLC
☐ Affects De Paul Ventures, LLC
☐ Affects De Paul Ventures - San Jose Dialysis, LLC

Debtors and Debtors In Possession.

Lead Case No. 2:18-bk-20151-ER

Jointly Administered With:
Case No. 2:18-bk-20162-ER
Case No. 2:18-bk-20163-ER
Case No. 2:18-bk-20164-ER
Case No. 2:18-bk-20165-ER
Case No. 2:18-bk-20167-ER
Case No. 2:18-bk-20168-ER
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Case No. 2:18-bk-20175-ER
Case No. 2:18-bk-20176-ER
Case No. 2:18-bk-20178-ER
Case No. 2:18-bk-20179-ER
Case No. 2:18-bk-20180-ER
Case No. 2:18-bk-20181-ER

Chapter 11 Cases

NOTICE OF LODGMENT OF ORDER RE: DEBTORS' EMERGENCY MOTION FOR THE ENTRY OF AN ORDER: (I) ENFORCING THE ORDER AUTHORIZING THE SALE TO STRATEGIC GLOBAL MANAGEMENT, INC.; (II) FINDING THAT THE SALE IS FREE AND CLEAR OF CONDITIONS MATERIALLY DIFFERENT THAN THOSE APPROVED BY THE COURT; (III) FINDING THAT THE ATTORNEY GENERAL ABUSED HIS DISCRETION IN IMPOSING CONDITIONS ON THAT SALE; AND (IV) GRANTING RELATED RELIEF (DOC.3188)

PLEASE TAKE NOTE that the order titled **ORDER GRANTING DEBTORS' EMERGENCY MOTION FOR THE ENTRY OF AN ORDER: (I) ENFORCING THE ORDER AUTHORIZING THE SALE TO STRATEGIC GLOBAL MANAGEMENT, INC.; (II) FINDING THAT THE SALE IS FREE AND CLEAR OF CONDITIONS MATERIALLY DIFFERENT THAN THOSE APPROVED BY THE COURT; (III) FINDING THAT THE ATTORNEY GENERAL ABUSED HIS DISCRETION IN IMPOSING CONDITIONS ON THAT SALE; AND (IV) GRANTING RELATED RELIEF (DOC.3188)** was lodged on November 11, 2019 and is attached. This order relates to the motion which is docket number 3188.

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Attorneys for Strategic Global Management, Inc.

UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA - LOS ANGELES DIVISION

In re VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*, Debtor and Debtor In Possession.	Lead Case No. 2:18-bk-20151-ER Jointly Administered With: Case No. 2:18-bk-20162-ER Case No. 2:18-bk-20163-ER Case No. 2:18-bk-20164-ER Case No. 2:18-bk-20165-ER Case No. 2:18-bk-20167-ER Case No. 2:18-bk-20168-ER Case No. 2:18-bk-20169-ER Case No. 2:18-bk-20171-ER Case No. 2:18-bk-20172-ER Case No. 2:18-bk-20173-ER Case No. 2:18-bk-20175-ER Case No. 2:18-bk-20176-ER Case No. 2:18-bk-20178-ER Case No. 2:18-bk-20179-ER Case No. 2:18-bk-20180-ER Case No. 2:18-bk-20181-ER Chapter 11 Cases Hon. Judge Ernest M. Robles
☒ Affects All Debtors ☐ Affects Verity Health System of California, Inc. ☐ Affects O'Connor Hospital ☐ Affects Saint Louise Regional Hospital ☐ Affects St. Francis Medical Center ☐ Affects St. Vincent Medical Center ☐ Affects Seton Medical Center ☐ Affects O'Connor Hospital Foundation ☐ Affects Saint Louise Regional Hospital Foundation ☐ Affects St. Francis Medical Center of Lynwood Foundation ☐ Affects St. Vincent Foundation ☐ Affects St. Vincent Dialysis Center, Inc. ☐ Affects Seton Medical Center Foundation ☐ Affects Verity Business Services ☐ Affects Verity Medical Foundation ☐ Affects Verity Holdings, LLC ☐ Affects De Paul Ventures, LLC ☐ Affects De Paul Ventures - San Jose Dialysis, LLC Debtors and Debtors In Possession.	**ORDER GRANTING DEBTORS' EMERGENCY MOTION FOR THE ENTRY OF AN ORDER: (I) ENFORCING THE ORDER AUTHORIZING THE SALE TO STRATEGIC GLOBAL MANAGEMENT, INC.; (II) FINDING THAT THE SALE IS FREE AND CLEAR OF CONDITIONS MATERIALLY DIFFERENT THAN THOSE APPROVED BY THE COURT; (III) FINDING THAT THE ATTORNEY GENERAL ABUSED HIS DISCRETION IN IMPOSING CONDITIONS ON THAT SALE; AND (IV) GRANTING RELATED RELIEF" (DOC.3188)** Hearing: Date: October 15, 2019 Time: 10:00 a.m. (Pacific Time) Location: Courtroom 1568 255 E. Temple Street Los Angeles, CA

The Court, having considered the motion [Docket No. 3188] (the "Motion")[1] filed by Verity Health System of California, Inc. and the above-referenced affiliated debtors and debtors in possession in the above captioned chapter 11 bankruptcy cases (collectively, the "Debtors"), the response [Docket No. 3333] of the California Attorney General (the "Attorney General"), the statement [Docket No. 3356] filed by Strategic Global Management, Inc. (collectively with its affiliates, "SGM"), the reply [Docket No. 3382] filed by the Debtors, the stipulation [Docket No. 3572] by and among the Debtors and the Attorney General, and good cause appearing,

HEREBY ORDERS AS FOLLOWS:

1. The Motion is GRANTED.

2. The Debtors' transfer to SGM of the Debtors' assets (the "SGM Sale") pursuant to that certain asset purchase agreement [Docket No. 2305-1] (the "SGM APA") is free and clear of, and shall not be subject to or conditioned upon SGM's performance of, compliance with, or adherence to, any and all Additional Conditions (as defined in the SGM APA and in the Motion), pursuant to Bankruptcy Code §§ 363(b), (f)(1), (f)(4), and (f)(5) and otherwise as provided in the Sale Order.

3. This Court shall retain exclusive jurisdiction to adjudicate any disputes or controversies regarding the interpretation or enforcement of this Order.

4. The Court's memorandum decision [Docket No. 3446] is hereby vacated and withdrawn.

5. The Attorney General waives any right to appeal this Order.

IT IS SO ORDERED.

###

[1] Unless otherwise defined herein, all capitalized terms have the definitions set forth in the Motion.

PROOF OF SERVICE OF DOCUMENT

I am over the age of 18 and not a party to this bankruptcy case or adversary proceeding. My business address is 10250 Constellation Boulevard, Suite 1700, Los Angeles, CA 90067.

A true and correct copy of the foregoing document entitled **NOTICE OF LODGMENT OF ORDER GRANTING "DEBTOR'S EMERGENCY MOTION FOR THE ENTRY OF AN ORDER: (I) ENFORCING THE ORDER AUTHORIZING THE SALE TO STRATEGIC GLOBAL MANAGEMENT, INC.; (II) FINDING THAT THE SALE IS FREE AND CLEAR OF CONDITION MATERIALLY DIFFERENT THAN THOSE APPROVED BY THE COURT; (III) FINDING THAT THE ATTORNEY GENERAL ABUSED HIS DISCRETION IN IMPOSING CONDITIONS ON THAT SALE; AND (IV) GRANTING RELATED RELIEF" (DOC. 3188)** will be served or was served (a) on the judge in chambers in the form and manner required by LBR 5005-2(d); and (b) in the manner stated below:

1. **TO BE SERVED BY THE COURT VIA NOTICE OF ELECTRONIC FILING (NEF)**: Pursuant to controlling General Orders and LBR, the foregoing document will be served by the court via NEF and hyperlink to the document. On **November 11, 2019**, I checked the CM/ECF docket for this bankruptcy case or adversary proceeding and determined that the following persons are on the Electronic Mail Notice List to receive NEF transmission at the email addresses stated below:

- Alexandra Achamallah aachamallah@milbank.com, rliubicic@milbank.com
- Melinda Alonzo ml7829@att.com
- Robert N Amkraut ramkraut@foxrothschild.com
- Kyra E Andrassy kandrassy@swelawfirm.com, lgarrett@swelawfirm.com;gcruz@swelawfirm.com;jchung@swelawfirm.com
- Simon Aron saron@wrslawyers.com
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2. SERVED BY UNITED STATES MAIL: On **November 11, 2019**, I served the following persons and/or entities at the last known addresses in this bankruptcy case or adversary proceeding by placing a true and correct copy thereof in a sealed envelope in the United States mail, first class, postage prepaid, and addressed as follows. Listing the judge here constitutes a declaration that mailing to the judge will be completed no later than 24 hours after the document is filed.

☐ Service information continued on attached page

3. SERVED BY PERSONAL DELIVERY, OVERNIGHT MAIL, FACSIMILE TRANSMISSION OR EMAIL (state method for each person or entity served): Pursuant to F.R.Civ.P. 5 and/or controlling LBR, on **November 11, 2019**, I served the following persons and/or entities by personal delivery, overnight mail service, or (for those who consented in writing to such service method), by facsimile transmission and/or email as follows. Listing the judge here constitutes a declaration that personal delivery on, or overnight mail to, the judge will be completed no later than 24 hours after the document is filed.

Served via Attorney Service
The Honorable Ernest M. Robles
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Edward R. Roybal Federal Building
255 E. Temple Street, Suite 1560
Los Angeles, CA 90012

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

November 11, 2019	Stephanie Reichert	*/s/ Stephanie Reichert*
Date	*Type Name*	*Signature*

EXHIBIT "5"

Docket #3586 Date Filed: 11/11/2019

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UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA - LOS ANGELES DIVISION

In re VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*, Debtors and Debtors In Possession.	Lead Case No. 2:18-bk-20151-ER Jointly administered with: Case No. 2:18-bk-20162-ER; Case No. 2:18-bk-20163-ER; Case No. 2:18-bk-20164-ER; Case No. 2:18-bk-20165-ER; Case No. 2:18-bk-20167-ER; Case No. 2:18-bk-20168-ER; Case No. 2:18-bk-20169-ER; Case No. 2:18-bk-20171-ER; Case No. 2:18-bk-20172-ER; Case No. 2:18-bk-20173-ER; Case No. 2:18-bk-20175-ER; Case No. 2:18-bk-20176- ER; Case No. 2:18-bk-20178-ER; Case No. 2:18-bk-20179-ER; Case No. 2:18-bk-20180-ER; Case No. 2:18-bk-20181-ER; Chapter 11 Cases Hon. Ernest M. Robles
☒ Affects All Debtors ☐ Affects Verity Health System of California, Inc. ☐ Affects O'Connor Hospital ☐ Affects Saint Louise Regional Hospital ☐ Affects St. Francis Medical Center ☐ Affects St. Vincent Medical Center ☐ Affects Seton Medical Center ☐ Affects O'Connor Hospital Foundation ☐ Affects Saint Louise Regional Hospital Foundation ☐ Affects St. Francis Medical Center of Lynwood Foundation ☐ Affects St. Vincent Foundation ☐ Affects St. Vincent Dialysis Center, Inc. ☐ Affects Seton Medical Center Foundation ☐ Affects Verity Business Services ☐ Affects Verity Medical Foundation ☐ Affects Verity Holdings, LLC ☐ Affects De Paul Ventures, LLC ☐ Affects De Paul Ventures - San Jose Dialysis, LLC Debtors and Debtors In Possession.	**DEBTORS' RESPONSE TO STRATEGIC GLOBAL MANAGEMENT, INC.'S (I) OBJECTION TO DEBTORS' PROPOSED ORDER GRANTING ENFORCEMENT MOTION AND (II) STRATEGIC GLOBAL MANAGEMENT, INC.'S NOTICE OF LODGMENT OF ALTERNATIVE PROPOSED ORDER; DECLARATION OF TANIA M. MOYRON IN SUPPORT THEREOF [RELATED DOCKET NOS. 3572, 3573, 3574, 3582, 3583]** **Hearing:** Date: October 15, 2019 Time: 10:00 a.m. (Pacific Time) Place: 255 East Temple Street, Courtroom 1568 Los Angeles, California 90012

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Verity Health System of California, Inc. and the above-referenced affiliated debtors, the debtors and debtors in possession in the above-captioned chapter 11 bankruptcy cases (collectively, the "Debtors"), hereby file this response (the "Response") to Strategic Global Management, Inc.'s ("SGM") (i) objection [Docket No. 3582] (the "Objection") to the Debtors' proposed order [Docket No. 3574] (the "Proposed Order") granting the motion [Docket No. 3188] (the "Motion") to enforce the Court's order authorizing the sale to SGM (the "SGM Sale") and (ii) proposed order [Docket No. 3583] ("SGM's Proposed Order"). In support of this Response, the Debtors submit the *Declaration of Tania M. Moyron* (the "Moyron Declaration") and respectfully state as follows:

PRELIMINARY STATEMENT

The importance of both the California Attorney General (the "Attorney General") waiving his right to appeal the Proposed Order and the SGM Sale closing to the Debtors cannot be overstated. While the Debtors desire to accommodate all of SGM's requests, as they are the buyer on a vital transaction, the exact language requested by SGM has been rejected by the Attorney General. Accordingly, in the Debtors' business judgment, the Debtors determined that the language agreed to by the Attorney General in the Proposed Order strikes a balance by satisfying Section 8.6 of the asset purchase agreement between the Debtors and SGM [Docket No. 2305-1] (the "SGM APA") and guaranteeing that the Attorney General will not appeal the Proposed Order. The entry of the Debtors' Proposed Order will expedite the closing of the sale to SGM (a critical consideration, given the Debtors' liquidity issues, including ongoing operational losses of approximately $450,000 per day) and avoid the time, expense, and uncertainly associated with an appeal by the Attorney General of any other order granting the Motion.

DEBTORS' RESPONSE

A. The Objection Is Procedurally Flawed.

As an initial matter, the Objection should be overruled as procedurally improper. LBR 9021-1(b)(3) sets forth the procedure to object to a proposed form of order granting a contested

motion.[1] *See* LBR 9021-1(b)(3). Pursuant to the LBR, the party lodging an order is required to serve a copy of the proposed order "on counsel . . . who filed an opposition or other objection to the relief requested." LBR 9021-1(b)(3)(A). The LBR further provides that such opposing party may file an objection to the proposed form of order. *See id.*; *see also* LBR 9021-1(b)(3)(B).

Here, SGM filed a statement [Docket No. 3356] (the "SGM Statement") in support of the Motion, and specifically requested "that the Court grant the Motion." SGM Statement at 4. Consistent with this request, the Proposed Order specifically provides that "[t]he Motion is GRANTED." Proposed Order at 1. Further, the LBR authorizes a party who objected to the relief sought in a motion to object to a proposed form of order, not a party who requested that the motion be granted, such as SGM. Accordingly, the Objection should be overruled as a procedural matter and for the reasons set forth below.

B. The Objection Jeopardizes the Debtors' Agreement With the Attorney General.

The stipulation [Docket No. 3772] (the "Stipulation") between the Debtors and the Attorney General expressly provides that it "shall be binding and effective upon, but only upon, the entry of the [Proposed] Order in the proposed form attached hereto." *See* Stipulation at 3. Thus, the Attorney General's waiver of appeal rights is conditioned on entry of the Debtors' Proposed Order ***without modification***. Consistent with this point, the Attorney General previously rejected the language requested by SGM in SGM's Proposed Order. *See* Moyron Decl. ¶ 3.

C. The Proposed Order Contains the Findings Required in Section 8.6 of the SGM APA.

Section 8.6 of the SGM APA obligated the Debtors to obtain a "Supplemental Sale Order" in the event that the Attorney General imposed conditions materially different from those SGM agreed to accept. The SGM APA specifically required that such Supplemental Sale Order find "that the Additional Conditions are an 'interest in property' for purposes of 11 U.S.C. § 363(f), and that the Assets can be sold free and clear of the Additional Conditions without the imposition of any other conditions, which would adversely affect the Purchaser." SGM APA § 8.6 at 33.

[1] "LBR" refers to the Local Bankruptcy Rules of the United States Bankruptcy Court for the Central District of California.

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The language in the Proposed Order—to which the Attorney General agreed—is identical to the findings required by § 8.6 of the SGM APA. *See* Debtors' Proposed Order ¶ 3 at 1. The Debtors respectfully request that the Court overrule the Objection and expressly find that §8.6 of the SGM APA is satisfied. Avoiding the time, expense, and uncertainty associated with an appeal by the Attorney General is an essential stepping stone toward confirmation of the sale and a significant benefit to the Debtors estates and their constituents.

CONCLUSION

Based on the foregoing, the Debtors respectfully request that the Court (i) enter the Proposed Order without modification, (ii) enter a separate order, to be lodged concurrently herewith, overruling the Objection and finding that the Proposed Order satisfies § 8.6 of the SGM APA, and (iii) grant such additional relief as is just and proper under the circumstances.

Dated: November 11, 2019

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By */s/ Tania M. Moyron*
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DECLARATION OF TANIA M. MOYRON

I, Tania M. Moyron, declare that if called on as a witness, I would and could testify of my own personal knowledge as follows:

1. I am a Partner at Dentons US LLP, at 601 South Figueroa Street, Suite 2500, Los Angeles, California 90017-5704, and am one of the attorneys primarily responsible for representing Verity Health System of California, Inc., a California nonprofit benefit corporation and the Debtor herein, and the above-referenced affiliated debtors, the debtors and debtors in possession in the above-captioned chapter 11 bankruptcy cases (collectively, the "Debtors"). I make this Declaration in support of the *Debtors' Response to Strategic Global Management, Inc.'s (I) Objection to Debtors' Proposed Order Granting Enforcement Motion and (II) Strategic Global Management, Inc.'s Notice of Lodgment of Alternative Proposed Order* (the "Response") filed concurrently herewith.[2]

2. I am informed that the Attorney General will not agree to the terms of the Stipulation if the Court enters an order inconsistent with the Proposed Order.

3. The Attorney General specifically rejected the proposed language in SGM's Proposed Order.

I declare under penalty of perjury of the laws of the United States of America that the foregoing is true and correct.

Executed this 11th day of November, 2019, in Los Angeles, California.

/s/ Tania M. Moyron
Tania M. Moyron

[2] Unless otherwise defined herein, all capitalized terms have the definitions set forth in the Response.

EXHIBIT "6"

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UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA – LOS ANGELES DIVISION

In re:

VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*,

Debtors and Debtors In Possession.

Affects:

☑ All Debtors
☐ Verity Health System of California, Inc.
☐ O'Connor Hospital
☐ Saint Louise Regional Hospital
☐ St. Francis Medical Center
☐ St. Vincent Medical Center
☐ Seton Medical Center
☐ O'Connor Hospital Foundation
☐ Saint Louise Regional Hospital Foundation
☐ St. Francis Medical Center of Lynwood Foundation
☐ St. Vincent Foundation
☐ St. Vincent Dialysis Center, Inc.
☐ Seton Medical Center Foundation
☐ Verity Business Services
☐ Verity Medical Foundation
☐ Verity Holdings, LLC
☐ De Paul Ventures, LLC
☐ De Paul Ventures - San Jose Dialysis, LLC

Debtors and Debtors In Possession.

Lead Case No. 2:18-bk-20151-ER
Jointly Administered With:
CASE NO.: 2:18-bk-20162-ER
CASE NO.: 2:18-bk-20163-ER
CASE NO.: 2:18-bk-20164-ER
CASE NO.: 2:18-bk-20165-ER
CASE NO.: 2:18-bk-20167-ER
CASE NO.: 2:18-bk-20168-ER
CASE NO.: 2:18-bk-20169-ER
CASE NO.: 2:18-bk-20171-ER
CASE NO.: 2:18-bk-20172-ER
CASE NO.: 2:18-bk-20173-ER
CASE NO.: 2:18-bk-20175-ER
CASE NO.: 2:18-bk-20176-ER
CASE NO.: 2:18-bk-20178-ER
CASE NO.: 2:18-bk-20179-ER
CASE NO.: 2:18-bk-20180-ER
CASE NO.: 2:18-bk-20181-ER

Chapter 11 Cases

Hon. Ernest M. Robles

OFFICIAL COMMITTEE OF UNSECURED CREDITORS' (I) REPLY TO SGM'S OBJECTION TO THE DEBTORS' PROPOSED ORDER ON THE DEBTORS' ENFORCEMENT MOTION [DKT. 3582] AND (II) STATEMENT IN SUPPORT OF THE DEBTORS' PROPOSED ORDER [DKT. 3574]

Hearing:
Date: October 15, 2019
Time: 10:00 a.m.
Location: Courtroom 1568

1820151191112000000000001

The Official Committee of Unsecured Creditors of Verity Health System of California, Inc., *et al*. (the "Committee"), appointed in connection with the chapter 11 cases of the above-captioned debtors and debtors-in-possession (the "Debtors"), hereby submits this reply to the *Objection to Order Granting* "*Debtors' Emergency Motion for the Entry of an Order: (I) Enforcing the Order Authorizing the Sale to Strategic Global Management, Inc.; (II) Finding that the Sale is Free and Clear of Conditions Materially Different than Those Approved by the Court; (III) Finding that the Attorney General Abused His Discretion in Imposing Conditions on that Sale; and (IV) Granting Related Relief"* (the "Objection") [Docket No. 3582] filed by Strategic Global Management, Inc. ("SGM") and statement in support of the Debtor's proposed *Order Granting* "*Debtors' Emergency Motion for the Entry of an Order: (I) Enforcing the Order Authorizing the Sale to Strategic Global Management, Inc.; (II) Finding that the Sale is Free and Clear of Conditions Materially Different than Those Approved by the Court; (III) Finding that the Attorney General Abused His Discretion in Imposing Conditions on that Sale; and (IV) Granting Related Relief"* (the "Proposed Order") [Docket No. 3574].

The Committee supports the entry of the Debtors' Proposed Order. The Proposed Order is the product of extensive negotiations between the Debtors and the California Attorney General (the "Attorney General"), in consultation with the Committee, and the Proposed Order is consistent with the contemplated sale of assets to SGM. The Attorney General's approval of the Proposed Order is of great significance, since it avoids the uncertainty and time related to an appeal. Further, the Proposed Order gives SGM what SGM needs to close the sale. Specifically, the Proposed Order makes clear that the sale is free and clear of the Attorney General's additional conditions; i.e., SGM would need to satisfy the conditions SGM set forth in section 8.6 of the Asset Purchase Agreement (as revised) [Docket No. 2305-1] and nothing further.

SGM, in its Objection, takes issue with the section 363 "free and clear" language in the Proposed Order. However, this Court's *Order (1) Approving Form of Asset Purchase Agreement for Stalking Horse Bidder and for Prospective Overbidders, (2) Approving Auction Sale Format, Bidding Procedures and Stalking Horse Bid Protections, (3) Approving Form of Notice to be Provided to Interested Parties, (4) Scheduling a Court Hearing to Consider Approval of the Sale to the Highest Bidder and (5) Approving Procedures Related to the Assumption of Certain Executory contracts and*

Unexpired Leases, and (II) an Order ((A) Authorizing the Sale of Property Free and Clear of All Claims, Liens and Encumbrances (the "Bidding Procedures Order") [Docket No. 1572] already includes the appropriate section 363 "free and clear" language, and the language in the Proposed Order is consistent with the Bidding Procedures Order.

SGM also takes issue with the second sentence of paragraph 4 of the Proposed Order, which addresses the Attorney General's authority to enforce the relevant conditions. For context, the entire paragraph is reproduced here:

> This Court shall retain exclusive jurisdiction to adjudicate any disputes or controversies regarding the interpretation or enforcement of this Order. Notwithstanding the preceding sentence, nothing contained in this Order shall prohibit or limit the authority of the Attorney General to enforce, in the California state courts and pursuant to section 5926 of the California Corporations Code, the **Purchaser** Approved Conditions set forth on Schedule 8.6 to the APA.

(Proposed Order at ¶ 4) (emphasis added). The second sentence of Paragraph 4 should be uncontroversial, as there was never any contemplation of any prohibition of, or limitations on, the Attorney General's authority to enforce conditions *to which SGM agreed*.

In short, the Proposed Order provides everything SGM needs to close. By the Proposed Order and related stipulation, the Attorney General has agreed not to impose additional conditions such that SGM must proceed to close.

For the reasons set forth above, the Debtors' Proposed Order appears to be proper, and the Committee supports the entry of the Proposed Order in its current form.

DATED: November 11, 2019

MILBANK LLP

/s/ Mark Shinderman
GREGORY A. BRAY
MARK SHINDERMAN
JAMES C. BEHRENS

Counsel for the Official Committee of Unsecured Creditors of Verity Health System of California, Inc., et al.

PROOF OF SERVICE OF DOCUMENT

I am over the age of 18 and not a party to this bankruptcy case or adversary proceeding. My business address is:

2029 Century Park E, 33rd Floor, Los Angeles, CA 90067.

A true and correct copy of the foregoing document entitled (*specify*): ***OFFICIAL COMMITTEE OF UNSECURED CREDITORS' (I) REPLY TO SGM'S OBJECTION TO THE DEBTORS' PROPOSED ORDER ON THE DEBTORS' ENFORCEMENT MOTION AND (II) STATEMENT IN SUPPORT OF THE DEBTORS' PROPOSED ORDER*** will be served or was served **(a)** on the judge in chambers in the form and manner required by LBR 5005-2(d); and **(b)** in the manner stated below:

1. TO BE SERVED BY THE COURT VIA NOTICE OF ELECTRONIC FILING (NEF): Pursuant to controlling General Orders and LBR, the foregoing document will be served by the court via NEF and hyperlink to the document. On (*date*) November 11, 2019, I checked the CM/ECF docket for this bankruptcy case or adversary proceeding and determined that the following persons are on the Electronic Mail Notice List to receive NEF transmission at the email addresses stated below:

☒ Service information continued on attached page

2. SERVED BY UNITED STATES MAIL:
On (*date*) November 11, 2019, I served the following persons and/or entities at the last known addresses in this bankruptcy case or adversary proceeding by placing a true and correct copy thereof in a sealed envelope in the United States mail, first class, postage prepaid, and addressed as follows. Listing the judge here constitutes a declaration that mailing to the judge will be completed no later than 24 hours after the document is filed.

☒ Service information continued on attached page

3. SERVED BY PERSONAL DELIVERY, OVERNIGHT MAIL, FACSIMILE TRANSMISSION OR EMAIL (state method for each person or entity served): Pursuant to F.R.Civ.P. 5 and/or controlling LBR, on (*date*) November 11, 2019, I served the following persons and/or entities by personal delivery, overnight mail service, or (for those who consented in writing to such service method), by facsimile transmission and/or email as follows. Listing the judge here constitutes a declaration that personal delivery on, or overnight mail to, the judge will be completed no later than 24 hours after the document is filed.

☒ Service information continued on attached page

I declare under penalty of perjury under the laws of the United States that the foregoing is true and correct.

November 11, 2019	James C. Behrens	/s/ James C. Behrens
Date	*Printed Name*	*Signature*

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United States Bankruptcy Court
Central District of California
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EXHIBIT "7"

Docket #3591 Date Filed: 11/12/2019

UNITED STATES BANKRUPTCY COURT

CENTRAL DISTRICT OF CALIFORNIA

LOS ANGELES DIVISION

In re: Verity Health System of California, Inc., *et al.*, Debtors and Debtors in Possession. ☒Affects All Debtors ☐ Affects Verity Health System of California, Inc. ☐ Affects O'Connor Hospital ☐ Affects Saint Louise Regional Hospital ☐ Affects St. Francis Medical Center ☐ Affects St. Vincent Medical Center ☐ Affects Seton Medical Center ☐ Affects O'Connor Hospital Foundation ☐ Affects Saint Louise Regional Hospital Foundation ☐ Affects St. Francis Medical Center of Lynwood Medical Foundation ☐ Affects St. Vincent Foundation ☐ Affects St. Vincent Dialysis Center, Inc. ☐ Affects Seton Medical Center Foundation ☐ Affects Verity Business Services ☐ Affects Verity Medical Foundation ☐ Affects Verity Holdings, LLC ☐ Affects De Paul Ventures, LLC ☐ Affects De Paul Ventures - San Jose Dialysis, LLC Debtors and Debtors in Possession.,	Lead Case No.: 2:18-bk-20151-ER Chapter: 11 Jointly Administered With: Case No. 2:18-bk-20162-ER; Case No. 2:18-bk-20163-ER; Case No. 2:18-bk-20164-ER; Case No. 2:18-bk-20165-ER; Case No. 2:18-bk-20167-ER; Case No. 2:18-bk-20168-ER; Case No. 2:18-bk-20169-ER; Case No. 2:18-bk-20171-ER; Case No. 2:18-bk-20172-ER; Case No. 2:18-bk-20173-ER; Case No. 2:18-bk-20175-ER; Case No. 2:18-bk-20176-ER; Case No. 2:18-bk-20178-ER; Case No. 2:18-bk-20179-ER; Case No. 2:18-bk-20180-ER; Case No. 2:18-bk-20181-ER; Chapter 11 Cases. **ORDER SETTING EMERGENCY HEARING ON STRATEGIC GLOBAL MANAGEMENT'S OBJECTION TO THE FORM OF THE DEBTOR'S PROPOSED ORDER GRANTING THE SALE ENFORCEMENT MOTION** **HEARING DATE:** Date: November 13, 2019 Time: 10:00 a.m. Location: Ctrm. 1568 Roybal Federal Building 255 East Temple Street Los Angeles, CA 90012

1820151191112000000000004

Having reviewed the *Stipulation Resolving "Debtor's Emergency Motion for the Entry of an Order: (I) Enforcing the Order Authorizing the Sale to Strategic Global Management, Inc.; (II) Finding that the Sale is Free and Clear of the Conditions Materially Different than those Approved by the Court; (III) Finding that the Attorney General Abused His Discretion in Imposing Conditions on that Sale; and (IV) Granting Related Relief"* [Doc. No. 3572], the *Notice Regarding Proposed Order Resolving Debtors' Emergency Motion for the Entry of an Order Enforcing the Sale Order and Requesting Related Relief* [Doc. No. 3573], the *Objection to Order Granting "Debtor's Emergency Motion for the Entry of an Order: (I) Enforcing the Order Authorizing the Sale to Strategic Global Management, Inc.; (II) Finding that the Sale is Free and Clear of the Conditions Materially Different than those Approved by the Court; (III) Finding that the Attorney General Abused His Discretion in Imposing Conditions on that Sale; and (IV) Granting Related Relief"* [Doc. No. 3582] (the "SGM Objection"), the *Debtor's Response to [the SGM Objection]* [Doc. No. 3586], and the *Official Committee of Unsecured Creditors' (I) Reply to SGM's Objection to the Debtors' Proposed Order on the Debtors' Enforcement Motion and (II) Statement in Support of the Debtors' Proposed Order* [Doc. No. 3590], the Court **HEREBY ORDERS AS FOLLOWS:**

1) An emergency hearing on the SGM Objection shall take place on **Wednesday, November 13, 2019, at 10:00 a.m.**
2) By no later than **Tuesday, November 12, 2019, at 3:00 p.m.**, the Debtors shall provide telephonic notice of the emergency hearing to SGM, the Official Committee of Unsecured Creditors, the Office of the United States Trustee, Service Employees International Union, United Healthcare Workers-West, and the United Nurses Association of California/Union of Health Care Professionals.
3) Absent further order of the Court, no further briefing on the SGM Objection will be accepted.
4) The parties shall be prepared to respond to the Court's questions and concerns, attached hereto as **Exhibit A.**

IT IS SO ORDERED.

###

Date: November 12, 2019

Ernest M. Robles
United States Bankruptcy Judge

Exhibit A—Questions and Concerns

The Court has reviewed the proposed form of order negotiated between the Debtors and the Attorney General (the "AG Order") and the proposed form of order submitted by Strategic Global Management, Inc. (the "SGM Order"). The parties should be prepared to address the following questions and concerns of the Court.

1. Absence of Findings and Conclusions Supporting Entry of the Order

The stipulation entered into between the Debtors and the California Attorney General [Doc. No. 3572] (the "Stipulation") provides that the *Memorandum of Decision Granting Debtors' Emergency Motion to Enforce the Sale Order* [Doc. No. 3446] (the "Memorandum of Decision") "is hereby vacated and withdrawn." Stipulation at ¶ 2.

Does the Court have the ability to enter an order that is not supported by findings and conclusions? The Debtors' motion seeking entry of an order enforcing the terms of the Sale Order (the "Sale Enforcement Motion") is a "contested matter" within the meaning of Bankruptcy Rule 9014. Rule 9014 provides that Rule 7052 applies to contested matters. Rule 7052 requires the Court to "find the facts specially and state its conclusions of law separately."

Rule 9014 authorizes the Court to direct that Rule 7052 not apply, which would excuse the Court from issuing findings and conclusions in support of its Order. What are the circumstances in which other courts have issued orders that are not supported by any findings and conclusions?

Will the absence of findings and conclusions lead to future litigation regarding the meaning and interpretation of the Order?

2. Meaning of Prefatory Phrase "Solely and Exclusively for the purposes of the APA"

Paragraph 3 of the AG Order states:

> *Solely and exclusively for purposes of the APA (as defined below) and the Motion*, the Additional Conditions (as defined in section 8.6 of that certain asset purchase agreement [Docket No. 2305-1] (the "APA")) are an "interest in property" for purposes of 11 U.S.C. § 363(f), and the Assets (as defined in the APA) can be sold free and clear of the Additional Conditions without the imposition of any other conditions which would adversely affect the Purchaser (as defined in the APA).

The Court understands the italicized phrase to mean that the AG Order shall have no precedential effect. SGM contends that this prefatory phrase is ambiguous. SGM should be prepared to further explain its position. It is not clear to the Court exactly what is ambiguous about this prefatory phrase.

3. Difference Between the Phrases "Can Be Sold" and "Are Being Transferred"

SGM objects to the AG Order's use of the phrase "can be sold," and asserts that the Order should provide instead that the Assets "are being transferred." SGM should be prepared to explain what additional meaning is conveyed by the phrase "are being transferred" that is not conveyed by the phrase "can be sold." Within the context of ¶ 3 of the AG Order, the Court is unable to discern a meaningful difference between the two phrases.

Is it of concern to SGM that the phrase "can be sold" is precatory rather than declaratory? If that is the issue, would the Attorney General accept the phrase "are being sold" in lieu of "can be sold"?

4. The State Court's Jurisdiction to Enforce the Purchaser Approved Conditions

Paragraph 4 of the AG Order provides:

> This Court shall retain exclusive jurisdiction to adjudicate any disputes or controversies regarding the interpretation or enforcement of this Order. Notwithstanding the preceding sentence, nothing contained in this Order shall prohibit or limit the authority of the Attorney General to enforce, in the California state courts and pursuant to section 5926 of the California Corporations Code, the Purchaser Approved Conditions set forth on Schedule 8.6 to the APA.

SGM objects to the language authorizing the Attorney General to enforce the Purchaser Approved Conditions in the state courts. SGM fears that the Attorney General will use misdirection to attempt to improperly enforce the Additional Conditions before the state courts. Specifically, SGM postulates that the Attorney General could mislead a state court into believing that the impermissible enforcement of an Additional Condition was instead the permissible enforcement of a Purchaser Approved Condition.

In the Court's view, the situation envisioned by SGM is not likely to occur. Schedule 8.6 to the APA contains 28 pages setting forth the Purchaser Approved Conditions. The exhaustive detail in the APA would make it very difficult for the Attorney General to overstep the bounds of his authority to enforce the Purchaser Approved Conditions.

The Court is also concerned that it may not have authority to retain jurisdiction with respect to the Attorney General's enforcement of the Purchaser Approved Conditions. The facts here are similar to those of *Battle Ground Plaza v. Ray (In re Ray)*, 624 F.3d 1124 (9th Cir. 2010), in which the Bankruptcy Court approved the sale of real property, free and clear of a right of first refusal granted to Battle Ground Plaza (the "Sale Order"). After the bankruptcy case had been closed, Battle Ground Plaza launched a collateral attack on the Sale Order that was based on state law breach of contract claims. The Ninth Circuit found that the bankruptcy court lacked jurisdiction over Battle Ground Plaza's collateral attack on the Sale Order, notwithstanding a provision in the confirmation order stating that the bankruptcy court "shall retain jurisdiction of this case to determine any controversies in connection with assets of the bankruptcy estate." *Id.* at 1136 n.8.

5. What Specific Objections Does the Attorney General Have to the Alternative Language Proposed by SGM in ¶ 2 of the SGM Order?

The Attorney General has rejected the following alternative language proposed by SGM:

> The Debtors' transfer to SGM of the Debtors' assets (the "SGM Sale") pursuant to that certain asset purchase agreement [Docket No. 2305-1] (the "SGM APA") is free and clear of, and shall not be subject to or conditioned upon SGM's performance of, compliance with, or adherence to, any and all Additional Conditions (as defined in the SGM APA and in the Motion), pursuant to Bankruptcy Code §§ 363(b), (f)(1), (f)(4), and (f)(5) and otherwise as provided in the Sale Order.

SGM Order at ¶ 2.

The Stipulation provides that the Attorney General will not waive his right to appeal the Memorandum Decision unless the AG Order is entered without modification. The Attorney General should be prepared to discuss the reasons for his objections to the alternative language proposed by SGM.

6. Does the AG Order Satisfy § 8.6 of the SGM APA?

Does SGM take the position that the AG Order does not qualify as a "Supplemental Sale Order" that is final and non-appealable within the meaning of § 8.6 of the SGM APA?

EXHIBIT "8"

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Attorneys for the Chapter 11 Debtors and Debtors In Possession

UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA - LOS ANGELES DIVISION

In re VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*, Debtors and Debtors In Possession.	Lead Case No. 2:18-bk-20151-ER Jointly administered with: Case No. 2:18-bk-20162-ER; Case No. 2:18-bk-20163-ER; Case No. 2:18-bk-20164-ER; Case No. 2:18-bk-20165-ER; Case No. 2:18-bk-20167-ER; Case No. 2:18-bk-20168-ER; Case No. 2:18-bk-20169-ER; Case No. 2:18-bk-20171-ER; Case No. 2:18-bk-20172-ER; Case No. 2:18-bk-20173-ER; Case No. 2:18-bk-20175-ER; Case No. 2:18-bk-20176- ER; Case No. 2:18-bk-20178-ER; Case No. 2:18-bk-20179-ER; Case No. 2:18-bk-20180-ER; Case No. 2:18-bk-20181-ER; Chapter 11 Cases Hon. Ernest M. Robles
☒ Affects All Debtors ☐ Affects Verity Health System of California, Inc. ☐ Affects O'Connor Hospital ☐ Affects Saint Louise Regional Hospital ☐ Affects St. Francis Medical Center ☐ Affects St. Vincent Medical Center ☐ Affects Seton Medical Center ☐ Affects O'Connor Hospital Foundation ☐ Affects Saint Louise Regional Hospital Foundation ☐ Affects St. Francis Medical Center of Lynwood Foundation ☐ Affects St. Vincent Foundation ☐ Affects St. Vincent Dialysis Center, Inc. ☐ Affects Seton Medical Center Foundation ☐ Affects Verity Business Services ☐ Affects Verity Medical Foundation ☐ Affects Verity Holdings, LLC ☐ Affects De Paul Ventures, LLC ☐ Affects De Paul Ventures - San Jose Dialysis, LLC Debtors and Debtors In Possession.	**NOTICE OF REDLINE OF CHANGES TO PROPOSED ORDER GRANTING "DEBTORS' EMERGENCY MOTION FOR THE ENTRY OF AN ORDER: (I) ENFORCING THE ORDER AUTHORIZING THE SALE TO STRATEGIC GLOBAL MANAGEMENT, INC.; (II) FINDING THAT THE SALE IS FREE AND CLEAR OF CONDITIONS MATERIALLY DIFFERENT THAN THOSE APPROVED BY THE COURT; (III) FINDING THAT THE ATTORNEY GENERAL ABUSED HIS DISCRETION IN IMPOSING CONDITIONS ON THAT SALE; AND (IV) GRANTING RELATED RELIEF" [DOC. 3188]** **[RELATED DOCKET NOS. 3188, 3446, 3572, 3573 3574]** **Hearing:** Date: October 15, 2019 Time: 10:00 a.m. (Pacific Time) Place: 255 East Temple Street, Courtroom 1568 Los Angeles, California 90012

PLEASE TAKE NOTICE that Verity Health System of California, Inc. and the above-referenced affiliated debtors, the debtors and debtors in possession in the above-captioned chapter 11 bankruptcy cases (collectively, the "Debtors"), hereby file this notice attaching as Exhibit "A" a redline comparison of the changes between to the proposed order (the "Proposed Order") lodged on November 8, 2019 [Docket No. 3574], and the order lodged by the Debtors concurrently herewith granting the *Debtors' Emergency Motion for the Entry of an Order: (I) Enforcing the Order Authorizing the Sale to Strategic Global Management, Inc.; (II) Finding That the Sale Is Free and Clear of Conditions Materially Different Than Those Approved by the Court; (III) Finding That the Attorney General Abused His Discretion in Imposing Conditions on the Sale; and (IV) Granting Related Relief* [Docket No. 3188] (the "Motion"). The changes to the Proposed Order are consistent with the changes agreed to by the California Attorney General on the record at the hearing on November 13, 2019, at 10:00 a.m. (Pacific Time).

Dated: November 14, 2019

DENTONS US LLP
SAMUEL R. MAIZEL
TANIA M. MOYRON
NICHOLAS A. KOFFROTH

By */s/ Tania M. Moyron*
Tania M. Moyron

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Exhibit A

Redline

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UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA - LOS ANGELES DIVISION

In re VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*, Debtor and Debtor In Possession.	Lead Case No. 2:18-bk-20151-ER Jointly Administered With: Case No. 2:18-bk-20162-ER Case No. 2:18-bk-20163-ER Case No. 2:18-bk-20164-ER Case No. 2:18-bk-20165-ER Case No. 2:18-bk-20167-ER Case No. 2:18-bk-20168-ER Case No. 2:18-bk-20169-ER Case No. 2:18-bk-20171-ER Case No. 2:18-bk-20172-ER Case No. 2:18-bk-20173-ER Case No. 2:18-bk-20175-ER Case No. 2:18-bk-20176-ER Case No. 2:18-bk-20178-ER Case No. 2:18-bk-20179-ER Case No. 2:18-bk-20180-ER Case No. 2:18-bk-20181-ER Chapter 11 Cases Hon. Judge Ernest M. Robles
☒ Affects All Debtors ☐ Affects Verity Health System of California, Inc. ☐ Affects O'Connor Hospital ☐ Affects Saint Louise Regional Hospital ☐ Affects St. Francis Medical Center ☐ Affects St. Vincent Medical Center ☐ Affects Seton Medical Center ☐ Affects O'Connor Hospital Foundation ☐ Affects Saint Louise Regional Hospital Foundation ☐ Affects St. Francis Medical Center of Lynwood Foundation ☐ Affects St. Vincent Foundation Affects St. Vincent Dialysis Center, Inc. Affects Seton Medical Center Foundation Affects Verity Business Services Affects Verity Medical Foundation Affects Verity Holdings, LLC Affects De Paul Ventures, LLC Affects De Paul Ventures - San Jose Dialysis, LLC Debtors and Debtors In Possession.	**ORDER GRANTING "DEBTORS' EMERGENCY MOTION FOR THE ENTRY OF AN ORDER: (I) ENFORCING THE ORDER AUTHORIZING THE SALE TO STRATEGIC GLOBAL MANAGEMENT, INC.; (II) FINDING THAT THE SALE IS FREE AND CLEAR OF CONDITIONS MATERIALLY DIFFERENT THAN THOSE APPROVED BY THE COURT; (III) FINDING THAT THE ATTORNEY GENERAL ABUSED HIS DISCRETION IN**

IMPOSING CONDITIONS ON THAT SALE; AND (IV) GRANTING RELATED RELIEF" [DOC. 3188]

Hearing Date and Time:

Date: October 15, 2019

Time: 10:00 a.m. (Pacific Time)

Location: Courtroom 1568
255 E. Temple Street
Los Angeles, CA

DENTONS US LLP
601 SOUTH FIGUEROA STREET, SUITE 2500
LOS ANGELES, CALIFORNIA 90017-5704
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The Court, having considered the motion [Docket No. 3188] (the "Motion")[1] filed by Verity Health System of California, Inc. and the above-referenced affiliated debtors and debtors in possession in the above captioned chapter 11 bankruptcy cases (collectively, the "Debtors"), the response [Docket No. 3333] of the California Attorney General (the "Attorney General"), the statement [Docket No. 3356] filed by Strategic Global Management, Inc. (collectively with its affiliates, "SGM"), the reply [Docket No. 3382] filed by the Debtors, the stipulation [Docket No. 3572] by and among the Debtors and the Attorney General, and good cause appearing,

HEREBY ORDERS AS FOLLOWS:

1. The Motion is GRANTED.

2. The Court's memorandum decision [Docket No. 3446] is hereby vacated and withdrawn.

3. Solely and exclusively for purposes of the APA (as defined below) and the Motion, the Additional Conditions (as defined in section 8.6 of that certain asset purchase agreement [Docket No. 2305-1] (the "APA")) are an "interest in property" for purposes of 11 U.S.C. § 363(f)~~,~~ ~~and the~~. The Assets (as defined in the APA) ~~can be~~are being sold free and clear of the Additional Conditions without the imposition of any other conditions which would adversely affect the Purchaser (as defined in the APA).

4. This Court shall retain exclusive jurisdiction to adjudicate any disputes or controversies regarding the interpretation or enforcement of this Order. Notwithstanding the preceding sentence, nothing contained in this Order shall prohibit or limit the authority of the Attorney General to enforce, in the California state courts and pursuant to section 5926 of the California Corporations Code, the Purchaser Approved Conditions set forth on Schedule 8.6 to the APA.

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/ / /

[1] Unless otherwise defined herein, all capitalized terms have the definitions set forth in the Motion.

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5. The Attorney General waives any right to appeal this Order.

IT IS SO ORDERED.

###

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Split/Merged cell	
Padding cell	

Statistics:	
	Count
Insertions	8
Deletions	8
Moved from	0
Moved to	0
Style change	0
Format changed	0
Total changes	16

EXHIBIT "9"

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UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA - LOS ANGELES DIVISION

In re

VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*,

Debtors and Debtors In Possession.

☒ Affects All Debtors

☐ Affects Verity Health System of California, Inc.
☐ Affects O'Connor Hospital
☐ Affects Saint Louise Regional Hospital
☐ Affects St. Francis Medical Center
☐ Affects St. Vincent Medical Center
☐ Affects Seton Medical Center
☐ Affects O'Connor Hospital Foundation
☐ Affects Saint Louise Regional Hospital Foundation
☐ Affects St. Francis Medical Center of Lynwood Foundation
☐ Affects St. Vincent Foundation
☐ Affects St. Vincent Dialysis Center, Inc.
☐ Affects Seton Medical Center Foundation
☐ Affects Verity Business Services
☐ Affects Verity Medical Foundation
☐ Affects Verity Holdings, LLC
☐ Affects De Paul Ventures, LLC
☐ Affects De Paul Ventures - San Jose ASC, LLC

Debtors and Debtors In Possession.

Lead Case No. 2:18-bk-20151-ER
Jointly Administered With:
CASE NO.: 2:18-bk-20162-ER
CASE NO.: 2:18-bk-20163-ER
CASE NO.: 2:18-bk-20164-ER
CASE NO.: 2:18-bk-20165-ER
CASE NO.: 2:18-bk-20167-ER
CASE NO.: 2:18-bk-20168-ER
CASE NO.: 2:18-bk-20169-ER
CASE NO.: 2:18-bk-20171-ER
CASE NO.: 2:18-bk-20172-ER
CASE NO.: 2:18-bk-20173-ER
CASE NO.: 2:18-bk-20175-ER
CASE NO.: 2:18-bk-20176-ER
CASE NO.: 2:18-bk-20178-ER
CASE NO.: 2:18-bk-20179-ER
CASE NO.: 2:18-bk-20180-ER
CASE NO.: 2:18-bk-20181-ER

Chapter 11 Cases
Hon. Judge Ernest M. Robles

MOTION TO (A) CONTINUE HEARING ON MOTION OF THE DEBTORS FOR AN ORDER APPROVING: (I) PROPOSED DISCLOSURE STATEMENT; (II) SOLICITATION AND VOTING PROCEDURES; (III) NOTICE AND OBJECTION PROCEDURES FOR CONFIRMATION OF DEBTORS' PLAN, AND (IV) GRANTING RELATED RELIEF; (B) CONTINUE THE REPLY DEADLINE WITH RESPECT TO DISCLOSURE STATEMENT OBJECTIONS, AND (C) USE THE NOVEMBER 26, 2019, 10:00 A.M. HEARING DATE FOR A STATUS CONFERENCE ON THIS MATTER; DECLARATION OF RICHARD G. ADCOCK IN SUPPORT THEREOF
[RELATES TO DOCKET NOS. 2994, 2995, 3120, 3193, 3260, 3389, 3594, 3632, 3633]

Proposed Status Conference Date and Time:
Date: November 26, 2019
Time: 10:00 a.m. (Pacific Time)
Place: 255 E. Temple St., Courtroom 1568
Los Angeles, CA 90012

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Verity Health System of California, Inc. ("VHS") and the affiliated debtors, the debtors and debtors in possession (collectively, the "Debtors") in the above-captioned chapter 11 bankruptcy cases (the "Cases"), respectfully request (the "Motion") that the Court (A) approve a continuance of the hearing on the *Motion of the Debtors for an Order Approving: (I) Proposed Disclosure Statement; (II) Solicitation and Voting Procedures; (III) Notice and Objection Procedures for Confirmation of Debtors' Plan; and (IV) Granting Related Relief* [Docket No. 2995] (the "Disclosure Statement Motion") to a date to be set by the Court at the Status Conference (defined below), (B) reschedule the deadline to file replies to objections to the Disclosure Statement Motion at the Status Conference, and (C) to use November 26, 2019, 10:00 a.m., as a status conference (the "Status Conference"). In support of the Motion, the Debtors submit the attached *Declaration of Richard G. Adcock* (the "Adcock Declaration") and, respectfully state as follows:

I.

INTRODUCTION

Yesterday, on November 18, 2019, the Court entered the memorandum decision [Docket No. 3632] and order [Docket No. 3633] (collectively, the "Orders") "finding that SGM is obligated to promptly close the SGM Sale under § 8.6 of the APA, provided that all other conditions to closing have been satisfied." Docket No. 3632. The Orders confirmed that the Debtors satisfied Section 8.6 of that certain asset purchase agreement (the "SGM APA") [Docket No. 2305-1] and rendered moot any argument to the contrary. *Id.* at 5. The Order also provided that Strategic Global Management, Inc. ("SGM") was obligated to promptly close the SGM sale (the "SGM Sale"), provided that all other conditions have been satisfied. Despite the foregoing, there remains a significant amount of uncertainty regarding the SGM sale transaction. As of the last motion [Docket No. 3621] to continue the hearing on the Disclosure Statement Motion, the Debtors anticipated receiving formal correspondence from SGM that would be material to the sale transaction. The Debtors have yet to receive the correspondence, but have been informed that it is forthcoming. Further, since the Orders, SGM orally communicated new information that undermines the Debtors' confidence in a prompt closing of the sale. *See* Adcock Declaration.

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The Debtors are conscious of the urgent need to advance the Disclosure Statement (as defined below) and plan process, but cannot in good faith move forward until there is more certainty that a successful closing can be reasonably anticipated. The Debtors' plan of liquidation is contingent on the sale closing, and, thus, any material doubt cast on the SGM sale hinders the Debtors ability to provide adequate information to creditors and the Court.

Consequently, the Debtors request that the Court enter an order granting the following relief (collectively, the "Proposed Relief"): (A) rescheduling the hearing on the Disclosure Statement, currently scheduled on November 26, 2019, to a date to be set by the Court at the Status Conference; (B) rescheduling the deadline set forth in the Order to file replies to objections to the Disclosure Statement Motion at the Status Conference; and (C) preserving the hearing on November 26, 2019, 10:00 a.m., as a status conference on this matter.

II.

JURISDICTION AND VENUE

This Court has jurisdiction over this Motion under 28 U.S.C. § 157(b)(2)(A) and (L). Venue of these proceedings and this Motion is proper pursuant to 28 U.S.C. § 1409. The statutory predicate for this Motion is 11 U.S.C. § 105[1] and LBR 9013-1(m).

III.

BACKGROUND FACTS

A. General Background

1. On August 31, 2018, ("Petition Date"), the Debtors each filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code (the "Cases"). By entry of an order, the Cases are currently being jointly administered before the Bankruptcy Court. [Docket No. 17]. Since the commencement of their Cases, the Debtors have been operating their businesses as debtors in possession pursuant to §§ 1107 and 1108.

B. The Plan and Disclosure Statement

2. On September 3, 2019, the Debtors filed the *Debtors' Chapter 11 Plan of*

[1]

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Liquidation (Dated September 3, 2019) [Docket No. 2993] (the "Plan") and related *Disclosure Statement Describing Debtors' Chapter 11 Plan of Liquidation (Dated September 3, 2019)* [Docket No. 2994] (the "Disclosure Statement").

3. On September 4, 2019, the Debtors filed the Disclosure Statement Motion. In the Disclosure Statement Motion, the Debtors seek approval of (i) the Disclosure Statement, (ii) proposed solicitation and voting procedures, (iii) proposed notice and objection procedures for confirmation of the Plan, and (iv) related relief. The Debtors also requested [Docket No. 2996] an order setting a hearing and briefing schedule on shortened notice.

4. On September 4, 2019, the Court entered an *Order Setting Hearing On Motion for Approval of Disclosure Statement for October 2, 2019, at 10:00 a.m.* [Docket No. 2998] (the "Disclosure Statement Scheduling Order"). The Disclosure Statement Scheduling Order set a hearing on the Disclosure Statement Motion for October 2, 2019 at 10:00 a.m., and provided that any oppositions to the Disclosure Statement Motion must be filed not later than September 18, 2019. *See* Scheduling Order at 2.

5. On September 18, 2019, certain parties in interest filed responses and oppositions to the Disclosure Statement Motion. *See* Docket Nos. 3079, 3084, 3086, 3087, 3089, 3090, 3092, 3094. Further, the Debtors have continued the opposition deadline by stipulation as they continue negotiations with certain other parties with respect to the Disclosure Statement Motion and Disclosure Statement. *See* Docket Nos. 3076, 3077, 3082, 3098, 3119, 3122, 3126, 3195.

C. The Emergency Motion and SGM Sale

6. On May 2, 2019, the Court entered an order [Docket No. 2306] (the "Sale Order") approving the SGM APA concerning the SGM Sale. On September 25, 2019, the Attorney General conditionally approved the SGM Sale subject to certain conditions (the "2019 Conditions"). Certain of the 2019 Conditions (the "Additional Conditions") were materially different than those to which SGM agreed under the Schedule 8.6 to the SGM APA.

7. On September 30, 2019, the Debtors filed the motion [Docket No. 3188] (the "Enforcement Motion") for entry of an order finding (i) that the Debtors could sell their assets pursuant to the SGM Sale free and clear of the Additional Conditions, or, alternatively, (ii) that

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the Attorney General abused his discretion when imposing the Additional Conditions. As discussed in greater detail in the Enforcement Motion, the Additional Conditions recently issued by the Attorney General threatened the SGM Sale, and could have triggered SGM's termination rights under the APA unless the Debtors obtained the relief requested by the Enforcement Motion. *See* SGM APA, § 8.6.

8. On October 1, 2019, the Court entered the *Order Setting Hearing on Emergency Motion for the Entry of an Order Enforcing the Order Authorizing the Sale to Strategic Global Management for October 15, 2019, at 10:00 a.m.* [Docket No. 3193] (the "Scheduling Order"), which scheduled a hearing on the Enforcement Motion on October 15, 2019, at 10:00 a.m. (Pacific Time)—the same date and time as the hearing on the Disclosure Statement Motion. *See* Scheduling Order at 2.

9. On October 23, 2019, the Court entered the *Memorandum of Decision Granting Debtors' Emergency Motion to Enforce the Sale Order [Doc. No. 3188]* (the "Memorandum Decision"). The Memorandum Decision granted the Enforcement Motion and further provided that the Court will enter an order certifying the matter for direct appeal to the Ninth Circuit. *See* Mem. Dec. at 24. The Court requested that the Debtors submit an order on the Enforcement Motion consistent with the Memorandum Decision not later than October 30, 2019. *See id.* On November 14, 2019, after holding an emergency hearing on the proposed form of order, the Court entered the order granting the Enforcement Motion [Docket No. 3611] (the "Enforcement Order").

D. Continuance of Hearing on Disclosure Statement Motion

10. The Debtors have filed six motions [Docket No. 3103, 3238, 3384, 3502, 3589, 3621] to continue the hearing on the Disclosure Statement Motion, which were granted by the Court [Docket No. 3120, 3260, 3389, 3506, 3594, 3633]. The order on the Debtors' sixth continuance motion set the Debtors' reply deadline as November 21, 2019 (the "Reply Deadline"), and scheduled a continued hearing on the Motion for November 26, 2019, at 10:00 a.m. (Pacific Time) (the "Hearing").

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E. Facts Relevant to the Motion

11. On October 10, 2019, SGM filed the *Statement of Strategic Global Management, Inc. in Support of "Debtors' Emergency Motion for the Entry of an Order: (I) Enforcing the Order Authorizing the Sale to Strategic Global Management, Inc.' (II) Finding that the Sale is Free and Clear of Conditions Materially Different Than Those Approved by the Court . . ."* [Docket No. 3356] (the "SGM Statement"). In the SGM Statement, SGM indicated that "it will not close the Sale unless the Debtors timely obtain a Free and Clear order from the Court." SGM Statement at 4. The SGM APA further provides that such order must be final and non-appealable, that is, an order "which has been affirmed or the appeal of which has been dismissed by any appellate court and for which the relevant appeal period has expired (other than any right of appeal to the U.S. Supreme Court)." *See* SGM APA § 8.6. The Court entered the Enforcement Order on November 14, 2019. The two parties that objected to the Enforcement Motion have agreed not to appeal the Enforcement Order.

12. On the morning of November 15, 2019, the CEO of SGM informed the CEO of the Debtors of SGM's intent to send the Debtors formal correspondence material to the SGM Sale. *See* Adcock Declaration, ¶ 4. As of the filing of this Motion, November 19, 2019, the Debtors have not received any such correspondence, but have been informed that it is forthcoming. *See id.* After the entry of the order by the Court on November 18, 2019, SGM orally communicated new information to the Debtors' representatives that undermines the Debtors' confidence in a prompt closing of the sale. *See id.*

IV.

ARGUMENT

LBR 9013-1(m)(1) governs motions for continuance and sets forth various general requirements. The Motion satisfies the requirements of the LBRs because it is filed more than three days prior to the Hearing, sets forth the reasons for the proposed continuance in detail, and is supported by the Adcock Declaration. *See* LBR 9013-1(m)(1).

The Debtors require a continuance of the Hearing on the Disclosure Statement Motion for the reasons discussed above. A continuance of the Hearing will serve the best interests of the

estates and creditors because it will ensure that the Debtors avoid the expense of unnecessary amendments to their Plan and Disclosure Statement. In light of the benefit to the Debtors' Cases, the Debtors respectfully request that the Court continue the Hearing on the Disclosure Statement Motion from November 20, 2019, at 10:00 a.m., to a date to be set by the Court at the Status Conference (the "Continued Hearing Date"). In accordance with the LBR 9013-1(m)(4), the Continued Hearing Date will automatically extend the reply deadline unless otherwise ordered by the Court at the Status Conference.

V.

CONCLUSION

In light of the foregoing, the Debtors respectfully request that this Court enter an Order (i) granting this Motion, (ii) continuing the hearing on the Disclosure Statement Motion to at date to be set by the Court at the Status Conference, (iii) rescheduling the deadline to file replies in support of the Disclosure Statement Motion to a date set by the Court at the Status Conference; (iv) preserving the November 26, 2019, 10:00 a.m. as a Status Conference on this matter, and (v) granting such other relief as the Court deems just and proper under the circumstances.

Dated: November 19, 2019

DENTONS US LLP
SAMUEL R. MAIZEL
TANIA M. MOYRON
NICHOLAS A. KOFFROTH

By */s/ Tania M. Moyron*
Tania M. Moyron
Attorneys for Verity Health Systems of California, Inc., *et al.*

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DECLARATION OF RICHARD G. ADCOCK

I, Richard G. Adcock, submit this Declaration in support of the *Motion to (A) Continue Hearing on Motion of the Debtors for an Order Approving: (I) Proposed Disclosure Statement, (II) Solicitation and Voting Procedures, (III) Notice and Objection Procedures for Confirmation of Debtors' Plan, and (IV) Granting Related Relief; (B) Continue the Reply Deadline with Respect to Disclosure Statement Objections; and (C) Use the November 26, 2019, 10:00 a.m. Hearing Date for a Status Conference on This Matter* (the "Motion"),[1] and hereby state as follows:

1. I am, and have been since January 2018, the Chief Executive Officer of Verity Health System of California, Inc. ("VHS"). Prior thereto, I served as VHS's Chief Operating Officer since August 2017.

2. I have extensive senior-level experience in the nonprofit healthcare arena, especially in the areas of healthcare delivery, hospital acute care services, health plan management, budgeting, disease management, and medical devices. I have meaningful experience in both the technology and healthcare industries in the areas of product development, business development, mergers and acquisitions, marketing, financing, strategic and tactical planning, human resources, and engineering.

3. I have personal knowledge of the facts stated in this declaration, except as to those stated on information and believe, and, as to those, I am informed and believe them to be true. If called as a witness, I could and would competently testify to the matters stated herein.

4. On the morning of November 15, 2019, the CEO of SGM informed me of SGM's intent to send the Debtors formal correspondence material to the SGM Sale. As of the filing of this Motion, November 19, 2019, the Debtors have not received any such correspondence, but have been informed that it is forthcoming. After the entry of the order by the Court on November 18, 2019, SGM orally communicated new information to the Debtors' representatives that undermines the Debtors' confidence in a prompt closing of the sale.

[1] Capitalized terms not otherwise defined in this Declaration have the definitions set forth in the Motion.

5. Given the foregoing, the Debtors anticipate that the Proposed Relief is necessary. Without a continuance, the outcome also could result in further amendments to the Disclosure Statement and Plan if the Debtors are required to file papers by the current November 21, 2019 deadline. Given their limited resources, the Debtors seek to avoid the unnecessary expenses associated with multiple amendments to their Disclosure Statement and Plan. Accordingly, the Debtors respectfully request the Proposed Relief.

I declare under penalty of perjury of the laws of the United States of America that the foregoing is true and correct.

Executed this 19th day of November, 2019, in Los Angeles, California.

Richard G. Adcock

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EXHIBIT "10"

Docket #3697 Date Filed: 11/25/2019

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Attorneys for the Chapter 11 Debtors and Debtors In Possession

UNITED STATES BANKRUPTCY COURT

CENTRAL DISTRICT OF CALIFORNIA - LOS ANGELES DIVISION

DENTONS US LLP
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In re VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*, Debtors and Debtors In Possession.	Lead Case No. 2:18-bk-20151-ER Jointly Administered With: CASE NO.: 2:18-bk-20162-ER CASE NO.: 2:18-bk-20163-ER CASE NO.: 2:18-bk-20164-ER CASE NO.: 2:18-bk-20165-ER CASE NO.: 2:18-bk-20167-ER CASE NO.: 2:18-bk-20168-ER CASE NO.: 2:18-bk-20169-ER CASE NO.: 2:18-bk-20171-ER CASE NO.: 2:18-bk-20172-ER CASE NO.: 2:18-bk-20173-ER CASE NO.: 2:18-bk-20175-ER CASE NO.: 2:18-bk-20176-ER CASE NO.: 2:18-bk-20178-ER CASE NO.: 2:18-bk-20179-ER CASE NO.: 2:18-bk-20180-ER CASE NO.: 2:18-bk-20181-ER Chapter 11 Cases Hon. Judge Ernest M. Robles
☒ Affects All Debtors ☐ Affects Verity Health System of California, Inc. ☐ Affects O'Connor Hospital ☐ Affects Saint Louise Regional Hospital ☐ Affects St. Francis Medical Center ☐ Affects St. Vincent Medical Center ☐ Affects Seton Medical Center ☐ Affects O'Connor Hospital Foundation ☐ Affects Saint Louise Regional Hospital Foundation ☐ Affects St. Francis Medical Center of Lynwood Foundation ☐ Affects St. Vincent Foundation ☐ Affects St. Vincent Dialysis Center, Inc. ☐ Affects Seton Medical Center Foundation ☐ Affects Verity Business Services ☐ Affects Verity Medical Foundation ☐ Affects Verity Holdings, LLC ☐ Affects De Paul Ventures, LLC ☐ Affects De Paul Ventures - San Jose Dialysis, LLC Debtors and Debtors In Possession.	**DEBTORS' *EX PARTE* MOTION FOR AN ORDER ALLOWING THE DEBTORS TO FILE CORRESPONDENCE REGARDING THE SGM SALE UNDER SEAL; DECLARATION OF RICHARD G. ADCOCK IN SUPPORT THEREOF** **[No Hearing Required Per Bankruptcy Rule 9018]**

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***EX PARTE* MOTION**

Verity Health System of California, Inc. ("VHS") and the above-referenced affiliated debtors, the debtors and debtors in possession in the above-captioned Chapter 11 bankruptcy cases (collectively, the "Debtors"), hereby submit this *ex parte* motion (the "Motion") for the entry of an order allowing them to file, in connection with the Debtors' status report [Docket No. 3692] (the "Status Report"), certain Correspondence (defined below) between the Debtors and Strategic Global Management, Inc. ("SGM") under seal pursuant to §§ 105(a) and 107(b), (c), and (d),[1] Rule 9018, LBR 5003-2(c), and § 2.8(b) of the Court Manual.

I.

STATEMENT OF FACTS

1. On November 19, 2019, the Debtors filed their *Motion To (A) Continue Hearing On Motion Of The Debtors For An Order Approving: (I) Proposed Disclosure Statement; (II) Solicitation And Voting Procedures; (III) Notice And Objection Procedures For Confirmation Of Debtors' Plan, And (IV) Granting Related Relief; (B) Continue The Debtors' Reply Deadline With Respect To Disclosure Statement Objections, And (C) Use The November 26, 2019, 10:00 A.M. Hearing Date For A Status Conference On This Matter* [Docket No. 3644] (the "Continuance Motion"), which sought to continue the hearing set for approval of the *Disclosure Statement Describing Debtors' Chapter 11 Plan of Liquidation (Dated September 3, 2019)* [Docket No. 2994] (the "Disclosure Statement Hearing") and requested that the Court hold a status conference (the "Status Conference"), in lieu of the Disclosure Statement Hearing, to discuss the pending sale (the "SGM Sale") of certain of the Debtors' hospitals to SGM pursuant to that certain asset purchase agreement [Docket No. 2305-1] (the "SGM APA").

2. On November 20, 2019, the Court entered an order [Docket No. 3646] (the "Order") (i) granting the Continuance Motion, (ii) continuing the Disclosure Statement Hearing,

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[1] Unless specified otherwise, all chapter and section references are to the Bankruptcy Code, 11 U.S.C. §§ 101-1532, all "Rule" references are to the Federal Rules of Bankruptcy Procedure, all "LBR" references are to the Local Bankruptcy Rules for the United States Bankruptcy Court for the Central District of California, and all "Court Manual" references are to the Court Manual for the United States Bankruptcy Court for the Central District of California.

(iii) scheduling the Status Conference for November 26, 2019, at 10:00 a.m., and (iv) and requiring the Debtors to file the Status Report. *See* Order at 2. The Order provided that the Status Report must address (a) the status of the closing of the SGM Sale, and (b) the Debtors' plan for expeditiously resolving these cases in the event that the SGM Sale does not close ("Plan B"). *Id.*

3. On November 22, 2019, the Debtors filed the *Debtors' Ex Parte Motion Allowing The Debtors To File "Plan B" Of Their Status Report Under Seal* [Docket No. 3678] (the "Motion to Seal"). As set forth more fully in the Motion to Seal, the Debtors requested authority to file Plan B under seal. *See* Mot. to Seal at 4. On November 22, 2019, the Court entered an order [Docket No. 3679] granting the Motion to Seal.

4. On November 24, 2019, the Debtors filed the Status Report. In the Status Report, the Debtors generally address (i) the November 20, 2019 letter from the Debtors to SGM (the "Debtors' Nov. 20 Letter"), and (ii) the November 22, 2019 response from SGM to the Debtors (the "SGM Letter"). *See* Status Report at 1-2. Generally, the (i) Debtors' Nov. 20 Letter addresses the Debtors' satisfaction of conditions to closing the SGM Sale, and (ii) the SGM Letter alleges, among other things, "Material Adverse Effects" under the terms of the SGM APA. *See id.*

5. The Debtors intend to send a letter today in response to the SGM Letter (collectively, with the Debtors' Nov. 20 Letter and the SGM Letter, the "Correspondence").

6. The Correspondence is relevant to the Court's request that the Debtors provide "the status of the closing of the SGM Sale." *See* Order at 2. The Debtors, however, believe that publicly filing the Correspondence may be prejudicial and harmful to the estates because the Correspondence contains sensitive and confidential commercial information. Public disclosure of the Correspondence may have an adverse impact on (i) closing the SGM Sale, (ii) any alternative sales under Plan B, and the Debtors' ability to maximize value thereto, and (iii) the current operations of the Debtors, employee retention and morale, and vendor support. Consequently, the Debtors request authority to file the Correspondence under seal.

7. The Official Unsecured Creditors Committee (the "UCC") and lenders support the relief sought in this Motion.

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II.

REQUEST FOR SEALING

The Debtors request to file the Correspondence under seal pursuant to §§ 105(a) and 107(b), (c), and (d), Rule 9018, LBR 5003-2(c), and § 2.8(b) of the Court Manual.

The Court may issue orders that will protect entities from potential harm caused by disclosure of confidential information, including "confidential research, development, or commercial information." 11 U.S.C. §§ 107(b), (c); *see also* Fed. R. Bankr. P. 9018. Section 107 codifies "the rule that the public's right to access [information in a case is] far from absolute." *In re JMS Auto. Rebuilders, Inc.*, No. 01-05600, 2002 WL 32817517, at *3 (C.D. Cal. Jan. 15, 2002). Because of the term "shall," "§ 107(b) [makes] it mandatory for a [bankruptcy] court to protect documents falling into one of the enumerated exceptions." *In re Khan*, No. 13-1297, 2013 WL 6645436, at *3 (B.A.P. 9th Cir. Dec. 17, 2013); *see also Video Software Dealers Ass'n v. Orion Pictures Corp.* (*In re Orion Pictures Corp.*), 21 F.3d 24, 27 (2d Cir. 1994) ("if the information fits any of the specified categories, the court is *required* to protect a requesting interested party and has no discretion to deny the application") (emphasis in original).

Further, courts may seal confidential commercial information to preserve the value of a proposed transaction or protect employee retention or morale. Specifically, for purposes of section 107(b), "commercial information" includes information which could negatively impact a debtor or its creditors. *See Orion Pictures*, 21 F.3d at 27 (affirming the protection of information which could negatively impact the debtor's ability to negotiate favorable promotional agreements in the future); *In re Georgetown Steel Co., LLC*, 306 B.R. 542, 547 (Bankr. D.S.C. 2004) (protecting information which could negatively impact employee retention and morale); *In re Global Crossing, Ltd.,* 295 B.R. 720, 726 (Bankr. S.D.N.Y. 2003) (protecting information which could "injure the Debtors or thwart a transaction that the debtor and their unsecured creditors desire").

Rule 9018 sets forth the procedure by which a party may move for relief to seal and states that the Court "may make any order which justice requires (1) to protect the estate or any entity in respect of a trade secret or other confidential research, development or commercial information."

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FED. R. BANKR. P. 9018. Under § 2.8(b)(1) of the Court Manual, a party seeking to file documents under seal must not file the sealed documents until the Court has ruled on its motion to seal the information. The moving party "must describe the nature of the information that the party asserts is confidential (without disclosing the confidential information itself) and explain why the information should not be publicly disclosed." *Id.*

The Debtors seek to file the Correspondence under seal because:

i. the SGM Sale is still pending and the Debtors do not desire to adversely impact the SGM Sale by making public any of the Parties' ongoing discussions concerning the SGM Sale;

ii. given the possibility that the SGM Sale may still close, the Debtors do not wish to further disrupt operations, employee retention and morale, and vendor support by filing the Correspondence;

iii. the Debtors wish to maximize the value of any alternative sales under Plan B and avoid any adverse impact to such sales; and

iv. the Debtors do not wish to file documents that contain confidential commercial information at such a sensitive juncture.

Applying § 107(b), courts have stated that § 107(b) is not a "narrow exception, [but is] designed to adapt the common law rule to the business realities of Chapter 11" and that § 107(b) "is a pretty strong statement by Congress that confidential information should be protected" for information that "[c]ompanies don't go around publishing, internally let alone externally." *In re Energy Future Holdings Corp.,* No. 14-10979 [Docket No. 2375] (Hr'g Tr. at 29:7-30:23) (Bankr. D. Del. Oct. 8, 2014) (available at Docket 718-1 in these Cases).

Here, the "business realities" support sealing the Correspondence from the public and parties that might seek to wield the contents of the Correspondence against the Debtors. The Debtors strongly believe that it would be highly prejudicial and harmful to the estates and their ability to close the SGM Sale at the stated purchase price—or maximize value for any sales under Plan B—should the Correspondence prematurely become a matter of public record. Accordingly,

the interests of the Debtors' estates and the Debtors' constituents are best served by filing the Correspondence under seal at this time.[2]

Notwithstanding the foregoing, Debtors will serve the Correspondence before the Status Conference to: (i) counsel for the UCC; (ii) counsel for the indenture trustees for the Debtors' prepetition lenders, UMB Bank N.A., as Successor Master Trustee for the Master Indenture Obligations, Wells Fargo Bank National Association as Indentures Trustee for Series 2005 Revenue Bonds, U.S. Bank National Association, as Series 2015 and Series 2017 Note Collateral Agent and Note Trustee, Verity MOB Financing LLC, and Verity MOB Financing II LLC; (iii) counsel for SGM; and (iv) other parties in interest who have signed non-disclosure agreements, per the Debtors' discretion (the "Disclosure Parties").

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III.

CONCLUSION

WHEREFORE, the Debtors respectfully request that this Court issue an order:

(a) Allowing the Debtors to file the Correspondence under seal, with service to the Disclosure Parties; and

(b) Granting such other and further relief as the Court deems just and proper.

Dated: November 25, 2019

DENTONS US LLP
SAMUEL R. MAIZEL
TANIA M. MOYRON
NICHOLAS A. KOFFROTH

By /s/ *Tania M. Moyron*
Tania M. Moyron

Attorneys for Debtors

[2] The Debtors reserve all rights to seek an order unsealing the Correspondence for any purpose, including, without limitation, in connection with any motion pursuant to § 9.1(c) of the SGM APA.

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DECLARATION OF RICHARD G. ADCOCK

I, Richard G. Adcock, submit this Declaration in support of the *Debtors'* Ex Parte *Motion Allowing The Debtors To File Correspondence Regarding the SGM Sale Under Seal* (the "Motion"),[3] and hereby state as follows:

1. I am, and have been since January 2018, the Chief Executive Officer of Verity Health System of California, Inc. ("VHS"). Prior thereto, I served as VHS's Chief Operating Officer since August 2017.

2. I have extensive senior-level experience in the nonprofit healthcare arena, especially in the areas of healthcare delivery, hospital acute care services, health plan management, budgeting, disease management, and medical devices. I have meaningful experience in both the technology and healthcare industries in the areas of product development, business development, mergers and acquisitions, marketing, financing, strategic and tactical planning, human resources, and engineering.

3. I have personal knowledge of the facts stated in this Declaration, except as to those stated on information and belief, and, as to those, I am informed and believe them to be true. If called as a witness, I could and would competently testify to the matters stated herein.

4. The Debtors intend to send a letter today in response to the SGM Letter.

5. The Correspondence is relevant to the Court's request that the Debtors provide "the status of the closing of the SGM Sale." *See* Order at 2. The Debtors, however, believe that publicly filing the Correspondence may be prejudicial and harmful to the estates because the Correspondence contains sensitive and confidential commercial information. Public disclosure of the Correspondence may have an adverse impact on (i) closing the SGM Sale, (ii) any alternative sales under Plan B, and the Debtors' ability to maximize value thereto, and (iii) the current operations of the Debtors, employee retention and morale, and vendor support. Consequently, the Debtors request authority to file the Correspondence under seal.

6. The Debtors seek to file the Correspondence under seal because:

[3] Capitalized terms not otherwise defined in this Declaration have the definitions set forth in the Motion.

i. the SGM Sale is still pending and the Debtors do not desire to adversely impact the SGM Sale by making public any of the Parties' ongoing discussions concerning the SGM Sale;

ii. given the possibility that the SGM Sale may still close, the Debtors do not wish to further disrupt operations, employee retention and morale, and vendor support by filing the Correspondence;

iii. the Debtors wish to maximize the value of any alternative sales under Plan B and avoid any adverse impact to such sales; and

iv. the Debtors do not wish to file documents that contain confidential commercial information at such a sensitive juncture.

I declare under penalty of perjury of the laws of the United States of America that the foregoing is true and correct.

Executed this 25th day of November, 2019, in Los Angeles, California.

Richard G. Adcock

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EXHIBIT "11"

Docket #3698 Date Filed: 11/25/2019

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Attorneys for Strategic Global Management, Inc.

UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA
LOS ANGELES DIVISION

In re

VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*,

Debtors and Debtors in Possession.

☒ Affects All Debtors
☐ Affects Verity Health System of California, Inc.
☐ Affects O'Connor Hospital
☐ Affects Saint Louise Regional Hospital
☐ Affects St. Francis Medical Center
☐ Affects St. Vincent Medical Center
☐ Affects Seton Medical Center
☐ Affects O'Connor Hospital Foundation
☐ Affects Saint Louise Regional Hospital Foundation
☐ Affects St. Francis Medical Center of Lynwood Foundation
☐ Affects St. Vincent Foundation
☐ Affects St. Vincent Dialysis Center, Inc.
☐ Affects Seton Medical Center Foundation
☐ Affects Verity Business Services
☐ Affects Verity Medical Foundation
☐ Affects Verity Holdings, LLC
☐ Affects De Paul Ventures, LLC
☐ Affects De Paul Ventures – San Jose ASC, LLC

Debtors and Debtors in Possession.

LEAD CASE NO.: 2:18-bk-20151-ER

CHAPTER: 11
JOINTLY ADMINISTERED WITH:
CASE NO.: 2:18-bk-20162-ER
CASE NO.: 2:18-bk-20163-ER
CASE NO.: 2:18-bk-20164-ER
CASE NO.: 2:18-bk-20165-ER
CASE NO.: 2:18-bk-20167-ER
CASE NO.: 2:18-bk-20168-ER
CASE NO.: 2:18-bk-20169-ER
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CASE NO.: 2:18-bk-20175-ER
CASE NO.: 2:18-bk-20176-ER
CASE NO.: 2:18-bk-20178-ER
CASE NO.: 2:18-bk-20179-ER
CASE NO.: 2:18-bk-20180-ER
CASE NO.: 2:18-bk-20181-ER

STRATEGIC GLOBAL MANAGEMENT, INC.'S OBJECTION TO DEBTOR'S EX PARTE MOTION FOR AN ORDER ALLOWING THE DEBTORS TO FILE CORRESPONDENCE REGARDING THE SGM SALE UNDER SEAL

[No Hearing Required per Bankruptcy Rule 9018]

1820151191125000000000016

Strategic Global Management, Inc. ("SGM") respectfully submits the following *Objection to the Debtor's Ex Parte Motion for an Order Allowing the Debtors to File Correspondence Regarding the SGM Sale under Seal* [Doc. 3697] ("Motion to Seal Correspondence").

I.

STATEMENT OF FACTS

As this Court is aware, the Debtors and SGM are the parties to an Asset Purchase Agreement, the final version of which was filed with this Court on May 2, 2019 [Doc. 2305] ("APA").

As this Court is also aware, certain disputes and controversies have arisen between SGM and the Debtors with regard to the APA and, as a result of the emergence of those issues, the parties have exchanged letters; the Debtor's letter to SGM dated November 19, 2019 and SGM's letter to the Debtors dated November 22, 2019.

In the Debtors' Status Report, which was filed on November 24, 2019 [Doc. 3692] the Debtors acknowledged SGM's letter of November 22, 2019 and stated, in Footnote 1:

> "The Debtors did not attach the Debtor's letter or SGM's letter to this Status Report, at this time, given that they pertain to ongoing discussions between the parties."

SGM believes that the Debtors' position was appropriate since the present matter, i.e. a Status Conference pertaining to the Debtors' Disclosure Statement (a proceeding in which SGM has not been involved and in connection with which it has taken no position), is not the appropriate forum to request that the Court begin considering the issues, controversies and claims, that may exist between the parties; and, certainly not to make any ruling, preliminary or otherwise, concerning any of those claims and controversies. Indeed, SGM has been steadfast in reserving all of its rights and not, in any way, conceding claims and arguments that the Debtors have been making concerning the Debtors' compliance with all conditions required of the Debtors in connection with the APA.

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/ / /

II.

OBJECTION TO RELIEF REQUESTED

IN MOTION TO SEAL CORRESPONDENCE

At approximately 2:55 p.m. this afternoon, SGM received, through ECF, the *Debtor's Motion to Seal Correspondence* in connection with which the Debtor is proposing to file with this Court, and serve on certain "Disclosure Parties," including SGM, the Debtor's response to SGM's letter of November 22, 2019. **However, the Debtor does not propose to submit to the Court SGM's letter of November 22, 2019.** Thus, the Debtor is proposing to submit to the Court an entirely one-sided statement, out of context, which would be grossly prejudicial and fundamentally unfair to SGM. Indeed, SGM does not see any conceivable justification for the Debtors to file their correspondence other than as an attempt to influence the Court regarding the substantive merit of various, serious and complex claims that SGM has been asserting, without adhering to any rules of procedure, rules of evidence or due process. The "Correspondence" should not be submitted to the court at this time. Such correspondence should only be presented when doing so is proper under applicable rules of procedure and evidence.[1]

CONCLUSION

For the reasons stated above, the *Debtor's Ex Parte Motion for an Order Allowing the Debtors to File Correspondence Regarding the SGM Sale under Seal* should be denied.

Dated: November 25, 2019

LEVENE, NEALE, BENDER, YOO & BRILL L.L.P.

By: */s/ Gary E. Klausner*
Gary E. Klausner
Counsel for Strategic Global Management, Inc.

[1] At the same time, the Debtors are apparently going to request that the Court resolve certain of those claims on an expedited and truncated process, which completely ignores applicable rules of bankruptcy procedure and due process protections to which SGM is entitled. This issue will be addressed in SGM's forthcoming Reservation of Rights in connection with Debtor's Status Report, which will be filed later today.

PROOF OF SERVICE OF DOCUMENT

I am over the age of 18 and not a party to this bankruptcy case or adversary proceeding. My business address is 10250 Constellation Boulevard, Suite 1700, Los Angeles, CA 90067.

A true and correct copy of the foregoing document entitled **STRATEGIC GLOBAL MANAGEMENT, INC.'S OBJECTION TO DEBTOR'S EX PARTE MOTION FOR AN ORDER ALLOWING THE DEBTORS TO FILE CORRESPONDENCE REGARDING THE SGM SALE UNDER SEAL** will be served or was served (a) on the judge in chambers in the form and manner required by LBR 5005-2(d); and (b) in the manner stated below:

1. **TO BE SERVED BY THE COURT VIA NOTICE OF ELECTRONIC FILING (NEF)**: Pursuant to controlling General Orders and LBR, the foregoing document will be served by the court via NEF and hyperlink to the document. On **November 25, 2019**, I checked the CM/ECF docket for this bankruptcy case or adversary proceeding and determined that the following persons are on the Electronic Mail Notice List to receive NEF transmission at the email addresses stated below:

- Alexandra Achamallah aachamallah@milbank.com, rliubicic@milbank.com
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2. SERVED BY UNITED STATES MAIL: On **November 25, 2019**, I served the following persons and/or entities at the last known addresses in this bankruptcy case or adversary proceeding by placing a true and correct copy thereof in a sealed envelope in the United States mail, first class, postage prepaid, and addressed as follows. Listing the judge here constitutes a declaration that mailing to the judge will be completed no later than 24 hours after the document is filed.

☐ Service information continued on attached page

3. SERVED BY PERSONAL DELIVERY, OVERNIGHT MAIL, FACSIMILE TRANSMISSION OR EMAIL (state method for each person or entity served): Pursuant to F.R.Civ.P. 5 and/or controlling LBR, on **November 25, 2019**, I served the following persons and/or entities by personal delivery, overnight mail service, or (for those who consented in writing to such service method), by facsimile transmission and/or email as follows. Listing the judge here constitutes a declaration that personal delivery on, or overnight mail to, the judge will be completed no later than 24 hours after the document is filed.

Served via Attorney Service

The Honorable Ernest M. Robles
United States Bankruptcy Court
Edward R. Roybal Federal Building
255 E. Temple Street, Suite 1560
Los Angeles, CA 90012

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

November 25, 2019	Lisa Masse	*/s/ Lisa Masse*
Date	*Type Name*	*Signature*

EXHIBIT "12"

Docket #3705 Date Filed: 11/26/2019

UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA

SEALED DOCUMENT RECEIPT

☒ Deposit in the Safe

☐ Retrieval

TO: Jose Arias, Intake Supervisor

FROM: Lydia Gonzalez, Courtroom Deputy to the Hon. Ernest Robles
(Judge, Law Clerk, Judicial Assistant, Case Administrator)

FILED DATE: 11/26/2019

CASE NUMBER: 2:18-bk-20151-ER ADV NO:

DEBTOR: Verity Health System of California, Inc.

TITLE OF SEALED DOCUMENT CONTENTS:
Correspondence regarding the SGM sale related to debtor's status report
[relates to docket nos. 3646, 3679, 3692,3699]

SIGNATURE OF PERSON DOCUMENT IS RELEASED TO:

JOSE ARIAS

DATE: 11/26/19

Rev. 10/06

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Attorneys for the Chapter 11 Debtors and Debtors In Possession

UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA - LOS ANGELES DIVISION

In re

VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*,

Debtors and Debtors In Possession.

☒ Affects All Debtors

☐ Affects Verity Health System of California, Inc.
☐ Affects O'Connor Hospital
☐ Affects Saint Louise Regional Hospital
☐ Affects St. Francis Medical Center
☐ Affects St. Vincent Medical Center
☐ Affects Seton Medical Center
☐ Affects O'Connor Hospital Foundation
☐ Affects Saint Louise Regional Hospital Foundation
☐ Affects St. Francis Medical Center of Lynwood Foundation
☐ Affects St. Vincent Foundation
☐ Affects St. Vincent Dialysis Center, Inc.
☐ Affects Seton Medical Center Foundation
☐ Affects Verity Business Services
☐ Affects Verity Medical Foundation
☐ Affects Verity Holdings, LLC
☐ Affects De Paul Ventures, LLC
☐ Affects De Paul Ventures - San Jose Dialysis, LLC

Debtors and Debtors In Possession.

Lead Case No. 2:18-bk-20151-ER

Jointly Administered With:
Case No. 2:18-bk-20162-ER
Case No. 2:18-bk-20163-ER
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Case No. 2:18-bk-20178-ER
Case No. 2:18-bk-20179-ER
Case No. 2:18-bk-20180-ER
Case No. 2:18-bk-20181-ER

Hon. Ernest M. Robles

[FILED UNDER SEAL] CORRESPONDENCE REGARDING THE SGM SALE RELATED TO DEBTORS' STATUS REPORT

[RELATES TO DOCKET NOS. 3646, 3679, 3692, 3699]

Status Conference:
Date: November 26, 2019
Time: 10:00 a.m.
Location: Courtroom 1568, 255 E. Temple St., Los Angeles, CA

OR161NAL

FILED UNDER SEAL PURSUANT TO

EXHIBIT "13"

Attorney or Party Name, Address, Telephone & FAX Nos., State Bar No. & Email Address

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FOR COURT USE ONLY

☐ *Individual appearing without attorney*
☒ *Attorney for:* Strategic Global Management, Inc.

UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA - LOS ANGELES DIVISION

In re:

Verity Health System of California, Inc., et al.,

Debtor(s).

CASE NO.:2:18-bk-20151-ER

ADVERSARY NO.:
(*if applicable*)

CHAPTER: 11

Plaintiff(s) (*if applicable*).

vs.

Defendant(s) (*if applicable*).

NOTICE OF APPEAL AND STATEMENT OF ELECTION

Part 1: Identify the appellant(s)

1. Name(s) of appellant(s): Strategic Global Management, Inc.

2. Position of appellant(s) in the adversary proceeding or bankruptcy case that is the subject of this appeal:

For appeals in an adversary proceeding.

☐ Plaintiff
☐ Defendant
☒ Other (*describe*):

For appeals in a bankruptcy case and not in an adversary proceeding.

☐ Debtor
☐ Creditor
☐ Trustee
☒ Other (*describe*): Party in Interest and proposed buyer in Section 363 sale

Part 2: Identify the subject of this appeal

1. Describe the judgment, order, or decree appealed from:
   Order Granting "Debtors' Emergency Motion for the Entry of an Order: (I) Enforcing the Order Authorizing the Sale to Strategic Global Management, Inc.; (II) Finding that the Sale Is Free and Clear of Conditions Materially Different than Those Approved by the Court; (III) Finding that..." [Dkt. No. 3611]
2. The date the judgment, order, or decree was entered: 11/14/2019
   See Exhibit A attached hereto.

Part 3: Identify the other parties to the appeal

List the names of all parties to the judgment, order, or decree appealed from and the names, addresses, and telephone numbers of their attorneys (*attach additional pages if necessary*):

1. Party: Verity Health System of California, Inc.

   Attorney:

   Samuel R. Maizel; Tania M. Moyron; and Nicholas A Koffroth
   Dentons US LLP
   601 South Figueroa Street, Suite 2500
   Los Angeles, CA 90017
   Tel: 213-623-9300

2. Party: California Department of Health Care Services

   Attorney:

   Xavier Becerra; Jennifer M. Kim; Kenneth K. Wang
   Attorney General of California
   300 South Spring Street, Suite 1702
   Los Angeles, CA 90013
   Tel: 213-897-2805

Part 4: Optional election to have appeal heard by District Court (applicable only in certain districts)

If a Bankruptcy Appellate Panel is available in this judicial district, the Bankruptcy Appellate Panel will hear this appeal unless, pursuant to 28 U.S.C. § 158(c)(1), a party elects to have the appeal heard by the United States District Court. If an appellant filing this notice wishes to have the appeal heard by the United States District Court, check below. Do not check the box if the appellant wishes the Bankruptcy Appellate Panel to hear the appeal.

☐ Appellant(s) elect to have the appeal heard by the United States District Court rather than by the Bankruptcy Appellate Panel.

Part 5: Sign below

/s/ Gary E. Klausner Date: 11/29/2019
Signature of attorney for appellant(s) (or appellant(s) if not represented by an attorney)

Fee waiver notice: If appellant is a child support creditor or its representative and appellant has filed the form specified in § 304(g) of the Bankruptcy Reform Act of 1994, no fee is required.

[Note to inmate filers: If you are an inmate filer in an institution and you seek the timing benefit of Fed. R. Bankr. P. 8002(c)(1), complete Director's Form 4170 (Declaration of Inmate Filing) and file that declaration along with the Notice of Appeal.]

EXHIBIT A

Docket #3611 Date Filed: 11/14/2019

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Attorneys for the Chapter 11 Debtors and Debtors In Possession

UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA - LOS ANGELES DIVISION

In re

VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*,

Debtor and Debtor In Possession.

☒ Affects All Debtors

☐ Affects Verity Health System of California, Inc.
☐ Affects O'Connor Hospital
☐ Affects Saint Louise Regional Hospital
☐ Affects St. Francis Medical Center
☐ Affects St. Vincent Medical Center
☐ Affects Seton Medical Center
☐ Affects O'Connor Hospital Foundation
☐ Affects Saint Louise Regional Hospital Foundation
☐ Affects St. Francis Medical Center of Lynwood Foundation
☐ Affects St. Vincent Foundation
☐ Affects St. Vincent Dialysis Center, Inc.
☐ Affects Seton Medical Center Foundation
☐ Affects Verity Business Services
☐ Affects Verity Medical Foundation
☐ Affects Verity Holdings, LLC
☐ Affects De Paul Ventures, LLC
☐ Affects De Paul Ventures - San Jose Dialysis, LLC

Debtors and Debtors In Possession.

Lead Case No. 2:18-bk-20151-ER

Jointly Administered With:
Case No. 2:18-bk-20162-ER
Case No. 2:18-bk-20163-ER
Case No. 2:18-bk-20164-ER
Case No. 2:18-bk-20165-ER
Case No. 2:18-bk-20167-ER
Case No. 2:18-bk-20168-ER
Case No. 2:18-bk-20169-ER
Case No. 2:18-bk-20171-ER
Case No. 2:18-bk-20172-ER
Case No. 2:18-bk-20173-ER
Case No. 2:18-bk-20175-ER
Case No. 2:18-bk-20176-ER
Case No. 2:18-bk-20178-ER
Case No. 2:18-bk-20179-ER
Case No. 2:18-bk-20180-ER
Case No. 2:18-bk-20181-ER

Chapter 11 Cases
Hon. Judge Ernest M. Robles

ORDER GRANTING "DEBTORS' EMERGENCY MOTION FOR THE ENTRY OF AN ORDER: (I) ENFORCING THE ORDER AUTHORIZING THE SALE TO STRATEGIC GLOBAL MANAGEMENT, INC.; (II) FINDING THAT THE SALE IS FREE AND CLEAR OF CONDITIONS MATERIALLY DIFFERENT THAN THOSE APPROVED BY THE COURT; (III) FINDING THAT THE ATTORNEY GENERAL ABUSED HIS DISCRETION IN IMPOSING CONDITIONS ON THAT SALE; AND (IV) GRANTING RELATED RELIEF" [DOC. 3188]

Hearing Date and Time:
Date: October 15, 2019
Time: 10:00 a.m. (Pacific Time)
Location: Courtroom 1568
255 E. Temple Street
Los Angeles, CA

The Court, having considered the motion [Docket No. 3188] (the "Motion")[1] filed by Verity Health System of California, Inc. and the above-referenced affiliated debtors and debtors in possession in the above captioned chapter 11 bankruptcy cases (collectively, the "Debtors"), the response [Docket No. 3333] of the California Attorney General (the "Attorney General"), the statement [Docket No. 3356] filed by Strategic Global Management, Inc. (collectively with its affiliates, "SGM"), the reply [Docket No. 3382] filed by the Debtors, the stipulation [Docket No. 3572] by and among the Debtors and the Attorney General, and good cause appearing,

HEREBY ORDERS AS FOLLOWS:

1. The Motion is GRANTED.

2. The Court's memorandum decision [Docket No. 3446] is hereby vacated and withdrawn.

3. Solely and exclusively for purposes of the APA (as defined below) and the Motion, the Additional Conditions (as defined in section 8.6 of that certain asset purchase agreement [Docket No. 2305-1] (the "APA")) are an "interest in property" for purposes of 11 U.S.C. § 363(f). The Assets (as defined in the APA) are being sold free and clear of the Additional Conditions without the imposition of any other conditions which would adversely affect the Purchaser (as defined in the APA).

4. This Court shall retain exclusive jurisdiction to adjudicate any disputes or controversies regarding the interpretation or enforcement of this Order. Notwithstanding the preceding sentence, nothing contained in this Order shall prohibit or limit the authority of the Attorney General to enforce, in the California state courts and pursuant to section 5926 of the California Corporations Code, the Purchaser Approved Conditions set forth on Schedule 8.6 to the APA.

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[1] Unless otherwise defined herein, all capitalized terms have the definitions set forth in the Motion.

DENTONS US LLP
601 SOUTH FIGUEROA STREET, SUITE 2500
LOS ANGELES, CALIFORNIA 90017-5704
(213) 623-9300

5. The Attorney General waives any right to appeal this Order.

IT IS SO ORDERED.

###

Date: November 14, 2019

Ernest M. Robles
United States Bankruptcy Judge

DENTONS US LLP
601 SOUTH FIGUEROA STREET, SUITE 2500
LOS ANGELES, CALIFORNIA 90017-5704
(213) 623-9300

PROOF OF SERVICE OF DOCUMENT

I am over the age of 18 and not a party to this bankruptcy case or adversary proceeding. My business address is 10250 Constellation Boulevard, Suite 1700, Los Angeles, CA 90067.

A true and correct copy of the foregoing document entitled: **NOTICE OF APPEAL AND STATEMENT OF ELECTION** will be served or was served (a) on the judge in chambers in the form and manner required by LBR 5005-2(d); and (b) in the manner stated below:

1. **TO BE SERVED BY THE COURT VIA NOTICE OF ELECTRONIC FILING (NEF)**: Pursuant to controlling General Orders and LBR, the foregoing document will be served by the court via NEF and hyperlink to the document. On **November 29, 2019**, I checked the CM/ECF docket for this bankruptcy case or adversary proceeding and determined that the following persons are on the Electronic Mail Notice List to receive NEF transmission at the email addresses stated below:

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2. SERVED BY UNITED STATES MAIL: On December 2, 2019 served the following persons and/or entities at the last known addresses in this bankruptcy case or adversary proceeding by placing a true and correct copy thereof in a sealed envelope in the United States mail, first class, postage prepaid, and addressed as follows.

The Honorable Ernest M. Robles
United States Bankruptcy Court
255 E. Temple Street, Suite 1560
Los Angeles, CA 90012

☐ Service information continued on attached page

3. SERVED BY PERSONAL DELIVERY, OVERNIGHT MAIL, FACSIMILE TRANSMISSION OR EMAIL (state method for each person or entity served): Pursuant to F.R.Civ.P. 5 and/or controlling LBR, on **November 29, 2019**, I served the following persons and/or entities by personal delivery, overnight mail service, or (for those who consented in writing to such service method), by facsimile transmission and/or email as follows. Listing the judge here constitutes a declaration that personal delivery on, or overnight mail to, the judge will be completed no later than 24 hours after the document is filed.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

November 29, 2019	Jeffrey Kwong	*/s/ Jeffrey Kwong*
Date	*Type Name*	*Signature*

This form is mandatory. It has been approved for use by the United States Bankruptcy Court for the Central District of California.

June 2012 **F 9013-3.1.PROOF.SERVICE**

EXHIBIT "14"

Attorney or Party Name, Address, Telephone & FAX Nos., State Bar No. & Email Address

GARY E. KLAUSNER (SBN 69055)
LEVENE, NEALE, BENDER, YOO & BRILL L.L.P.
10250 Constellation Boulevard, Suite 1700
Los Angeles, CA 90067
Telephone: (310) 229-1234
Facsimile: (310) 229-1244
Email: gek@lnbyb.com

☐ *Individual appearing without attorney*
☒ *Attorney for:* Strategic Global Management, Inc.

FOR COURT USE ONLY

UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA - LOS ANGELES DIVISION

In re:

Verity Health System of California, Inc., et al.,

Debtor(s).

CASE NO.:2:18-bk-20151-ER

ADVERSARY NO.:
(*if applicable*)

CHAPTER: 11

Plaintiff(s) (*if applicable*).

vs.

Defendant(s) (*if applicable*).

NOTICE OF APPEAL AND STATEMENT OF ELECTION

Part 1: Identify the appellant(s)

1. Name(s) of appellant(s): Strategic Global Management, Inc.

2. Position of appellant(s) in the adversary proceeding or bankruptcy case that is the subject of this appeal:

For appeals in an adversary proceeding.

☐ Plaintiff
☐ Defendant
☒ Other (*describe*):

For appeals in a bankruptcy case and not in an adversary proceeding.

☐ Debtor
☐ Creditor
☐ Trustee
☒ Other (*describe*): Party in Interest and proposed buyer in Section 363 sale

Part 2: Identify the subject of this appeal

1. Describe the judgment, order, or decree appealed from:
   Order (1) Finding that SGM Is Obligated to Promptly Close the SGM Sale Under Sec. 8.6 of the APA, Provided that All Other Conditions to Closing Have Been Satisfied and (2) Granting Debtors' Motion for a Continuance of the Hearing to Approve the Disclosure Statement [Dkt. 3633]
2. The date the judgment, order, or decree was entered: 11/18/2019

See Exhibit A attached hereto.

Part 3: Identify the other parties to the appeal

List the names of all parties to the judgment, order, or decree appealed from and the names, addresses, and telephone numbers of their attorneys (*attach additional pages if necessary*):

1. Party: Verity Health System of California, Inc.

   Attorney:

   Samuel R. Maizel; Tania M. Moyron; and Nicholas A. Koffroth
   Dentons US LLP
   601 South Figueroa Street, Suite 2500
   Los Angeles, CA 90017
   Tel: 213-623-9300

2. Party: California Department of Health Care Services

   Attorney:

   Xavier Becerra; Jennifer M. Kim; Kenneth K. Wang
   Attorney General of California
   300 South Spring Street, Suite 1702
   Los Angeles, CA 90013
   Tel: 213-897-2805

Part 4: Optional election to have appeal heard by District Court (applicable only in certain districts)

If a Bankruptcy Appellate Panel is available in this judicial district, the Bankruptcy Appellate Panel will hear this appeal unless, pursuant to 28 U.S.C. § 158(c)(1), a party elects to have the appeal heard by the United States District Court. If an appellant filing this notice wishes to have the appeal heard by the United States District Court, check below. Do not check the box if the appellant wishes the Bankruptcy Appellate Panel to hear the appeal.

☐ Appellant(s) elect to have the appeal heard by the United States District Court rather than by the Bankruptcy Appellate Panel.

Part 5: Sign below

/s/ Gary E. Klausner Date: 11/29/2019
Signature of attorney for appellant(s) (or appellant(s) if not represented by an attorney)

Fee waiver notice: If appellant is a child support creditor or its representative and appellant has filed the form specified in § 304(g) of the Bankruptcy Reform Act of 1994, no fee is required.

[Note to inmate filers: If you are an inmate filer in an institution and you seek the timing benefit of Fed. R. Bankr. P. 8002(c)(1), complete Director's Form 4170 (Declaration of Inmate Filing) and file that declaration along with the Notice of Appeal.]

EXHIBIT A

Docket #3633 Date Filed: 11/18/2019

UNITED STATES BANKRUPTCY COURT

CENTRAL DISTRICT OF CALIFORNIA

LOS ANGELES DIVISION

In re: Verity Health System of California, Inc., *et al.*,

Debtors and Debtors in Possession.

☒Affects All Debtors

☐ Affects Verity Health System of California, Inc.
☐ Affects O'Connor Hospital
☐ Affects Saint Louise Regional Hospital
☐ Affects St. Francis Medical Center
☐ Affects St. Vincent Medical Center
☐ Affects Seton Medical Center
☐ Affects O'Connor Hospital Foundation
☐ Affects Saint Louise Regional Hospital Foundation
☐ Affects St. Francis Medical Center of Lynwood Medical Foundation
☐ Affects St. Vincent Foundation
☐ Affects St. Vincent Dialysis Center, Inc.
☐ Affects Seton Medical Center Foundation
☐ Affects Verity Business Services
☐ Affects Verity Medical Foundation
☐ Affects Verity Holdings, LLC
☐ Affects De Paul Ventures, LLC
☐ Affects De Paul Ventures - San Jose Dialysis, LLC

Debtors and Debtors in Possession.,

Lead Case No.: 2:18-bk-20151-ER
Chapter: 11

Jointly Administered With:
Case No. 2:18-bk-20162-ER;
Case No. 2:18-bk-20163-ER;
Case No. 2:18-bk-20164-ER;
Case No. 2:18-bk-20165-ER;
Case No. 2:18-bk-20167-ER;
Case No. 2:18-bk-20168-ER;
Case No. 2:18-bk-20169-ER;
Case No. 2:18-bk-20171-ER;
Case No. 2:18-bk-20172-ER;
Case No. 2:18-bk-20173-ER;
Case No. 2:18-bk-20175-ER;
Case No. 2:18-bk-20176-ER;
Case No. 2:18-bk-20178-ER;
Case No. 2:18-bk-20179-ER;
Case No. 2:18-bk-20180-ER;
Case No. 2:18-bk-20181-ER;

Chapter 11 Cases.

ORDER (1) FINDING THAT SGM IS OBLIGATED TO PROMPTLY CLOSE THE SGM SALE UNDER § 8.6 OF THE APA, PROVIDED THAT ALL OTHER CONDITIONS TO CLOSING HAVE BEEN SATISFIED AND (2) GRANTING DEBTORS' MOTION FOR A CONTINUANCE OF THE HEARING TO APPROVE THE DISCLOSURE STATEMENT

CONTINUED HEARING TO APPROVE DISCLOSURE STATEMENT:

Date: November 26, 2019

Time: 10:00 a.m.

Location: Ctrm. 1568
Roybal Federal Building
255 East Temple Street
Los Angeles, CA 90012

1820151191118000000000014

For the reasons set forth in the concurrently-issued *Memorandum of Decision (1) Finding that SGM is Obligated to Promptly Close the SGM Sale Under § 8.6 of the APA, Provided that All Other Conditions to Closing Have Been Satisfied and (2) Granting Debtors' Motion for a Continuance of the Hearing to Approve the Disclosure Statement* (the "Memorandum of Decision"), the Court **HEREBY FINDS AND ORDERS AS FOLLOWS:**

1) The Debtors have complied with their obligation under the APA[1] to obtain a final, non-appealable Supplemental Sale Order. Consequently, SGM is now obligated to promptly close the SGM Sale, provided that all other conditions to closing have been satisfied.
2) The hearing on the Disclosure Statement Motion is **CONTINUED** from November 20, 2019, at 10:00 a.m. to **November 26, 2019, at 10:00 a.m.** The Debtors' Reply in support of the Disclosure Statement Motion shall be filed by no later than **November 21, 2019**.

IT IS SO ORDERED.

###

Date: November 18, 2019

Ernest M. Robles
United States Bankruptcy Judge

[1] Capitalized terms not defined herein have the meaning set forth in the Memorandum of Decision.

PROOF OF SERVICE OF DOCUMENT

I am over the age of 18 and not a party to this bankruptcy case or adversary proceeding. My business address is 10250 Constellation Boulevard, Suite 1700, Los Angeles, CA 90067.

A true and correct copy of the foregoing document entitled: **NOTICE OF APPEAL AND STATEMENT OF ELECTION** will be served or was served (a) on the judge in chambers in the form and manner required by LBR 5005-2(d); and (b) in the manner stated below:

1. **TO BE SERVED BY THE COURT VIA NOTICE OF ELECTRONIC FILING (NEF)**: Pursuant to controlling General Orders and LBR, the foregoing document will be served by the court via NEF and hyperlink to the document. On **November 29, 2019**, I checked the CM/ECF docket for this bankruptcy case or adversary proceeding and determined that the following persons are on the Electronic Mail Notice List to receive NEF transmission at the email addresses stated below:

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2. SERVED BY UNITED STATES MAIL: On December 2, 2019 served the following persons and/or entities at the last known addresses in this bankruptcy case or adversary proceeding by placing a true and correct copy thereof in a sealed envelope in the United States mail, first class, postage prepaid, and addressed as follows.

The Honorable Ernest M. Robles
United States Bankruptcy Court
255 E. Temple Street, Suite 1560
Los Angeles, CA 90012

☐ Service information continued on attached page

3. SERVED BY PERSONAL DELIVERY, OVERNIGHT MAIL, FACSIMILE TRANSMISSION OR EMAIL (state method for each person or entity served): Pursuant to F.R.Civ.P. 5 and/or controlling LBR, on **November 29, 2019**, I served the following persons and/or entities by personal delivery, overnight mail service, or (for those who consented in writing to such service method), by facsimile transmission and/or email as follows. Listing the judge here constitutes a declaration that personal delivery on, or overnight mail to, the judge will be completed no later than 24 hours after the document is filed.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

November 29, 2019	Jeffrey Kwong	*/s/ Jeffrey Kwong*
Date	*Type Name*	*Signature*

EXHIBIT "15"

Attorney or Party Name, Address, Telephone & FAX Nos., State Bar No. & Email Address	FOR COURT USE ONLY
GARY E. KLAUSNER (SBN 69077) LEVENE, NEALE, BENDER, YOO & BRILL L.L.P. 10250 Constellation Boulevard, Suite 1700 Los Angeles, CA 90067 Telephone: (310) 229-1234 Facsimile: (310) 229-1244 EmailL gek@lnbyb.com ☐ *Individual appearing without attorney* ☒ *Attorney for:* Strategic Global Management, Inc.	
UNITED STATES BANKRUPTCY COURT **CENTRAL DISTRICT OF CALIFORNIA - LOS ANGELES DIVISION**	
In re: Verity Health System of California, Inc., et al., Debtor(s).	CASE NO.:2:18-bk-20151-ER ADVERSARY NO.: (*if applicable*) CHAPTER: 11
Plaintiff(s) (*if applicable*). vs. Defendant(s) (*if applicable*).	**NOTICE OF APPEAL AND STATEMENT OF ELECTION**

Part 1: Identify the appellant(s)

1. Name(s) of appellant(s): Strategic Global Management, Inc

2. Position of appellant(s) in the adversary proceeding or bankruptcy case that is the subject of this appeal:

For appeals in an adversary proceeding.

☐ Plaintiff
☐ Defendant
☒ Other (*describe*):

For appeals in a bankruptcy case and not in an adversary proceeding.

☐ Debtor
☐ Creditor
☐ Trustee
☒ Other (*describe*): Party in Interest and proposed buyer in Section 363 sale

Part 2: Identify the subject of this appeal

1. Describe the judgment, order, or decree appealed from:
Order (1) Finding that SGM Is Obligated to Close the SGM Sale by No Later Than December 5, 2019 and (2) Setting Continued Hearing on Debtors' Motion for Approval of Disclosure Statement [Dkt. 3724]

2. The date the judgment, order, or decree was entered: 11/27/2019
See Exhibit A attached hereto.

Part 3: Identify the other parties to the appeal

List the names of all parties to the judgment, order, or decree appealed from and the names, addresses, and telephone numbers of their attorneys (*attach additional pages if necessary*):

1. Party: Verity Health System of California, Inc.

Attorney:

Samuel R. Maizel; Tania M. Moyron; and Nicholos A. Kiffroth
Dentons US LLP
601 South Figueroa Street, Suite 2500
Los Angeles, CA 90017
Tel: 213-623-9300

2. Party:

Attorney:

Part 4: Optional election to have appeal heard by District Court (applicable only in certain districts)

If a Bankruptcy Appellate Panel is available in this judicial district, the Bankruptcy Appellate Panel will hear this appeal unless, pursuant to 28 U.S.C. § 158(c)(1), a party elects to have the appeal heard by the United States District Court. If an appellant filing this notice wishes to have the appeal heard by the United States District Court, check below. Do not check the box if the appellant wishes the Bankruptcy Appellate Panel to hear the appeal.

☐ Appellant(s) elect to have the appeal heard by the United States District Court rather than by the Bankruptcy Appellate Panel.

Part 5: Sign below

/s/ Gary E. Klausner Date: 12/03/2019
Signature of attorney for appellant(s) (or appellant(s) if not represented by an attorney)

Fee waiver notice: If appellant is a child support creditor or its representative and appellant has filed the form specified in § 304(g) of the Bankruptcy Reform Act of 1994, no fee is required.

[Note to inmate filers: If you are an inmate filer in an institution and you seek the timing benefit of Fed. R. Bankr. P. 8002(c)(1), complete Director's Form 4170 (Declaration of Inmate Filing) and file that declaration along with the Notice of Appeal.]

EXHIBIT A

UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA
LOS ANGELES DIVISION

In re: Verity Health System of California, Inc., *et al.*, Debtors and Debtors in Possession. ☒Affects All Debtors ☐ Affects Verity Health System of California, Inc. ☐ Affects O'Connor Hospital ☐ Affects Saint Louise Regional Hospital ☐ Affects St. Francis Medical Center ☐ Affects St. Vincent Medical Center ☐ Affects Seton Medical Center ☐ Affects O'Connor Hospital Foundation ☐ Affects Saint Louise Regional Hospital Foundation ☐ Affects St. Francis Medical Center of Lynwood Medical Foundation ☐ Affects St. Vincent Foundation ☐ Affects St. Vincent Dialysis Center, Inc. ☐ Affects Seton Medical Center Foundation ☐ Affects Verity Business Services ☐ Affects Verity Medical Foundation ☐ Affects Verity Holdings, LLC ☐ Affects De Paul Ventures, LLC ☐ Affects De Paul Ventures - San Jose Dialysis, LLC Debtors and Debtors in Possession.,	Lead Case No.: 2:18-bk-20151-ER Chapter: 11 Jointly Administered With: Case No. 2:18-bk-20162-ER; Case No. 2:18-bk-20163-ER; Case No. 2:18-bk-20164-ER; Case No. 2:18-bk-20165-ER; Case No. 2:18-bk-20167-ER; Case No. 2:18-bk-20168-ER; Case No. 2:18-bk-20169-ER; Case No. 2:18-bk-20171-ER; Case No. 2:18-bk-20172-ER; Case No. 2:18-bk-20173-ER; Case No. 2:18-bk-20175-ER; Case No. 2:18-bk-20176-ER; Case No. 2:18-bk-20178-ER; Case No. 2:18-bk-20179-ER; Case No. 2:18-bk-20180-ER; Case No. 2:18-bk-20181-ER; Chapter 11 Cases. **ORDER (1) FINDING THAT SGM IS OBLIGATED TO CLOSE THE SGM SALE BY NO LATER THAN DECEMBER 5, 2019 AND (2) SETTING CONTINUED HEARING ON DEBTORS' MOTION FOR APPROVAL OF DISCLOSURE STATEMENT** Date: November 26, 2019 Time: 10:00 a.m. Location: Ctrm. 1568 Roybal Federal Building 255 East Temple Street Los Angeles, CA 90012

For the reasons set forth in the concurrently-issued *Memorandum of Decision Finding that SGM is Obligated to Close the SGM Sale By No Later than December 5, 2019* (the "Memorandum of Decision"), the Court **HEREBY FINDS AND ORDERS AS FOLLOWS:**

1) Pursuant to § 1.3 of the APA,[1] SGM is obligated to close the SGM Sale by no later than December 5, 2019.
2) A continued hearing on the Debtors' motion to approve the adequacy of the Debtors' proposed Disclosure Statement (the "Disclosure Statement Motion") shall take place on **December 12, 2019, at 10:00 a.m.** The Debtors shall file a reply in support of the Disclosure Statement Motion by no later than **December 9, 2019**.

IT IS SO ORDERED.

###

Date: November 27, 2019

Ernest M. Robles
United States Bankruptcy Judge

[1] Capitalized terms not defined herein have the meaning set forth in the Memorandum of Decision.

PROOF OF SERVICE OF DOCUMENT

I am over the age of 18 and not a party to this bankruptcy case or adversary proceeding. My business address is 10250 Constellation Boulevard, Suite 1700, Los Angeles, CA 90067.

A true and correct copy of the foregoing document entitled **NOTICE OF APPEAL AND STATEMENT OF ELECTIONS** will be served or was served (a) on the judge in chambers in the form and manner required by LBR 5005-2(d); and (b) in the manner stated below:

1. TO BE SERVED BY THE COURT VIA NOTICE OF ELECTRONIC FILING (NEF): Pursuant to controlling General Orders and LBR, the foregoing document will be served by the court via NEF and hyperlink to the document. On **December 3, 2019**, I checked the CM/ECF docket for this bankruptcy case or adversary proceeding and determined that the following persons are on the Electronic Mail Notice List to receive NEF transmission at the email addresses stated below:

☒ Service information continued on attached page

2. SERVED BY UNITED STATES MAIL: On **December 3, 2019**, I served the following persons and/or entities at the last known addresses in this bankruptcy case or adversary proceeding by placing a true and correct copy thereof in a sealed envelope in the United States mail, first class, postage prepaid, and addressed as follows. Listing the judge here constitutes a declaration that mailing to the judge will be completed no later than 24 hours after the document is filed.

☐ Service information continued on attached page

3. SERVED BY PERSONAL DELIVERY, OVERNIGHT MAIL, FACSIMILE TRANSMISSION OR EMAIL (state method for each person or entity served): Pursuant to F.R.Civ.P. 5 and/or controlling LBR, on **December 3, 2019**, I served the following persons and/or entities by personal delivery, overnight mail service, or (for those who consented in writing to such service method), by facsimile transmission and/or email as follows. Listing the judge here constitutes a declaration that personal delivery on, or overnight mail to, the judge will be completed no later than 24 hours after the document is filed.

Served via Attorney Service
The Honorable Ernest M. Robles
United States Bankruptcy Court
Edward R. Roybal Federal Building
255 E. Temple Street, Suite 1560
Los Angeles, CA 90012

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

December 3, 2019	Jason Klassi	*/s/ Jason Klassi*
Date	*Type Name*	*Signature*

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EXHIBIT "16"

Docket #3783 Date Filed: 12/9/2019

UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA
LOS ANGELES DIVISION

In re: Verity Health System of California, Inc., *et al.*, Debtors and Debtors in Possession.	Lead Case No.: 2:18-bk-20151-ER Chapter: 11
☒Affects All Debtors ☐ Affects Verity Health System of California, Inc. ☐ Affects O'Connor Hospital ☐ Affects Saint Louise Regional Hospital ☐ Affects St. Francis Medical Center ☐ Affects St. Vincent Medical Center ☐ Affects Seton Medical Center ☐ Affects O'Connor Hospital Foundation ☐ Affects Saint Louise Regional Hospital Foundation ☐ Affects St. Francis Medical Center of Lynwood Medical Foundation ☐ Affects St. Vincent Foundation ☐ Affects St. Vincent Dialysis Center, Inc. ☐ Affects Seton Medical Center Foundation ☐ Affects Verity Business Services ☐ Affects Verity Medical Foundation ☐ Affects Verity Holdings, LLC ☐ Affects De Paul Ventures, LLC ☐ Affects De Paul Ventures - San Jose Dialysis, LLC Debtors and Debtors in Possession.	Jointly Administered With: Case No. 2:18-bk-20162-ER; Case No. 2:18-bk-20163-ER; Case No. 2:18-bk-20164-ER; Case No. 2:18-bk-20165-ER; Case No. 2:18-bk-20167-ER; Case No. 2:18-bk-20168-ER; Case No. 2:18-bk-20169-ER; Case No. 2:18-bk-20171-ER; Case No. 2:18-bk-20172-ER; Case No. 2:18-bk-20173-ER; Case No. 2:18-bk-20175-ER; Case No. 2:18-bk-20176-ER; Case No. 2:18-bk-20178-ER; Case No. 2:18-bk-20179-ER; Case No. 2:18-bk-20180-ER; Case No. 2:18-bk-20181-ER; Chapter 11 Cases. **MEMORANDUM OF DECISION DENYING DEBTORS' EMERGENCY MOTION FOR ISSUANCE OF AN ORDER TO SHOW CAUSE RE: CLOSING OF THE SGM SALE** [No hearing required pursuant to Federal Rule of Civil Procedure 78(b) and Local Bankruptcy Rule 9013-1(j)(3)]

The Court has reviewed the *Debtors' Emergency Motion for (I) Issuance of an Order to Show Cause Why Strategic Global Management, Inc. Failed to Close the Sale Transaction by December 5, 2019; and (II) Entry of an Order Enforcing Prior Court Orders Requiring Strategic Global Management, Inc. to Close the Sale Transaction by December 5, 2019* (the "Application for OSC") [Doc. No. 3373]. Pursuant to Federal Rule of Civil Procedure 78(b) and Local Bankruptcy Rule 9013-1(j), this matter is suitable for disposition without oral argument. For the reasons set forth below, the Application for OSC is **DENIED**.

I. Background

On November 27, 2019, the Court issued a *Memorandum of Decision Finding that SGM is Obligated to Close the SGM Sale By No Later than December 5, 2019* (the "Closing Memorandum") [Doc. No. 3723] and an accompanying *Order (1) Finding that SGM is Obligated to Close the SGM Sale By No Later than December 5, 2019 and (2) Setting Continued Hearing on Debtors' Motion for Approval of Disclosure Statement* (the "Closing Order") [Doc. No. 3724]. The Closing Order provided in relevant part: "Pursuant to § 1.3 of the APA, SGM is obligated to close the SGM Sale by no later than December 5, 2019." Closing Order at ¶ 1.

SGM[1] did not close the SGM Sale by December 5, 2019. The Debtors move for issuance of an order requiring SGM's principals, Chairman Kali Pradip Chaudhuri, MD, Chief Executive Officer Peter Baranoff, and General Counsel William Thomas, to appear and testify as to (1) why SGM did not close the SGM Sale by December 5, 2019 and (2) whether SGM has the financial ability to close the SGM Sale. The Debtors further request issuance of an order finding that: (1) SGM is in material breach of the APA by failing to close the SGM Sale on December 5, 2019, (2) the Debtors may retain SGM's $30 million good-faith deposit, and (3) the Debtors may proceed with alternative plans to dispose of the Hospitals.

II. Findings and Conclusions

Requiring SGM's representatives to testify as to SGM's reasons for not closing the SGM Sale would not increase the likelihood of the sale actually closing. By failing to close, SGM risks the loss of its $30 million good-faith deposit as well as the possibility of damages for breach of contract in an amount of up to $60 million.[2] Being compelled to offer testimony will not motivate SGM to close where the threat of the loss of up to $90 million has failed to accomplish that end. In the future, the Debtors will have the opportunity to litigate the issues of whether SGM has breached the APA and whether the Debtors are entitled to retain SGM's good-faith deposit. In the meantime, the Debtors' efforts would be better spent ensuring the health and safety of the patients at the affected Hospitals.

The prompt closing of the SGM Sale would be in the best interests of all constituents in these cases, and the Court remains hopeful that SGM will fulfill its obligation to close. However, the estates' precarious cash position requires that the Debtors have the ability to immediately explore options for the alternative disposition of the Hospitals. The Court finds that any efforts undertaken by the Debtors with respect to the alternative disposition of the Hospitals will not violate the Debtors' obligation under Article 12.1 of the APA to cooperate with SGM to

[1] Capitalized terms not defined herein have the meaning set forth in the Closing Memorandum.
[2] *See* APA at Art. 11.1 ("If Purchaser commits any material default under this Agreement, Sellers shall have the right to sue for damages; provided, however that the amount of such damages shall never exceed $60,000,000.00.").

consummate the SGM Sale; nor shall any such efforts constitute a material default by the Debtors under any other provision of the APA.

The Court will enter an order consistent with this Memorandum of Decision.

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Date: December 9, 2019

Ernest M. Robles
United States Bankruptcy Judge

EXHIBIT "17"

Docket #3784 Date Filed: 12/9/2019

UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA
LOS ANGELES DIVISION

In re: Verity Health System of California, Inc., *et al.*, Debtors and Debtors in Possession.	Lead Case No.: 2:18-bk-20151-ER Chapter: 11
☒Affects All Debtors ☐ Affects Verity Health System of California, Inc. ☐ Affects O'Connor Hospital ☐ Affects Saint Louise Regional Hospital ☐ Affects St. Francis Medical Center ☐ Affects St. Vincent Medical Center ☐ Affects Seton Medical Center ☐ Affects O'Connor Hospital Foundation ☐ Affects Saint Louise Regional Hospital Foundation ☐ Affects St. Francis Medical Center of Lynwood Medical Foundation ☐ Affects St. Vincent Foundation ☐ Affects St. Vincent Dialysis Center, Inc. ☐ Affects Seton Medical Center Foundation ☐ Affects Verity Business Services ☐ Affects Verity Medical Foundation ☐ Affects Verity Holdings, LLC ☐ Affects De Paul Ventures, LLC ☐ Affects De Paul Ventures - San Jose Dialysis, LLC Debtors and Debtors in Possession.	Jointly Administered With: Case No. 2:18-bk-20162-ER; Case No. 2:18-bk-20163-ER; Case No. 2:18-bk-20164-ER; Case No. 2:18-bk-20165-ER; Case No. 2:18-bk-20167-ER; Case No. 2:18-bk-20168-ER; Case No. 2:18-bk-20169-ER; Case No. 2:18-bk-20171-ER; Case No. 2:18-bk-20172-ER; Case No. 2:18-bk-20173-ER; Case No. 2:18-bk-20175-ER; Case No. 2:18-bk-20176-ER; Case No. 2:18-bk-20178-ER; Case No. 2:18-bk-20179-ER; Case No. 2:18-bk-20180-ER; Case No. 2:18-bk-20181-ER; Chapter 11 Cases. **ORDER DENYING DEBTORS' EMERGENCY MOTION FOR ISSUANCE OF AN ORDER TO SHOW CAUSE RE: CLOSING OF THE SGM SALE** [No hearing required pursuant to Federal Rule of Civil Procedure 78(b) and Local Bankruptcy Rule 9013-1(j)(3)]

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For the reasons set forth in the concurrently-issued *Memorandum of Decision Denying Debtors' Emergency Motion for Issuance of an Order to Show Cause Re: Closing of the SGM Sale* (the "Memorandum of Decision"), the Court **HEREBY FINDS AND ORDERS AS FOLLOWS:**

1) The *Debtors' Emergency Motion for (I) Issuance of an Order to Show Cause Why Strategic Global Management, Inc. Failed to Close the Sale Transaction by December 5, 2019; and (II) Entry of an Order Enforcing Prior Court Orders Requiring Strategic Global Management, Inc. to Close the Sale Transaction by December 5, 2019* [Doc. No. 3373] is **DENIED**.
2) Any efforts undertaken by the Debtors with respect to the alternative disposition of the Hospitals[1] will not violate the Debtors' obligation under Article 12.1 of the APA to cooperate with SGM to consummate the SGM Sale; nor shall any such efforts constitute a material default by the Debtors under any other provision of the APA.

IT IS SO ORDERED.

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Date: December 9, 2019

Ernest M. Robles
United States Bankruptcy Judge

[1] Capitalized terms not defined herein have the meaning set forth in the Memorandum of Decision.

EXHIBIT "18"

Docket #3786 Date Filed: 12/9/2019

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UNITED STATES BANKRUPTCY COURT

CENTRAL DISTRICT OF CALIFORNIA - LOS ANGELES DIVISION

In re

VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*,

Debtors and Debtors In Possession.

☐Affects All Debtors

☒ Affects Verity Health System of California, Inc.
☒ Affects O'Connor Hospital
☒ Affects Saint Louise Regional Hospital
☐ Affects St. Francis Medical Center
☐ Affects St. Vincent Medical Center
☐ Affects Seton Medical Center
☐ Affects O'Connor Hospital Foundation
☐ Affects Saint Louise Regional Hospital Foundation
☐ Affects St. Francis Medical Center of Lynwood Foundation
☐ Affects St. Vincent Foundation
☐ Affects St. Vincent Dialysis Center, Inc.
☐ Affects Seton Medical Center Foundation
☐ Affects Verity Business Services
☐ Affects Verity Medical Foundation
☐ Affects Verity Holdings, LLC
☐ Affects DePaul Ventures, LLC
☐ Affects DePaul Ventures - San Jose Dialysis, LLC

Debtors and Debtors In Possession.

Lead Case No. 2:18-bk-20151-ER

Jointly Administered with:
Case No. 2:18-bk-20162-ER
Case No. 2:18-bk-20163-ER
Case No. 2:18-bk-20164-ER
Case No. 2:18-bk-20165-ER
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Case No. 2:18-bk-20179-ER
Case No. 2:18-bk-20180-ER
Case No. 2:18-bk-20181-ER

Chapter 11 Cases

Judge: Hon. Ernest M. Robles

STIPULATION RE: ASSUMPTION AND ASSIGNMENT OF MEDI-CAL PROVIDER AGREEMENTS TO STRATEGIC GLOBAL MANAGEMENT, INC.

[RELATED TO DOCKET NO. 2306]

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SETTLEMENT AGREEMENT

This Settlement Agreement (the "Agreement") is entered into by and among Verity Health System of California, Inc. ("Verity"), St. Francis Medical Center, a California nonprofit public benefit corporation ("SFMC"), St. Vincent Medical Center, a California nonprofit public benefit corporation ("SVMC"), St. Vincent Dialysis Center, a California nonprofit public benefit corporation, Seton Medical Center, a California nonprofit public benefit corporation ("SMC", collectively with SFMC and SVMC, the "Hospital Debtors", and the Hospital Debtors collectively with Verity, the "Debtors"), and the California Department of Health Care Services on its behalf and on behalf of the State of California (the "Department," and collectively with the Debtors, the "Parties").

RECITALS

Whereas, the Debtors own and operate those certain general acute care hospitals known as St. Francis Medical Center, St. Vincent Medical Center (including St. Vincent Dialysis Center) and Seton Medical Center (including its Seton Medical Center Coastside campus) (collectively, the "Hospitals") and related assets.

Whereas, Medicaid is a cooperative federal-state program that authorizes the United States Government to provide funds to participating states to administer medical assistance to individuals whose income and resources are insufficient to meet the costs of necessary medical services. The program operates by authorizing the federal Centers for Medicare and Medicaid Services ("CMS") to pay a percentage of the costs a state incurs for patient care. As a condition of receiving federal funds, the state complies with certain federal requirements. California participates in Medicaid through the California Medical Assistance Program ("Medi-Cal"), and has designated the Department as the agency responsible for its administration.

Whereas, the Hospitals have Medi-Cal provider agreements ("Medi-Cal Provider Agreements") with the Department which enable them to receive Medi-Cal payments for services provided to Medi-Cal beneficiaries. The SFMC Provider Agreement is assigned no. 148769215;

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the SVMC Provider Agreement is assigned no. 1124004304; and the SMC Provider Agreement is assigned no. 1154428688.

Whereas, on August 31, 2018 (the "Petition Date"), the Debtors filed voluntary petitions for relief, thereby commencing their bankruptcy cases (the "Bankruptcy Cases"), jointly administered under Bankruptcy Case No. 2:18-bk-20151-ER, under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code")[1] in the United States Bankruptcy Court for the Central District of California, Los Angeles Division (the "Bankruptcy Court").

Whereas, as described in the *Declaration of Richard Adcock in Support of Emergency First-Day Motions* (the "Adcock Declaration") [Docket No. 8], filed on August 31, 2018, the Debtors have struggled financially to survive for decades, and currently sustain operational cash flow losses of approximately $175 million annually. The Debtors estimate that (a) secured claims in these Bankruptcy Cases total more than $602 million (including claims of various prepetition secured creditors and monies owed for debtor-in-possession ("DIP") financing obtained after the Petition Date), and (b) the total of scheduled and filed unsecured claims, including pension claims, may exceed $1.500 billion.

Whereas, the Debtors have an signed and Bankruptcy Court approved Asset Purchase Agreement and an order [Docket No. 2306] approving the sale of the Hospitals at a price of approximately $610 million, plus payment of "cure" costs associated with certain assumed leases and/or assumed contracts, pursuant to § 363 (the " SGM Sale") to Strategic Global Management, Inc. and/or one or more of its affiliated entities, including the affiliates of SGM who will operate the Hospitals (the "SGM Operating Affiliates"; with the Hospital Operating Affiliates, Strategic Global Management, Inc. and other Strategic Global Management, Inc. affiliates which are assigned any rights in connection with the SGM Sale being referred to herein collectively as "SGM").

Whereas, on February 19, 2019, the Bankruptcy Court entered its *Order (1) Approving Form Of Asset Purchase Agreement For Stalking Horse Bidder And For Prospective*

[1] All references to "sections" or "§" herein are to sections of the Bankruptcy Code, unless otherwise noted.

Overbidders, (2) Approving Auction Sale Format, Bidding Procedures And Stalking Horse Bid Protections, (3) Approving Form Of Notice To Be Provided To Interested Parties, (4) Scheduling A Court Hearing To Consider Approval Of The Sale To The Highest Bidder, And (5) Approving Procedures Related To The Assumption Of Certain Executory Contracts And Unexpired Leases; And (II) An Order (A) Authorizing The Sale Of Property Free And Clear Of All Claims, Liens And Encumbrances [Docket No. 1572] the ("Bidding Procedures Order").

Whereas, on March 5, 2019, the Debtors filed a *Notice of Counterparties to Executory Contracts and Unexpired Leases of the Debtors That May Be Assumed and Assigned* [Docket No. 1704].

Whereas, on January 25, 2019, the Department filed its *Creditor California Department of Health Care Services's Objection To: (1) Debtors' Motion for the Entry of an Order Authorizing the Sale of Property Free and Clear of All Claims, Liens, and Encumbrances; (2) Approving Form of Asset Purchase Agreement* [Docket No. 1353] which asserted that the Debtor had to transfer the Medi-Cal Provider Agreements as executory contracts pursuant to § 365 (the "DHCS Objection"). In the DHCS Objection, the Department asserted, among other things, that it was owed the following amounts in connection with the Hospitals, as of January 23, 2019: (a) St. Francis Medical Center - liability arising from the Hospital Quality Assurance Fees Program ("HQA Fee"), California Welfare & Institutions Code, § 14169.52(a) et. seq., in the amount of $40,647,765.00; (b) St. Vincent Medical Center (including St. Vincent Dialysis Center) - HQAF liability in the amount of $27,164,168.86; and (c) Seton Medical Center (including its Seton Medical Center Coastside campus) – HQA Fee liabilities in the amount of $31,967,260.98. In the DHCS Objection, the Department did not reflect any obligations owed to it related to the Medi-Cal fee-for-service payments in connection with the Hospitals.

Whereas, on March 22, 2019, the Department filed its *Creditor California Department of Health Care Services's Objection To Notice of Counterparties to Executory Contracts and Unexpired Leases of the Debtors That May Be Assumed and Assigned* [Docket No. 1879] which, among other things, asserted that the Debtor had to transfer the Medi-Cal Provider Agreements as

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executory contracts pursuant to § 365. In the DHCS March 22, 2019 Objection, the Department asserted it was owed the following amounts in connection with the Hospitals, as of March 15, 2019: (a) St. Francis Medical Center – HQA Fee liability ee, and Medi-Cal Provider Agreementsin the amount of $30,381,769.53; (b) St. Vincent Medical Center (including St. Vincent Dialysis Center) – HQA Fee liability in the amount of $21,427,707.82; and (c) Seton Medical Center (including its Seton Medical Center Coastside campus) – HQA Fee liabilities in the amount of $28,160,469.45. In the DHCS Objection, the Department did not reflect any obligations owed to it related to the Medi-Cal fee-for-service payments in connection with the Hospitals. However, the Department asserted in its Objection that the Debtors and/or the buyer (through joint and several liability) must reimburse the Department for any Medi-Cal fee-for-service overpayments and pay other debts owed to the Department.

Whereas, on March 29, 2019, the Department filed the following proofs of claim in the Bankruptcy Cases: (a) against SVMC, assigned Claim No. 62-1, asserting that it is owed $5,287,280.73, based solely on the unpaid prepetition HQA Fees; (b) against SFMC, assigned Claim No. 134-1, asserting that it is owed $7,302,038.67, based solely on the unpaid prepetition HQA Fees; and (c) against SMC, assigned Claim No. 66-1, asserting that it is owed $ 17,090,035.65, based solely on the unpaid prepetition HQA Fees.

Whereas, on May 2, 2019, the Bankruptcy Court entered the *Order (A) Authorizing The Sale Of Certain Of The Debtors' Assets To Strategic Global Management, Inc. Free And Clear Of Liens, Claims, Encumbrances, And Other Interests; (B) Approving The Assumption And Assignment Of An Unexpired Lease Related Thereto; And (C) Granting Related Relief* [Docket No. 2306] (the "Sale Order"), approving a sale of the Debtors' remaining Hospitals (St. Francis Medical Center, St. Vincent Medical Center including the St. Vincent Dialysis Center, and Seton Medical Center, including Seton Medical Center Coastside Campus) to Strategic Global Management, Inc. (i.e. the SGM Sale). The Sale Order continued the hearing on the DHCS Objection, and reserved judgment on issues related to the transfer of the Medi-Cal provider agreements (i.e., whether the Medi-Cal provider agreement would be transferred as a statutory

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license or an executory contract) pending resolution of that issue. *Id.*

Whereas, on September 11, 2019, the Department filed its *Creditor California Department of Health Care Services's Supplemental Objection To (1) Debtors' Motion for the Entry of an Order Authorizing the Sale of Property Free and Clear of All Claims, Liens, and Encumbrances; (2) Approving Form of Asset Purchase Agreement* [Docket No. 3043] which, among things, asserted that the Debtor had to transfer the Medi-Cal Provider Agreements as executory contracts pursuant to § 365. In the DHCS September 11, 2019 Objection, the Department asserted it was owed the following amounts in connection with the Hospitals, as of September 6, 2019: (a) St. Francis Medical Center – HQA Fee liability arising from the HQA Fee Program, California Welfare & Institutions Code, § 14169.52(a) et. seq., and Medi-Cal Provider Agreementsin the amount of $3,835,489.67; (b) St. Vincent Medical Center (including St. Vincent Dialysis Center) – HQA Fee liability in the amount of $6,565,679.74; and (c) Seton Medical Center (including its Seton Medical Center Coastside campus) – HQA Fee liabilities in the amount of $16,927,759.87. In addition, in the DHCS September 11, 2019 Objection, the Department claimed the following fee-for-service overpayments: (a) $24,254,503.36 in fee-for-service overpayments to St. Francis Medical Center for fiscal year July 1, 2016, through June 30, 2017, (b) $4,205.25 for fee-for-service overpayments to Seton Medical Center for fiscal year July 1, 2016 through June 30, 2017, and (c) $662,327.67 in overpayments to St. Francis Medical Center for supplemental reimbursements under the Supplemental Reimbursement for Construction Renovation Reimbursement Program. The September 11, 2019 supplemental objection asserted that (i) the Debtors had to transfer the Medi-Cal Provider Agreements as executory contracts pursuant to § 365; (ii) the Debtors had to pay all outstanding HQA Fee; (iii) the Debtors or SGM would have to reimburse DHCS for any outstanding obligations between the Debtors and DHCS; and (iv) the Debtors would have to escrow $70 million for 36 months for any potential overpayment which DHCS might subsequently discover, and SGM would have to assume liability for the excess amount if $70 million proved insufficient.

Whereas, on September 26, 2019, the Court entered its Memorandum Opinion [Docket

No. 3146] (the "Memorandum Opinion") which expressly held that the provider agreements are not contracts, and therefore section 365 does not apply, and that the "Provider Agreements may be sold free and clear of the liabilities which DHCS contends attach to the Provider Agreements. This includes the alleged liabilities for approximately $30 million in unpaid HQA Fees and $25 million in Medi-Cal overpayments."

Whereas, on October 11, 2019 the Bankruptcy Court entered an order [Docket No. 3372] (the "Medi-Cal Transfer Order"), which provides "DHCS shall not adjust, offset, lien or recoup any payments owing to SGM and other SGM affiliates (collectively, "SGM Buyers") which are assigned any rights in connection with the transfer of the Medi-Cal Provider Agreements … and the SGM acquisition of the Hospitals and St. Vincent Dialysis Center (collectively, the "Assets") pursuant to the Sale Motion ("SGM Sale") after the transfer of the Assets (the "Transfer Effective Date"), or make any claims against any of the SGM Buyers or any of their assets, including, without limitation, any assets acquired by any of the SGM Buyers pursuant to the SGM Sale, for any obligations, liabilities, claims or other interests against the Debtors related to periods on or before the Transfer Effective Date ("Pre-Transfer Effective Date Liabilities") including without limitation for Pre-Transfer Effective Date Liabilities under or related to (a) the Medi-Cal Program, and (b) without prejudice to the rights of the Debtors or the SGM Buyers as provided for in the Asset Purchase Agreement [Docket No. 2305-1] by and among the Debtors and SGM, the Hospital Quality Assurance Fees Program, California Welfare & Institutions Code, § 14169.52(a) et. seq. or similar or successor statutes ("HQA Fee Program"); provided however, that nothing in this paragraph shall be construed to limit whatever rights DHCS may or may not have to withhold, under principles of equitable recoupment, payments owed by DHCS to the Debtors and/or the SGM Buyers, for the purpose of recovering alleged Pre-Transfer Effective Date Liabilities under or related to the Medi-Cal program and/or HQA Fee Program. None of the SGM Buyers shall be required to execute the Successor Liability Form, or otherwise assume or accept responsibility, for or with respect to any Pre-Transfer Effective Date Liabilities, in conjunction with the completion of the SGM Sale and to effectuate the assignment or other

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transfer of any Medi-Cal Provider Agreements to the SGM Buyers in connection with the SGM Sale, or otherwise as a condition or requirement for any of the SGM Buyers to participate in the Medi-Cal Program or the HQA Fee Program, provided, however, that nothing in this paragraph shall be construed to limit whatever rights DHCS may or may not have to withhold, under principles of equitable recoupment, payments owed by DHCS to the Debtors and/or the SGM Buyers, for the purpose of recovering alleged Pre-Transfer Effective Date Liabilities under or related to the Medi-Cal program and/or HQA Fee Program."

Whereas, the Department asserts that, in the aggregate, it is owed $23,290,200.27 by Seton Medical Center and St. Vincent (as of September 24, 2019) and $13,528,354.37 by St. Francis (as of September 24, 2019), all solely related to unpaid HQA Fees. Whereas, the Debtors assert that all HQA Fees have been paid or will be paid in the ordinary course of business during the Bankruptcy Cases and no amounts are presently due and owing to the Department.

Whereas, according to the Debtors' calculations, they currently have no outstanding financial obligations to the Department for fee-for-service or supplemental overpayments pursuant to the Medi-Cal Provider Agreements. However, the Debtors are aware that the Department alleges the following obligations: (a) alleged obligations related to recent audit of fiscal year 2016-2017 fee-for-service payments related to SFMC, and (b) alleged overpayment findings by the Department with respect to the Medi-Cal electronic health records ("EHR") incentive payments of $209,373 to SFMC and $18,107 to SMC. With regard to the former, Verity received audit findings alleging overpayments of $25,176,471 for SFMC for the fiscal period ending June 30, 2017, but believes these amounts to be grossly overinflated and an unlawful overreach by the Department's auditors. With regard to the latter, these amounts are purportedly associated with an audit of the Hospitals' first year of participating in the Medi-Cal EHR program (2011) and the Debtors strongly dispute these findings.

Whereas, any outstanding financial obligations of the Hospital Debtors to the Department for unpaid quality assurance fees or other fees owing under HQA Fee program relating to the Hospitals that existed prior to the Medi-Cal Transfer Effective Date are referred to herein as the

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"HQA Fee Claims" and any financial obligations of the Hospital Debtors related to overpayment amounts owed with respect to fee-for-service or supplemental payments pursuant to the Medi-Cal Provider Agreements relating to the Hospitals (other than the HQA Fee Claims), including without limitation overpayments that have been asserted by the Department or its fiscal intermediary by sending a written communication that is received by the Hospitals prior to the Medi-Cal Transfer Effective Date and overpayments which would be asserted after such date and arise from cost report settlements and other reconciliations of payments for services rendered or periods of time prior to the Medi-Cal Transfer Effective Date, are referred to herein as the "Medi-Cal Claims." For purposes of this Stipulation, the effective date of the transfer of the Hospitals' Medi-Cal Provider Agreements to the SGM Operating Entities is the "Medi-Cal Transfer Effective Date," even if the agreement concerning such assignment and assumption is made as of the Closing.

Whereas, pursuant to Code of Federal Regulations, title 42, section 438.6(c)(1)(iii), CMS has authorized the Department to require each applicable Medi-Cal managed care plan to make Hospital directed payments to qualified network providers that provide eligible hospital services for the periods covering July 1, 2017, through June 30, 2019. Pursuant to that approval, based on an analysis of actual network utilization, the Department will determine a uniform dollar add-on increment for purposes of the Hospital directed payments to be made to qualified network private hospitals for eligible services rendered during the approval period. Once the Department has determined the uniform dollar add-on increment and obtained associated federal approvals, if necessary, it "will direct [Medi-Cal managed care plans] to make enhanced payments for contracted services utilized within the class of private hospitals."

Whereas, consistent with CMS' approval of the private hospital directed payment program and of Hospital pass-through payments pursuant to 42 C.F.R. §438.6(d), the Department has agreed that the applicable Medi-Cal managed care plans serving Los Angeles County and San Mateo County (collectively, the "Plans") should make the federally approved Medi-Cal managed care supplemental payments associated with dates of service on or prior to the Medi-Cal Transfer

Effective Date to the Hospital Debtors, which are eligible in connection with the Hospitals based on their status as the private operators of the Hospitals for dates of service on or prior to the Medi-Cal Transfer Effective Date.

Whereas, upon the SGM Sale of the Hospitals and effective as of Closing, the Hospital Debtors and the SGM Operating Entities may enter into an Interim Management Agreement for each of the Hospitals (collectively, the "IMAs"), if such SGM Operating Entities are unable to obtain their own requisite general acute care hospital licenses issued by the California Department of Public Health ("CDPH") and pharmacy permits issued by the California State Board of Pharmacy ("BOP") (collectively the "New Licenses") for the respective Hospital by Closing, pursuant to which each SGM Operating Entity will manage the respective Hospital until it obtains the New Licenses. The date by which all requisite New Licenses are issued for the Hospitals, whether at Closing or thereafter, is referred to as the "Licensure Date." For purposes of this Stipulation, the Licensure Date shall also constitute the effective date of the transfer of the Hospitals' Medi-Cal Provider Agreements to the SGM Operating Entities (the "Medi-Cal Transfer Effective Date"), even if the agreement concerning such assignment and assumption is made as of the Closing.

Whereas, if the Hospital Debtors and the SGM Operating Entities enter into the IMAs, the Hospital Debtors will maintain a possessory interest in the Hospitals and Hospitals' premises pursuant to a Leaseback Agreement effective as of Closing, and continuing until the Transfer Effective Date.

Whereas, SGM Operating Entities will makes offers of employment, effective as of Closing, to substantially all of the Hospitals' employees and, if the Hospital Debtors and the SGM Operating Entities enter into IMAs, then the SGM Operating Entities may, for the term of the IMAs, lease back to the Hospitals, as needed, any employees necessary to satisfy the applicable regulatory requirements.

Whereas, if the Hospital Debtors and SGM Operating Entities enter into the Leaseback Agreement and IMAs, the term of such agreements will run from the Closing until the date

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immediately preceding Licensure Date (the "IMA Term"), at which time the Pharmacy Assets will transfer to the SGM Operating Entities and the SGM Operating Entities will operate the Hospitals pursuant to the New Licenses.

Whereas, SGM is willing to have the SGM Operating Entities acquire the Medi-Cal Provider Agreements as of the Licensure Date, but in doing so SGM is unwilling to incur any exposure for liability under the Medi-Cal Provider Agreements, or otherwise for any Medi-Cal Claims, HQA Fee Claims, or False Claims, for goods and services provided, and otherwise for actions or related to periods, prior to the Medi-Cal Transfer Effective Date, or to otherwise assume any obligations or liabilities of the Debtors other than those expressly provided for in the Purchase Agreement related to the SGM Sale.

Whereas, the Debtors and SGM expected the SGM Sale of the Hospitals to close on or about December 5, 2019 (the "Closing").

Whereas, on November 22, 2019, the Debtors and the Department reached an agreement in principle concerning the foregoing.

Whereas, this Agreement will go in to effect immediately after Closing, and will be effective as of the effective date of the Closing ("Effective Date").

NOW, THEREFORE, pursuant to the agreements reached in connection therewith, and in consideration of the mutual covenants, agreements and promises set forth herein, and for other good and valuable considerations, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound as provided for herein, hereby agree as follows.

1. Definitions.

1.1 "Hospital Quality Assurance Fee" or "HQA Fee" program shall mean the program established by article 5.230 of chapter 7 of part 3 of division 9 of the Welfare and Institutions Code.

1.2 "Medi-Cal managed care supplemental payments" shall mean the payments made by Medi-Cal managed care plans pursuant to their contracts with the Department and in

accordance with Welfare and Institutions Code section 14169.57 that are either "Hospital directed payments" or "Hospital pass-through payments."

1.3 "Hospital directed payments" means the Medi-Cal managed care supplemental payments approved by CMS pursuant to Code of Federal Regulations, title 42, section 438.6(c).

1.4 "Hospital pass-through payments" means the Medi-Cal managed care supplemental payments approved by CMS pursuant to Code of Federal Regulations, title 42, section 438.6(d).

2. The Agreement.

2.1 The Debtors agree that the Debtors will (a) transfer the Medi-Cal Provider Agreements to SGM pursuant to § 365, with the effective date of such transfer being on the Medi-Cal Transfer Effective Date; (b) pay to the Department any unpaid HQA Fees, for Phases V and VI of the HQA Fee Program that are due and owing as of the Medi-Cal Transfer Effective Date; (c), as the "cure" required by § 365, allow the Department to recoup up to Ten Million Dollars ($10,000,000.00) (the "Allowed Offset Amount") from payments otherwise owed to the Debtors for fee-for-service medical care provided by the Debtors to Medi-Cal beneficiaries, provided, however, that if the Department has offset more than the Allowed Offset Amount, any amounts in excess will reduce, dollar for dollar, the Debtors' obligation to pay, as set forth in subsection 2.1(d) below; and (d) allow the Department an allowed administrative expense claim pursuant to § 503(b)(1)(A) in the amount of Thirty Million Dollars ($30,000,000.00) (the "Medi-Cal Settlement Amount") payable pursuant to the following schedule: (i) Five Million Dollars ($5,000,000.00) upon Bankruptcy Court approval of this Settlement Agreement, but in no event prior to the Effective Date; (ii) Fifteen Million Dollars ($15,000,000.00) upon the Debtors receipt of the funds currently escrowed pursuant to the sale of assets to Santa Clara County which is expected to be released in or about March 2020; and (iii) Ten Million Dollars ($10,000,000.00) to be paid from funds paid to the Debtors pursuant to the Hospital Quality Assurance Fee program and related to O'Connor Hospital and Saint Louise Regional Hospital which is expected to be received by the Debtors on or before June 2021, to satisfy any and all Medi-Cal Claims, which

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payment will be the Department's sole remedy for all such Medi-Claims arising for the period prior to the Medi-Cal Transfer Effective Date. For the avoidance of doubt, the Allowed Offset Amount and the Medi-Cal Settlement Amount are the cure amounts to be paid pursuant to § 365 for Medi-Cal Claims and constitute the sole remedies available to the Department for the recovery of Medi-Cal Claims. The Department cannot otherwise seek payment from or recourse against SGM or against any asset of SGM, including without limitation, any assets acquired by SGM from the Debtors, for Medi-Cal Claims or HQA Fee Claims and any other liabilities that were due and owing before the Medi-Cal Transfer Effective Date.

2.2 The Parties agree to jointly request that the Bankruptcy Court vacate the Memorandum Opinion and the Medi-Cal Transfer Order.

2.3 The covenants of the Parties herein, including without limitation the preceding agreements by the Debtors and the Department related to the Medi-Cal Settlement Amount, shall be effective as of the Effective Date, provided that the Bankruptcy Court has approved this Agreement and the Closing has occurred.

2.4 The Department agrees that it will provide the Debtors and SGM, not later than five (5) business days prior to the Medi-Cal Transfer Effective Date, a closing Medi-Cal payment demand ("Medi-Cal Payment Demand") which sets forth the amount, if any, of Phases V and VI HQA Fees that are due and owing as of the Medi-Cal Transfer Effective Date by the Debtors pursuant to subsection 2.1(b) above in this paragraph. The Debtors shall pay to the Department the amount reflected in the Medi-Cal Payment Demand as applicable, on or before the Medi-Cal Transfer Effective Date, and upon such payment all HQA Fees that were due and owing before the Medi-Cal Transfer Effective Date shall be deemed to have been fully paid, in full satisfaction of Debtors' payment obligations pursuant subsection 2.1(b) of this Agreement. For the avoidance of any doubt, the Department shall look solely to Debtors for the payment of all outstanding Phases V and VI HQA Fees that are due and owing as of the Medi-Cal Transfer Effective Date.

2.5 The Department agrees that the Debtors' commitment to (a) allow the Allowed Offset Amount, and (b) pay the HQA Fees and Medi-Cal Settlement Amount referenced above

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shall constitute a "cure" under § 365, and any otherwise applicable law, statute or regulation, of all outstanding financial defaults arising under or in connection with the Medi-Cal Provider Agreements and the services provided and requests for payment made thereunder through the Medi-Cal Transfer Effective Date; provided, however, that SGM shall succeed to the quality history associated with the relevant Provider Agreement assigned and shall be treated, for purposes of survey and certification issues, as if it is the relevant owner and no change of ownership occurred. For the avoidance of doubt, once the Medi-Cal Provider Agreements are assigned to SGM (i.e. on the Medi-Cal Transfer Effective Date), the Department is authorized to adjust all payments to SGM to account for the liabilities and any overpayments and underpayments relating to services performed by SGM after the Medi-Cal Transfer Effective Date and for HQA Fees that become due and owing after the Medi-Cal Transfer Effective Date. Notwithstanding the foregoing or any other term in this Agreement, under no circumstances shall the Department adjust, offset, or recoup any payments owing to SGM (including without limitation the SGM Operating Entities) after the Medi-Cal Transfer Effective Date, or make any claims against SGM (including without limitation the SGM Operating Entities) or any of their assets, including, without limitation, any assets acquired by SGM from the Debtors, for any Medi-Cal Claims and for any HQA Fee obligations that are due and owing before the Medi-Cal Transfer Effective Date. SGM and its Operating Entities will not be liable for any Medi-Cal Claims and for any HQA Fee obligations that are due and owing before the Medi-Cal Transfer Effective Date. Provided the SGM Operating Entities file Provider Enrollment Applications and/or the equivalent forms necessary to effectuate a facility change of ownership for Medi-Cal purposes, the Department further agrees that SGM shall not be required to execute the Successor Liability Form or Financial Reponsibility Agreement for Medi-Cal Claims and HQA Fees that were due and owing before the Medi-Cal Transfer Effective Date in conjunction with the completion of the SGM Sale and to effectuate the assignment of the Medi-Cal Provider Agreements to the SGM Operating Entities, and that the SGM Operating Entities shall nonetheless be permitted to continue to bill for goods and services provided by the Hospitals

covered by Medi-Cal Provider Agreements through the IMA Term, and thereafter until the SGM Operating Entities' enrollment in the Medi-Cal program are confirmed.

2.6 Prior to the Medi-Cal Transfer Effective Date, all fee-for-service supplemental payments made under the HQA Fee Program will be paid by the Department to the Hospital Debtors at a designated account when due, without regard to the status of its respective license at the time of the payment. After the Effective Date, all fee-for- service supplemental payments made under the HQA Fee program will be paid to the SGM Operating Entities at the accounts designated by the SGM Operating Entities, as long as the SGM Operating Entities file Provider Enrollment Applications with the Department and/or the equivalent forms necessary to effectuate a facility change of ownership for Medi-Cal purposes. However, the supplemental payments will be paid only after the Debtors paid any and all HQA Fees for Phases V & VI that were due and owing before the Medi-Cal Transfer Effective Date. The supplemental payments to be paid to the Debtors will be deducted dollar-for-dollar for any HQA Fee balance that was due and owning before the Medi-Cal Transfer Effective Date, provided however that no such deductions may be made against payments due and owing to SGM after the Medi-Cal Transfer Effective Date.

2.7 The Department expects the applicable Medi-Cal managed care plans, including those serving Los Angeles County and San Mateo County, to make applicable Medi-Cal managed care supplemental payments, which may include hospital directed payments and hospital pass-through payments, to the Hospital Debtors for dates of service from January 1, 2017 to the Effective Date for which they are eligible in connection with the Hospitals. The Department expects the applicable Medi-Cal managed care plans, including thoseserving Los Angeles County and San Mateo County, to make authorized Medi-Cal managed care supplemental payments, which may include Hospital directed payments and Hospital pass-through payments, to the SGM Operating Entities (which will be on behalf of the Hospital Debtors during the IMA Term if applicable) for dates of service on or after the Effective Date for which they are eligible in connection with the Hospitals.

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2.8 The Department further agrees that the payments to be made pursuant to Section 2.1 above are in full satisfaction, discharge and release of any and all claims against the Debtors, and the Hospitals or SGM arising under or related to (a) the Medi-Cal Program, including without limitation all Medi-Cal Claims and the HQA Fee claims, and (b) the California False Claims Act, and related statutes, in each case for all for goods or services, and otherwise for actions or related to periods, on or before the Medi-Cal Transfer Effective Date , whether such claims are known or unknown, liquidated, or contingent (the "Settlement Release"). The Department further agrees that, in consideration for the commitment by Debtors to make the payments pursuant to Sections 2.1 and 2.4, and the Department's resulting rights in relation thereto, the Settlement Release applies to, and is for the benefit of, SGM (including without limitation the SGM Operating Entities) without condition and whether or not the Debtors timely make such payments.

2.9 During the Bankruptcy Cases, and on and prior to the Medi-Cal Transfer Effective Date, the Department agrees to continue to pay the Hospital Debtors for Medi-Cal services by the Hospitals in accordance with federally approved State plan methodologies and customary trade terms, and the Hospital Debtors agree to continue to provide care to Medi-Cal beneficiaries at the Hospitals in accordance with the Medi-Cal Provider Agreements, and all applicable federal and state laws and regulations.

2.10 All avoidance actions and other causes of action arising under Chapter 5 of the Bankruptcy Code, including, but not limited to, claims or causes of action pursuant to §§ 547 and 548, that could be asserted by the Hospitals are waived by the Debtors, their bankruptcy estates, any and all successors, chapter 7 trustees, and any post-confirmation creditor litigation trust.

2.11 Debtors will waive and withdraw their appeal of the findings of the Department's audit of SFMC's cost report for fiscal year period July 1, 2016, through June 30, 2017. In addition, Debtors will waive any and all of its potential or existing rights to appeal the existing or potential audit findings and resulting Medi-Cal overpayment liabilities.

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2.12 Notwithstanding anything to the contrary in this Agreement, if the Debtors or the Department are in breach of this Agreement, the respective party's sole remedy shall be the right to seek to specifically enforce this agreement, including without limitation the Department's right to seek the payments required pursuant to Section 2.No breaches by any Party shall give rise to a right to terminate this Agreement by the other Parties, which termination rights are hereby waived by the Parties to the fullest extent legally permissible. Notwithstanding the preceding or any other term herein to the contrary, the rights, benefits, waivers and releases in favor of, or for the benefit of, SGM provided herein shall in any case remain in full force and effect notwithstanding any breach by the Debtors.

2.13 Nothing in this Agreement shall affect any obligations of the Department, or the rights of the SGM Operating Entities, with respect to the processing of the assignment of the Medi-Cal Provider Agreements and/or enrollment of the SGM Operating Entities in the Medi-Cal Program for the Hospitals, and the Hospitals' continued participation in the HQA Fee Program.

2.14 The Bankruptcy Court has jurisdiction over any dispute arising from or relating to this Agreement.

2.15 Nothing contained in this Agreement is intended or shall be deemed to release, waive or otherwise impair any claims of the Department or its successors or assigns, against: (1) any insurance carrier of the Debtors; and (2) any person or entity released by any of the Parties to the extent they are acting in any capacity other than in connection to their business dealings with the Debtors. In addition, and for avoidance of doubt, nothing in this Agreement releases any person or entity not identified or described in this Agreement as being a person or entity receiving a release. SGM and its affiliates are entitled to the full benefit of all of the releases and other terms contained in this Agreement without restriction, condition or limitation.

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3. Miscellaneous Provisions.

3.1 The Parties executing this Agreement do so without admitting any fault or liability whatsoever. No term or condition of this Agreement is intended to be or shall be deemed or construed as an expression of fault or liability.

3.2 This Agreement contains the entirety of the agreement reached among the Parties pertaining to the subject matter set forth herein. This Agreement supersedes all prior and contemporaneous oral and written agreements and discussions between or among the Parties except as set forth herein. This Agreement, or any provision hereof, may not be waived, amended or revoked, or the ongoing obligations of any Party terminated, except by a further writing signed by all such Parties and the County.

3.3 This Agreement is the product of negotiation by and among the Parties, executed voluntarily and without duress or undue influence on the part of or on behalf of any Party hereto. Each of the Parties acknowledges that it has had the opportunity to be represented by its own independent counsel in connection with this Agreement and the transactions contemplated by or referred to in this Agreement. Hence, in any construction to be made of this thereof, the same shall not be construed against any Party.

3.4 This Agreement may be executed in any number of counterparts, a complete set of which shall constitute a duly executed original, and fax or electronic signatures shall be treated as originals for all purposes irrespective of any jurisdiction's best evidence rule.

3.5 The failure or delay on the part of any Party to enforce or exercise at any time any of the provisions, rights or remedies in this Agreement shall in no way be construed to be a waiver thereof, nor in any way to affect the validity of this Agreement or any part hereof, or the right of such Party to thereafter enforce each and every such provision, right or remedy. No waiver of any breach of this Agreement shall be held to be a waiver of any other or subsequent breach.

3.6 Each Party shall pay its own attorneys' fees, costs and expenses in connection with the preparation, negotiation and execution of this Agreement. However, in the event of any beach

or default of any of the terms and provisions of this Agreement or any disputes regarding interpretation or enforcement of this Agreement, the prevailing Party shall be entitled to recover its reasonable attorneys' fees and costs, in addition to any other award.

3.7 This Agreement shall be construed, performed, and enforced in accordance with, and governed by, the laws of the State of California (without giving effect to the principles of conflicts of laws thereof), except to the extent that the laws of such State are superseded by the Bankruptcy Code or other applicable federal law.

3.8 Subject to obtaining approval from the Bankruptcy Court as set forth below, each Party hereto hereby represents and warrants to the other Parties that the undersigned representative of such Party has authority to execute this Agreement and to bind such Party to the terms hereof. Without limiting the preceding, the Department represents that the undersigned representative of the Department is executing this Agreement for both the Department and the State of California and has the authority to do so, and to bind both the Department and the State of California to this Agreement. Each Party represents and warrants to the other Parties that this Agreement is fully enforceable by the other Parties (including, as applicable, by SGM as an express beneficiary of this Agreement) against such Party without the requirement of any consent, agreement or other action of any other party, agency or entity.

3.9 Each of the Parties hereto acknowledges that no other Party, nor any agent nor any attorney of any other Party has made any promise, representation or warranty whatsoever, express or implied, not contained herein or therein concerning the subject matter hereof to induce said Party to execute or authorize the execution of this Agreement, and each of the Parties hereto further acknowledges that said Party has not executed or authorized the execution of this Agreement in reliance upon any such promise, representation or warranty not contained herein or therein.

3.10 The Department hereby represents that it is unaware of any pending litigation, investigations or claims by any other parties against or related to the Hospital Debtors and Hospitals under the federal False Claims Act, the California False Claims Act or similar statutes.

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3.11 The Parties hereby agree to the following process regarding approval and consummation of this Agreement:

3.11.1 The Debtors shall submit this Agreement to the Bankruptcy Court for final approval in accordance with Federal Rule of Bankruptcy Procedure 9019 within one (1) day of the date of execution of the Agreement by all of the Parties (the "Execution Date").

3.11.2 The Department shall support entry of an order approving the Agreement in good faith, including, among other things, by not objecting to or otherwise commencing any proceeding or taking any other action opposing the terms or implementation of this Agreement or any order approving this Agreement, except as may be consistent with the terms hereof.

3.11.3 If the Bankruptcy Court declines to approve this Agreement despite the best efforts of the Parties to obtain such approval, then (1) this Agreement and its representations and statements shall be null and void and of no force or effect, and (2) the Parties' respective rights shall be fully reserved and the Parties shall be restored to their respective positions, *status quo ante*, as existing immediately prior to the Execution Date without prejudice to the passage of time.

IN WITNESS WHEREOF, each of the Parties has caused this Agreement to be executed and delivered as of December __, 2019.

Date Signed: December ___, 2019

Verity Health System of California, Inc.

By:_____
Name:

Title:

Date Signed: December ___, 2019

Saint Francis Medical Center

By:_____
Name:

Title:

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Date Signed: December ___, 2019

Saint Vincent Medical Center

By:_____
Name:

Title:

Date Signed: December ___, 2019

Seton Medical Center

By:_____

Name:

Title:

Date Signed: December 9, 2019

California Department of Health Care Services

By: Richard Figueroa
Name:

Title: Acting Director, DHCS

///

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APPROVED AS TO FORM AND CONTENT:

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SAMUEL R. MAIZEL
JOHN A. MOE, II
TANIA MOYRON

By: _____

Counsel for the Debtors

OFFICE OF THE ATTORNEY GENERAL OF THE STATE OF CALIFORNIA
KENNETH K. WANG

By: _____

Counsel for the Department

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EXHIBIT "19"

Docket #3787 Date Filed: 12/9/2019

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Attorneys for the Chapter 11 Debtors and Debtors In Possession

FILED & ENTERED

DEC 09 2019

CLERK U.S. BANKRUPTCY COURT
Central District of California
BY gonzalez DEPUTY CLERK

CHANGES MADE BY COURT

UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA - LOS ANGELES DIVISION

In re

VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*,

Debtors and Debtors In Possession.

☒ Affects All Debtors

☐ Affects Verity Health System of California, Inc.
☐ Affects O'Connor Hospital
☐ Affects Saint Louise Regional Hospital
☐ Affects St. Francis Medical Center
☐ Affects St. Vincent Medical Center
☐ Affects Seton Medical Center
☐ Affects O'Connor Hospital Foundation
☐ Affects Saint Louise Regional Hospital Foundation
☐ Affects St. Francis Medical Center of Lynwood Foundation
☐ Affects St. Vincent Foundation
☐ Affects St. Vincent Dialysis Center, Inc.
☐ Affects Seton Medical Center Foundation
☐ Affects Verity Business Services
☐ Affects Verity Medical Foundation
☐ Affects Verity Holdings, LLC
☐ Affects De Paul Ventures, LLC
☐ Affects De Paul Ventures - San Jose ASC, LLC

Debtors and Debtors In Possession.

Lead Case No. 18-bk-20151-ER

Jointly Administered With:
Case No. 2:18-bk-20162-ER
Case No. 2:18-bk-20163-ER
Case No. 2:18-bk-20164-ER
Case No. 2:18-bk-20165-ER
Case No. 2:18-bk-20167-ER
Case No. 2:18-bk-20168-ER
Case No. 2:18-bk-20169-ER
Case No. 2:18-bk-20171-ER
Case No. 2:18-bk-20172-ER
Case No. 2:18-bk-20173-ER
Case No. 2:18-bk-20175-ER
Case No. 2:18-bk-20176-ER
Case No. 2:18-bk-20178-ER
Case No. 2:18-bk-20179-ER
Case No. 2:18-bk-20180-ER
Case No. 2:18-bk-20181-ER

Hon. Ernest M. Robles

ORDER APPROVING STIPULATION RE: ASSUMPTION AND ASSIGNMENT OF MEDICAL PROVIDER AGREEMENTS TO STRATEGIC GLOBAL MANAGEMENT, INC.

[RELATED DOCKET NOS. 2306, 3786]

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The Court, having reviewed the *Stipulation Re: Assumption And Assignment Of Medi-Cal Provider Agreements to Strategic Global Management, Inc.* (the "Stipulation"), filed as Docket No. 3786, entered into by and among Verity Health System of California, Inc., St. Francis Medical Center, a California nonprofit public benefit corporation, St. Vincent Medical Center, a California nonprofit public benefit corporation, St. Vincent Dialysis Center, a California nonprofit public benefit corporation, and Seton Medical Center, a California nonprofit public benefit corporation, on the one hand, and the California Department of Health Care Services on its behalf and on behalf of the State of California, on the other hand, and good cause appearing,

HEREBY ORDERS AS FOLLOWS:

A. The Stipulation and the terms therein are approved.

B. This Court shall retain jurisdiction to hear and resolve any disputes arising under the Stipulation.

C. ~~This Court will vacate its~~ The Memorandum of Decision (Docket No. 3146) and *Order Authorizing Debtors to Sell Medi-Cal Provider Agreements, Free and Clear of Interests Asserted by the California Department of Health Care Services, Pursuant to 11 U.S.C. §§ 363(b) and (f)(5)* (Docket No. 3372) are hereby VACATED.

IT IS SO ORDERED.

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Date: December 9, 2019

Ernest M. Robles
United States Bankruptcy Judge

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EXHIBIT "20"

UNITED STATES BANKRUPTCY COURT

CENTRAL DISTRICT OF CALIFORNIA

--oOo--

In Re:	) Case No. 2:18-bk-20151-ER
	)
VERITY HEALTH SYSTEM OF CALIFORNIA, INC.,	) Chapter 11
	)
	) Los Angeles, California
Debtor.	) Wednesday, February 6, 2019
_____	) 10:00 a.m.

HEARING RE: [1279] MOTION AND NOTICE OF MOTION FOR THE ENTRY OF
(I) AN ORDER
(1) APPROVING FORM OF ASSET PURCHASE AGREEMENT FOR STALKING HORSE BIDDER AND FOR PROSPECTIVE OVERBIDDERS;
(2) APPROVING AUCTION SALE FORMAT, BIDDING PROCEDURES AND STALKING HORSE BID PROTECTIONS;
(3) APPROVING FORM OF NOTICE TO BE PROVIDED TO INTERESTED PARTIES;
(4) SCHEDULING A COURT HEARING TO CONSIDER APPROVAL OF THE SALE TO THE HIGHEST BIDDER; AND
(5) APPROVING PROCEDURES RELATED TO THE ASSUMPTION OF CERTAIN EXECUTORY CONTRACTS AND UNEXPIRED LEASES; AND
(II) AN ORDER
(A) AUTHORIZING
THE SALE OF PROPERTY FREE AND CLEAR OF ALL CLAIMS, LIENS AND ENCUMBRANCES; MEMORANDUM OF POINTS AND AUTHORITIES IN SUPPORT THEREOF

Proceedings recorded by electronic sound recording; transcript produced by transcription service.

HEARING RE [1153] REJECTION AND/OR MODIFICATION OF COLLECTIVE BARGAINING AGREEMENTS.

HEARING RE [1153] CURE OBJECTIONS

HEARING RE [1153] ISSUES PERTAINING TO THE TRANSFER AND/OR ASSUMPTION OF MEDI-CAL PROVIDER AGREEMENTS

HEARING RE [1153] ISSUES PERTAINING TO THE TRANSFER AND/OR ASSUMPTION OF MEDICARE PROVIDER AGREEMENTS

TRANSCRIPT OF PROCEEDINGS
BEFORE THE HONORABLE ERNEST ROBLES
UNITED STATES BANKRUPTCY JUDGE

APPEARANCES:

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For the Official Creditors Committee:

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LOS ANGELES, CALIFORNIA WEDNESDAY, FEBRUARY 6, 2019 10:00 AM

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(Call to order of the Court.)

THE CLERK: Please rise and come to order. This Court is now in session. The Honorable Ernest Robles, presiding.

THE COURT: Good morning. Be seated, please.

(Pause while the Court heard other matters.)

THE COURT: All right. Let's hear the Verity related matters, item 10 and following. We'll take appearances, first in the courtroom.

MR. MAIZEL: Good morning, your Honor. Samuel Maizel, Dentons US LLP, on behalf of the Debtor.

Your Honor, we'd ask the Court's indulgence. There are ongoing discussions between the secured lenders and the buyer based on the tentative. And we'd ask if the Court would continue this for 30 minutes, and give us an opportunity to see if we can't resolve some of the issues before we go forward.

THE COURT: All right. I appreciate that. Just let us know when you're ready to proceed.

MR. MAIZEL: Thank you, your Honor.

THE COURT: Thank you.

(Proceedings briefly recessed.)

THE CLERK: Please remain seated and come to

order. This Court is again in session.

THE COURT: We have a matter on the 11:00 o'clock calender, item 100, but before we get to that, I'm given to understand that the Verity matter has requested up to around 1:00 o'clock.

So if you're here on the Verity matter, I don't think there's any reason for you to have to stay. We probably won't actually reconvene until about 1:30 or so.

MR. WISLER: Good morning, your Honor. Jeffrey Wisler on behalf of Cigna Health and Life Insurance Company, and other Cigna entities.

Your Honor, you ruled in -- you sustained our objection in the tentative. I confirmed with Mr. Maizel this morning that he was not challenging that, but they may have changed. And if I don't catch my 2:00 o'clock flight, then I'm here for an extra day, which I'd prefer not to do.

So, I'd like to have an opportunity to ask Mr. Maizel that. And if your Honor wants to address everything together, because it's all moot if the lenders don't agree, then I understand, your Honor. I will stay.

THE COURT: Well, let's do this. I don't know if they're in the building somewhere. If you know --

MR. WISLER: Understood, your Honor.

THE COURT: If you just catch them and you can come back here and make your representation about whether we

have to go forward or not. I'll be here, so you can just come in --

MR. WISLER: One way or another.

THE COURT: That's right.

MR. WISLER: Understood, your Honor. Thank you very much.

THE COURT: Thank you.

All right. Just a moment.

(Pause while the Court heard other matters.)

AFTERNOON SESSION

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(Call to order of the Court.)

THE CLERK: Please rise and come to order. This Court is now in session. The Honorable Ernest M. Robles, presiding.

THE COURT: Good afternoon. Be seated, please. We'll continue our Verity matters, item 10 from our 10:00 o'clock calendar. May I have appearances, please?

MR. MAIZEL: Good afternoon, your Honor. Sam Maizel, Dentons US LLP, on behalf of the Debtors. With me at counsel table is my new partner, newly created partner, Tania Moyron.

And with us in the courtroom today are the CEO, CFO and general counsel from Verity, and our financial advisors from Berkeley Research Group, and our investment bankers from Cain Brothers.

THE COURT: Thank you.

MR. BRAY: Good afternoon, your Honor. Gregory Bray, Milbank, Tweed, Hadley and McCloy, counsel for the Official Creditors Committee. And my partner, Mark Shinderman, is with me today.

THE COURT: Good afternoon.

MR. KLAUSNER: Good afternoon, your Honor. Gary Klausner, Levene, Neale, Bender, Yoo and Brill. We

represent Strategic Global Management, Inc., the prospective stalking horse purchaser.

THE COURT: Thank you.

MR. WISLER: Good afternoon, your Honor. Jeffrey Wisler on behalf of Cigna Health and Life Insurance Company, Cigna Healthcare of California, Inc., and Life Insurance Company of North America.

THE COURT: Thank you.

MS. MONTGOMERY: Good afternoon, your Honor. Susan Montgomery appearing on behalf of United Healthcare.

MR. COCO: Good afternoon, your Honor. Nathan Coco from McDermott, Will, Emery, on behalf of US Bank, as notes Trustee, 2015 series.

THE COURT: Thank you.

MR. WHITMORE: Good afternoon, your Honor. Clark Whitmore from Maslon, LLP, on behalf of US Bank National Association, as the 2017 notes trustee.

MS. ROSE: Good afternoon, your Honor. Mary Rose of Buchalter, appearing on behalf of AHMC Healthcare, Inc., a prospective bidder.

THE COURT: Thank you.

MS. RILEY: Good afternoon, your Honor. Debra Riley of Allen Matkins, appearing on California Statewide Communities Development Authority.

MS. BERRY: Good morning, your Honor. Alicia

Berry for the California Attorney General on behalf of the People of the State of California.

THE COURT: Thank you.

MS. SKOGSTAD: Good afternoon, your Honor. Kyrsten Skogstad on behalf of the California Nurses Association.

MR. KOHANSKI: Good afternoon, your Honor. Joe Kohanski, Bush Gottlieb, for United Nurses Associations of California, UNAC.

MR. MARGULIES: Good afternoon, your Honor. Craig Margulies with Margulies Faith, LLP, on behalf of Hooper Healthcare Consulting.

MR. RICOTTA: Good afternoon, your Honor. Paul Ricotta of Mintz Levin, on behalf of UMB Bank, as master trustee, and Wells Fargo Bank, as the bond trustee for the 2005 bonds.

THE COURT: Thank you.

Now, in the courtroom are there any further appearances? If not, I'll turn to the telephonic appearances.

All right. I'll turn to the telephonic appearances, and I'll ask that you make your appearance when I call your name.

Claude Montgomery.

MR. MONTGOMERY: Your Honor, I'm on the phone.

Thank you very much. Appearing for the Debtors.

THE COURT: Thank you.

Kyra Andrassy.

Peter Benvenutti.

MR. BENVENUTTI: Yes, your Honor. Peter Benvenutti, Keller and Benvenutti, on behalf of the County of San Mateo and Health Plan of San Mateo. Thank you very much --

THE COURT: Thank you.

MR. BENVENUTTI: -- for letting us to attend. Thank you.

THE COURT: Steven Berman.

Melissa Jones.

MR. LEMKE: Your Honor, this is David Lemke, substituting for Melissa Jones. I'm with Waller Lansden, and appearing on behalf of Ally Bank, the DIP lender and DIP agent.

THE COURT: Thank you.

Christopher Minier.

Lisa Peters.

David Powlen.

Alexandra Rhim.

MS. RHIM: Good afternoon, your Honor. This is Alexandra Rhim appearing on behalf of University of Southern California.

THE COURT: Thank you.

Emily Rich.

MS. RICH: Yes. Emily Rich and Caitlin Gray, Weinberg, Roger and Rosenfeld, appearing on behalf of SEIU-UHW.

THE COURT: Thank you.

Jay Ryan Yant.

MR. YANT: Good afternoon, your Honor. Ryan Yant on behalf of both St. Vincent IPA, IPA for St. Vincent Medical Center, and Angeles IPA, which serves that same role at St. Francis.

THE COURT: Thank you.

Michael Reynolds.

MR. REYNOLDS: Here. Thank you, your Honor.

THE COURT: Very well. Any other appearances by telephone?

MR. BUTLER: Yes, your Honor. You have Demarr Butler on behalf of the Pension Benefit Guaranty Corporation.

THE COURT: Thank you, Mr. Butler.

Anyone else? All right.

Let's go forward then. Item 10.

Mr. Maizel.

MR. MAIZEL: Your Honor, first of all, on behalf of all the parties I'd like to thank the Court for its

patience. I think a lot of work was done over the last few hours in the cafeteria. We basically took over half of it. And I think we've reached agreement, amongst at least some of the parties, on the issues raised in the tentative.

And I also want to thank all the other parties who were waiting a while, because the discussions, honestly, were almost all related to the objections by the committee and the secured lenders, and the Court's tentative rulings on those issues. And I know there were a lot of people just waiting for that, and I appreciate their patience. I know this can be a tedious task sometimes.

THE COURT: Yes.

MR. MAIZEL: So I'd like to turn to the two primary issues raised in the Court's tentative from the Debtor's perspective. And if we could go through those first, and then I know there are parties who will want to raise issues raised in the tentative as well, but I think since those are the two key issues, in terms of going forward at all.

Because, honestly, without resolution on the Court's tentative ruling with regard to paragraph 8.6 and the breakup fee, there would be no bid procedures motion to go forward for the rest of those matters.

So, with regard to 8.6, which -- first let me explain why this appears at all. The Court is very familiar

with the Attorney General's ability to interpose into the sales of not-for-profit hospitals even in bankruptcy cases. The Attorney General's activities in both the Gardens case and in this case to date, has not surprisingly created concerns among the prospective buyer pool. And SGM, Strategic Global Management, is not unique or alone in that regard.

Paragraph 8.6 came into the asset purchase agreement fairly late in the process because of those concerns, and as certainly exemplified by the Attorney General's continuing efforts through its appeal of the Court's order with regard to the Santa Clara sale.

So, we have read the tentative carefully. There was lengthy discussion between the buyer, the secured lenders and the creditor's committee. And we have a proposal for language which we think satisfies, we hope, will satisfy the Court's concern about the broad discretion provided to the buyer. And this is language that the secured creditors and the Debtor have agreed to. I'll leave the creditors committee to explain their position.

And if I could approach, I can hand you a copy.

THE COURT: Very well. Thank you.

(Pause.)

MR. MAIZEL: Your Honor, if the -- if nothing else, old 8.6 and new 8.6, you'll notice that there's -- and

new 8.6 is considerably longer. That is the result of discussions that actually began right after the tentative was issued, and continued this afternoon and -- this morning and this afternoon.

There's two things that I would say that I think address the Court's concern. In the old section 8.6, it had the language that in the purchaser's sole and absolute discretion, within 21 days, business days after the entry of an order, doing basically, clearing off the AG conditions, the purchaser still had sole and absolute discretion to -- to decide whether to proceed.

And the Court's tentative made clear that the Court, at least seemed to make clear to us, that the Court was concerned about such a broad grant of discretion to the purchaser.

In the new 8.6, that discretion is now materially changed so that, first of all, it now has to be an exercise of the purchaser's reasonable business judgment, which we think is significantly different language. Reasonable business judgment obviously allows the parties, if they disagree, to come to court and to see if it is reasonable or not.

And then, in addition, there's a period of at least 90 days for each appeal, where based on the Debtors, can decide to extend this evaluation period to allow us to

deal with appeals, so the buyer does not have the discretion in those circumstances to walk.

There's a lot of additional language, we believe reining in the buyer's discretion, but in terms of dealing with the tentative's ruling, I think those two salient points significantly now restrict the buyer's discretion to, whether to proceed or not in the context of a sale.

And so I, at this time, I think I'll let Mr. Klausner address 8.6. And I think it might be best to go through 8.6 alone with that the -- it would be my thought, your Honor --

THE COURT: Right.

MR. MAIZEL: -- that the best way to approach it is, let's deal with 8.6 first, because depending on where that goes depends on where the rest of this hearing goes.

THE COURT: All right. Very well.

Mr. Klausner.

MR. KLAUSNER: Thank you. Your Honor, do we need to give you a few more minutes to take a look at 8.6, or should --

THE COURT: Well, I think it would help if you go ahead and begin your argument. And if we need additional time to consider it --

MR. KLAUSNER: Okay.

THE COURT: -- we can do that.

MR. KLAUSNER: So, if I can, because I do want to put this in context. And first of all, let me tell you a little bit about Strategic Global, which is an affiliate of a larger organization called The KPC Group.

Starting in 2007 I was representing an entity called Valley Health System, which was a healthcare district, in a Chapter 9 case that was in Riverside County in front of Judge Peter Carroll. During the course of that case, the board of trustees decided that the best course of action to take was for the district to sell the three hospitals it was then operating.

So, we went through a sale process, and an entity that's affiliated with KPC called PHH, was Physicians for Healthy Hospitals, was the successful bidder. We had a contested confirmation hearing where there was a competing bidder who was arguing against our plan and against the sale. Ultimately, Judge Carroll approved our Chapter 9 plan of adjustment and he approved the sale.

PHH, the affiliate of the KPC Group, then went ahead and closed the sale, and has continued to operate those facilities and has turned them around successfully.

I also had occasion to work with the KPC people in connection with the Victor Valley Chapter 11 case, in which Mr. Maizel was debtor's counsel. I represented the KPC Group that was a purchaser. And in that case, there was

another purchaser there. The sale went up for approval to the Attorney General. The Attorney General turned them down. We were then the backup bidder. We stepped forward. My client went ahead and closed that transaction.

By the way, the Valley Health transaction was in excess of $100,000,000. I don't remember the exact number of Victor Valley. But in that case, your Honor, our client did close that transaction. Our client was approved by the Attorney General. Our client successfully met all of the conditions that the Attorney General had set forth.

Our client also was involved in the purchase of two troubled Orange County hospitals, which it not only turned around, but in 2015, again, the affiliate of KPC Group, sold those hospitals to four employee stock ownership plans, ESOP's. And I believe it was the first acute care hospital system in the United States to be wholly owned by the employees. And KPC continues to operate those facilities.

The point of all this being, that our client is very familiar with not only the ownership and management of hospitals in Southern California, but has a very good track record with the Attorney General's office.

So I want to turn to 8.6 and maybe put it in context. Our client has agreed as part of the asset purchase agreement to a schedule of conditions. These are

conditions, some of which were originated in the 2015 transaction, which the Attorney General approved, and then set forth a slate of conditions that had to be satisfied over a period of time.

Our client went through that slate of conditions and it actually agreed and consented to the imposition of a fairly substantial amount of those conditions, all of which are contained on what is now called, "schedule 8.6."

So, the issue came up, which is, well, how do we deal with the fact that the Attorney General several months down line, as you know from the Gardens case, the process of getting approval from the Attorney General takes months.

And by the way, I should add that in the Gardens case, Strategic Global was the successful bidder following the auction. Strategic Global did step up and took care -- and assumed the DIP loan. And it was only by virtue of the AG's imposition of some very draconian conditions, that Strategic Global did not conclude that sale.

So we're all familiar with the possibility that the Attorney General can impose conditions on approval of a sale of a non-profit. So we had to confront the question of, how would we handle the possibility that the AG would impose conditions, and some of these conditions, your Honor, can be quite extraordinary, involving 10's of millions of dollars or even more. So, the imposition of these

conditions can entirely the economics of a purchase transaction.

And the Debtor, having been through -- or at least Debtor's representatives having been through this process and having seen sales fail, wanted to try to avoid that happening here.

So we spent a great deal of time trying to negotiate for the possibility, because we don't know what will happen, that the AG might impose conditions that are unacceptable to our client.

And we came up a concept, which is, that the Debtor would go to this Court and seek an order determining that what we call the "additional conditions," were considered interest for purposes of 363(f), and that the sale of assets could take place free and clear of those interests, at which point our client would then be expected to close.

The concern that we expressed at that time and the concern that continues through now, the concern isn't so much whether the Court would enter the order, because either the Court would enter the order, or if it didn't, the show's over.

The problem is that was there was nothing that addressed the possibility that this Court's order could be subject to an appellate review, and then an appellate court

could decide that, to some extent, this Court may have exceeded its authority, and that perhaps it would be more appropriate to impose conditions. There was nothing in the agreement that protected our client from the possibility that that would happen.

So, if we were obligated to close after the entry of an order of this Court, we would be entirely at risk of an appellate ruling. We would have closed the sale. We would have paid 610,000,000, or some adjusted amount. Our lender would have advanced money.

And we would be arguing about mootness and other issues, but the fact remains that there was nothing in the agreement that was a backstop. There was no legal opinion suggesting that an appellate court could not modify this Court's order. There's no indemnity. There was no bond. There's no set aside. There was no recourse whatsoever.

So --

THE COURT: I understand that risk, and I saw that. And is that any different than somebody who buys a house in bankruptcy and they don't have an opportunity to inspect the roof? You know, they don't know what's going to happen. Isn't that in the price, that risk?

MR. KLAUSNER: This price did not reflect that at all. And, you know, people who buy houses can at least get inspections, so they know going in what they are facing.

They also get title policies.

THE COURT: Not in bankruptcy. It's as-is, where-is. You don't get a chance to get your money back.

MR. KLAUSNER: Well, but you can get an inspection. I mean, you can pay. A buyer can certainly go out and hire an inspector to go and take a look at property. It may be that the court order doesn't provide warranties or guarantees or representations, but a buyer certainly has the opportunity to spend some money and allocate risk differently, or at least --

THE COURT: Well, I suspect your client probably has done the same. And has independently determined what the risks are and the dollar value of these additional conditions.

You've outlined for me a number of transactions that your client has been involved in with the State Attorney General's Office, and I'm sure it has that knowledge.

MR. KLAUSNER: It's impossible to know. The process is that an application is filed with the Attorney General. The Attorney General conducts its own review. It may even have public meetings or public hearings, and the Attorney General renders a decision.

There is no way to predict or negotiate in advance how the Attorney General will react to the application, or

what type of conditions it might impose. And the delta of the possible conditions and the costs is unquantifiable. The -- it could involve anything from earthquake retrofit to having to provide a certain amount of charity care, to having to build an obstetrical wing, to having to rebuild the facility. There is no way to anticipate or quantify the potential costs that could be involved in having to comply with AG conditions.

So, there's one of two things you can do. You can negotiate in the beginning and say, okay, let's set aside $100,000,000, and let's see what the AG does. And if it costs us a certain amount of money, we'll have a fund available, and that will reduce our purchase price, but we'll apply that money to pay, you know, these costs.

Or what we -- we didn't -- we knew we couldn't achieve that, and, frankly, we didn't want to lower our price. We thought our price was a fair price, but we have to have a backstop.

So, what we agreed to was, initially, that once the Court -- assuming the AG came out with conditions that were unacceptable. Assuming that the Debtor decided to make a motion, which it didn't have an obligation to do, assuming that the Court granted the motion, which, you know, is, certainly you don't want to prejudge what would happen, we would then take a look at the circumstances.

We'd see what we were left with, we would see what the Court's ruling was, talk to the AG. We would determine whether it made sense for us to go ahead. That's why we reserved discretion. We understood that the Court was not comfortable with the fact that we could get that far down the road and have kind of an absolute walkaway right.

So, what we have done now is negotiate something less in our discretion. And the way this will work is the following. In the event that the AG comes out with what we call, "additional conditions," meaning those that are not set forth on the schedule, and assuming that they are material, and we've defined what we mean by "material."

The Debtor has an opportunity to come to court and attempt to get the Court to determine that those conditions don't have to be satisfied because their interest in the sale can be free and clear.

If the Court -- if the Debtor decides not to seek that relief, or if the Court seeks it and doesn't get it, we have a right to terminate. We don't have to, but we at lease would have a right at that point to terminate based upon the imposition of these additional conditions.

If the Debtor is successful in obtaining that order, then we have to deal with the appeal risk, which is, again, very difficult to quantify. So what we've agreed on is that the Debtor is going to have a period of time to get

us a non-appeal -- a final no-appealable order.

If the Debtor can get us a final, non-appealable order, meaning that if there's appeal, it gets resolved in the Debtor's favor or maybe gets dismissed, at that point we will be obligated to close the transaction, as long as all the other conditions to closing have been satisfied.

So, basically, we have taken out of our hands this bat, which was complete discretion with regard to whether we go forward or not. And at this point our ability to go forward is really based on reasonable business judgment, which we think is a fair standard.

We've agreed that this Court can resolve any issue concerning the reasonableness of our business judgment. And in this way we think we have fairly and -- to all sides, sort of compromised the issue of, a, what will happen with the Attorney General, which nobody can predict.

And with all respect, your Honor, we really have no idea what the Attorney General will do in a situation like this, but we have seen them come down with draconian conditions which have killed deals. And then, secondly, we've addressed the issue of an appellate risk.

So, we think this is a fair compromise. The Debtor is onboard with it. We understand that the lenders, who are at least first in line to be getting the sale proceeds and have the most to gain by this transaction going

to forward, and, frankly, the most to lose if this transaction doesn't go forward, they're onboard with it, also.

THE COURT: And is even that backstop illusory though, at least as far as the Debtor's concerned? Because the time to get a final, non-appealable order is not something within the Debtor's ability to guarantee. It could go up to the Ninth Circuit and it could lie there for years.

MR. KLAUSNER: We've agreed on a time line, and the expectation is that the Debtor is first and foremost going to make an argument about mootness. But we did not want to be in a position, none of us did, to be in a position where our client was, had to be ready, willing and able with its financing to close a transaction two-and-a-half years from now. We couldn't do that. And nobody would know what the condition of these facilities will be in two years or whether they'll even be open.

So we, as part of the compromise, gave the Debtor an opportunity to expeditiously resolve these appeals, if there were more than one. There are mechanisms under the rules of the federal district court and the appellate court where you can ask for expedited reviews.

And in our view, the issues to be considered on appeal, primarily issues of law. And, therefore, we think,

we don't know but we think that the time line is one, if the courts are cooperative, it could be achieved.

THE COURT: All right. This is a question, perhaps, for Mr. Maizel. But what happens if you have a bidder, competing bid that says, you know what, we will -- we've been involved in other transactions with the State AG's Office, and we think we have a good handle on what they typically ask for, and we have a handle on what those cost. So, we will go ahead and give you a bid, and you can jettison 8.6. How do you quantify that?

MR. MAIZEL: Your Honor, that's an important consideration. That the Debtor will think about if -- when we're evaluating what's the best bid. I mean, if we have a party that comes in and says, we will accept -- we will offer $600,000,000, $610,000,000, $650,000,000, but we will take on all the AG conditions as currently exist, with no 8.6.

Well, that is going to be a very -- that factor will be heavily weighted by the Debtor in evaluating the bids, just as we have to evaluate a lot of non-monetary aspects, like the ability to operate an acute-care hospital, but consistency of their business plan with our charitable mission. So that if other bidders were to show up and offered that as a factor, that would be a significant consideration in their favor when the Debtors evaluate the

bids.

So that -- but to be fair, your Honor, there were no bidders at prices remotely close to satisfying the secured debt that would accept the AG conditions. That they'd had different provisions about how to deal with those conditions, but there were no bidders that came in at any numbers remotely possible for us to do a transaction, that said, and we'll do this transaction and accept the 2015 conditions.

Very smart people, both at Blue Mountain and NantWorks, who replaced Blue Mountain, labored for four years to try to make these assets work under the financial and operational constraints imposed by the 2015 conditions, and failed.

And buyers -- one of the differences between now and 2015's transaction, is that in 2015 people knew what kinds of conditions the AG could impose, what they might look like, what traditionally they imposed. But now people have had three years of actual trials to see what happens, and the marketplace reflects that, your Honor.

So there were no buyers that were willing to just come in at numbers remotely close to our secured debt that said, and we'll just do this with the conditions. And if there had been, that would have been a significant factor in us selecting a stalking horse bidder. Because we're not

unmindful of the difficulties in moving this case forward with the AG's ability to -- oversight over the sale and the impact on the marketplace.

Your Honor, you know, I just want to follow-up on a comment Mr. Klausner made about the Gardens case. Part of what concerns buyers in the market about these conditions is exemplified by what happened in Gardens. And the Court's aware of it.

But just to remind the Court, I mean, in Gardens the sale price was $19,000,000 approximately. When the Attorney General's conditions came out, they included things, they included conditions such as the debtor or the buyer had to pay the outstanding Medi-Cal claims to the State. They effectively doubled the purchase price.

The -- Mr. Klausner said that the conditions that are already binding here could increase the cost of the purchase by tens of millions of dollars. He's wrong. It's actually hundreds of millions of dollars, because the pension obligations that could be imposed as a condition are in the hundreds of millions of dollars, your Honor.

They literally could double, again, as they did in Gardens, the effective purchase price to a buyer. Under those circumstances, I don't think anyone is surprised that buyers are concerned about that.

With regard to the time lines the Court mentioned,

you know, one of the advantages to having a time line is that we will be able to use it to try to get appellate courts move more quickly. We would be able to use those deadlines to say to the court, you need to take this on an expedited basis because we have these deadlines.

And I think that, at least based on our limited experience in the Gardens case, I think the district court, certainly, and I would expect the Ninth Circuit would be mindful of those risks to us, and would take an appeal on an expedited basis.

THE COURT: All right.

MR. MAIZEL: And I'm sure there are other people, your Honor.

THE COURT: Yes. Mr. Bray.

MR. BRAY: Your Honor, I -- may I go last?

THE COURT: Certainly.

MR. BRAY: Thank you.

THE COURT: All right. Anyone else wish to be heard on the matter of imposition of the conditions of 8.6? All right. You're last.

MR. BRAY: I guess I'm last. That was quick.

Your Honor, this is a tough one for the committee. We filed the objection and everyone has zeroed in on a provision that is certainly the most relevant, section 8.6. It's a very unique provision. I don't claim to be a

healthcare expert, but I've never seen anything like this in the context of a sale. As you pointed out, this is what 363(m) is for and what 363(f) is supposed to solve for.

Having said all that, I acknowledge that this is an unusual case because we have, you know, a party that has tremendous influence over the process, the Attorney General, and it's difficult to predict what they will do. We certainly hope that they do what we hope -- we think is the right thing and allow this to move forward on the conditions set forth in the schedule, but we don't know for sure. And I can't say that that's not a risk.

And the committee has been trying to balance the 363(m), the mootness issues, against the issues that the Attorney General can raise. And with all candor, it really is, we are really very much at the tipping point here.

We worked with the lenders and the Debtor to work within the confines of section 8.6 to modify it, to try to build in some court oversights over the decision-making process by the purchaser.

We've tried to put some collars into this to make it, potentially, a better structure. It's not perfect, but having said that, again, this is not -- we're not living in a perfect environment here and we understand that. And it's a question of allocation of risk.

Our concern at the end of the day is that where

this will take us is to a purchase price adjustment. And that right now the purchase price is structured where the current purchase price, when you work through a very rough analysis of value allocation, unsecured creditors stand to recover an allocation, or some value or distribution in the case based upon this purchase price.

And, of course, we have a very real concern that when the purchase price adjustment discussions occur, that unsecured creditors will be asked to bear the brunt of the reduction. First dollars out means there's less for us.

I recognize the lenders have a collateral interest and so on, but right now, we're in the money, or at least we think we're in the money. I'm not going to promise it, but that's what we tend to think. I think the Debtor thinks there's a chance of that, too. And we want to try to protect that. That's been our primary goal here, is to make sure that unsecured creditors are treated fairly and receive a fair distribution.

As I've said since the first hearing in this case, we believe it's appropriate at the proper place and time for there to be a reckoning or allocation of relative benefits and risk. The Court had its view with respect to surcharge, and I respect that. And that is what it is. But if the day does come when the Debtor comes before the Court on a motion to modify, probably reduce the purchase price, if SGM is the

successful bidder, we will be before you asking you to consider who's bearing the brunt of the allocation of the purchase price, and if there shouldn't, in fact, be some equitable allocation of the relative pain being borne there as part of the Court's decision to allow or not allow the deal to go forward on a revised purchase price. That's our primary focus right now.

As the Debtor has said, we've done what we can -- and I know I'm repeating myself a little bit, too, to belt-and-suspenders the other provisions. At this point in time I don't think there's anything more that we can do. The administrative burden on the estate every day we operate the case is, it's a lot. It makes sense to sell these hospitals as quickly as we can.

You raised the excellent point, what happens if there's an auction and we have another bidder who doesn't have a section 8.6 like provision? We hope that's the case, and we hope that's the case, and we hope it's a good purchase price.

And the committee's one of the consultation parties, and I suspect we would lobby hard for that offer to be accepted. You'll have to weigh different factors, but we would consider that to be a very significant factor. Maybe there will be a fight about that, maybe there won't. I believe the Debtor when they say that they believe that

that's a significant issue, too, and it will be factored into the decision-making process. That may be a pleasant problem to have. I hope that we're there.

At this time it's -- I think we would like to see the auction proceed and let's see what happens. But, again, we have very significant concerns about whose ox will be gored when the actual closing time comes.

And we just hope that the Court is mindful of how the process is playing out, and where that risk is being shifted as part of this process. That's for another day. We're not asking you to rule on that today. We've had our discussion with the lenders about that. They know exactly how we feel about this, and there may well be a fight about it down the road. We'll see. But that's where the committee is.

I think that the deal is not going to be improved with SGM at this point. In terms of section 8.6, this is the best we're going to do. And unless you have any questions, your Honor, I think that's what we want to say about it.

THE COURT: All right.

Anything further on that?

MR. MAIZEL: Sorry, your Honor, to belabor the point. First of all, we're mindful of our fiduciary duties to the creditors. We -- everyone on my side of the table is

mindful of our obligation to -- the unsecured creditors, to try to maximize recovery. We're also mindful of our obligation to the patients. We're balancing a lot of balls in the air in these transactions.

And just to -- if there's any question we'll put it on the record here now. If there's a material modification in the purchase price, not consistent with some adjustment mechanism already built-in to the asset purchase agreement, we would not consider doing that without coming to court.

THE COURT: All right.

MR. BRAY: Your Honor, I do want to make one further comment. I apologize.

THE COURT: All right.

MR. BRAY: There was also a reference by the Debtor and to SGM, to the pensions and the collective bargaining agreements and the impact they have on the process.

Our lack of objection to going forward today should not be considered to be an agreement or acquiesce to what happens to the pensions or the CBA's. Our position on that is, the Debtor has a statutory burden. With respect to those obligations under the code, the Debtor has to meet that burden. And to us, that's a separate issue from going forward today.

THE COURT: All right. I think that's correct.

All right. If the matter is submitted, then what I'm going to do is lay out some thoughts of the Court.

It does appear that the earlier version of 8.6 did allow the stalking horse bidder simply to walk away from this deal unfettered. And that was principally the Court's concern.

And I think this, the negotiation yielded a significant amendment to that paragraph, such that it I think ameliorates the Court's concerns with respect to it. And so it may be approved as part of the stalking -- the bid procedures and the APA.

I understand that from the Court's fairly recent experience with state agencies and the imposition of conditions, and I won't get into whether they're draconian or not, or whether they're part of a statute or not, whether they're supported by statute. No need to get into that now. But it is very clear that there is a review process that may yield conditions that make the deal untenable, simply from an economic point of view.

And that there needs to be some sort of backstop, as Mr. Klausner alluded to, in order to make clear that the bidder here is not operating in free fall during a period of time that the matter is up for appeal.

I still have my concerns with respect to the

length of time that's been negotiated here. I don't know if it's realistic, but I know that certainly there will be the many constituencies that will arguing to the appropriate tribunal that it should be taken on an emergency basis.

Of course, many tribunals, I've been accused of that as well. We'll say, that's your problem, that's not my problem. But I think that it is a very different animal when we're talking about people's lives and livelihoods at stake. And so I think that would certainly be something that a court would take into consideration.

All right. So that's the Court's ruling with respect to that objection.

MR. MAIZEL: Thank you, your Honor. That brings us to the next, which I viewed as second key issue with regard to the tentative, and that's with regard to the breakup fee.

So the original breakup fee in the asset purchase agreement was 3.5-percent. And we have read the Court's tentative. We -- there was a lot of discussion of that. The secured lenders, the buyer and the Debtor would ask the Court to agree to a breakup fee of $20,000,000, which is splitting the baby in half, your Honor.

The asset purchase agreement was 3.5-percent. The Court's directed three-percent. Of the $20,000,000 flat fee is effectively 3.25-percent. And I'm not sure where the

committee is on that, but I do believe the secured lenders, the Debtor and the buyer would ask the Court to reconsider its tentative on that regard, and allow a $20,000,000 flat fee breakup fee.

THE COURT: All right.

Mr. Bray.

MR. BRAY: Your Honor, this is one where we weren't aware that they'd split the baby. I'm not, you know -- we prefer the Court's tentative on this one. We thought three-percent was a generous breakup fee under the circumstances.

This ties into my previous concern that, where the ultimate pain is being borne in terms of reduction or value, this is, you know, respectively, comes from potential unsecured recoveries. And we think three-percent is appropriate. It's supported by the case law. It's supported by the arguments of the bidder themselves. And that under these circumstances, that we would ask that the Court stick with its tentative on this one.

THE COURT: All right. Anyone else wish to be heard?

Mr. Klausner.

MR. KLAUSNER: Thank you. So, your Honor, I don't think it would be committing error in limiting the breakup fee or approving the compromise, but we did make a

compromise in good faith after having seen your tentative.

The goal of all of our negotiations has been reached -- has been to reach consensus, and not to reach consensus and then have our consensus changed, unless we had agreed to something that was unreasonable.

The standard really for breakup fees is whether something is within the reasonable business judgment of the Debtor. That's the Integrated Resources case. And I don't think there's a fair argument that the 3.5-percent wasn't in the reasonable business judgment of the Debtor. And, clearly, the compromise of about 3.25-percent is not unreasonable.

In your tentative you did make a couple of points that I want to address. Now, one is, the concern that always exists that the breakup fee is simply part of a package that needs to be overbid. So that there is the issue of, well, is there going to be a chilling of overbidding or spirited competitive bidding?

I think we're dealing with, from a fractional standpoint, a very small amount of money that really ought not to have any impact on a competitive bid. By the time they get finished with our opening bid, the copying fee, the breakup fee, whether it's two-point -- $2,000,000 or eighteen-and-a-half-million dollars, I don't think it's going to have any impact on bidding. And, indeed, I haven't

seen any evidence presented to this Court that a $20,000,000 breakup fee is going to have any effect on bidding, as opposed to an eighteen-and-a-half-million-dollar bid or a $23.5 million breakup fee. So, there's really no evidence that this is going to chill bidding.

Also, the Court mentioned the fact that our client was involved in a 2014 prospective transaction. Our client never did go forward. There was never a signed agreement. But the Court is correct. And as the parties have pointed out, our client was around in 2014.

And I'm assuming that what the Court was indicating was that, to the extent that a purchaser is really being compensated for a lot of due diligence and a lot of evaluation and hiring experts and third parties and financial advisors, that obligation would have been less four and half, five years later than it was in 2014, because we had already done some work.

There's really no evidence of that. And all the evidence is that there's been an enormous change in these facilities in terms of their financial condition and their deterioration. And it really did warrant a complete revamping of due diligence. It was nothing that could be relied on from 2014.

But even more importantly, the purpose of a breakup fee, and the purpose of having a stalking horse, the

idea is to create an incentive for somebody to step forward and make a commitment to the estate. To actually sign a contract and to put up real money, and to agree to purchase assets. That's the reason why you reward the stalking horse purchaser. Otherwise, you could go to an auction and just have chaos.

But having somebody step forward who signs an agreement in our case, putting forth $30,000,000, making a contractual commitment of $610 -- if I said 30,000, I'm sorry. Thirty-million-dollar deposit, $610,000,000 purchase price, that is a significant commitment. That means that our client has to forego other opportunities.

Indeed, we've been raked over the coals because our client apparently took the position in another case where it was going to be a competitive bidder. That three-percent should be the maximum.

Well, indeed, what happened in that other case is, the Promise Healthcare case, where our client was going to be a competitive bidder, our client concluded that it really couldn't manage the purchase in that case at that time and this purchase, and they decided not to go forward.

And the point being that in order to go forward with this transaction, our client has an ongoing commitment, not just to the Debtor, but the need to engage professionals, the need to do ongoing due diligence, the

need to be meeting with the unions, suppliers, lessors, the insurance companies, working through the whole AG process. This is an enormous undertaking. And having a credible buyer in front of you who's made a contractual commitment is really a very important event in this case.

So, part of what's doing -- what you're doing with a breakup fee, is you're rewarding somebody to come forward and do that. As Mr. Maizel said, nobody else has come close to what we're doing.

And I think the final point I would make is, that the breakup fee was a negotiated term. It wasn't something that we imposed. It wasn't done unilaterally. It was negotiated. It was part of a whole series of compromises. And this agreement reflects a lot of give ups and a lot of concessions and capitulations on the part of our client.

The reps and warranties in this case are very thin. There's no condition of having financing. If our financing doesn't come through we're in breach of contract. There's no adjustment if the business deteriorates. We have put at risk $30,000,000.

We've agreed to a slate of conditions that have been attached to our agreement. There are many issues that we fought over and lost in the negotiation. So, to take one, to sort of cherry pick one or two and to change them, it's just fundamentally changes the balance.

Having said that, I think what we've done now is make a compromise with the Debtor. We've reduced our request for breakup fee. I think it's a fair request. I think the difference between what we asked for before and what we're getting now, it's a significant amount of money that we've given up. It's not far from where the Court was. So I would ask that you approve it as a reasonable exercise of the Debtor's business judgement.

THE COURT: All right. Thank you.

Mr. Bray.

MR. BRAY: Your Honor, Mr. Klausner's an excellent advocate. Much of what he said there's no factual support in the record for.

I -- it was interesting, but a lot of it I would move to strike. It was factual in nature. And there's no declarations that backup much of that argument.

I, you know, I didn't want to interrupt in the middle of it. Some of it's argument, but it's interlaced with so many facts that aren't before the Court. And it almost akin to an oral 9019 motion, that I don't think it's appropriate to be considered today.

If the Debtor wants to file a 9019 motion and seek to compromise on the breakup fee, I guess they can do that and we'll address it, too.

In connection with the Santa Clara sale, we filed

the declaration of Cynthia Nelson (phonetic), who was very clear that these breakup fees can chill bidding, and the Court can certainly take judicial notice of that. You recognized it in your tentative ruling.

And the three-percent was, frankly, high, based on the comps, given the size of the transaction. That's what the Court's tentative focused on, was the size of the transaction and the breakup fees that are appropriate with respect to the size of the deal, and three-percent was on the high side.

So, while I understand people make deals and compromise, and I understand that. If you want to file a 9019 motion, do that and we'll oppose it. But, otherwise, there's nothing before the Court in terms of the record that would warrant an adjustment of the tentative with respect to what the law says is the appropriate breakup fee in a transaction of this size under these circumstances, again, in light of SGM's own statements.

THE COURT: Well, isn't it no so much that the law determines what the appropriate breakup fee is, but that there is some legal justification for the business judgment, that in those cases three-percent, but it doesn't mean that three-percent is written in stone as far as the law is concerned.

MR. BRAY: The code provides that the Court must

approve the breakup fee. Whenever the Debtor wants -- the Debtor has the right to exercise its business judgment. The Court acts as a check on the Debtor's business judgment, especially on economic issues.

And this is one of those issues where every court has recognized it has the right to not only look at but to overrule and amend, modify the client to approve whatever words you want to use, the Debtor's decision there. This is not where the Debtor -- this is not an ordinary corporate decision. It's much more akin to an out-of-ordinary-course transaction.

And this is the type of a situation that every court that has addressed the issue has said, I have the right to look at this issue and independently review it. Of course the Debtor's decision-making process is relevant, I grant you that. But if that was the standard, then I don't think you would ever see a breakup fee reviewed and disapproved by a court, and we know it happens all the time. We cited to you in our brief a number of precedents where the court has determined what the appropriate breakup fee is.

So, yes, some deference should be paid, but is it to -- does it override what you believe's appropriate under the circumstances? No, it doesn't.

THE COURT: All right. Thank you.

Anything else?

MR. MAIZEL: Your Honor, a couple things. I don't think we need expert witness testimony to suggest that a million-dollar difference in a $600,000,000 transaction is not material and would not chill bidding.

I cannot believe that the Court cannot, using its experience as a bankruptcy judge, and in the experience as a human being, evaluate that a million-dollar difference will not make a difference in people who are bidding $600,000,000 for assets.

I -- it is also my recollection that there was testimony in the Cain Brothers' declaration about the breakup fee, but I confess, it may have been in connection with the Santa Clara deal, and not here.

MS. MOYRON: It's actually in connection with this deal that's right here. It's Carsten Beith's (phonetic) declaration.

MR. MAIZEL: Thank you.

MS. MOYRON: (Indiscernible.)

MR. MAIZEL: So, this is paragraph 11 of Carsten Beith's declaration, your Honor, where he says specifically:

> "I believe that Strategic Global Management would terminate the stocking horse bid if it did not have an adequate breakup fee. And they actively and

vigorously negotiated for a breakup fee."

So, there is some testimony in support of the breakup fee.

And the other -- the last thing I'd say, your Honor, is with regard to the business judgment. It is not an independent decision. With all due respect to the Court, the case law is clear that the Court's review of business judgment -- this is a business judgement of the Debtor. And in that context, the Court is supposed to give some deference to the Debtors.

So, it is simply not correct to say that the state of the law is that the Court looks at this without regard to the business judgment of the Debtor, or that the Court makes a de novo review. It's not what the law is. The law is that the Court is supposed to give some deference to the business of the Debtor.

And this was, as Mr. Klausner said, the result -- as you can imagine, in the context of a $600,000,000 deal for very complicated facilities and complicated business structure, that this was heavily negotiated in conjunction with a lot of other points. Thank you.

THE COURT: All right. Thank you.

Having heard argument, I think the 3.25 offer that was articulated by Mr. Maizel and Mr. Klausner, is

appropriate under the circumstances in the reasonable exercise of the Debtor's business judgment. Given that it negotiated the 3.25 rate and negotiated that down further. So I think it's appropriate at this point and reasonable.

MR. MAIZEL: Thank you.

THE COURT: All right. What else do we have? A number of matters that were originally on calendar I think have fallen off.

MR. MAIZEL: Your Honor, so there's some housekeeping things. So, with regard to an issue raised on behalf of one of the prospective bidders, the clarification that apparently in the bid procedures order there was no date specified for parties, including the stalking horse bidder, to designate executory contracts that would be assumed. And we've agreed, the parties have agreed to a March 22nd, 2019 date for that.

MR. KLAUSNER: I actually believe that there was a date, but that it was a certain number of days in advance of the auction. But we have agreed to the March 22 date, which is in advance of an earlier date, then that had been agreed to.

MR. MAIZEL: Thank you, your Honor. The other, I believe one of the other issues the Court ruled on was with regard to Cigna and United Health's objection, and the Court approved the language.

Debtor's fine with the language laid out in the tentative, but would just make clear for the record that where it refers to the "provider agreements," it is referring to -- there are other kinds of contracts between the parties and the Debtor. And that we're talking about here are contracts, payor contracts for the provision of health services. And those are unique because of the notice requirements to the patients who are receiving treatment.

THE COURT: All right.

MR. MAIZEL: And that was counsel for United Health, your Honor, just to make clear. I mean, the Court did rule against it, but the Debtor is willing to include United Health in the language, the same language -- the same rights it gives to Cigna it will give to United Health.

THE COURT: All right.

MR. COCO: Good afternoon, your Honor. Nathan Coco again on behalf of US Bank as notes trustee.

I just wanted to note for the record that the 2015 notes trustee and the 2017 notes trustee has discussed language with the Debtor's counsel for the proposed form of order that conforms it to language that is in the Santa Clara order approving the bid procedures. And it's in paragraph 26, and it just incorporates by reference the provisions in the DIP financing and cash collateral order, which addresses how sale proceeds are to be handled and

segregated, what have you, and makes it clear that pre-petition liens and security interests attach to the proceeds with the same priority and to the same extent and validity.

And so that language was missing in the proposed order initially. My understanding is that the Debtors intend to include it in the proposed order here, and we just wanted to make the Court aware.

THE COURT: All right. Very well.

MR. COCO: Thank you.

MR. RICOTTA: Your Honor, on the score of the bidding procedures order -- Paul Ricotta on behalf of the master trustee and the bond trustee. We've also had a discussion with the Debtor's counsel earlier about changing the bidding procedures order because it was inconsistent with the bidding procedures itself, namely, there was a provision that stated that, "qualified bidders would be designated in consultation with the committee."

The bidding procedures that have been agreed upon with the committee and all the other secured parties state that the qualified bidders will be designated by the Debtor in consultation with the consultation parties, which means the pre-petition secured creditors and the committee.

In addition, there was a provision in the bidder procedures order that specified that the designation of the winning bidder will be made by the Debtor in consultation

just with the committee. Once again, all the parties have agreed that the designation of the winning bidder will be made by the Debtor in consultation with the, once again, consultation parties.

So, in addition to what Mr. Coco said about the changes with respect to the deposit and handling of the sales proceeds, I also just wanted to make clear to the Court that we've had these discussions with the Debtor, and I don't believe that they are controversial, since they are now consistent with the actually bidding procedures themselves.

THE COURT: All right. Thank you.

MR. MAIZEL: Your Honor, I was going to sort of do it at the end, but, yes, we lodged -- we filed an order, draft order, for the parties to see earlier this week. We have been in negotiations over terms of that order. They're all consensual at this point.

We will, obviously, after the hearing and consistent with the Court's rulings, I know there are still matters to be addressed by some of the parties here, we will lodge an order. We will file a clean copy of that order and a version showing the track changes for parties to see the changes that have been made in the order. And that will be filed, as opposed to lodged, and that will be filed to show the track changes, so the parties will be able to see what

changes were made in the order, compared to the order that we filed earlier this week.

THE COURT: All right.

MR. MAIZEL: And Ms. Moyron reminded me that the March 22nd date for the designation of contracts, only applies to the stalking horse bidder. There is a separate date for partial bid submission, and they would be expected to submit it, their designation in conjunction with their bids.

THE COURT: All right.

MR. MAIZEL: So the March 22nd date only applies to -- we'll -- when we submit a time line, your Honor, with the order, the bid procedures will have a time line, and I'll include that.

THE COURT: Yes. Thank you.

MR. MAIZEL: And, your Honor, I know there are --

THE COURT: I'm sorry.

MR. MAIZEL: I believe there are other parties here.

THE COURT: Yes.

MR. KOHANSKI: Good afternoon, your Honor. Joe Kohanski for UNAC. I want to pick up on some points raised by the creditors committee with respect to issues coming down the pike. The -- first of all, UNAC certainly comprehends the difference between a 363 sale and the 1113

process for rejection or modification of the CVA, but they do overlap with respect to the flow of information and interchange.

UNAC has not argued, for example, that rejection under CVA must occur prior to an APA or some of the other arguments that have been made by some of the unions. But we feel very strongly that there should be some way to sort of harmonize the flow of information amongst the stalking horse, the Debtors and any alternative bidders.

I don't want to characterize, you know, some of the conversations or materials we received from the Debtor so far, but I will -- they concern me greatly with respect to being inconsistent with the very basic polarity of the 1113 process, in the sense of the company comes to the union with a proposal. And other than that, we'd actually had a bit of discussion with the Debtors about, perhaps, elevating UNAC to a consultation party.

To be clear, we have no wild idea that this is going to shape what happens with the basic economics of the case, but we see it as an avenue to making sure that we do have direct contact with the various people who may become our counter-parties and our bargaining parties and our people's employers, depending on who purchases the asset.

THE COURT: All right. Let me explore that just a little bit. In terms of information, what types of

information and when do you want that information?

MR. KOHANSKI: Well, it's really, you know, that's the process logic for the Debtor to manage in terms of the Debtor's obligation to come to the unions first with a proposal. And I understand that could be difficult because they have a stalking horse and alternative bidders at the same time.

But, again, we're looking to find a way to make sure that we're not looking at a situation where information is clustered solely at the Debtor level. We are not dealing directly with the potential counter-parties. Information is, you know, getting confused accordingly.

And on top of that, it just becomes potentially a race to the bottom to the extent that you could have the Debtor filtering information coming from potential counter-parties, and we just get this cumulative effect of everybody piling on with respect to economic changes, which may not even be justified in the first place.

THE COURT: All right.

Mr. Maizel.

MR. KOHANSKI: Maybe a few minutes in the hallway might be a useful vehicle, perhaps, to get this sorted out. Or maybe Mr. Maizel wants to speak to the issue, I honestly don't know, your Honor, but --

MR. KOHANSKI: -- this is a continuing issue.

THE COURT: All right.

MR. KOHANSKI: And it will come back in the 1113 process, most certainly.

THE COURT: Well, I expect that's correct. On the other hand, I wonder if it makes any sense to have information, or the flow of information, go to constituencies that don't have a direct impact on the bids and the analysis and weighing of those bids.

And so I wonder if we have that type of information go out, whether that could enure to the detriment of the bidding process, and eventually just hurt the bidding price, ultimately.

MR. KOHANSKI: Which is an issue we're sensitive to as well. We certainly don't want to walk into -- create a problem that way. And, of course, we would be doing confidentiality agreements. But --

THE COURT: All right. Well, the best I can do at this point is to encourage some talks with respect to that. But if it comes down to a motion, then I'll have to hear the motion. But at this point I think we'll just leave it as it is.

MR. KOHANSKI: Thank you, your Honor.

THE COURT: Thank you.

Anything further? Yes.

MR. MARGULIES: Good afternoon, your Honor. Craig

Margulies with Margulies Faith, on behalf of Hooper Healthcare Consulting.

My client, just provided some context -- and I think during the break we may have resolved some of our issues, but this may be an issue that comes down the road. So I just wanted to address the Court briefly on this.

They provide consulting services to the hospital to help the hospitals obtain Medicare and Medi-Cal benefits, and increase those benefits. For example, on the qualified assurance funding that is one of the major assets of the sale, they increased the benefit by about 16,000,000. So my client's fees associated with that additional benefit.

The question that we raised in addition as to this bidding procedures motion, and the sale motion in general, is that it's vague as to where that fee is being paid. And we thought it was to the benefit of the bidders to be aware that there may an issue as to who is obligated for that payment, whether it's the Debtor or a successful bidder.

And the objection was that we don't know who the successful bidder is yet, so this not a bidding procedure issue, it's a sale motion issue. And our position is that it's not necessarily just a sale motion issue, because it's more an issue of timing, because the payments that come from the Medicare and Medi-Cal payments will straddle a closing date. So some of the payments may come in before the

closing, so who's going to pay the fee? And some may come in after the closing, so who will pay the fee?

I think we may have resolved this issue, but my client's fee is about half-a-million dollars associated with the qualified assurance funding, that is part of the asset sale. And then there's an issue with services that my client is providing ongoing to make sure that those funds come in.

So, there may be an issue that it's an administrative claim, and that may come up before the -- or in connection with the sale motion, to try and address who's paying those fees.

But with all that said, I think we may have a deal that was reached in concept over the lunch hour. So, we may not have to have your Honor rule on anything down the road, but I just wanted to raise it.

THE COURT: Good.

MR. MARGULIES: Thank you.

THE COURT: I appreciate that.

MR. MARGULIES: Thank you.

THE COURT: All right. Anything else? Anything by telephone? All right. Very well. Then I think we're done for today.

MR. MAIZEL: Great, your Honor. There were items 11, 12 and 12.2. They're either vacated or continued? Our

next hearing I think is next Wednesday?

THE COURT: Right.

MR. MAIZEL: Otherwise that's all the Debtor has for today, your Honor.

THE COURT: Very well. If you can lodge the orders then.

MR. MAIZEL: Thank you, your Honor.

THE COURT: Thank you very much.

MR. MAIZEL: And you again for the Court's patience.

ALL PARTIES: Thank you, your Honor.

MR. YANT: Your Honor, this is Ryan Yant on behalf of St. Vincent IPA.

THE COURT: I'm sorry. I heard somebody on the telephone. Yes. Go ahead.

MR. YANT: Your Honor, this is Ryan Yant on behalf of St. Vincent IPA and Angeles IPA. We did have a minor objection to the sale motion that, unless we're continuing it, I'd like to discuss it.

THE COURT: All right.

MR. YANT: So, your Honor, there are two significant points that I'd like make up front. First is, our objection has nothing to do with the cash management system. As you recall, we entered a limited objection, just simply stating that we wanted the language added to the sale

motion order.

So, one, our objection has nothing to do with cash management system. This is a red herring, and our request for relief would have no impact on this in any fashion. We do not propose or seek any additional segregation of funds beyond what is already required, and my point is --

THE COURT: Before you go any further can -- I'm not sure we got your appearance very clearly because people were packing up. So, why don't you state your appearance again, please.

MR. YANT: I'm sorry, your Honor. Yes, sir.

THE COURT: Go ahead.

MR. YANT: J. Ryan Yant on behalf of both St. Vincent IPA, the IPA for St. Vincent Medical Center, and Angeles IPA, that serves that role at St. Frances.

THE COURT: All right. Thank you, Mr. Yant. Go ahead.

MR. YANT: So, your Honor, I guess I'll briefly recap what I said. So we have two main points up front that the Court needs to be aware of before I proceed a little bit further.

So, one, in your tentative ruling, and also in the Debtor's response to our objection, there's a mention of the cash management system and how it's infeasible to change anything. Up front, we are not attempting to alter or

change how the cash management system works in any way. And what we are requesting doesn't touch on those. So, I think there may have been a misconception of what we're asking for.

Two, not only is this a very important issue for my two clients, both from a monetary and from a practical standpoint, but this issue potentially affects all creditors subject to the cure issues upcoming.

So, what is the issue? Broadly, we simply want to ensure that the funds are available to fully satisfy a contested cure claim amount once these claims are finally adjudicated.

Reviewing the sale motion doesn't actually do that. So in paragraph 59 of the sale motion it states in pertinent part that:

> "The Debtor shall segregate from the sale proceeds any disputed cure amounts pending the resolution of any such cure amount disputes."

Cure amounts is a cap-like term, and that term itself is defined in paragraph 56, which states that, "the cure amount is the amount, if any, that the Debtor believes are owed to each counter-party."

So, by taking a literal reading of the sale motion, this states that Verity is going to segregate the

cure motions as they deem appropriate, but they're not -- or the sale proceeds that they deem appropriate for the cure, but not what a counter-party may assert.

And almost certainly a counter-party is going to assert a higher cure amount than Verity does. So, there's going to be a gap there that, under the express terms of the sale motion, isn't accounted for.

So, for instance, if Verity asserts that Angeles IPA is owned $1,000,000 for a cure, but our records reflect $2.5 million, under the express terms of the sale motion, Verity's only going to make sure that $1,000,000 stays in the account pending resolution of our cure issue.

So there's potentially $1.5 million that we, if successful, would be entitled, that may or may not be in the bankruptcy estate and in that account when it comes time to pay us. When everything's finally adjudicated.

So, we've reached out to Verity and we tried to get some clarity on this, because I don't know if this is potentially the way it's written or not. We have not gotten any feedback, except for that they will only confirm that the cure amounts will be on hold, to the extent that they believe that they're owed.

But, Judge, what if Verity's wrong? What if, ultimately, after reviewing everything, you determine, yes, creditors such as us are owed more than what Verity asserts?

So, we just want assurance that those funds will continue to be retained.

You know, allowing Verity themselves to dictate and arbitrate -- or to dictate what is held on behalf of these potential cure issues, is almost a de facto determination of what these issues and amounts are, assuming that ultimately you're going to need to decide.

So, with our particular clients, the difference between what Verity believes is necessary to cure and what we believe the cure amount is, will likely be significant. It's most likely going to be someone where in the seven figures for both clients.

And we know that because, traditionally, prior to bankruptcy, that's always been the case. So, every year with our two clients there's a final adjudication on what that particular calendar is for what's owed, and it almost always is around $1,000,000 or a little bit more than that.

So, compound the issue, it normally takes well over a year after the close of that particular year before there's actually a final adjudication and there's a final agreement on what is owed. So, for instance, the 2015 amount that's due to St. Vincent IPA still is not finally decided, and we're several years down the road.

So, assuming that the buyer wishes to assume our contract, you will likely have a substantial discrepancy

between what Verity believes the cure amount is and what we believe the cure amount is. Those discrepancies by their very nature take months, if not years, to decide.

And Verity, from the literal reading of the sale motion, has not committed to ensure that the full potential cure amount is available once there's a final adjudication down the road by your Honor.

So all we ask is that Verity retain the full, potential cure amounts that are alleged by the counter-parties for all creditors, not just the IPA's that we represent. So that if Verity is wrong, and if creditors, such as ourselves, are truly owed more than Verity asserts, those funds have not been spent or paid out, and those creditors are not left holding the bag at the end of the day.

THE COURT: All right. Thank you.

MR. YANT: Thank you, your Honor.

THE COURT: Mr. Maizel.

MR. MAIZEL: Well, your Honor, first of all, if you look at the objection filed by St. Vincent IPA, it asks for two forms of relief. One, that we pay, the Debtors pay in full the undisputed portion of the cure amount at the time of closing of the sale, which I think we've agreed, we will do already. So, unnecessary relief.

And the second part is, segregate the disputed

portion of the cure amount based on the cure amount set forth in the assumption objection of the counter-party. Well, they -- it's interesting because that's in paragraph five.

In paragraph four of the objection filed by St. Vincent IPA, they quote the Debtors as saying -- the sale motion as saying:

> "The Debtor shall segregate from the sale proceeds any disputed cure amounts pending the resolution of any such cure amount disputes by the Court."

So, they quote the language of the Debtor's motion saying, "the Debtors shall segregate from the sale proceeds any disputed cure amounts," which we think is pretty clear on its face.

In any event, the DIP order requires us to segregate the entire sale proceeds pending further determination of the resolution of the distribution of those funds.

There are going to be plenty of money on hand, your Honor. The Debtor's already provided to segregate disputed cure amounts. We'd ask the Court to stick with its tentative and deny the objection.

THE COURT: All right.

Anything else, Mr. Yant?

MR. YANT: Your Honor, if I may respond to that.

THE COURT: Yeah.

MR. YANT: Yes, your Honor. So, I understand that we did quote from the sale order, but I am -- I acknowledge that. But the sale order itself is unclear, and that's the whole point. It has cure amounts in the expression that was just quoted by opposing counsel that says, cure amounts -- capital:

> "Cure amounts is defined in paragraph 56 as amounts, if any, that the Debtor believes are owed to each counter-party."

So, therefore, based upon its own statement in its own motion, it's whatever the Debtor believes is what the cure amounts is. That is the issue.

The other issue is, there is a very long lag time, particularly for my client, where there's a final adjudication on what we're owed. That will likely be the case here.

I don't think anyone here believes that these cases will be viable, running companies that are operating as debtors-in-possession a year and a half from now, when these issues may finally be determined for my client.

So, are they going to hold money until that time? Are they not?

THE COURT: Well, I think the answer is this. When we get to a sale, if we get to a sale, the Debtor will have x amount of dollars, in which case you could renew your objection and -- as far as the disputed amount of the cure is concerned, and then we can hear it at that point.

But at this point, how we're going to treat a disputed cure amount when we don't have any funds with which to pay cure amounts at this point, I think is premature.

So I understand your concern. I understand that you want to try to get the mechanism right, and I think -- and I share that as well. But I think we should do that within the context of a bank account that has money that could potentially fund the cure amount that is agreed upon, and any disputed amount. And we can, I think, fashion a mechanism that would address that concern.

All right. Thank you very much.

MR. MAIZEL: Thank you, your Honor.

ALL PARTIES: Thank you, your Honor.

(Proceedings concluded.)

I certify that the foregoing is a correct transcript from the electronic sound recording of the proceedings in the above-entitled matter.

/s /Holly Martens — 2-19-19
Transcriber — Date

EXHIBIT "21"

UNITED STATES BANKRUPTCY COURT

CENTRAL DISTRICT OF CALIFORNIA

--oOo--

In Re:	) Case No. 2:18-bk-20151-ER
VERITY HEALTH SYSTEM OF CALIFORNIA, INC.,	) Chapter 11
Debtor.	) Los Angeles, California) Tuesday, October 15, 2019) 10:00 a.m.

HEARING RE: [3188] EMERGENCY MOTION DEBTORS' EMERGENCY MOTION FOR THE ENTRY OF AN ORDER: (I) ENFORCING THE ORDER AUTHORIZING THE SALE TO STRATEGIC GLOBAL MANAGEMENT, INC; (II) FINDING THAT THE SALE IS FREE AND CLEAR OF CONDITIONS MATERIALLY DIFFERENT THAN THOSE APPROVED BY THE COURT; (III) FINDING THAT THE ATTORNEY GENERAL ABUSED HIS DISCRETION IN IMPOSING CONDITIONS ON THAT SALE; AND (IV) GRANTING RELATED RELIEF; MEMORANDUM OF POINTS AND AUTHORITIES AND DECLARATIONS IN SUPPORT THEREOF WARNING: SEE ENTRY [3192] FOR CORRECTIVE ACTION. ATTORNEY TO LODGE ORDER VIA LOU. MODIFIED ON 10/1/2019 (LOMELI, LYDIA R.).

TRANSCRIPT OF PROCEEDINGS
BEFORE THE HONORABLE ERNEST ROBLES
UNITED STATES BANKRUPTCY JUDGE

Proceedings produced by electronic sound recording; transcript produced by transcription service.

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LOS ANGELES, CALIFORNIA TUESDAY, OCTOBER 15, 2019 10:00 AM

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(Call to order of the Court.)

THE COURT: I will call the now 11:00 o'clock matter, the Verity matters, in just a moment. I'll take appearances first by telephone. We have a number of individuals that are on listen-only mode, in which case I will not be announcing your name, but, when I do announce your name and you intend to make an appearance at the hearing, please give us your appearance.

All right. Do we have Caitlin Gray on the line?

MS. GRAY: Yes, I'm here.

THE COURT: Your appearance, please.

MS. GRAY: Caitlin Gray, Weinberg, Roger and Rosenfeld, for SEIU-UHW.

THE COURT: Thank you.

Debra Riley.

MS. RILEY: Yes, your Honor. Debra Riley with Allen Matkins on behalf of California Statewide Community Development Authority.

THE COURT: Thank you.

Kyrsten Skogstad.

MS. SKOGSTAD: Good morning, your Honor. Kyrsten Skogstad, in-house counsel, on behalf of the California Nurses Association.

THE COURT: Thank you.

Are there any other appearances by telephone of persons that will not be making an appearance this morning?

(No response.)

THE COURT: Very well. Now, in the courtroom.

MR. MAIZEL: Good morning, your Honor. Sam Maizel, Dentons US LLP, on behalf of the Debtors. With me at counsel table are my partners, Tania Moyron and Nick Koffroth.

MR. ELDAN: Good morning, your Honor. David Eldan, E-L-D-A-N, Deputy Attorney General, with the Attorney General's Office, on behalf of the California Attorney General, Xavier Becerra. With me this morning are my colleagues, James Toma, T-O-M-A, and Joseph Zimring, Z-I-M-R-I-N-G.

THE COURT: Thank you.

MR. BRAY: Good morning, your Honor. Gregory Bray and Daniel Denny, Milbank LLP, counsel for the Official Committee of Unsecured Creditors.

MR. RICOTTA: Good morning, your Honor. Paul Ricotta with Mintz, Levin, and with me is my partner, Daniel Bleck. We're representing UMB Bank as the Master Trustee, as well as Wells Fargo Bank as the 2005 Bond Trustee.

MS. RICH: Emily Rich, Weinberg, Roger and Rosenfeld, also on behalf of SEIU-UHW.

MR. BENDER: Good morning, your Honor. Ron Bender, Levene, Neale, Bender, Yoo and Brill. We're serving as counsel to the Patient Care Ombudsman, Doctor Nathan Rubin, and at the appropriate time, maybe at the end of the hearing, Doctor Rubin just has a short issue he'd like to discuss with the Court.

THE COURT: All right. Very well.

MR. RUBIN: Nathan Rubin, Patient Care Ombudsman.

THE COURT: Thank you.

MR. RUBIN: Thank you.

MR. COCO: Good morning, your Honor. Nathan Coco on behalf of U.S. Bank National Association as 2015 Working Capital Notes Trustee.

MR. REED: Good morning, your Honor. Jason Reed from Maslon, also on behalf of U.S. Bank, as 2017 Notes Trustee.

MR. WASSWEILER: Good afternoon, your Honor. Bill Wassweiler from the Ballard Spahr Law Firm on behalf of Wells Fargo as the 2005 Bond Trustee.

MR. KLAUSNER: Good morning, your Honor. Gary Klausner, Levene, Neale, Bender, Yoo and Brill, appearing on behalf of Strategic Level Management, the purchaser.

MR. PRESTEGARD: Good morning, your Honor. Kirk Prestegard from Bush Gottlieb on behalf of the United Nurses Associations of California.

THE COURT: Very well. Thank you.

The Court will make some opening comments, just to place all of this into a context. First of all, my apologies for issuing the tentative at the 11th hour. It's not our usual tendency to do that, and, in fact, we weren't going to issue any tentative at all, because I think we had -- well, I know we had some computer issues, and then we had an intervening holiday, and it made it difficult to get this out any earlier than we did.

So I apologize for that, but I anticipate that everybody is now familiar with the Court's tentative. If not, it's been posted on the Court's web site. It's available now for those of you on the telephone or in the courtroom with computer availability.

This is the culmination of this case. We have at some point a plan and disclosure statement hearing, but all of that posits that we have a sale of the assets of this case. If we don't, it makes no sense to have a plan and disclosure statement. So this is the day and this is the hour. The sale is the linchpin of the plan.

So, without a sale, there's no point to going forward, and I reiterate that because I'm not sure if all of the participants at this morning's hearing fully appreciate what that means. If we don't have a plan and disclosure statement that can be approved by the Court, then, on the

Court's own motion, or on a motion of an interested party, the Court may dismiss the case, in which case I think that that would spell a disaster for every party that is represented here this morning.

In the alternative, the Court might appoint a Trustee. That's no better, because a Trustee has no funds with which to work. So it's not the case that a Trustee would step in the shoes of the Debtor and keep the hospitals open. He or she would not be in a position to do that. In fact, it might be even worse, because that Trustee would have to hire its own counsel, and then would have to make a determination about how best to close the hospitals on an efficient basis, and it may not have the knowledge to be able to do that.

There are a number of alternatives that have been proffered to the Court, and I've read the pleadings here. One of them is that there are other and better offers that are in the offing. I take Strategic at its word that, if we don't approve a sale today that is not subject to conditions imposed by the Attorney General, that it will walk away from the deal. That's not something that the Court feels that Strategic is simply trying to obtain a better negotiating position.

I think that it's borne out by the financials of these assets. Currently, the sole lending facility for the

Debtor-In-Possession account is based upon loans by its creditors. It is the creditors that are funding this reorganization at this point. In the Court's view, that's rock bottom. You can't get any lower, because nobody else is willing to take a chance on providing any liquidity to the Debtor. So I don't think that Strategic is issuing an idle threat.

On the argument that there is another deal out there, there is absolutely no evidence with respect to any other deal. With respect to the argument that somehow the Attorney General's Office and the Debtor and the interested parties could mediate these differences, there's again no evidence presented to the Court that would indicate that that would be the case.

More importantly, throughout another set of hearings with respect to a sale to some other entity, with all of the time that would be occasioned by that, there is no money to fund the continued operations of the Debtor, which would inure to the detriment of thousands of patients, thousands of employees, and not to mention the creditors in the case.

So that's the context within which the Court issues the tentative ruling, and it is not with the idea that we should conclude that a sale ought to happen. Quite the opposite. It's after having the analysis of the facts

and the law that require that the Court find that the motion has merit, given the circumstances of the case, and that it should approve the sale with those conditions not being imposed.

All right. What I'd like to do is to hear first from parties that object and want to be heard on the Court's tentative ruling, and then we'll open the floor to the Debtor and to those that would support that tentative ruling.

THE CLERK: (Indiscernible.)

THE COURT: All right. I had a request from our courtroom deputy that, when you step in the podium, that you will again announce your appearance.

MR. ELDAN: Good morning, your Honor. David Eldan, E-L-D-A-N, of the Attorney General's Office, on behalf of the Attorney General. I do appreciate receiving the Court's tentative ruling this morning. It was extremely helpful, and I appreciate the Court's comments just now. It's an uphill battle, at least for my client. We understand that.

One thing I take away from the attorney -- pardon me -- from the tentative ruling, your Honor, is that much of the Court's ruling turns fundamentally on issues of state law, in particular state administrative law, under the abuse of discretion analysis. With the Court's permission, I

would like to defer that portion of our comments to my colleague, Mr. Zimring, who is more of an administrative law expert than I am. I'd just like to make a few general comments, and then a few comments on the bankruptcy issues.

First of all, the broad picture. The Attorney General has broad discretion, by statute, to consent to a transaction like that at issue here, or not consent to it, or consent with conditions, when nonprofit hospitals are to be sold in this type of transaction. The Attorney General reviews those transactions, as proposed. He determines if the transaction is in the public interest, and if it will adversely affect the availability and accessibility of healthcare services.

In this case, the Attorney General has been diligent and thorough in exercising that responsibility. The Attorney General's Office examined the notice of proposed transaction, which ran, I believe, to thousands of pages, held four public meetings, retained an expert who produced lengthy and very exhaustive findings with respect to each of the hospitals, considered comments from hundreds of members of the public, and communicated at great length with the Debtor and with SGM, the buyer, and then tailored a set of conditions, the 2019 conditions, to reflect what the Attorney General believed was the appropriate balance of factors in this case.

I might add that those 2019 conditions omit any obligation, any continuing obligation, for pension obligations, which is a great difference from the 2015 conditions that the Court is familiar with, and also omitted to require -- or omitted the requirement of certain types of medical services that had been recommended by the expert in light of, among other things, the contention of the Debtors that these were unnecessary and simply too expensive.

In the end, I want to emphasize, the Attorney General has consented to this sale. It's simply that, consistent with his statutory and regulatory power and obligation, he has consented with conditions, and those conditions are designed to protect the communities at issue here, to protect the availability and accessibility of healthcare in the years going forward in communities that are populated overwhelmingly by people who cannot afford healthcare or have great deal affording it, who are overwhelmingly reliant on Medicare and Medi-Cal. So I think the question is simply this. Are the Attorney General's conditions enforceable under bankruptcy law and under California law? I believe they are.

Before I get into the real specifics of that, I'd like to make two more general points about this process. Here the Debtors and the buyer struck a deal between themselves. It is a deal designed, presumably, from the

point of view of the Debtors and the creditors to maximize the sale price of the assets being sold and to maximize the return to creditors, but those parties don't have any power to bind the Attorney General in the exercise of his discretion.

What they have tried to do here, what they purport to do here, but what I submit that they don't have the power to do, is to present their deal to the Attorney General as a fait accompli, and, in essence, tell the Attorney General that, in the exercise of his discretion, he really has no discretion at all, because any condition he imposes that goes beyond what SGM, the buyer, is willing to agree to in its Schedule 8.6 is unacceptable to SGM and will kill the deal. Put simply, they don't have the right or the power to contract around the Attorney General's discretionary review powers in this case. They don't have the power to contract around his statutory obligations.

THE COURT: Well, is that what the Debtor and the purchaser did? There is no contact until the Court says there's a contract. So what they said was that "This is our agreement, subject to review by the Attorney General's Office," and then, at the conclusion of the review, there were a series of so-called "deal-breaker letters" that outlined what would break the deal. Now, I understand where you could argue that there was an attempt to contract around

that, but it was always, I think, the intent of the parties to bring that sale motion before this Court.

MR. ELDAN: Of course, and of course they would have to. If "contract around" gives the wrong connotation, I would say, simply, they struck a deal and have presented it, as I said, as a fait accompli to the Attorney General. They have said to the Attorney General, and I believe this is in multiple pieces of correspondence, that any obligation or, pardon me, condition imposed by the Attorney General that goes beyond Section 8.6, which is what the buyers agreed to accept, is a nonstarter.

Now, I may not have the exact verbiage correct, and I believe that, in the purchase agreement, the wording is a little bit more complex. The additional conditions, as they're defined in the APA, have to be, quote/unquote, "materially different" from Section 8.6. But what we get to, bottom line, is, I think, what I just suggested, that they have struck a deal between themselves, and have presented it to the Attorney General, and told the Attorney General, in essence, "You have no discretion to add any condition going beyond this, or at least not any material condition."

The other general point, your Honor, that I wanted to raise here -- and I will say that, having spent the vast bulk of my career for several decades as a creditors'

lawyer, until recently joining the Attorney General's Office, I realize that this is, in many cases, an almost heretical position to take -- is to point out that even though, in most bankruptcy cases, the goal is, or one of the primary goals is, to maximize the return to creditors and, accordingly, maximize the price at which assets are sold, the obligation and duties of the Attorney General are quite different.

The statute involved, to which the Bankruptcy Code amendments of 2005 dictate deference, imposes a very different obligation on the Attorney General. Specifically, his obligation is to do what's in the public interest, to do what's needed to preserve access to healthcare, in particular for disadvantage populations, which is clearly what we're dealing with here.

So, put simply, and as Debtors' counsel put it in an ABA Journal article back in 2011, in these cases, you have a tension, potentially, and certainly in this case, between the everyday bankruptcy goal of maximizing return to creditors and the goal in this specific type of case, involving nonprofit hospitals, of deferring to regulators who are given the power under state law to regulate the use of charitable assets in order to maximize the benefits to the community. You've got a tension between those goals, and, as Mr. Maizel pointed out, Congress came down on the

side of the regulators. It made a specific call when it enacted the 2005 amendments, and hence we go over to California state law.

Those are my general comments. Let me continue, and, as I said, I'm very grateful for the tentative ruling, because I think it shortens things. Many of the issues that I was prepared to argue today I don't think I need to argue.

With respect to 363(f)(1), the Court has made its tentative ruling, and it seems to me that that ruling turns on the question of the enforceability of the additional conditions under California law. The Court has deemed them an abuse of discretion. That is, in essence, at least by referral out to state law, a state law issue, and, as I said, I'll defer to my colleague, Mr. Zimring, to argue that one.

THE COURT: All right.

MR. ELDAN: With respect to, jumping ahead just a bit, (f)(5), the Court indicated that the charity care obligations and the community care obligations could be avoided, or sale could proceed free and clear of them, under (f)(5), because they could be, in shorthand, monetized.

I think, in the context of this overall sale, that's not the primary issue, and I don't want to take up too much time with it. Suffice it to say that, in particular with respect to the charity care obligation, your

Honor, the obligation is on the hospital to actually provide care. It is not the case that the hospital can, let us say, have some patient coming in in extremis and say, "Well, we're obligated to provide care under these conditions, but we're just not going to. We'll write a check to whoever we need to write a check to in lieu of providing that care." That's not how it works. Nobody would suggest that it does.

I understand that if one were to get to the end of the year and there were a charity care deficiency, then the deficiency amount could be monetized, and that raises, I think, other interesting questions about whether the Attorney General could be compelled to accept a monetary satisfaction under (f)(5). It's not really a debt owed to the Attorney General at all. But those are my points on (f)(5). Suffice it to say that I disagree on that point.

The last point on which the Court grounded its decision or has grounded its tentative ruling is (f)(4), regarding bona fide disputes, and there are two grounds. As the Court knows, part of the bona fide dispute found here by the Court is the contention that the additional conditions imposed by the Attorney General are an abuse of discretion under state law. As I said, I will defer to my colleague on that issue.

There's a second ground, though, for the (f)(4) finding, and it is -- let me turn to the tentative, so I

make sure I get the exact language correct. It's set forth at page 81, analogizing to the Aurora Gas case, with some references, as the Debtor made in its brief, I think, later on to NextWave, but really relying on Aurora.

It's a finding that there's a bona fide dispute about the additional conditions, because they are vulnerable under bankruptcy law as a violation of Section 525, and the reason for that, according to the Court in its tentative, is that the additional conditions -- and here I'm looking at the very last full paragraph on page 81, a line towards the bottom:

> "By conditioning the transfer of the hospitals upon the assumption of the additional conditions, which impose obligations equal to or in excess of the 2015 conditions, the Attorney General is impermissibly discriminating against the Debtor" -- or, pardon me, "Debtors" -- "under Section 525."

I have to disagree with that, your Honor, and for the following reasons. This case is very much unlike Aurora, where you had a government regulatory entity consenting to a sale of some of the Debtor's assets, but only contingent on other obligations related to completely unrelated Debtor assets being performed. I get the holding

in Aurora. I think most people would probably look at that and say, "Yes. Clearly the Court there was facing a violation of Section 525."

What distinguishes this case factually is that the 2019 conditions are not the 2015 conditions. Nobody took the 2015 conditions and simply stapled a new cover sheet on them labeled "2019 Conditions." The Attorney General instead went through an entirely new process, prescribed by statute and regulation, at the Debtor's request, to establish and review this sale transaction. The Debtor asked, in essence, for approval, but with the understanding under the law that new, fresh conditions going forward imposed on the buyer, post-sale, could be imposed.

As I said before, and I don't want to repeat too much, the Attorney General reviewed a completely new notice of proposed transaction, which ran to thousands of pages. The Attorney General engaged his expert to reevaluate -- or, I should say, evaluate afresh -- the hospitals at issue here, and that expert issued detailed findings as to each hospital. There were, as I said before, public meetings regarding each facility. Comments were taken from hundreds of members of the public.

So what has happened here is this. The Attorney General issued his 2019 conditions, and, just parenthetically, I note that the Debtors have used a term

here, "additional conditions," and counsel will correct me if I'm wrong, but I think it's clear that what the Debtors mean by that is simply the 2019 conditions to the extent that they see something beyond what the buyer has agreed to in Section 8.6. Fair enough.

The 2019 conditions, put simply, aren't the 2015 conditions. The 2015 conditions apply, have applied, historically, since 2015, to these hospitals. Upon closing of the sale, the 2019 conditions will apply to the new buyer. The 2019 conditions don't seek to simply pick up and impose old 2015 obligations onto the buyer going forward. Naturally, some of the types of conditions you see here are going to be similar.

The 2015 conditions included, for example, a non-going-dark provision. The hospitals have to stay open and offer services of certain types and at certain levels. They had to do that from 2015 going forward. From 2019 going forward, the new buyer will have to do the same. That doesn't mean that the Attorney General is somehow trying to roll forward the 2015 conditions. They've been established anew, as I said, in light of a new and distinct record.

THE COURT: Well, let me explore that a little bit --

MR. ELDAN: Yes.

THE COURT: -- given the context of, for example,

St. Vincent's, and the requirement that it maintain a licensed general acute care hospital for an extended period of time. So it doesn't sound as though it's a new period of time. It's an extension of an old period of time, based upon the 2015 previous agreement.

MR. ELDAN: I don't think so, your Honor, and counsel will correct me if I'm wrong, but, to put it in plain English and abbreviate it, the 2015 conditions said, in essence, St. Vincent has to stay open through, I believe it is, December of 2020. The new conditions, which, if they take effect, will take effect, let's say, in December of 2019, say that St. Vincent's has to stay open for five years from closing, so through December of 2024.

That's not an extension of the 2015 condition, or perhaps we're just debating semantics here, but the point is that when the Attorney General imposes a condition and says, "In light of the public interest, in light of community needs, et cetera, et cetera, this hospital needs to stay open for five years from the date of the sale," that's based on these new 2019 -- well, it's part of the new 2019 conditions. It's been established by this new 2019 analysis or record that supports the imposition of the conditions.

I might add that, you know, in the case of St. Vincent, in particular, things are meaningfully different than they were in 2015, because St. Vincent opened an

emergency room -- I believe it was in 2017 -- and that has seen a great deal of usage.

So, you know, I understand the Court may think back to the prior round of hospital sales in this case involving the Santa Clara hospitals. In that case -- and I raise it because it's quite different. In that case, one of the arguments that the Attorney General made, as your Honor pointed out in your ruling, was that the Attorney General was seeking to take the 2015 conditions and apply them, on a successor liability theory, to the new buyer in that case, and that was a nonstarter, in the Court's opinion, my point being simply that's not what we're dealing with here. We're dealing with a legally distinct matter, a legally distinct set of conditions.

It's no surprise if, given a particular hospital, a particular community, and a period of only four years between the times that these two evaluations are conducted -- it's no surprise if conditions look, in many ways, similar, but that doesn't mean that the 2019 conditions are the 2015 conditions. They're not. I think I've made my point on that. Let me finish up, briefly.

Your Honor, I certainly appreciate the portion of the tentative that calls for certification of direct appeal to the Ninth Circuit. I think it is, as the Court knows, an area of law that does not have much precedent out there.

You do have these statutes, 363(f) versus 363(d)(1) and 541(f), that create at least some tension between the two. I think it is ripe for an appeal to the Ninth Circuit. It needs to be done.

What I would ask, though, is this, your Honor. We need a stay pending appeal of the sale order. I know that the Court said in its tentative that -- I believe it was -- I don't have the page in front of me -- that SGM would not be obligated to close, at least for some period of time, and give me just a moment to make sure I'm looking at the right page:

> "SGM" -- the tentative states -- "is not obligated to close the sale unless the Debtors obtain a final, non-appealable order authorizing a sale free and clear."

My concern, though, your Honor -- and I don't know, having seen this tentative so recently -- I have not had a chance to go back and examine all the intricacies of the asset purchase agreement. My gut reaction is, I'm concerned that the Debtors and the seller might choose to close, and so I'm worried about an appeal to the circuit potentially being rendered moot. I know the Court is amply familiar with these issues of law. I won't belabor them. As I said, I would request that the sale order be stayed so

that we can really take this to the circuit in a meaningful way and have it hashed out there.

I believe those are all the points I have, your Honor, and with that, I would like to defer, as I said before, to my colleague, Mr. Zimring, who will address the California administrative law issues.

THE COURT: Very well. Thank you.

MR. ELDAN: Thank you very much for your time, your Honor.

THE COURT: Thank you.

MR. ZIMRING: Good afternoon, your Honor. I believe we have reached afternoon. Joseph Zimring, Z-I-M-R-I-N-G, Deputy Attorney General, on behalf of the California Attorney General's Office.

I have reviewed the tentative, and we do appreciate your efforts to give us the Court's thinking and the opportunity to address that. So, thank you.

What our concern is, your Honor, is that when the Court is exercising its authority here, it's doing so, or it's required to do so, as a state court would, applying state court law, and we think there are some deficiencies in how the Court has analyzed and is proposing to issue its decision along those lines. So the problem is that the Court has not approached this in a way that California law would allow, and has issued a decision that a California

court could not.

When we're dealing with a statutorily delegated instruction for an officer like the Attorney General, an elected constitutional official, to exercise his discretion in a matter of important public policy, the courts give a tremendous amount of deference to how that discretion is exercised.

The primary function of the Court's review in that kind of situation is to ensure that the procedure has been followed properly, that the agency, or the Attorney General, in this case, has gone through the process in a proper way to allow him to then exercise his discretion in the manner authorized by the legislature and the statute at issue here, and there's no question here.

No one has raised a procedural deficiency in how the Attorney General has conducted his analysis of the proposed transfer. There's no suggestion that he didn't conduct the meetings that were required by law. There's no suggestion that he didn't act within the time authorized by law, or take comments from the public, or retain an expert in an inappropriate way, and because he has acted and complied properly with the procedure, the review in such a case is very limited.

It's a fundamental precept of California law that, while the Court can require than an agency exercise its

discretion when it is required to do so, the Court cannot control how that discretion is exercised, and our concern is, that is what it appears the Court is purporting to do here.

So one of the things I would like to discuss with your Honor is, in part, the level of review and the particular code provisions we're talking about here, whether it's review under California Code of Civil Procedure 1085, which is traditional mandamus, or the administrative mandamus review that the Court has analyzed pursuant to California Code of Civil Procedure Section 1094.5.

The administrative mandamus review is not appropriate in a circumstance where there was no adjudicatory proceeding, and we've talked about this, but there was no hearing. There were no witnesses, no evidence taken, no evidentiary rulings made. There are no findings of fact.

What this was, was the Attorney General following the procedural process to obtain information, including the public's view of this, and the concerns issued by the public about the potential impact of this transaction, and, with that mind, exercising his discretion in a matter that is not just about whether or not the buyer can go forward with the sale subject to, you know, the amounts that the buyer has proposed, but it is a matter of public concern and public

impact, because it has an impact and an effect on the communities that are served by these hospitals.

So the Attorney General is in a unique position, and, again, the legislature has said this is for the Attorney General to exercise his discretion on, but you're not just looking at the specific terms of the deal. The Attorney General is making policy considerations, and the Attorney General is not required to weigh each factor equally. The Attorney General is permitted to say, "I find it more important that this hospital stays open to serve the community," and so, if this transaction is proposing to shut down hospitals, the Attorney General can say, "No. I'm going to require that the hospitals stay open longer."

That is something that the legislature has determined is within his discretion, and those kinds of considerations are not judicial considerations. Those, under California law, are quasi legislative considerations, because he is weighing the impact on the affected community, and making a determination as to what would be the best outcome for this community in order to ensure that it is not being adversely impacted, and not inappropriately losing access to these nonprofit hospitals that have been benefitted by charitable assets and all of the benefits that flow with that, including tax benefits, government grants, all of these things which render these special assets that

are irrevocably imbued with this charitable trust.

So, before those assets can be taken out of that trust for charitable purposes, and transferred to a for-profit buyer, it's appropriate for the Attorney General to review and make these determinations as a policymaker, and so the idea that you can go through this process, and then say, "Even though the legislature has determined that you, Attorney General, have the discretion to approve these transactions with conditions, in fact, in this circumstance, you actually can't" -- and that is the effect of what the Court is doing here, is the Court has taken the power to review this transaction in any meaningful way away from the Attorney General, because what the Debtor and buyer have said is "The Attorney General may not impose any conditions," and the Court is saying, essentially, "By not acceding to their wishes, by imposing any conditions under these circumstances, the Attorney General has abused his discretion," and the Court is substituting its discretion for that of the Attorney General, and, under California law, that could not happen in this context.

I do want to provide your Honor with a case that I don't think was cited in our brief, but it talks about that, in addition to the deference courts provide to agencies such as the Attorney General due to the expertise that the legislature has determined they have on these issues, it's

also a separation-of-powers issue, that the legislature, having delegated this discretionary power to the agency, a reviewing court has very limited ability to review that, and can exercise only a limited review of the agency's action, and the case I'm citing is San Francisco Firefighters Local 798 v. City and County of San Francisco. The citation is 38 Cal.4th, at page 667.

The other point I wanted to make, your Honor, with respect to how the Court evaluated the administrative review is, when the Court talks about exercising its independent judgment -- and that is a standard that only applies under the 1094.5 statute -- it's doing so in a limited way, and this is both in the text of the statute itself, but also in the cases interpreting it. The Court exercises its independent judgment in reviewing factual findings made by the agency. Here, because this was not a quasi judicial proceeding, there are no factual findings for the Court to review and exercise its independent judgment upon.

What happens after that process is, if there is a deficiency, if the agency has done something wrong, or there is not a support for the findings it's made, the Court will not then step in and tell the agency, "This is the more appropriate decision" or "This is what you must do." The Court will then remand to the agency and say, "You need to reconsider your findings in light of these rulings I've made

about the deficiencies in what you've done with this process to this point."

So, even when the Court exercises its independent judgment, it does not have the opportunity or ability to substitute its ultimate decision for that of the agency. It cannot make the determination on its own. It cannot say, "While the Attorney General consented, it imposed conditions. The Court will just consent to the transaction." Under California law, that would not be permissible.

THE COURT: Was there a citation to that? Because I don't recall seeing that.

MR. ZIMRING: So I can give you several citations. This is something we did discuss in our paper, but one of the cites is State v. Superior Court, and this was California Coastal Zone Conservation Commission as the real party in interest. It's at 12 Cal.3d 237, at page 247.

THE COURT: Okay.

MR. ZIMRING: And I believe also Talmo v. Civil Service Commission, 231 Cal.App.3d 210, at pages 226 through 228.

THE COURT: With respect to findings that assertively were not made by the Attorney General, can't one make the argument that the adoption of the reports constitutes his findings and conclusions?

MR. ZIMRING: I think it would allow the Court to make some inferences about what information the Attorney General gave weight to, and why the Attorney General made certain decisions, but there aren't any findings that the Court could exercise independent judgment on, as you would see in a typical decision or judgment issued by an adjudicatory body.

So, in this case, what the Attorney General has done is said, "I have reviewed all of the things I'm required to review. I've reviewed all of the information provided by both parties to the transaction. I've reviewed the public comments, and this is what I determine is the proper outcome." And so I think that is different.

The Attorney General's conclusions, the Attorney General's decision about what action to take with respect to the proposed transfer is different than what you would see in a typical decision where the judge finds this piece of evidence admissible, determines, "This fact happened," "This witness is credible." None of that occurs here, and so that is again another indication of why review under 1094.5 isn't proper, because it isn't practical. It doesn't work in that context. 1085 is the standard by which the Court reviews, and it's extremely deferential, because the Attorney General is making a value determination about protecting these constituencies.

I'm happy to address any other questions you have, but I appreciate the opportunity, your Honor.

THE COURT: Thank you very much. At this point, we'll move on. All right.

Are there any other constituents, first in the courtroom, that wish to be heard in opposition to the Court's tentative?

MS. RICH: I do, your Honor.

THE COURT: Very well. Can we have you come up to the microphone, please, if you will state your appearance, please.

MS. RICH: Hello, your Honor. Emily Rich, Weinberg, Roger and Rosenfeld, on behalf of SEIU-UHW, a union that represents a significant number of employees at the four affected facilities.

In our opposition, we point out that, looking at the 2017 audited financials, during which time the 2015 conditions were in effect, if you subtracted out the pension costs and the debt burden, which will be terminated in this bankruptcy case, the four facilities could be profitable going forward, and our point was that the Debtor's dire predictions that closure can be the only result of upholding the AG's 2019 conditions is not clearly true.

That was our point. Debtors responded that we had used outdated and misleading information, but we stand by

our use of the 2017 conditions -- I mean, the 2017 audited financials -- because the Debtors did not issue 2018 or 2019 audited financials, which we would have used if they had been available. We would have used the 2018, but the 2019 financials don't make sense to use, because the company is already in bankruptcy, and they are not a realistic proxy for the business operations going forward.

Looking at the 2019 financials that the Debtors would like the Court to look at, the picture of Verity Health System's business operations is distorted by abnormally high administrative costs that we can only assume are associated with this bankruptcy. For example, the total operational costs at the remaining facilities have risen by 39 percent, by $290,000,000.

As an example, the purchased services at St. Francis have increased by nearly 40 percent, or $58,000, between the 2017 audited financials and the 2019 unaudited financials, and this example underscores the need to look at audited financials from before the bankruptcy when considering what baseline operations costs are.

Debtors state that we were incorrect in backing out $33,000,000 of pension costs, and that we should have used the $17,000,000, but, according to the audited financials, $33,000,000 was the actual cash contribution for the four facilities' pension obligations. Debtors are using

$17,000,000 as the figure, which was the amortized expense, not the actual cash contribution. Using the amortized expense rather than the cash contribution does not accurately reflect how much cash is being taken out of the business.

The Debtors have made the argument numerous times before this Court that the pension and bond debt are a significant part of their inability to operate profitably, and now this bankruptcy has changed their situation dramatically. They've sold the Santa Clara operations that were accounted for $56,000,000 of their losses. They've renegotiated all their collective bargaining agreements. They've gotten rid of all of their unfunded pension debt, and any pension obligations going forward, and this bankruptcy will pay off the bond debt, yet they claim the facilities still cannot operate profitably.

UHW urges this Court not to succumb to the Debtor's dire prediction. As the UCC stated in their papers, SGM can come back to the table. They can renegotiate, they can walk away, or other people can step forward. The AG's conditions are sustainable and critical to the provision of healthcare in the affected communities.

THE COURT: What's the source of cash to keep this case going through the process that you have indicated could happen, that is, another sale or a renegotiation of the

current contract?

MS. RICH: The source of cash?

THE COURT: Right.

MS. RICH: I believe that the secured creditors will try to seek as much of their income as they can, and I don't think that they think that liquidating the four hospitals will result in a better position for them. I don't know, though, your Honor.

THE COURT: Yes. Okay. Thank you. I don't know, either.

Anyone else wish to speak against the tentative, first in the courtroom? And those who may wish to speak on the telephone, you'll have an opportunity.

Mr. Coco.

MR. PRESTEGARD: Good afternoon, your Honor. Kirk Prestegard on behalf of United Nurses Associations of California.

I'm not exactly opposing the tentative, but UNAC would like to reiterate our hope that the parties could find, notwithstanding the tentative and your opening remarks, that there is some sort of middle ground that they could reach if they were to step back and to try to reconcile their differences.

We would hope that -- we think that sort of an outcome would be better for all interested parties and

stakeholders than letting this decision -- than making a final decision on the basis of the arguments before the Court today that, no matter how it comes down, would have such a substantial impact on the communities and the employees at these hospitals, as well as the patients and people that rely on these facilities for their livelihoods and well-being. Thank you.

THE COURT: Thank you very much.

Anyone else in the courtroom?

(No response.)

THE COURT: Very well. By telephone, anyone wish to speak against the tentative?

(No response.)

THE COURT: All right. I don't hear anything there, and we'll give an opportunity to respond, then, from the Debtor, and the Unsecured Creditors' Committee, and those other parties that may support the tentative.

Counsel.

MR. MAIZEL: Your Honor, I'd prefer if the Debtor goes last. So, if there are other parties that want to speak on the Debtor's side, I'd prefer they go first.

THE COURT: All right. Very well.

MR. BRAY: Mr. Maizel caught me off guard.

MR. MAIZEL: Sorry.

MR. BRAY: Good afternoon, your Honor. Gregory

Bray, Milbank LLP, counsel for the Committee.

Your Honor, the Committee reiterates its support for the relief requested in the motion, and, of course, agrees with the tentative. One point I do want to focus on is, there was a lot of discussion about state law, and you heard that for yourself, but, be that as it may, there's one element here that's pretty clear, that's separate and independent from all of that, which is, this Court has the exclusive jurisdiction to rule under 363(f).

You have found that these are interests in property subject to that code section, and, as I understand it, that pretty much trumps everything. So I just want to refocus the Court on that one point, that, in our view, that's the linchpin here, and that's an independent legal decision that you've made irrespective of all these other issues about state law that have been discussed.

The other point I would like to turn back to is that the Court has noted that the choices here are really stark. You have a buyer that, hopefully, stands ready, willing, and able to close, with a process that was thorough, perhaps disappointing, but thorough, and we have no -- there is no evidence that secured lenders are prepared to continue to fund into oblivion, and the other only other option at this point in time would be a closure. The Committee just doesn't see how a closure would maximize

availability and accessibility to the public for healthcare. We simply don't.

That's obviously not our ultimate determination to make, but it was certainly a factor in our decision-making process when we came to the conclusion to support the sale. We also continue to believe it's in the best interests of the estate. And if you have any questions, I'll stand down.

THE COURT: All right. Very well. Thank you, Mr. Bray.

MR. BRAY: Thank you.

THE COURT: Yes.

MR. RICOTTA: Thank you, your Honor. Paul Ricotta of Mintz, Levin for the Master Trustee, UMB Bank, as well as co-counsel for Wells Fargo, the 2005 Bond Trustee.

Your Honor, I have three points that I'd like to make. I'm certainly not going to try to substitute what I would say for what the Debtor will say, but I want to focus on three points that are important to the Master Trustee, the Bond Trustee, the other secured creditors, and perhaps even the unsecured creditors.

The first thing I want to confirm, which has been alluded to several times here, is we are the parties that have been financing this case for a while. As the Court well knows, our cash collateral stipulation, at least the latest one, paid off the DIP loan. In addition to that, our

cash collateral is being used by the Debtors currently to fund their operating expenses going forward. I can tell you categorically that we have absolutely not agreed that we will provide any further funding.

On the other hand, of course, we haven't spoken with our client, and so we can't say that we wouldn't, but, just to be clear here, because it's been speculated, there is no agreement whatsoever right now to continue funding. As the Court mentioned in its tentative, the failure of this sale to go forward would constitute a default under that cash collateral stipulation, and would cut off the Debtor's continued ability to use any of that cash for operating expenses, effectively terminating the case right at that point.

In addition to that, your Honor, I would just point out, as Mr. Bray has, I think, alluded to, the cash collateral that the Debtor is currently using is actually the Santa Clara sales proceeds. So, as the Court has mentioned, we are basically funding losses. It's been said in a number of declarations this Debtor is losing over $450,000 a day. This sale needs to close. I know the Court is in agreement with that.

The Court has made comments about the fact that it will not only benefit patients, employees. Obviously, to be somewhat biased about it, of course it's going to benefit

our clients, as secured creditors, but I want to follow up on one thing concerning the unsecured creditors. If this case closes on time, on these terms, according to the information, at least, that we are currently privy to, we actually believe that there may be some excess from the sales proceeds, after payment of the secured creditors in full, to pay at least something out of the sale to the unsecured creditors. So the need to close this sale is beneficial to virtually every constituency.

The third point and the last point I want to make, your Honor, is that, in listening to what we've heard this morning from the Attorney General, and once again to follow up on what the Committee has said, it's almost as if there's a disconnect here. It's almost as if, from what I've heard, that the Attorney General was complaining that the parties, that the Debtor and the buyer, want to control the process.

Your Honor, what I've heard is that the Attorney General wants to control this process, and, effectively, this process is as if, in the Attorney General's world, it's not even in bankruptcy. There's all the money in the world. The Debtors can just continue to operate forever. They can just continue to comply with whatever the Attorney General's conditions might be.

That's not the practical reality. We've talked about a number of reasons for that, but the practical

reality, whether it's the lack of funding, whether it's the need to close, it all points to the fact that this Bankruptcy Court is the one that controls this process, and this Bankruptcy Court is the one that has to make the decision as to whether the sale satisfies the Bankruptcy Code.

Now, there is, you know, obviously, a need to review, as the Court did in its tentative, the AG's conditions, and I won't go through that. We fully support what the Court determined in the tentative, but the fact of the matter is, once again, is that it's not just a determination based upon what the AG's conditions are or are not in terms of compliance with state law.

The Bankruptcy Code overrides that. It overlays that. We all know the arguments, so it's not even an argument, your Honor. We all know that the Bankruptcy Code is the supreme law. It's as if -- when I was listening today, it's as if the Attorney General doesn't even think that this Court has any ability to even utilize the Bankruptcy Code.

So I would just make that point, and I think that the -- we believe the tentative is correct, and we fully support it.

THE COURT: All right. Thank you, Counsel.

Anyone else in the courtroom? Mr. Klausner.

MR. KLAUSNER: Gary Klausner, your Honor, for the purchaser, Strategic Level Management. Your Honor, in connection with the Debtor's emergency motion, we have submitted the declaration of Peter Baronoff, which the Debtor filed with its moving papers. We also submitted a statement in support of the sale -- I'm sorry, in support of the motion. We are prepared to rest on the Court's tentative.

THE COURT: All right. Thank you very much.

MR. KLAUSNER: Thank you.

THE COURT: All right. Anyone on the telephone that wishes to speak in favor of the Court's tentative?

(No response.)

THE COURT: Very well. Counsel?

MR. MAIZEL: Sam Maizel for the Debtors, your Honor. Your Honor, I was struck by one of the first comments you made in your opening remarks, where you said that context is important, and I couldn't agree more.

I was also struck by the Attorney General's complete refusal to address the context of this hearing or the history of these cases, and I think it bears repeating, because, while they may choose to believe that this issue comes before the Court without a history, the Court is well aware of the history of this particular set of assets, and, more importantly, it's the unrebutted evidence before the

Court. It is the evidence of record of how we got here and why this sale is before the Court today. So I'm going to take a couple moments and remind all the parties here today of how we got here.

These assets have been financially troubled for decades. The Daughters of Charity, a charitable institution, a religious order, sought to maintain these charitable hospitals for the benefit of the communities in which they served. They struggled mightily for years to find a solution that would allow these hospitals to continue to serve those communities. They failed.

Finally, by 2013, they entered into a sale process. They hired a very reputable investment banker. They searched for buyers. They finally came up with a buyer called Prime Healthcare. The Attorney General reviewed that sale, and imposed financial conditions which the buyer found so financially onerous that it walked away from the transaction and sued the Attorney General.

The Daughters of Charity, unable to find any entity which would assume financial responsibility, which would buy these assets under those conditions, switched gears, and went into a transaction with a company called Blue Mountain. Blue Mountain agreed to recapitalize the company, enter into a management agreement with an option to buy at some future point, if they could turn the assets

around. That transaction was also subject to Attorney General review.

The conditions imposed by the Attorney General were so financially onerous that, within two years, Blue Mountain, a wealthy, smart group of investors from New York, gave up. They found a billionaire named Patrick Soon-Shiong, a doctor, who had an emotional and historical connection to St. Vincent's, who was willing to step in and try to salvage the company. In less than two years, this billionaire, with all of his assets and all of his business acumen, also abandoned the effort, and they both abandoned the effort, your Honor -- it is undisputed that, in large part, the failure of the company was because of the financial conditions imposed by the Attorney General.

Faced with that history, the board of directors of Verity, determined to maintain these charitable institutions for the benefit of their communities, went through another sale process. They focused primarily on entities which would buy all the hospitals, so they would stay open, but, because of the terrible conditions, because of the conditions imposed in the 2015 transaction by the Attorney General, they also recognized that a bankruptcy transaction was required. Hence this bankruptcy case.

Despite that history, the Attorney General basically -- I think I heard the argument correctly -- takes

the position that this Court's review of its decision should ignore the Bankruptcy Code's obligations, should ignore the plenary power over assets of the estate which 28 U.S.C. 1334 gives this Court, and defer completely to the discretion of the Attorney General, and that review, even that review, the Attorney General argues, is only to the process, that this Court's judicial review for abuse of discretion is rendered, basically, "Did they check the box?"

Your Honor, I'll go through it in more detail, but I think that's the history of how we got here and where we are today, based on the Attorney General's arguments before you.

The idea that there are better offers, your Honor, is entertaining, but it is not supported by the facts. There were no better offers. The offers attached by the Attorney General to its papers could not be less binding. One of the offers attached by the Attorney General still had a 60-day due diligence period, which -- think about the financial impact of that deal, your Honor. We would have to then do another 60 days of due diligence, at the cost of $30,000,000 to the estate, because the unrebutted evidence -- and I keep saying, "Unrebutted evidence," your Honor, because the only evidence in the record here is basically from the Debtors. The Attorney General argues everything in the abstract.

The unrebutted evidence here is that 30 days' due diligence by the buyer the Attorney General purports to like, or at least relies on, that would be 30 more million dollars out of the estate, and, as we know, because we've just lived through it, the Attorney General, even though it reviewed these assets for sale in 2014, even though it reviewed these assets for sale in 2015, took the entire 135 days, and asked for more time at the end, took the entire 135 days to which it was entitled to by statute to review the sale, at the cost of approximately another 60 to $70,000,000 to the estate.

So add that to the equation of two months for due diligence, and now you've got another six months' delay, and you've just heard from the lenders about the likelihood of the Debtor surviving financially for another six months, but that is the options the Attorney General and the SEIU suggest the Court should entertain, even though the SEIU admitted at the podium that they had no surety that anyone would finance this case. But that's easy. If you're not actually trying to sell assets in a bankruptcy case, then it's easy to wave letters that people talked about what they'll do. That isn't the case here, your Honor. There are no other offers of record, and there are no other potential buyers. The Attorney General argues -- your Honor, I'm going to take this in two tranches.

One is, I want to just respond to the Attorney General's comments, and then I want to talk about some issues that we would hope the Court will address in the tentative that were not addressed, and we recognize, given the time line, the weekends, we didn't file our reply until Saturday. We appreciate the tentative. We would hope, given the likelihood of review on appeal, that the Court might address some other issues that we address when it issues a final opinion, and I'll talk about those at the end.

THE COURT: All right.

MR. MAIZEL: Your Honor, the Attorney General's counsel argues that the AG has broad discretion, but really the argument is essentially that the Court should ignore 28 U.S.C. 1334, ignore the provisions of 363(f), and simply rely on two statutes codified in 2005 through the bankruptcy amendment process. I'll talk about those a little bit more later, but there's no balancing. According to the Attorney General, this Court is powerless. The Court is supposed to defer to the Attorney General's, quote, "broad discretion."

The reference to an expert report, the reference to Attorney General review, the reference to public meetings is interesting, because what is completely lacking in any of those discussions is economics. The Attorney General told the Court that -- the Attorney General's counsel told the

Court that the Attorney General carefully balances -- the term was "appropriate balancing of all the factors."

There is not a single mention in those expert reports of a cost-benefit analysis, because, in the world the Attorney General lives in, the Attorney General waves a magic wand and imposes conditions, and does not have to concern himself with the sort of day-to-day, mundane factors of who's paying for these things. Unfortunately, as we know here in bankruptcy, that is a real-world reality. We have to deal with those issues, even if the Attorney General feels it does not.

So, for example, the Attorney General waves his magic wand and decides that St. Vincent Hospital has to remain open for five years because of accessibility to the community. St. Vincent Hospital loses $60,000,000 annually. The Attorney General, when he imposes the obligation to keep it open for five years, doesn't explain who is funding those losses, and he doesn't have to in the world he lives in. He can just say, "You have to stay open for five years." But this Court is well aware of what happens to hospitals where the Attorney General waves his magic wand, imposes requirements, without explaining to anyone how those requirements will be funded. The Court is familiar with the Gardens decision. That is what we are staring in the face here, your Honor.

The Attorney General says, "Keep it open for five more years," $240,000,000 of requirements, no explanation for who's going to pay for that, and then the buyer, the only buyer, has said they will not. Under those circumstances, it is hard to fathom how the Attorney General's position is consistent with his obligations, as he says it, to ensure the continued access and availability of the healthcare services to the community. The net result of his refusal to consider the economics of his conditions is going to result in the closure of some, if not all of, these hospitals.

The total economic cost of just a couple of the conditions, your Honor, is to basically increase the purchase price to the buyer from $610,000,000 to over $900,000,000, and, remember, we only had one buyer, and that buyer maxed out at 610,000,000. There is no one willing to pay 900,000,000, which is the effective purchase price if you allow the Attorney General to impose his conditions.

He says that the Attorney General has the discretion to impose conditions, and it's interesting because I don't think we disagree on that factor. The Debtor didn't argue the Attorney General doesn't have the right to review, and, in fact, we point out, and have always said, that we understand the requirements of the Bankruptcy Code, which apparently they can ignore, but we can't,

because we're Debtors in bankruptcy.

So we look at Section 353(d)(1) and 541(f) and 363(f), and recognize that we have to come up with a solution that allows the Bankruptcy Court to exercise its exclusive jurisdiction over the assets, but is cognizant and respectful of the Attorney General's role in the process. Now, we differ with the Attorney General, because we don't believe that that role of the Attorney General is to the complete -- that they can then ignore the Bankruptcy Code. And it's certain that this Court can't ignore the Bankruptcy Code. So we recognize and have said that the Attorney General has the power to impose conditions, but those conditions can be limited by application of the Bankruptcy Code, and we'll talk about that a little later in more depth.

It is entertaining that the counsel for the Attorney General thought to quote me as an expert, an article that I published years ago for the American Bankruptcy Institute Journal. I appreciate the recognition that I'm an expert, and since the Attorney -- because I assume, your Honor, there's only two reasons they would quote me. One is to be cute. I wouldn't ascribe that motive to the Attorney General's counsel. And the other alternative is that I'm an expert, because otherwise why would you offer my article?

So, as an expert, I'd suggest that they took my quote out of context. When I said that the Congress had come down on the side of the regulators, it was in the context of a Bankruptcy Code which had no recognition of the Attorney General's role. Facing the decision in Allegheny Health, Education, and Research Foundation, the Congress subsequently, in 2005, did amend it to ensure that the Attorney General had a role, which we have fully respected.

We've respected the role of the Attorney General. We went through the process we're required to under state law. We submitted the application, which, as counsel noted, is thousands of pages long. The Attorney General hired an expert at our cost, resulting in expenditures of hundreds of thousands of dollars. We've participated in public meetings. We have gone through the process we're required to under the Bankruptcy Code, your Honor. Now the question is, can the Attorney General impose conditions which basically ignore the application of the Bankruptcy Code? And we think that isn't what the statutes say. We believe that --

THE COURT: Well, let me stop you there, because I guess one of the arguments posited by the state was that, in fact, the Attorney General has a role, and that his role is to balance -- or strike a balance among different constituencies, and because that role is so important, the

Court should not impose itself, even though it might and it could. It's just that it should not.

MR. MAIZEL: Your Honor, I think that's a complete misstatement of the role of the Bankruptcy Court in this process. It ignores the Court's exclusive jurisdiction over property of the estate. If that is true, and it certainly is, then the Court has a continuing rule, and the Court cannot ignore that responsibility by doing what the Attorney General suggests, which is to say, "Our discretion is unfettered, and whatever we could do outside of Bankruptcy Court is unaffected by the application of the Bankruptcy Code." We don't believe that's what the code says, and we don't believe that's what the law requires.

Your Honor, the argument that successor liability -- one of the issues that we're going to come back to is this entire concept of successor liability. It is interesting that, in the Attorney General's comments, they don't address this issue, and I think that's with good reason, because there is really no argument but that their conditions are in a position of successor liability.

The idea that the -- it is true, your Honor, the 2019 conditions are not the 2015 conditions, but it is equally true, your Honor, that the 2019 conditions are based completely on the historical operations of the Debtor. They, as courts have phrased it, "arise from or are

connected to the historical operations of the Debtor."

That is the definition of "successor liability," which, as we cited in our brief, there are numerous cases where courts have cut off successor liability under 363 as an interest in property, even though it's imposed by regulatory authorities, even though it's imposed by statute, if it's based on the historical operations of the Debtor, and that's where we disagree.

We're not suggesting that the Attorney General can't impose conditions, generally. That appears to be a power under the statute. But they cannot impose, in the context of a bankruptcy sale, conditions which imposed successor liability, and, unfortunately, here all the conditions they've sought to impose fall into that category.

Your Honor, I'm going to take a minute to talk about -- to respond to the Attorney General's review issue with abuse of discretion, and then I'm going to talk more generally about some issues we'd like to see the Court address in the tentative.

THE COURT: All right.

MR. MAIZEL: It is interesting, although the Attorney General ignores it, that, in our brief, opening brief, we specifically addressed both California Civil Procedure Code 1085, and the ordinary or traditional mandamus under 1085, and the administrative mandamus under

1094.5. We addressed them both. Now, we think that 1094.5 is the correct analysis, but we'll talk about why it doesn't matter here, because, under 1085, the review sought by the Attorney General, we don't do any worse.

Under 1094.5, we talk in the opening brief, your Honor, about a legislative action, which is apparently how they viewed this here, is that they -- California courts have said that is a formulation of a rule to be applied to all future cases. That makes sense. That's what legislation is, right, the creation of a rule to be applied to future cases. But they then say that an adjudicatory act is one which involves the actual application of a rule to a specific set of existing facts, which is exactly what we have here.

More importantly, traditional mandate is used to review agency actions when the agency is not required to hold a hearing, whereas mandamus review here, administrative mandamus review, are orders from a proceeding in which the law -- which, by law, a hearing is required to be given, evidence is required to be taken, and discretion in the determination of facts is vested in the inferior tribunal.

When you look at the California Code section cited in pages 40 through 44 of our opening brief, your Honor, I think we run through a very careful analysis of why 1094 is the correct review standard to be applied here.

We talk in there about how it's required that they hold public meetings, that they heard comments from interested parties, all of which the Attorney General did. Also, here the evidentiary review include contracting with experts and consultants, dealing with the Debtors themselves.

Your Honor, once you deal -- once you agree that 1094.5 applies, then it gets into an interesting discussion, because, if I heard the Attorney General right, their belief, even though they conceive that the Court's review -- that the Attorney General's decision is subject to judicial review for abuse of discretion, a concept which is taught in law school, they would have the Court believe that California courts, and, therefore, this Court -- your review of the Attorney General's decision for abuse of discretion is just whether they checked the box, that you're not allowed to independently review the Attorney General's decisions to see whether they abused the discretion under the standards all courts are familiar with.

THE COURT: Well, I think their argument -- I don't want to recast it. They can to it themselves. But it's not the review of decisions. It's the review of findings, which is a subset of a decision, and so maybe the cases don't support a review by this Court unless there are -- unless it encompasses a review of specific findings.

MR. MAIZEL: Your Honor, I think that is a correct restatement of what they said to you. I don't believe it is a correct restatement of the applicable law, and I'd urge, again, the Court to review the cases and the arguments made both in our reply brief but specifically in our opening brief, at pages 41 and 42, where we talk about the judicial review here is more than just, again, "Did he get the facts right?," that it is an actual review of whether the decision-making authority abused his discretion under the classic standard.

In fact, there's a case that we cite called Mann v. Department of Motor Vehicles, where the Court said:

"The trial court not only examines the administrative record for errors of law" -- their argument -- "but also exercises independent judgment on the evidence disclosed."

"Exercises an independent judgment," your Honor, and that standard applies if we have a vested right to remain in business, and we cite, on page 42 and 43, cases holding that the Debtors have a vested right if the result of the decision by the decision maker would drive the owner out of business or significantly injured the business' ability to function, which, again, is the unrebutted evidence here.

So here the cases we cite say the Court begins its review with a presumption of the correctness of the administrative findings. Then, after affording the respect due those findings -- and I would suggest here there are virtually no findings -- it exercises an independent judgment in making its own findings.

Then, in the brief, we talked about the analysis under Section 1085, your Honor. Even if the Court finds, after thinking about it some more, that the Attorney General is right -- which we don't believe they are -- that 1085 applies, we've cited cases, and the standard there is the traditional standard for abuse of discretion. A trial court reviews and administrative action to determine whether an agency's action was arbitrary, capricious, or entirely lacking in evidentiary support, contrary to established public policy, unlawful, or procedurally unfair.

That sounds like much broader review, your Honor, and, remember, this is under 1085. This is the procedure the Attorney General wants you to use. If that's the standard, it's totally inconsistent with the standard of review they just articulated. So, if that's true, and the Court decides, upon further review, to look at the decision under 1085, we don't think we'd do worse. We'd probably do better, because it's a traditional standard of review.

Your Honor, okay. So that's, I think, what I'd say in response to the comments I heard. What I'd like to do, your Honor, is address some issues that we would like to have seen -- we would like to see the Court address in the final order that was not addressed, necessarily, in the tentative.

First of all, your Honor, we believe that, in the briefing, the Attorney General has basically conceded that the conditions are an interest in property, and I didn't hear anything to the contrary this morning, but we believe that there are many other provisions the Court might look at to decide that these conditions are an interest in property, and if we go up on appeal, we hope the Court would address them.

The first is, we address in our brief the law of the case doctrine. It is surprising to us because, while some of the counsel for the Attorney General are here for the first time, this is not the first time we've had these issues before this Court. In Verity One, the sale to Santa Clara County, the Court specifically found that conditions were an interest in property, and under the law of the case doctrine, that can be dispositive. So we would urge the Court to address that.

The second doctrine is issue preclusion or collateral estoppel, and there there's four factors. So the

issue is that the Court has to look at, is the issue at stake identical in both proceedings? Was the issue actually litigated? Was it decided in a prior proceeding? Did the party have a full and fair opportunity to litigate the issue, and was the issue necessary to decide the merits?

So this Court has addressed this issue of whether conditions are an interest in property twice now, in Gardens Regional Hospital and Verity One, the sale to Santa Clara County. The Court specifically found that the conditions imposed by the Attorney General are an interest in property. It was certainly litigated forcefully in both cases. The Attorney General had a full and fair opportunity to litigate the issue, and did. The issue is identical in both cases, and it was necessary to decide the merits. So, on that, I would think, I would urge the Court to address that in the final order.

The Court addresses it, and I think correctly, in the tentative, but, just to reiterate, these are classic interests in property addressed by many courts, because they are based on the historical operations of the Debtor. They're based on the Debtor's prior ownership and use.

It is interesting because, at one point in the Attorney General's opposition, they say to the Court, "These aren't successor liability. We're not imposing any obligations on the buyer. All we're doing is imposing

obligations on the transaction," which is either amazing semantical twists or just flat wrong, your Honor, because think of the conditions imposed here, and recall them in the context of the fact that the Attorney General has no supervisory authority over these hospitals once they are sold to a for-profit, none, because the Attorney General has no general plenary authority over hospitals in California.

Any authority the Attorney General has over hospitals in California rests only on their not-for-profit status. So we know that when these hospitals are sold to a for-profit company, the Attorney General would normally have no oversight powers at all.

Okay. But we also know that the Attorney General is taking the position that they can impose 10 years of conditions, that they can insist that this buyer cannot dispose of their property for 10 years without the permission of the Attorney General, and they tell you that that isn't an imposition on the buyer, that isn't a successor liability. That's just them imposing an obligation on the transaction.

It's nonsensical, your Honor. Of course it's successor liability, because the only way they get any power over this buyer is because of the historical operations of these facilities by a not-for-profit company. Otherwise, they have no such power.

Your Honor, I would ask the Court to address 363(f)(1), and the idea that the sale can be free and clear if non-bankruptcy law permits. One of the issues we raised that I don't believe the Court addressed in the tentative, and we would hope the Court will address it in the final order, is the idea here that the sale can be free and clear if applicable non-bankruptcy law permits the sale free and clear. Right?

So, first, we know that the applicable non-bankruptcy law does permit the sale of these facilities without conditions. The statute clearly says so. Attorney General's counsel, at the podium, said they have the power to consent with no conditions. So applicable bankruptcy law allows the sale without conditions, although it also gives the Attorney General -- California law gives the Attorney General the power to impose conditions.

The problem with the Attorney General's position about the conditions is that we don't believe that it provides for the imposition of successor liability, and since it is clear that these conditions are successor liability, we would urge the Court to look at the decision of the Delaware Bankruptcy Court in La Paloma.

In La Paloma, the Bankruptcy Court addressed California law -- Attorney General Becerra was the party in interest -- California law which purported to impose

successor liability on the buyer of assets in a bankruptcy case. The Bankruptcy Court in Delaware went through an analysis of whether the statute, the applicable statute, allowed the Attorney General to impose successor liability, and determined it did not. We think the same analysis could be made here.

Now, we don't dispute that the Attorney General does impose these conditions, and they are basically successor liability, and apparently, outside of Bankruptcy Court, people do not fight the Attorney General. I'm not surprised. People are afraid of regulators. People do not want to get in a fight with the Attorney General of the state of California. We didn't want to get into a fight with the Attorney General of the state of California, but we didn't have a choice.

So I would urge the Court to look at that decision, because it talks about whether California law expressly provides for the imposition of successor liability. It found that that law did not. I believe the Court, reviewing this law, will find it does not expressly permit the imposition of successor liability, and in the absence of an express provision for successor liability, then, the general rules of common law apply, and, as the Bankruptcy Court in Delaware noted, none of those provisions apply to allow the imposition of successor liability.

So we believe here, similarly, that a review of the applicable non-bankruptcy law would not allow the imposition of successor liability, so we've got two grounds under 363(f)(1), your Honor. The California law clearly allows the sale without it, and, also, the California law does not allow the imposition of these conditions under the plain language of the California statute.

Your Honor, under the bona fide dispute provisions of 363(f)(4), this area of -- this doctrine allows you to sell the assets free and clear of interest if they are subject to dispute. It is interesting the way the Attorney General phrases this, because the Attorney General makes it sound as if we have to prove we would win in all of these fights. That's an interesting argument. It unfortunately is not supported by the law.

The law, the standard that courts regularly apply in reviewing cases under 363(f)(4), is that all we have to show is an objective basis, either in fact and law, to dispute the assertion of the interest. We don't have to prove we'd win. The Court doesn't have to go through and parse out who wins, who loses. The standard is much lower, and we believe we've shown both that the California Attorney General's interpretation of the California Corporation Code is over-broad, that he imposes successor liabilities inconsistent with state law, and that he's abused his

discretion. Under either of those, we believe we've raised enough of an objective argument to satisfy the standard under (f)(4).

Under (f)(5), your Honor, the idea that they can be imposed, that the conditions can be reduced to money, is -- again, the Attorney General argues that, even though they alone have the power to impose this financial condition, that they alone have the power to decide where it's sent, that they alone have the power to enforce it -- the Attorney General argues that if they decide, even though they've imposed this condition and it clearly could be satisfied by money, that if they say, "But you don't pay us. You pay someone else," then it's okay, except that's an interesting argument.

They don't cite any cases for that proposition, I think because there are none. The idea that a creditor could avoid the application of this provision by saying, "Don't pay me. Pay my sister Susie," is laughable, your Honor, and even if the Court doesn't find it as laughable as I do, it is also unsupported by any case law.

Your Honor, we'd ask the Court to address the arguments made by the Attorney General about Section 541(f). This is a really troubling argument because the Attorney General, in parsing through some specific language, has decided that they have the "get out of jail free" card.

So they wax poetically about the "notwithstanding any other provision of this title," which is an interesting argument, again not really supported by case law, and partially here because, your Honor, I confess, as they've noted, there is no case law on 541(f). We're writing on a blank page here, all of us, and there is no legislative history to speak of on 541(f). It is basically a statute that has now been around for 14 years, and apparently we're the first people to engage head-on, on 541(f).

But we have cited case law, your Honor, from the Ninth Circuit, which is really clear that the language, notwithstanding any other provision of the law, or now provision of this title, does not mean that -- it is not as broad as the state would have the Court believe. There are numerous cases in there that we've cited that talk about it still requires consideration of the whole statutory context, here of the Bankruptcy Code, and it's only preemptive if legislative history says it was intended to be preemptive, which, of course, there's no mention in the legislative history of that result here.

The other thing that's interesting about the Attorney General's reliance on 541(f) is that when they describe 541(f), they make it sound like the language that's identical to 363(d)(1). 363(d)(1) talks about having to sell in accordance with applicable non-bankruptcy law, but

that isn't the language used in 541(f).

In 541(f), Congress said we have to sell it under the same conditions, and, while we can debate how much Congress really thinks about the statutes they pass, the rules of statutory construction are really clear on this point. We must presume, the Court must presume, that if Congress used different language, it meant to say something different.

So, while we can ruminate over what Congress meant when it said, "Under the same conditions," the one thing we know it couldn't have meant is that that language is supposed to be read as "In accordance with applicable non-bankruptcy law." That's the one thing we know it can't mean, because, if it had meant that, they would have used the same language, and they didn't, and that's just tired old maxims of statutory construction, your Honor.

So we cited Roget's Thesaurus, not a great legal guide, but, under the circumstances, also consistent with statutory construction and rules of statutory construction, because it says, if you don't know what a term used in the law means, you should just look at the dictionary. You should just apply the plain meaning of it, and we cited -- a synonym is "under the same circumstance." Well, that's what we did here, your Honor. We sold it under the same circumstances. We dutifully filed the application. We

dutifully went through the process. We paid for the expert. We held the public meetings. We've done everything we're required to do under California law.

The question, then, is, how do you harmonize these statutes with your plenary power over assets of the estate under 28 U.S.C. 1334? And it's interesting, of course, because, even if you love the language, notwithstanding any other provision of this title, 28 U.S.C. 1334, which gives the Court plenary power over assets of the estate, not the Attorney General, this Court, plenary power over the assets of the estate -- of course, the language, notwithstanding any other provision of this title, would only apply to Title 11, and 28 U.S.C. 1334 is not in Title 11. So that preface, that clause that talks about "Notwithstanding any other provision," would have no impact on the Court's plenary powers over assets of the estate under 28 U.S.C. 1334.

One last point on this, your Honor.

THE COURT: Last point, yes.

MR. MAIZEL: Your Honor, the Attorney General argues that the conditions are to maintain the health and safety of the patients and to maintain the availability of healthcare, and I think, unfortunately, the unrebutted evidence is that they will have exactly the opposite effect, and the only reason they can stand in front of this Court and say that is because they ignore the economics, because

they believe that there is some other solution, when there is no evidence to support that.

Your Honor, we would urge the Court to keep in mind what it said at the beginning of its remarks, that context is important.

THE COURT: All right. Thank you.

MR. MAIZEL: Your Honor, I don't know if the Court wants me to address this issue of a stay pending appeal.

THE COURT: Well, typically, what happens, and, in fact, what will happen in this case, is, if one of the other parties wishes to appeal and seek a stay, they will have to motion the Court for that.

MR. MAIZEL: Then I won't address it today, your Honor. Thank you.

THE COURT: So we'll take it up when it's appropriate.

All right. We'll give the state the last say. Mr. Eldan.

MR. ELDAN: Well, thank you, your Honor. That was a thorough and very energetic argument.

First of all, there were so many points that, frankly, it would take me too long to organize them, so I'm just going to go in the order of my notes. With respect to Mr. Bray's comment that 363(f) trumps other provisions of the Bankruptcy Code, including state law, well, the answer

is, of course, no, it doesn't. That's why we have 363(d)(1), that applies to this specific situation.

It's also why we have 541(f), which Mr. Maizel tells us refers -- and he's correct -- refers to conditions, and then, with citation to Roget and some platitudes of statutory construction, says doesn't mean "in accordance with non-bankruptcy law." I'm not sure what he thinks it would mean. I believe, in the Debtor's reply, there was at least a suggestion that the term "conditions" in this situation means maybe "in accordance with the procedures of bankruptcy law."

I don't find that persuasive. These two sections, along with 1129(a)(16), were enacted together. That they are not exactly -- do not exactly track each other, verbatim, I think, is probably just a testament to the vagaries of statutory drafting. They're all going to the same effect, the same point.

With respect to the comments from the attorney from the Mintz, Levin firm, stating that the Attorney General wants to control the process and acts as if there's all the money in the world, no, we are acutely aware that there is not all the money in the world here. We are also aware that the Attorney General's job in this situation is not to be presented with a deal that the Debtor and the buyer have worked out, and to be told, "You've got to

rubber-stamp this. You can't put any other conditions, because this is the only viable deal, and if you don't agree to this, everything will melt down."

We believe there are possibilities in the alternative to the sale. We proffered some in our brief. I realize the Court expressed its views about those potential bids in its tentative ruling. There is also, as the Committee pointed out in passing in its response to the sale motion, the potential, simply, for renegotiation between the Debtor and the buyer.

I heard the comments from Mr. Maizel about the length of time involved in re-marketing and seeking new approvals. I'm not talking about that. I am sure that Mr. Maizel knows these conditions, and the costs of complying with them, inside out, as do his clients, and I am sure the same is true of Mr. Klausner and his client, Doctor Chaudry (phonetic), through SGM. I find it difficult to believe that we are talking about a lengthy process.

If it were to reach a point where the Debtor and the seller simply step into a conference room, and the potential -- did I say, "Debtor and seller"? I apologize, the Debtor and a purchaser -- and the purchaser says, "I'll comply with this or that additional Attorney General condition, but I have to lower the price," the creditors might not like that. They might refuse. The Debtor might

not like that. They might refuse. Or they might go along with it, because it beats a liquidation, even though it's less good than the deal that's on the table right now.

I can't predict that, but what I think I can say is that, for those parties, with all of their built-up intimate knowledge of this case, to step into a room and hash it out, and do some horse trading on that point, is not something that would take an inordinate amount of time, because they know exactly what the conditions are and what they cost.

Let me move along.

THE COURT: Wouldn't those conditions be liable to be changed?

MR. ELDAN: I don't believe so, your Honor -- well, possibly. The Attorney General -- and I'm going to look to my colleagues for confirmation of this. The Attorney General is not like another private party in that, as I used to do representing banks for 20-plus years, you can step out into the hallway and just cut a deal with a phone call to your client. It doesn't work that way.

There is, however, a provision in the applicable regulation, 11 CCR 999.5(h), which does allow the applicant -- here it would be the Debtor -- to come back to the Attorney General and seek a change in conditions based on a change in circumstances. I'm abbreviating, but I think

that's the gist of it. So the answer is, kind of, for the reasons I've just said.

Let me move along, and forgive me. I have to review my very extensive notes, quickly. I know it's getting late, and we all want to get out of here, and I appreciate the Court's time. Mr. Maizel, to his credit, had a lot to say, and so I took a lot of notes.

Mr. Maizel suggested -- and, again, I'm just going in the order of comments. This is not logically organized, as a brief would be. Mr. Maizel suggested that it's the Attorney -- that a review by the Attorney General, under California law, is procedural only, that -- or, excuse me, review of the Attorney General by the Court -- that the Attorney General is suggesting that this Court's review of the Attorney General's position is constricted, and limited to asking, "Procedurally, did the Attorney General check all the boxes?"

Well, that's not our position. Of course not. It is true that all the boxes have to be checked, procedurally. That's very important for government entities, and I don't think there's any dispute that, procedurally, all the boxes have been checked.

Our position -- and I'll leave it to Mr. Zimring to hit me if I'm wrong -- is that of course there is substantive review of the Attorney General's position, but,

as with review of virtually any other agency decision or constitutional officer position in the realm of administrative law, it's not de novo review. It's very deferential. We can argue about the standards, whether it's independent, abuse of discretion, et cetera, but the Court is familiar with basic principles of appellate review, and that is, by analogy, what goes on here.

There's some aspersions cast by Debtor's counsel on the Attorney General, saying that somehow the Attorney -- implying that somehow the Attorney General did something wrong by taking the time allowed by statute -- pardon me, by regulation -- 135 days, to conduct the full review of these hospitals, even though it had reviewed them in 2014 and 2015. Well, as I said, the Attorney General employed a new expert, went out and got all new expert reports.

Those reports, by the way, were attached to my declaration in support of our opposition. As the Court can see just from flipping through them, those are detailed and serious. They are based, among other things, on interviews with a laundry list of the Debtor's personnel. You know, this is not a computer-driven equivalent of a real estate appraisal, where somebody just plugs in data and cranks out a report.

Also, counsel is vastly experienced in this type of healthcare transaction. These counsel know how long this

type of review takes. It couldn't have come as any surprise. I know, you know, in particular, the Deputy Attorney General who was working on this transaction was working 60, 70 hours a week. Nobody was sitting around twiddling their thumbs at the AG's Office.

Mr. Lobel (phonetic) -- pardon me. Debtor's counsel, Mr. Maizel -- not exactly a striking resemblance, but similarly energetic from the podium. Mr. Maizel argues a great deal about Section 1334(e) and 363(f), that somehow they trump, they overcome, the obligations of the Court under 363(d)(1), 541(f). That's not so. 1334(e) is a jurisdictional statute. It gives the Court jurisdiction over property of the estate, of course, but that is nowhere near as on point as the specific code sections, the ones not under Title 28 but under Title 11, which address sales free and clear, and also sales by nonprofit entities of their assets.

So I suggest we put aside something as really not salient to this debate as a broad jurisdictional statute, which nobody is arguing about, and I might add, the Debtors made virtually no argument based on it in their sale motion -- it was a few citations and a statement of the authority -- and look to the code sections. One thing I agree with Mr. Maizel about. We're writing largely on a blank page here in terms of the absence of case authority.

There is, however, a reasonable degree of commentary from Collier. There is commentary in at least a few scholarly articles, one of them written by Mr. Maizel, which I did not take out of context, and I invite the Court to take a look at it. The link, I believe, is given in the brief, and, basically, what they say is, you've got these two statutory sections, and they have to be dealt with.

Now, the Debtors insist that 363(f), which applies broadly to every case and was enacted as part of the code, somehow trumps, preempts, 363(d)(1) and 541(f). I'm not sure how that could be. Those sections were enacted 27 years later, and they apply to a specific subset of cases, and, as Collier recognizes, as Mr. Maizel recognized, those latter amendments from 2005, as part of BAB CPA, were intended to deal with this kind of case.

So I just flatly have to disagree with the assertion of the sale motion that 363(f) sweeps aside these provisions. I don't think the Court agrees with that argument, either. That said, the Court may note that I have not suggested that the presence of 363(d)(1) or of 541(f) necessarily brushes aside, in its entirety -- pardon me, 363(d)(1), 541(f) -- necessarily brushes aside, in its entirety, 363(f), the "sale free and clear" provisions.

If there were a necessity to reconcile a possible conflict between them, then, again, I think resident expert

Mr. Maizel, in a different article, made a very sensible suggestion. One might look, by analogy, to the police power exception to the automatic stay in 363(b)(4) and ask, consistent with the jurisprudence in those cases, "Is this condition aimed at police regulatory issues, or is it instead designed to vindicate the state's pecuniary interest?"

I think the Court would find, if it were to engage in that analysis, that all or virtually all of the conditions imposed here at police and regulatory in nature, health and safety in nature. This is not, for example, a situation where the Attorney General is saying, "Gee. I see you owe $100,000,000 in taxes to the state of California, and those taxes might ordinarily be just unsecured or priority. Well, I'm going to condition my approval of this 363 sale on the Debtor agreeing to bring those taxes current," upending the normal ratable distribution scheme. The Attorney General is doing nothing of the sort here.

Let me move along. Mr. Maizel talked a great deal about the problems with the budget here, or problems with cash, and pointed out, who is going to fund St. Vincent for four more years beyond its current anticipated closing date? And let's be honest. It's an anticipated closing date of December 2020, because the buyer is agreeing to operate St. Vincent, which is right here west of downtown, for only one

more year.

So, when we weigh this balance, when your Honor takes a look at the balance of interests being struck, and the Debtors say that it's the Attorney General trying to close these hospitals, or at least insisting on conditions so unreasonable that they will force the closure of the hospital, well, I disagree with that part, but, putting that aside, ask, "In comparison to what?" The buyer is not offering, or certainly not committing, to keep these hospitals open for any significant length of time.

In particular, look at St. Vincent, which is the hospital, I think, in the worst shape. The Debtor's attorney is essentially acknowledging the reality that this buyer is going to close St. Vincent in a year. So, when the Attorney General does his analysis, I think it's well within the scope of his authority to look at one possible outcome, which is closure now, and look at another possible outcome, which is closure in a year, and consider just what benefit is it, really, that is being offered?

Just a moment, please.

Finally, let me talk most about successor liability. There is no successor liability being asserted in this case. I am baffled by the assertion that there is. I understand Mr. Lobel's -- or, pardon me, Mr. Maizel's -- reference to the Qualitech decision and that line of cases,

and I acknowledge the Court's decisions in Gardens and in the first Verity decision that the conditions -- or that the imposition of conditions by the Attorney General means, in the context of this case, given how those conditions are determined, with reference to past experience at the property, past experience of the prior owner -- I acknowledge that, under that case law, this Court and other courts -- or this Court has held, following other courts, that the Attorney General's conditions are interests under the initial provision of 363(f). I get that.

That's not the position of the Attorney General, and we don't agree with it, but, as I said in my opposition, we will assume for the sake of argument on this motion, because I know the Court has already expressed a reasoned view on this, that those conditions are interests under 363(f), but that is not the same thing as saying that conditions going forward applicable to the buyer of the hospital constitute successor liability under state law.

As I said before, it's not as if the 2019 conditions look back and say to the buyer, "You've got to perform an obligation that was imposed on the Debtor," or "You have to pay a pre-sale debt of the Debtor." In fact, most of the additional conditions, as I pointed out in my brief -- most of the conditions that are at issue here, the dispute is not about the substance of the condition. It's

simply about the term, the period.

So, if the 2015 conditions said to the Debtor, "You've got to keep the hospital open for the next four years," and if the -- did I say, "2016"? I'm sorry. I meant "2015." If the 2019 conditions say to the buyer going forward, "You have to keep the hospital open for four years," that's not an imposition of successor liability. No one is saying to the buyer that somehow you have to go back in time and fulfill performance obligations of the Debtor pre-sale.

As I've said before, the fact that the contents of the 2019 conditions, in substance, may be very much like the 2015 conditions is not surprising, given that we're dealing with the same hospitals and communities, and an evaluation done only four years apart, but it doesn't mean that they're the same. The 2015 conditions applied to the Debtor. The 2019 conditions are entirely separate. For reasons of the real world, they may, in substance, be a lot of the same conditions, because it's a hospital owner-operator. Many of the conditions, of course, will be the same, but they are not -- it is not successor liability.

THE COURT: All right. We're going to bring these --

MR. ELDAN: Thank you.

THE COURT: -- this to a close.

MR. ELDAN: Okay.

THE COURT: Appreciate it.

MR. ELDAN: Thank you, your Honor, for the time, and as for the administrative law issues, my colleague, Mr. Zimring, can rebut.

THE COURT: All right. Well, I know you addressed some of that. Mr. Zimring, you can go ahead and make some comments, but I think I'd ask them to be short at this point.

MR. ZIMRING: I will be very brief, your Honor, and these are in our papers, so I'm not going to spend too much time. I would direct your Honor to page 24 of our opposition, and there we did talk about why this is not a quasi judicial proceeding, and there are a number of cases that we set out there that are consistent with our view, are much closer, factually, than the cases cited by the Debtor.

The discussion about there being a fundamental vested right here is very misleading, and it's inaccurate, certainly inconsistent with state law. The transaction being reviewed here is the transfer of a charitable healthcare facility to a for-profit buyer. That is the transaction. There is no fundamental vested right for assets that have been irrevocably dedicated to charitable purposes to be transferred to a for-profit buyer. There's no law supporting that, and so that's just completely

inapposite under California law.

The idea that it's an abuse of discretion to impose conditions on a for-profit hospital is entirely inconsistent with the expressed statutory scheme. We have statutes and regulations that say, when you transfer a charitable hospital to a for-profit buyer, the Attorney General can consent, and impose conditions on that consent. That is what the statute says. That's what the statute instructs the Attorney General to do. To suggest that's an abuse is fundamentally inconsistent with the statutory scheme here.

We've argued back and forth what the abuse-of-discretion standard means. It's in our brief. As we've said, your Honor, it is a deferential standard. If you were to find some abuse, that doesn't allow the Court then to substitute its judgment as to what should happen here. If there is a particular abuse, it gets referred back to the Attorney General to reconsider in light of that.

The only other thing I would add is, there was a representation about all the evidence that the Debtors have provided to the Court, and it's unrebutted, unrefuted. As we've said, if this is a 1094.5 review, the fact that they have only included evidence favorable to them is fatal. It cannot go forward on that basis. The Zolin case, which your Honor cites in the tentative, is completely consistent with

that.

In that case, the Court remanded it back -- the appellate court remanded it back to the trial court because the party had done just that, and the Court found it was abusive and improper, and so I don't think there's anything shocking about that. It's their job to present you with the complete and adequate record on which the Attorney General exercised his discretion.

Happy to address any questions you may have. Otherwise, we're very grateful for your time and energy in this matter. Thank you, your Honor.

THE COURT: Thank you very much. All right.

MR. MAIZEL: Your Honor, I just want to correct one factual issue.

THE COURT: Well, we can go forever, but --

MR. MAIZEL: No, no. It has to do with the statement -- Sam Maizel for the Debtor, your Honor. It has to do with the assertion that the Attorney General hired a new expert. Just for the record, Phil Dalton was the expert who did the review in 2014. He did the review in 2015, and he did the review here.

THE COURT: All right. Well, basically, that's of no moment to the Court, in any event.

MR. MAIZEL: All right, your Honor. I just wanted to make it clear.

THE COURT: All right. Now, going forward, I am going to take this matter under submission. This is, of course, as I've indicated at the outset, an important milestone for the case, and so I think it's appropriate for the Court to reconsider its determination in light of the arguments here. If "reconsideration" is the wrong word, then it's to take another look at the arguments.

Now, in addition, there have been questions regarding a stay pending appeal, and, as I've indicated in my comments and I'll make clear here, a stay pending appeal is, in my view, a wholly separate operative, and so I would require a brief with respect to that, if that is sought be either one of the parties.

MS. MOYRON: Your Honor, apologies to interrupt. Tania Moyron for the Debtors. If I could just have one second to tell the Court. In terms of that briefing, for the reasons we've discussed regarding the Debtors' liquidity issues, we will be asking that that briefing be on an expedited basis. It's a little awkward, since it's not going to be our motion, and so we can't file the application under 9075, but, if the Court would entertain that at the right time, the Debtors would appreciate an expedited briefing schedule on that motion for stay.

THE COURT: All right. Well, we'll certainly entertain that motion as well.

MS. MOYRON: Thank you, your Honor.

THE COURT: All right. So that deals with this motion.

At the outset was a request from Mr. Bender and Doctor Rubin to hear something, so I'll hear you at this point.

MR. RUBIN: Thank you, your Honor. Nathan Rubin. I'm the patient care ombudsman.

I appreciate the Debtor's notion that you have to use to parachute before the plan hits the ground, and I understand everybody here has a parachute. Some of the patients don't.

The liver transplant patients fall into a number of categories, but the most critical ones are the 13 that have new livers, and we can argue about the numbers. I had a conference with the chief medical officer earlier. There's up to 50 patients, and those patients need to be seen weekly, have labs drawn weekly, have medicines adjusted weekly, or they'll reject their livers, or go into liver failure, or die.

The first liver transplant done at St. Vincent was done during the bankruptcy. This was done because it was viewed as an asset to the hospital, so they embarked on this program. So they didn't have to start, but they did. Now they have a responsibility to take care of these people.

I understand the position it's not the buyer's responsibility. The Attorney General doesn't even have it in the conditions, but for "The Debtor may transition these patients." These are the bylaws of the organ transplant system, and when things are put on suspension, there are some obligations by the institution, one of which is continued follow-up.

Now, I've been working closely with the Debtors for a year now. Every time we've had an issue, we've resolved it. We just really haven't resolved this one to my satisfaction, and what my satisfaction requires is that each one of these patients have a safe landing. They each are on that plane. They were put on that plane, and they need a safe landing, and they need a parachute.

So, right now, it looks like they may have placed the majority of those patients, even up to 43 of the 50, although I don't know the numbers are accurate because I haven't gotten responses for the last two weeks. Of the last seven patients, they can't fall between the cracks, because they will die.

In my mind, it's the Debtor's responsibility to figure out a mechanism by which these patients have ongoing continuity of care, no different than if the hospital or its clinic had moved down the street. We cannot recklessly disregard the lives of these people who relied on the

institution, that started transplant during the bankruptcy.

So all I ask is that we set aside something, or somebody put in place that has some amount of money and ability to care for these patients so they don't die, and they certainly don't dishonor the donor that gave them that liver.

THE COURT: Right. Well, let's do this. I think that we can't give satisfaction to your concern concretely at this hearing, because I'm sure there are arguments, or at least questions, that the Court may or may not be in a position to respond to at this point.

What I would suggest is the Debtor's counsel be advised as to what your concern is, and if it's not rectified, you're a party in interest, and so you can bring that, through Mr. Bender, to the attention of the Court, so that we can determine what it is that the Court can do under the circumstances.

Mr. Bender.

MR. BENDER: Yes, your Honor. We met at length with the Debtor's principals before this hearing, and they're very confident that they have a plan in place.

What Doctor Rubin wanted to make sure is we didn't have some sort of sale closing, principals leave, and this falls through the cracks, and so we really wanted to just bring it to your attention -- obviously, the Debtor knows of

the issue -- just in case we have to come before you on some sort of expedited basis, and it didn't come from out of the blue. We're not trying to interfere with anything happening today.

THE COURT: No, no. I understand that you laid the basis for that so that, if I see it, I'll know the context.

MR. RUBIN: Right. And so far, the Debtor has complied with everything that we've agreed to.

THE COURT: Very well.

MR. RUBIN: So no question there.

THE COURT: Thank you very much.

MR. RUBIN: Thank you.

THE COURT: All right. We're in conclusion. Thank you.

(Proceedings concluded.)

I certify that the foregoing is a correct transcript from the electronic sound recording of the proceedings in the above-entitled matter.

/s/ Holly Steinhauer — 10-21-19
Transcriber — Date

EXHIBIT "22"

UNITED STATES BANKRUPTCY COURT

CENTRAL DISTRICT OF CALIFORNIA - LOS ANGELES

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In Re:	Case No. 2:18-bk-20151-ER
VERITY HEALTH SYSTEM OF CALIFORNIA, INC.,	Chapter 11
Debtor,	Los Angeles, California November 13, 2019 Wednesday, 10:00 A.M.

HEARING RE: [3582] STIPULATION BY VERITY HEALTH SYSTEM OF CALIFORNIA, INC. AND THE CALIFORNIA ATTORNEY GENERAL RESOLVING "DEBTORS' EMERGENCY MOTION FOR THE ENTRY OF AN ORDER: (1) ENFORCING THE ORDER AUTHORIZING THE SALE TO STRATEGIC GLOBAL MANAGEMENT, INC.; (II) FINDING THAT THE SALE IS FREE AND CLEAR OF CONDITIONS MATERIALLY DIFFERENT THAN THOSE APPROVED BY THE COURT; (III) FINDING THAT THE ATTORNEY GENERAL ABUSED HIS DISCRETION IN IMPOSING CONDITIONS ON THAT SALE; AND (IV) GRANTING RELATED RELIEF

TRANSCRIPT OF PROCEEDINGS
BEFORE THE HONORABLE ERNEST ROBLES
UNITED STATES BANKRUPTCY JUDGE

Proceedings produced by electronic sound recording;
transcript produced by transcription service.

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LOS ANGELES, CALIFORNIA, WEDNESDAY, NOVEMBER 13, 2019

10:31 A.M.

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THE COURT: All right. At this point let's call item #25.00. That's the Verity Health Systems matter, please.

MR. MAIZEL: Good morning, Your Honor. Sam Maizel, Dentons US, LLP, on behalf of the debtors. With me today in court is my partner Tania Moyron and other attorneys, Sonia Martin and Nick Koffroth from Dentons.

THE COURT: Good morning.

MR. ELDAN: Good morning, Your Honor. David Eldan, E-L-D-A-N, from the Attorney Generals Office. With me is my colleague James Toma, T-O-M-A.

THE COURT: Thank you.

MR. SHINDERMAN: Good morning, Your Honor. Mark Shinderman of Milbank on behalf of the Committee. Is it okay if I sit in the well?

THE COURT: Very good, sir.

MR. SHINDERMAN: Thank you, Your Honor.

MR. KLAUSNER: Good morning, Your Honor. Gary Klausner, Levene Neale Bender Yoo & Brill. Along with me today is my partner, Phil Gasteier. We represent Strategic Global Management, purchaser. Along with me in court, you've met before, Mr. William Thomas, who is the vice

president and chief executive officer of KPC Global. Next to him is Attorney Phillip Mort, who is general counsel to KPC Real Estate Development.

THE COURT: Very well. Thank you very much. Do we have any appearances by telephone this morning?

THE CLERK: (Inaudible)

THE COURT: All right. May I have your appearances, please?

MS. RICH: Good morning, Your Honor. This Emily Rich --

THE COURT: I'm sorry, may we have that again. We briefly disconnected.

MS. RICH: Yes, Your Honor. Emily Rich of Weinberg Roger & Rosenfeld on behalf of SEIU UHW.

THE COURT: Thank you very much.

Any other appearances by telephone this morning?

(No response.)

All right. Well, I do appreciate the efforts to try and resolve --

MR. PRESTEGARD: Your Honor, excuse me. I'm sorry. Kirk Prestegard from Bush Gottlieb on behalf of United Nurses Association of California.

THE COURT: Very well. Thank you. As I've indicated, I appreciate the efforts of counsel to try and wrap this aspect of the case up.

As indicated by the Court's tentative we had some questions and perhaps this is the time to get some clarification. So Mr. Klausner, looking to you first because I thought that you were the party that -- representative party that had some difficulty with the language that was proposed and agreed to by the debtor and the Attorney General's office, and the Court had indicated some questions with respect to those comments. So I imagine you're prepared to address those at this point.

MR. KLAUSNER: Yeah -- yes, Your Honor. I appreciate that and by way of introduction starting with our negotiation of this transaction back in December, almost a year ago, the -- we'll call the AG issue was looming large. My client had been through the Gardens sale which, as you know, unfortunately didn't close as a result of the AG's imposition of these burdensome conditions. My client was actually involved in the Victor Valley Community Hospital sale in which the Attorney General refused to prove a sale to the -- the original stalking horse buyer, Prime Health Care, and our client came in to kind of rescue that transaction.

So our client -- we were all -- Mr. Maizel and I have been sort of to this rodeo before and we all knew that the potential imposition by the AG of conditions which would not be acceptable to our client could be a deal

breaker. This is also a 600 million-dollar transaction, so the stakes are very high. And we negotiated long and hard to try to figure out a way to accommodate the interests of both parties. My client could be protected so that if we went forward and closed the deal that we would not be subject to conditions that had -- that were unacceptable to us. And the debtor, of course, that wanted to go forward with the transaction that it had some confidence could be closed if the Attorney General issues could be resolved. And of course, we have other financial stakeholders in the case who are equally interested in seeing a deal close.

So all of our negotiations really culminated in Section 8.6 of the APA with which I know the Court is familiar. And I want to remind the Court that there was a version of 8.6 that actually found its way into the file when the Court was considering approving our client as a stalking horse purchaser. And there was a tentative decision which the Court made in connection with that hearing. There was also an issue about the breakup fee. And in the tentative the Court expressed some concern about what might be the ability of our client not to go forward if the conditions that were imposed by the AG were unacceptable.

So in the cafeteria that morning we had extensive meetings and continued negotiations with Verity, with its

attorneys, Committee and its attorneys, secured lenders, not only their attorneys but Andrew Turnbull from Houlihan who was acting as a kind of a go-between. And we did eventually reach a compromise on the terms of 8.6. It's actually reflected in what was filed with the Court because there's a redline of 8.6 reflecting these changes. And that satisfied the Court's concerns. At that hearing you approved us as a stalking horse buyer.

And then we went on sort of the mission of trying to see what would happen with the Attorney General. And I don't have to tell you, but I think it is important just again setting the stage, that we went through quite a lengthy process. My client expended enormous sums of money to comply with the obligations that were necessary to present an appropriate application to the Attorney General to obtain its approval. Thousands of pages of materials. Working in concert with Verity towards the goal of getting the Attorney General to approve us -- prove my client and not to impose conditions which we were concerned would be imposed because we were familiar with the 2015 conditions which our client, quite clearly, couldn't live with.

We actually went to the hearing -- went to several of the hearings that the Attorney General conducted at each of the hospitals. We didn't go to all of them. We went to two or three. We then had meetings with the

Attorney General. Obviously I'm not here to disclose any of the contents of the negotiations. The point is we made a concerted effort to try to get the Attorney General to approve this transaction on terms and conditions that we can live with. And then in September I want to say 25 the Attorney General issued its decision in which the Attorney General in fact imposed conditions which we and the debtor acknowledge were the additional conditions that then triggered 8.6.

So the debtor promptly actually in lightning speed got a motion filed with this court in which you agree to hear on an expedited basis in which the debtor made a very compelling case as to why these additional conditions shouldn't apply, which means that why our client should not be obligated to perform them and why these conditions cannot be enforced against our client or against the assets that are being transferred.

The debtor raised a number of arguments and issues including the discriminatory nature of the AG's decision under Section 523, the imposition of successor liability which is not allowed, the fact that the Attorney General had abused it discretion in applying its own rules and standards for the consideration of the approval of this transaction, and not the least of which was the theory that -- or the argument, I should say that these additional

conditions could be treated as interest for purposes of the Bankruptcy Code and the sale could therefore be free and clear of the -- those interests.

So -- and after lengthy argument, briefing, this Court rendered an extremely comprehensive thorough analysis of all of these issues and concluded that for all of these reasons I think the Court accepted every argument that the debtor had made, that this sale should be free and clear of these additional conditions. The Court found that to impose these conditions would be success -- would constitute successor liability, that it would be unfair discrimination.

THE COURT: I know. I wrote it, so --

MR. KLAUSNER: So what emerged after that was our expectation that there would be an appeal to the Ninth Circuit and this Court obviously viewed this decision as significant enough to have certified it for a Ninth Circuit appeal. And indeed as late as October 28th, barely two weeks ago, I was exchanging orders with Verity on the terms of an order that would implement your ruling and it -- and it was I think the next day, the 29th and, I might be off by maybe it was late in the afternoon, the 20th. It really doesn't matter but we were told by Verity that the Attorney General had proposed to waive its right to appeal if -- there are really two conditions that I understood. One was

that the Court would have to withdraw this entire memorandum of decision and then secondly, that the AG wanted something that referred to a simple order granting the motion.

Well, from that point on I would say over the next ten days we were in the process of trying to craft an order that satisfied what I assume was the AG's goal of limiting the collateral damage from your ruling to this case and then, secondly, satisfying the debtor's needs that we could resolve the 8-6 issue. But at the same time my client's entitlement to an effective clearly written unambiguous statement that neither our client nor its assets would be subject to the enforcement of any of these additional conditions, that the sale would be free and clear of the conditions, that our client would not have to comply with them, that our client would not have to adhere to them, that they would not be enforceable against our client or the assets. Indeed, that it's foreseeable or at least conceivable that our client could enter into a transaction and sell these assets to another buyer. We did not want a situation where this order could be read as somehow limiting its protection only to this transaction but with the AG somehow reserving its ability to impose these conditions on these assets in the hands of another party.

So we tried very hard to accommodate what I would say were the three goals of each of the parties. Debtor wants to get a sale closed. AG wants some limitation of the effect of this order or this order might have on other transactions. Our client having committed to spend 600 million dollars, not all of its money, our client has investors. Our client has a lender. All of these constituencies on our side need to be satisfied that this order is going to protect our client and we're going to get the benefits of everything that Verity worked for and you worked for in coming out with a decision which was a comprehensive resolution of that issue.

So what happened was obviously there was a point that we got to at the end of last week where the debtor made a value judgment that going forward with a deal with the AG and eliminating the prospect of the AG's appeal and the delay that that might cause, the risk of an adverse ruling was worth it to the debtor to make certain stipulations and agreements with the AG. Those weren't acceptable to us.

The stipulation itself that the debtor was entering into which expressly provides that "The Attorney General does not agree or concede that the additional conditions are an interest in property for purposes of 11 U.S.C. Section 363(f), but acknowledges that the Court so

held in its memorandum decision (which is to be vacated and withdrawn pursuant to the order)." And goes to say, "And solely and exclusively for purposes of the APA."

So the stipulation in and of itself is what I call sort of the trifecta of badness. One is a stipulation which the AG is going on record saying, we don't agree with what the Court did and we're going to -- we're going to go along with this but we want to clear -- we don't agree, we don't concede; the memorandum of decision is going to evaporate and our agreement is only for purposes of this APA, whatever that means. And I know that was one of our objections, one of your questions.

The order itself in our view as we expressed in our statement has serious defects, deficiencies, ambiguities none of which couldn't be solved with clearer language which would have -- absolutely do no injustice to the Attorney General or to Verity, that the changes that we propose only make clear that this order isn't going to be enforced against our client or its assets and that our client is not -- does not have to comply or adhere to these conditions, which is exactly what we bargained for in Section 8.6.

And again, this order is not something that only I need to be satisfied with. Our client, his advisors, investors and the lender, all of whom need to feel

comfortable before they put 100 million dollars across the table, they're protected. And by the -- and I understand that there are people in this courtroom who would like to say that this order is fine and we should be okay with it. It says that the motion is granted. None of those people, Your Honor, has the responsibility of protecting my client. The only source of protection that my client will have is this order and we compromised on the terms of what we proposed to the Court. This wasn't our first choice what we submitted. It wasn't even our second choice, but there is a point where our client is going to have to go to its -- it's going to have to get advice from all of its advisors and lawyers, professionals and lender, and sit down and look at this order in the absence of your -- in the absence of findings and you've raised that issue, which I think is an important one. In the absence of your memorandum of decision and in the face of the stipulation which the AG has entered into with the debtor, they're going to have to decide is this the protection that they need to close the 600 million-dollar sale. You could call this a 600 million-dollar order.

THE COURT: All right.

MR. KLAUSNER: So in answering your quest -- do -- if you want, I'm happy to now go specifically into some of your questions, but I really thought that that

background was important to put on this record and to -- not that this Court doesn't spend time reading everything carefully, but I wanted to put this in the perspective of where we are today given nearly ten months of dealing with the AG issue and being confronted now with the end point which is entirely unacceptable to us.

THE COURT: That's what I want to explore because at the conclusion hopefully of this hearing we will be in a position to determine at least one aspect of this case. And the problem I have with the exposition that you've given the Court -- and I appreciate wanting to make the record clear -- is believe me, when the Court issues a tentative ruling we know exactly where the holes lie with respect to each one of those tentative rulings. And when we make the tentative ruling and order that's the Court's -- that's the view of the given facts and law. But that's not without some possibility that a reviewing court may take another view of the state of the facts and the law, that another court may issue an appropriate stay, even though this Court did not. In other words, although the Court issued its findings and conclusions, that is hardly the resolution of the issues and I think all the parties understand that. So even though it would behoove your client to want to carve that order into stone, I would be the last person to advocate that.

The exposition that you've given the Court also I think lends some strength to the language that was submitted by the debtor and the Attorney General's Office because one of the issues was that the additional conditions were unacceptable to your client. And the sale here is being made free and clear of those additional conditions. I don't know where that ambiguity is.

There is some issue with respect to the Attorney General saying, we don't agree with the Court's conclusions. In every stipulation that I see somebody is saying, we don't agree with the court but we're going to go ahead and stipulation. We're going to hold our nose and agree. That's a garden variety language. As far as the Court is concerned, I see no ambiguity in that whatsoever.

So I really am struggling to see where your client is coming from as far as where the language is -- acts to its detriment. I just don't see that.

MR. KLAUSNER: Okay. Well, what you just said interestingly -- I mean, you used the phrase "the sale is made free and clear of Attorney General conditions." That's not what the order says. That's not what the AG/Verity order says.

THE COURT: It says without the imposition of any other conditions.

MR. KLAUSNER: No, no, the -- I didn't mean to

cut you off. I'm sorry. What it says is that -- first of all, solely and exclusively for purposes of the APA and I'll address that.

THE COURT: All right.

MR. KLAUSNER: And it says that the sale can be free and clear. You used the phrase because we all would normally say the sale is free and clear, the transfer is free and clear. The assets are being required free and clear. It's not what this order says. The solely and exclusively is troublesome.

First of all, I don't understand what it means, so I'm generally not comfortable with words in an agreement or an order that I don't understand. And I've been practicing long enough to know that if I don't understand something there's a reason for it. It's because other people are smarter than me. It's because the language isn't clear.

But the way I interpret this, free and -- solely and exclusively for the APA, does that mean that if our client were to transfer the assets to a buyer that the Attorney General gets to sort of wake up and say, well, okay. We -- we said it was okay for SGM to acquire these assets free and clear and we said it was solely for your APA. We didn't say that these assets are free and clear of our additional conditions. We didn't say that these assets

in the hands of another party couldn't be subjected to these conditions, so why is that there? I mean, what does that mean? We need to be clear that neither my client, SGM, or these assets that are being acquired for 600 million dollars are protected from enforcement or compliance with these additional conditions.

Now, let's just assume for the sake of argument that that language was in the order. Why would that be prejudicial to anyone? Why is it -- because you really have to ask yourself the question, why is it that the AG is insisting and I understand from counsel's stipulation and the supporting declaration that the AG has said, "Take it or leave it. You know, we appeal. You don't enter our language, we're done." I'm not sure why they have the right to hold this deal hostage. But you have to ask yourself the question, why are they demanding that language.

What would be unacceptable to simply say as we do in every order, the assets are transferred free and clear? These claims or interests or encumbrances, whatever it's dealing with can't be enforced against the buyer. They can't be enforced against the assets.

So I don't think the preamble of solely and exclusively for purposes of this APA is without meaning. If it is without meaning, let's get rid of it. But the

meaning that it could have is that these assets are not protected outside the purview of this APA, whatever that means. That makes no sense to me. And the phrase "can be sold free and clear," well, "can be" means could be, might be. It's possible. It can be allowed. You know, the law allows assets to be sold free and clear. Yeah, these assets can be sold free and clear, but why doesn't -- the assets are being sold free and clear. They are being transferred.

You know, the AG has a lot of very smart lawyers including Mr. Eldan, who I've known for a long time. They obviously spend a lot of time crafting this language. I don't know what's in their head. All I know is, I'm taking a piece of paper which has two paragraphs that are supposed to protect my client for a 600 million-dollar deal and it doesn't work and it doesn't work to my satisfaction. As a bankruptcy lawyer who has been doing this for decades it's not going to work for lenders or they're -- nobody -- nobody is going to be comfortable with this language.

THE COURT: Well, is that the standard -- is the standard that the Court is to interpret these provisions heed to what is best for your client, because I take my role -- the Court's role a little more broadly than that. We have a number of different constituencies present in this courtroom and at some point here in the courtroom and

those are a number of different competing interests that the Court has to take into account when approving any of the orders.

MR. KLAUSNER: Well, first of all, none of these constituencies are going to protect my client three years from now when the AG says, oh, we think we should be able to enforce something. So I mean, I appreciate the goal of getting assets into hands of creditors or getting assets in the hands of buyers so monies can go to creditors. They're not going to be here when we need them.

But more importantly, Your Honor, no, the standard isn't some arbitrary and capricious judgment call that I might make as counsel. We actually have a standard in 8.6.

So the way this process works, this was again very carefully crafted and intensely negotiated. Once that order is entered, whichever order you enter or your own order, some combination, once your order is entered under the terms of Section 8.6, there is a evaluation period of 21 days during which our client with its advisors and with its financial sources, our client gets to evaluate that order. So that period of time obviously hasn't started yet because we don't have an order entered by this court.

But the standard that governs our client's evaluation is its reason -- the exercise of reasonable

business judgment. So there's -- it's not an arbitrary standard. It's not an absolute discretion, reasonable exercise of its business judgment. That's what has to happen. And at the end of that 21-day period we will advise Verity if the form of order that's been entered meets the standard -- is acceptable to us given that standard, meaning that we can't just say no. It has to be the reasonable exercise of our business judgment.

Section 8.6 goes on to set forth a process to be followed in the event that the response we give to the debtor is no, we're not satisfied. Doesn't meet in our exercise of our reasonable business judgment, it's not enough.

At that point the parties have agreed that the issue of whether we've exercise our business judgment reasonably will be an issue for the Court to decide in the context of an advisory proceeding. That's the process set forth in 8.6. That's what was negotiated among these parties and that's what the Court approved.

So today isn't the day to address the question of whether Section 8.6 has been satisfied and, indeed, I found it particularly offensive in the debtor's statement that accompanied this stipulation -- I have it here. This was filed on -- this was filed --

UNIDENTIFIED VOICE: (Indiscernible)

MR. KLAUSNER: So this was filed Friday being this was the debtor's notice regarding proposed order. This is document number 3573 and it -- the debtor has said that in (iii) -- well, hang on, Your Honor. I have to find the exact verbiage. I don't want to make you wait. But what the debtor said in this -- in its statement, it may have been when the file -- with the file that was filed yesterday or Monday. The statement was, "We will ask the Court for a determination that 8.6 has been satisfied." That's completely improper and the debtor knows it.

The purpose of this hearing is to get an order regarding the debtor's motion -- the debtor's enforcement motion to determine that the additional conditions -- that the sale can be -- that the assets can be transferred free and clear of the additional conditions and that the additional conditions aren't enforceable. That was the purpose of the motion.

Whether this Court's order ultimately satisfies Section 8.6 is not for today. That's a comp -- and that wasn't a relief requested in the motion. That wasn't litigated. It wasn't raised nor would it have been appropriate since the only discussion of that issue can take place. The only discussion that will take place will take place after your ruling.

So the discussion whether 8.6 is satisfied or not

isn't for today. It's for another day. Today is to determine whether this order should be entered in the form that the AG and the debtor have agreed among themselves or whether something else should be entered.

Let me just make one other point, if I can. And I'm happy to answer all your points, but you raised an issue of jurisdiction that I want to address because you raised -- you asked a question whether you will have jurisdiction. You cited the *Ray* case, which is a Ninth Circuit case decided in 2010. Since the *Ray* case there have been other Ninth Circuit decisions dealing with the continuing jurisdiction of the Bankruptcy Court over sales and over plans. One of those cases was my case. It was actually the *Valley Health* case, *Valley Health System* case in which Judge Carroll had entered a ruling dismissing a lawsuit that had been filed against Valley Health System, the debtor post-confirmation.

The Bankruptcy Appellate Panel overturned Judge Carroll's ruling and said he didn't have jurisdiction over that. It's post-confirmation. Jurisdiction is more limited. This doesn't really fit the criteria. We took that case up to the Ninth Circuit.

At the same time we were going to the Ninth Circuit there was another case called *Wilshire Courtyard* that was also going to the Ninth Circuit on a similar

issue. That case involved a contract dispute that arose post-closing of a transaction between buyer and seller. The court was asked to get involved because the court had to enforce an interpretative sale agreement.

So in both *Valley Health System* -- and I have a cite for both cases for that. I think it's important since you raised *Ray* and *Ray* is just not a standard today. It's not the Ninth Circuit standard.

So the *Wilshire Courtyard* case is at 729 F.3d 1297, which is obviously subsequent to *Ray*. They dealt with *Ray* in that case and the Ninth Circuit made a much more broad statement about its jurisdiction. As long as there is -- I think they use the term "close nexus" between the Court's order and the issue that's being raised in the dispute, the Bankruptcy Court has jurisdiction.

IN this case what we're -- and the same thing happened in *Valley Health*, we were successful in having the BAP reversed and the Ninth Circuit similar to its decision *Wilshire Courtyard* articulated a much more -- a broad -- much broader statement of jurisdiction than had been in *Ray*.

So I don't have any doubt based on the work that I did in those cases that the Ninth Circuit standard is sufficiently broad enough for you to have jurisdiction over this matter should a dispute arise between the AG and our

client. But what's also troubling about the AG's language is that after the sentence in their own order that says that the Bankruptcy Court will have exclusive jurisdiction, their verbiage goes on to say, well, notwithstanding the foregoing, we can go into state court to resolve these issues under the California Corporations Code.

Well, Your Honor, the language notwithstanding the foregoing effectively eviscerates the prior language that the jurisdiction is exclusive.

THE COURT: Oh, but if you go further down it talks about the dispute in that context being with -- dealing with the approved conditions.

MR. KLAUSNER: Well, that is simply a mirror -- that simply is sort of the analog to what are the additional conditions. In other words -- well --

THE COURT: Well, as I've indicated in my tentative I think that there's a difference between saying, the additional conditions are within the context of this court for a decision, but with respect to the approved conditions they are not because I don't see that nexus. Okay. And I don't see the connection that the --

MR. KLAUSNER: Well, what if there's a dispute about whether the AG is actually attempting to enforce a conditional condition? What if that -- what if they go into state court and they say, you guys did not comply with

the cancer care requirement of the approved condition. And we say, hold it a second; that cancer care requirement was actually one of the additional conditions that we took free and clear. Who resolves that issue?

Now, the idea that the -- only the state court should review that we're not comfortable with. What we believe that the efforts that were made in this Court to protect our client should allow our client to come to this Court if there's going to be an argument over whether the AG is attempting to enforce something that you said it can't. So I -- (a) you have the jurisdiction. I mean, that's clear from *Valley Health* and *Wilshire Courtyard*; (b) we think it's very important that to the extent that the Attorney General wants to go into state court, and we're not saying they can't, that that permission not start with the words "notwithstanding the foregoing," which eviscerates the protection that we would want. That's our basis for it.

THE COURT: All right. I want to hear from the other side at this point.

Mr. Maizel.

MR. KLAUSNER: Thank you.

MR. MAIZEL: Your Honor, I'm just going to make a couple of remarks in response to Mr. Klausner and then Ms. Moyron is going to deal with the question specifically

posed to us by the Court.

The language solely and exclusively -- so think of how this issue will actually come up. The issue raised by Mr. Klausner is protecting his -- you know what, Your Honor, let me start earlier than that. First of all, no one is less happy about this dispute being in front of you today than the debtor. We are caught between the proverbial rock and the hard place. We would like to have our buyer happy. We would love not to have an appeal and get this issue finally resolved and we struggled mightily for almost two weeks to reach that situation. And when we could not, we -- and granted, we can't substitute our judgment for SGM's counsel or SGM, but we would not have agreed to an order that we did not believe satisfied both our contractual obligations under the asset purchase agreement and actually protected Mr. Klausner's client from the parade of horribles that was described earlier.

So just to deal with a couple of those issues, the issue with regard to the "solely and exclusively," the -- this issue can only come up in the following context really and that is the context that Mr. Klausner posited, which is they want to sell one of the hospitals subsequently and the Attorney General comes in and says, oh, the additional conditions which have been cut off clearly by the language of the order somehow spring back

into life and are now enforceable against the buyer, the subsequent buyer.

Now, recall that this can only come up in the context of no Attorney General review, right, because the Attorney General has no authority and I don't believe they dispute this, to review the sales of hospitals by for-profit companies.

So the only context in which this could come up would be the Attorney General's efforts to impose this on a subsequent buyer through the context of successor liability because otherwise they don't have any ability. There is no statutory requirement that they -- that the SGM submit for approval, nothing.

So in the context of it only can be asserted through successor liability, the language in paragraph 3 of the order we submitted is pretty clear. It says the additional conditions, which is clearly defined as anything above the purchaser-approved conditions in the asset purchase agreement are an interesting property sold free and clear of the additional conditions. So the language clearly says it is sold free and clear of those additional conditions without the imposition of any other conditions which would adversely affects the purchaser.

So the issue that it is somehow not being sold free and clear of these is simply a red herring, Your

Honor. The Attorney Gen --

THE COURT: Although there is some ambiguity. It can be sold free and clear. Just take care of that and just wipe that out.

MR. MAIZEL: Your Honor, we spoke to the Attorney General. He -- counsel -- I mean, we didn't speak to the Attorney General. We spoke to counsel for the Attorney General and I believe he's going to say that we can change that language to "is being sold."

THE COURT: All right.

MR. ELDAN: Good morning, Your Honor. I'll just clarify very briefly. With respect to points two and three in your -- the questions listed in your tentative "solely and exclusively and can be sold" versus "are being transferred" the Attorney General would be willing. And I'm looking here at paragraph 3 of the Attorney General's orders starting "solely and exclusively" and ending with the parenthetical as defined in the APA. And I'll wait for the Court to get there if you would like.

THE COURT: I'm there now.

MR. MAIZEL: Okay. The Attorney General would be willing to modify as follows. The sentence -- or pardon me, the sentence would start with "solely and exclusively" and would continue through the reference to 363(f) at which point instead of a comma there would be a period. There

would then be a new sentence that begins instead of with "and the assets" it would simply say "the assets." And after the parenthetical as defined in the APA rather than the phrase "can be sold," yes, it could say, "are being sold." And I think that resolves or should resolve certainly the issue -- or any issue with topics two and three raised in your tentative.

THE COURT: All right. Thank you.

MR. KLAUSNER: I'm sorry. What were you saying about solely and exclusively? Was that --

MR. ELDAN: The solely and -- no, solely and -- the paragraph 3 of the AG order would be revised as follows. It would start as it does now with "solely and exclusively." It would continue through the reference to Section 363(f). That would be followed by a period rather than a colon -- ex -- excuse me. By a period rather than a comma. And the remainder of the existing paragraph rather than starting with "and the assets" would start simply with "the assets." And then after the following parenthetical rather than the words "can be sold" the words -- a new phrase would be substituted in "are being sold."

So I don't know if that satisfies Mr. Klausner's concerns in their entirety, but I think that it does resolve to satisfaction of the Attorney General and the debtor and the concerns raised by the Court. And I would

hope it raise -- satisfies the Court's concerns about those two points. Thank you.

THE COURT: Appreciate that. Thank you. All right.

MR. MAIZEL: Your Honor, the other -- the other issue is this issue of exclusive jurisdiction. So the issue -- I don't think there is any dispute that the first sentence clearly is the classic "the court retains exclusive jurisdiction to adjudicate controversies regarding the order," and that is consistent with precedent going back to the founding of the federal court system which says that courts have power to interpret their own orders. This is totally consistent with that.

The idea that the second sentence that the language notwithstanding the preceding sentence that that somehow negates that first sentence it's just not consistent with a reasonable reason of the second sentence, which deals with, one, it is the flip side of the coin. Right, Your Honor? It's what the Court suggested earlier.

So the first sentence deals with interpreting the order. The second sentence clearly deals with a much different situation. It solely deals with the situation where the Attorney General is seeking to enforce the purchaser-approved conditions which I didn't believe there was any dispute that that's how this would work, that at

the end of the day the purchaser agreed to certain conditions that the AG could and has now effectively imposed.

And those as traditionally would be enforced not in this Court, but through the Attorney General's classic powers. The "horrible" that Mr. Klausner posited is supposed the Attorney General goes to state court but that could happen no matter -- Your Honor, that could literally happen no matter what is written in the order. Unless the order had a sentence which purported to enjoin the Attorney General from seeking any relief related to these assets in perpetuity in state court, which by the way I'm not sure that -- that such a sentence would be enforceable, but if it did, that is literally the only sentence that would satisfy Mr. Klausner because the idea that parties subject to a Bankruptcy Court order might incorrectly seek relief in state court, that happens regularly and bankruptcy practitioners have no problem coming back to the Bankruptcy Court and getting an order asserting the Bankruptcy Court's jurisdiction which state courts traditionally respect.

So I just don't see how the clearly defined limits of those two sentences really give rise to pause. And I'll let Ms. Moyron address specifically the question raised by the Court.

THE COURT: Well, before you leave and really

it's not a question directed to you but it's just an observation that this court always has jurisdiction to determine its own jurisdiction. And if Mr. Klausner's hypothetical there is some issue that his client contends is -- falls within these additional conditions, there's nothing that I could do to forestall his client from coming into this court and saying -- making that argument. I can neither accept it or reject it, but I can't prevent it from coming through the door.

MR. MAIZEL: Correct, Your Honor. I don't know what sentence we could craft that could stop the Attorney General from seeking relief in state court inappropriately. And the remedy is to do what bankruptcy lawyers traditionally do, which is come to this court and get relief. That's what happens when orders are misinterpreted or ignored.

THE COURT: All right. Thank you.

MR. ELDAN: Your Honor, I just wanted to add very briefly on that specific point. The Attorney General also would point out its agreement with the Court's observation in the tentative that the likelihood of the Attorney General ever trying to go into state court and force an additional condition would seem to be extraordinarily low given the fact that the purchaser approved conditions, as Your Honor pointed out, are so exhaustively defined. It's

not a fuzzy area. Thank you.

MS. MOYRON: Good morning, Your Honor. I did want to address question number one posed by the Court in its order. And before I did that I did want to point out two things to clarify and for purposes of the record. Mr. Klausner discussed at length the background and in that discussion he discussed the bidding procedures, motion and an order and that there was negotiations in a cafeteria. I don't really consider any of that relevant.

But what I want to put on the record is the original APA that was filed with this Court in January at docket number 1279 provided that if the additions were substantially different than the conditions that were issued, the debtors would come to the court and ask for a supplemental cell order. And that APA basically said what the findings needed to be. And as this court is aware, the findings basically required that the order would say that the additional conditions are an interest of property pursuant to 363(f) and that they could be sold clear and free of -- there could be a sale free and clear under 363(f).

And that language was in the original APA. It's in the APA that was subsequently filed. And so none of the negotiations outside of the courtroom with respect to the biddings proceedings issue really changed that language in

the APA and the finding that really needed to be made for the debtors to be able to say that 8.6 of the APA was satisfied. So I just wanted to clarify that issue.

The other thing that Mr. Klausner mentioned is an evaluation period and that's a 21-day evaluation period under 8.6. We dispute the contingents made by Mr. Klausner with respect to that being triggered once the order is entered. I don't think that's something that needs to be decided at this moment, but I wanted the record to note that we disagree with that contingent.

I'll shift to question number one. So question number one, Your Honor, you basically asked the debtors under what circumstances have courts entered orders without findings and conclusions of law. And you pointed to Federal Rule of Bankruptcy Procedure 9014 that basically says Federal Rule of Bankruptcy Procedure 7052 applies unless the Court directs otherwise. And I think that rule, and as the Court correctly noted, really speaks to the Court's discretion when it comes to figuring out whether or not it wants to issue findings of fact and conclusions of law.

What's interesting is that not only do you have the discretion in 9014, even when it directs you to the Bankruptcy Procedure Rule 7052. 7052 directs you to the Federal Rule, right? And then the Federal Rules says under

(a)(3), oh, by the way, on a motion a court does not need findings of fact and conclusions of law. And so now I think it's entirely consistent with 9014 that you have the discretion under 9014 and also if you actually look at the civil rule that's being incorporated, you have that discussion.

I think what's also interesting is more of an academic point, but for anyone interested, in the Federal Rules of Bankruptcy Procedure it is consistent with how the rules have evolved. And historically prior to 2009 Federal Rule of Bankruptcy Procedure 9021 required a separate order. It required separate documents, right, and it required separate documents in an adversary in a contested matter.

THE COURT: Right.

MS. MOYRON: And that was changed in 2009. And so the requirement for the second documents in a contested matter was thrown away and that requirement was deleted in its entirety. What I think that means is that under the rules you have the discretion not to issue the findings of fact and conclusions of law and that's also consistent with 9014 not incorporating Federal Rule of Bankruptcy Procedure 7058, which is the judgment in the adversary. So I think the Rules give it to you.

In terms of the cases and --

THE COURT: Well, I -- I don't disagree with that position.

MS. MOYRON: Okay.

THE COURT: But if we're talking about looking at our crystal balls in the future there is some ambiguity, there is some argument that's being made with respect to the applicability of the order. Usually you look at the findings and inclusions to try and figure out what -- to give meaning to the order. So even though the Court can exercise its discretion and not issue findings and conclusions, whether we should issue some findings and conclusions which would help or aid in the interpretation of the order.

THE COURT: I think that with the Ninth Circuit has said on that issue is that if the record itself is complete, then you can do a sufficient review without the findings of fact and conclusions of law. And so if you look at the appellate cases because that's usually how this surfaces, you really see two themes. One is, okay, if you don't have a factual dispute and you're just making, you know, a finding pursuant to some sort of, you know, legal issue you don't need the findings. And I think the Ninth Circuit said that in *In Re: Brown*, 606 B.R. 40 -- I'm sorry. That's actually the Ninth Circuit Bankruptcy Appellate Panel.

The Ninth Circuit also said something similar in *Commercial Papers Holders*, which is at 752 F.2d 1334. And it said in those instances there wasn't a factual dispute. We didn't need the separate findings and conclusions of law. If you look at what we're doing here, the only real factual dispute may have been with the Attorney General, but that's off the table. Now we have the stipulation. So I think we actually fall under those cases.

The second theme that I mentioned is -- and I kind of already alluded to it before where maybe the court decides a factual issue but the record below is sufficiently developed. And so we didn't have the findings but we can look at the record. And if there's ever been an exhaustive record in a bankruptcy case I think it's this case. And in connection with this motion and exhibits and declarations, the record is complete. I don't think anyone disputes that.

And in terms of the Bankruptcy Appellate Panel saying when you have that full record I'm not going to say that this order is in error because it doesn't have the findings. In *In Re: Granados*, the Ninth Circuit said that, 503 B.R. 726.

And the other case I think is interesting, it's an older case but it's out of the Eastern District of California in Sacramento. And there the district court

judge goes on about how, okay, I had this cash collateral order. I don't have any findings but the record was sufficient. And that's at 95 B.R. 166.

THE COURT: Very well.

MS. MOYRON: Thank you.

THE COURT: Thank you.

Yes, Mr. Shinderman.

MR. SHINDERMAN: Your Honor, on behalf of the Committee I want to spend a couple of minutes on context and then I want to address your question number one, which I think is the most important of the questions and then talk about where this leaves us.

Very briefly, Section 8.6 recognized that the Attorney General might impose additional conditions and said if they did how would the parties proceed. The Attorney General came to recognize that pursuing these additional conditions on appeal could interfere with the running of the case, the closing of this sale. And so long as it's limited to this case and your findings in this case, it was prepared to go forward and not pursue an appeal. That's incredibly important because under 8.6 if nobody has the right to appeal then the SGM must close. As Ms. Moyron said, the 21-day period is not relevant. If we obtain an order and it's a final order, the parties must close -- but proceed to close. So the Attorney General's

concession by not pursuing the appeal was incredibly important.

I have another piece of information, and Ms. Rich is on the phone to confirm, is that the SEIU is also waiving its objection. So there is no party withstanding to appeal because nobody has a pending objection to the motion or the case of the Attorney General stipulated away its right to appeal. And Ms. Rich can confirm.

But again, I want to thank the union. This is a very tough decision for the union because on one hand they want to preserve as many jobs as possible, but at the same time they recognize that this is our path out of bankruptcy. So if Ms. Rich could confirm that understanding.

THE COURT: Yes, Ms. Rich, are you on the line?

MS. RICH: Yes, I am, Your Honor, and I confirm the union's position that they will withdraw their objections.

THE COURT: Thank you very much.

MR. SHINDERMAN: So again, and the union debated that right up until the start of this hearing, Your Honor, because on the one hand the conditions do permit one of the hospitals to close in time and that's anathema. That's not okay with the unions, but the unions recognize that there was optionality on the sale. That presented a bigger

problem. That was a major concession by the union as it was by the Attorney General.

Now, I don't know if this is, but my fear is that the protections that SGM wants in its form of order over the AG's are not because it provides any modicum of protection. My concern is those findings, the Attorney General has indicated were not okay and would force an appeal. An appeal gives SGM the optionality. An optionality gives them the right to walk away or renegotiate a purchase price. That's not acceptable.

So while I would love to help broker a deal and we were talking to the debtor about brokering a deal, at the end of the day we strongly support whatever requires for the Attorney General to be satisfied within the confines of the law so that we have no appeal rights by the union or the Attorney General so we can proceed and SGM must close.

Now, missing from Mr. Klausner's analysis is a couple of things. One, SGM already has the finding it needs. Your Honor previously entered a 363 order. Second, SGM did not oppose the motion and the first sentence of the -- I'll call it the debtor AG order is the motion is granted. SGM does not have standing to appeal this order, the order that the debtor and we and the AG would like you to enter. SGM has two choices, as Mr. Klausner said. It

could either close or it cannot close in which case it would have to say the conditions that the debtor had to satisfy were not satisfied. But those conditions are: (1) get the 363 order which you already entered; and (2) may SGM could close free and clear from the additional conditions.

Now, the language in paragraph 3 after the solely and exclusively enter -- entry comes exactly verbatim from Section 8.6 including the canned language which the Attorney General is now clarifying. That is exactly 100 percent identical to the language that was required by the APA. The debtor didn't make that up. The Attorney General didn't change it. That's what was required of the motion.

The motion also goes on -- the APA also goes on in 8.6 to say, you know, additional considerations that would not be okay, that would give optionality to SGM are anything that imposes more than five million dollars of additional costs -- costs onto SGM. There's nothing in the Attorney General debtor form of order that imposes additional cost. Just the opposite. By parroting the exact language of 8.6 there are no additional conditions imposing any cost on SGM such as that again SGM must close.

So that -- Your Honor, I want to turn to specifically your question about what does this all mean. As Ms. Moyron pointed out, courts are not required --

courts have optionality to -- to make findings. We found a case out of Pennsylvania. I'm not pretending that it's binding, but it's indicative of a whole bunch of case law. It's called *Campfire Shop*, 71 B.R. 521 at pages 524-525, Eastern District of Pennsylvania, 1987:

> "We believe that the correct interpretation of these rules taken together is that it is totally within the discretion of bankruptcy judges as to whether they want to make any specific findings of fact and conclusions of law or as to any other directive except for dismissal of cases."

And it goes on and cites a whole bunch of other cases.

When you look at other cases from within this circuit including *Demkin* (phonetic), 100 -- excuse me -- 11 B.R. 536, a Bankruptcy Appellate Panel decision; or *Slimick*, a Ninth Circuit opinion from 1990 and 928 F.2d 304, the question is really whether or not there is enough for the Appellate Court to conduct an appeal. But here there's -- nobody was standing to appeal. The Attorney General is waiving his right to appeal and the SEIU, the only other objecting party, is withdrawing its right to appeal by not objecting.

So there's no findings are necessary because there's no appeal that is possible. So that then gets us back to what the Attorney General wants, no findings. And

that's your first question and that's why I wanted to speak to that. I think, Your Honor, I was concerned by your question but with a waiver by the union and the stipulation by the Attorney General I don't think you need to make any findings of fact and conclusions. And as Ms. Moyron pointed out, there's more than enough for the record if there was an appeal but nobody has standing to appeal. So what does this all mean?

SGM should not be heard to complain. They're obligated to close if there are no additional conditions being imposed upon them and there are no additional conditions being imposed upon them. They already have the 363 order required by the APA.

They should not be heard to object to the form of order. They supported the motion. The motion is being granted. If they believe the order does not address all their points and, thus, they don't want to close that is an issue for another day. As we've said, they -- we believe the two conditions precedent are satisfied and they must proceed to close. So they'll either close or not close and we'll be back here. But Your Honor certainly has everything in its jurisdiction, certainly within the confines of the record and with the withdrawal of the two objecting parties certainly could enter the order as proposed by the Attorney General and the debtor.

THE COURT: Thank you.

MR. SHINDERMAN: Thank you, Your Honor.

THE COURT: Mr. Eldan.

MR. ELDAN: Thank you, Your Honor. I'll be brief. First of all, I certainly agree with the points Mr. Shinderman made about SGM's standing or, more to the point, lack of standing to be here today objecting to the form of order. It seems to me that as Mr. Shinderman pointed out the time and the place for SGM to assert that the order as entered is inadequate if, in fact, SGM believes it is when they are called upon to close and if they believe that the supplemental sale order that has been presented to them does not satisfy 8.6 then that is a dispute that could be handled between SGM and this court. But as Mr. Shinderman pointed out, today is not the time or place. This -- this hearing is not the right procedural context for these arguments to be made. Mr. Shinderman has made the point, so I'll move on.

Second, turning to the specific question you asked in your tentative ruling and the first point which was I think largely addressed by Ms. Moyron was not so much about the fact that the Court has the authorization or the power not to apply 7052 and hence Rule 52, but specifically what are the circumstances in which other courts have actually elected to do so.

I did find one case. As you can imagine it's not the sort of issue that comes up and gets reported a lot. It's *In Re: Evans Products* out of the Bankruptcy Court for the Southern District of Florida from 1986. The citation is 65 B.R. 31. The specific page is, I believe, page 34 and in a nutshell that was a confirmation hearing in a Chapter 11 case. A contested matter and yet obviously a matter that raise complexities and one would think possibly factual disputes. And what the judge there, Judge Britton, said was in essence citing Rule 9014 that the rule allowed him the discretion to disregard the Rule 52 findings and conclusions requiring and that he would do so to the extent he had not already covered every last factual or legal issue. As he put it, "In doing so, I disappoint counsel who do not share the court's responsibility to decide without delay the other matters before it. For me, it is an issue of survival," which I suppose it very well may have been in Florida Bankruptcy Courts in the mid-'80s.

Point being, you know, at least one other bankruptcy court has said in a con -- in a context that I think would be at least as complex as this one I'm dispensing with the Rule 7052 requirements.

The other aspect of this point that the Court raised that I would point out is one already addressed by Ms. Moyron, but I would just add what seems to happen or

the way this seems to be treated at the appellate level is as follows. There is no reversible error and no remand in cases where there -- where the bank -- where the appellate court can simply look at the record and figure out what happened. And that's what normally happens. Let me look for the case. There are a number of Ninth Circuit or at least Ninth Circuit BAP cases that go to the point. I believe the most recently one I found was 604 B.R. 839 Ninth Circuit BAP. That's the *Colusa Regional Medical Center* case and I'm looking here -- sorry, let me find the pinpoint page, which is not always easy with Lexus. Well, it's at the paragraph where they cite the *Grenados* decision. And as the court -- the BAP put it there, "We need not reverse, even if the Bankruptcy Court rules without articulating its findings if the record provides us with a full complete and clear view of the issues on appeal." Fairly straightforward. That decision is dated September 10, 2019, my first day at the AG's office.

And the flip side of that decision is that I think where you do see remand and reversal is where the appellate court is looking at a record without findings or conclusions and there was a lot of factual messiness at the trial level and the appellate court is saying, we can't figure out what on earth the trial court did here. Maybe there were conflicting credibility determinations. That's

not the world we're living in with this order. I re-read the Court's memorandum decision last night. There was recitation of factual matters and disputes mostly having to do with alternative bids. Those were dealt with in the first few pages of the Court's memorandum decision. But that stuff was not complicated and it was not the heart by any stretch of the imagination of the Court's decision.

My point being that wholly apart from the Court's authority under 9014 to set aside 7052 even if this were a case where 7052 were not formally set aside, that would not be an exercise of discretion in my view that would raise any problem for a reviewing court. The record here, as Ms. Moyron pointed out, is pretty straightforward. You've got the motion. you've got the responsive briefing. There was no live testimony. Simply some straightforward declarations.

That's what I have to say about the Court's point one. I've already addressed points two, three and four. The Court asked specifically with respect to point five in its tentative ruling -- let me turn to it. I apologize for the delay.

THE COURT: Basically, what's the problem with these -- the language that Mr. Klausner --

MR. ELDAN: Oh.

THE COURT: -- indicated he wants.

MR. ELDAN: The problem is simply this. The Court will not be surprised and I hope not offended when I say that the Attorney General's office disagrees with the memorandum decision entered on multiple grounds. It's been entered and I'm sure the Court will understand when I say the Attorney General -- that we cannot erase that decision from existence in the universe. Would like to come as close as possible by vacatur and withdrawal of the decision. Obviously in this age of Westlaw and Lexus the decision will be out there in some sense but we want to get rid of it to the extent possible, to put it bluntly.

The problem with the language that Mr. Klausner has presented, addressed in point five of the tentative is this. Vacating and withdrawing the decision loses some of its effectiveness if some of the decision or some of the ultimate conclusions that follow necessarily from the decision creep back by implication into the Court's order. And I'm referring here, for example -- by the way, this is in the Court's tentative and I'm looking at the .pdfs from today's tentative rulings which go on I think for 62 pages.

THE COURT: But I have it in front of me.

MR. ELDAN: Yeah. This is at page 58 out of 62 in this morning's -- or pardon me, yesterday afternoon's tentative. In that paragraph from Mr. Klausner's proposed order which starts the debtor's transfer to SGM and ends as

provided in the sale order, well, as counsel has already pointed out the Attorney General is already agreeing to language in the order that says the sale is free and clear. In our view the additional phrase in the middle there starting with “and shall not be subject to” and ending with “or adherence to” is just bells and whistles that muddle up a straightforward minimum but nevertheless wholly satisfactory under 8.6 order. The sale is free and clear. That gets the job done in our view.

Secondly, towards the end of that paragraph I believe t hat the form of order to which the Attorney General is willing to agree -- and let me turn to it here -- ends with as we’ve stated we’ll agree to modify it today here at the hearing, “are being sold free and clear of the additional conditions without the imposition of any other conditions which would adversely affect the purchaser as defined in the APA.” That’s what the AG has -- and the debtor have agreed to and that is exactly the language required by 8.6.

By contrast -- and I apologize for the delay but I just want to get this exactly right because I’m trying to compare two different paragraphs here. In Mr. Klausner’s proposed paragraph the language -- the phrase beginning “pursuant to Bankruptcy Code Sections 363(b)” and ending with “as provided in the sale order” is extremely

problematic for the Attorney General because, as I said, it implies at a minimum that findings and conclusions from the memorandum decision which is being vacated are now creeping back through the back door of the order. That's unacceptable to the Attorney General. We're simply not going to agree to it. I think that the Attorney General has been reasonable on various other points here. We've made some concessions today on paragraphs 2 and 3. We are agreeing to give up our appeal right which as the debtors and the Committee have pointed out is of extreme importance to them in return for having this memorandum decision vacated and withdrawn, even though the reality is it will exist in the world. But our agreement as set forth in the stipulation is that the order has to be entered as agreed by the Attorney General and the debtor. And we won't agree to the language here suggested by Mr. Klausner. This is, as the saying goes, a bridge too far or maybe a couple of phrases too far.

But if this language goes in, then the Attorney General is not waiving his appeal right and I would respectfully suggest that what Mr. Klausner is asking for here in his proposed additional paragraph is language that I understand he very much wants for his client. But it is language that my client won't agree to and it is language that under 8.6 is not required and, most of all, it's

language that the parties to the motion have agreed on in order to resolve the motion. If he thinks that its absence is unsatisfactory, that's a fight that SGM and the debtor can have later when it's time to close and SGM decides if it really doesn't want to but --

THE COURT: All right. Well, just briefly there was a situation that Mr. Klausner alluded to. The language solely and exclusively for purposes of the APA and the issue that Mr. Klausner, as I understand it, raised is what happens if his client wants to sell that to another private entity and whether the provision here really just would create a situation where the Attorney General would seek to reimpose the additional conditions.

MR. ELDAN: Well, I guess, one, to answer your question I have, first of all, one question. We're talking here about two different paragraphs. The paragraph we've been discussing is Mr. Klausner's proposed paragraph under question five of your tentative. The paragraph that Your Honor is referring to is paragraph 3 of the AG debtor order.

THE COURT: That's right.

MR. ELDAN: Under --

THE COURT: Yes.

MR. ELDAN: Okay. So putting aside the discussion of Mr. Klausner's proposed paragraph I would

join in what I believe Mr. Maizel -- it may have been Mr. Shinderman said keeping in mind that the Attorney General has already said that we will agree to modify, as I've discussed here earlier at the hearing this paragraph 3 to break it up into two sentences. So it's going to say "Solely and exclusive for purposes of the APA as defined below and the motion, the additional conditions as defined," I won't read the whole parenthetical, "are an interest in property for purposes of 11 363(f)." The full assets are being sold -- the assets are being sold free and clear of the additional conditions.

THE COURT: Right.

MR. ELDAN: So once they have been sold free and clear they're sold free and clear. I -- you know, I'm not sure of -- about Mr. Klausner's concern. I think that Mister --

THE COURT: The issue is they're sold free and clear for purposes of this case but they're not sold free and clear if -- at some point the -- the buyer here wants to sell it to somebody else.

MR. ELDAN: Well, I can't opine on that but I'm looking back to what Mr. Maizel pointed out, that once they've been sold free and clear to a for-profit entity Mr. Maizel pointed out his view on the limits of the Attorney General's authority to review any transaction in

that situation or lack of authority.

THE COURT: Well, that's Mr. Maizel's view, but I'm more interested in your view.

MR. ELDAN: Well, give me a moment to consult with my colleague.

THE COURT: All right.

(Pause)

MR. ELDAN: Well, Your Honor, I would say that -- simply this. What 8.6 requires by its very terms is the assets are sold free and clear and that's what this order provides. And I would think it would give some comfort to Mr. Klausner because that we've broken this into two sentences because my recollection is that his -- his problem with paragraph 3 as originally proposed was that solely the prefatory phrase "solely and exclusive for purposes of the APA and the motion," he wasn't sure how that interacted or whether it fit well with "can be sold free and clear of the additional conditions."

Well, now you've broken it up into two separate distinct sentences. Simply the assets are being sold free and clear of the additional conditions.

THE COURT: Fine.

MR. ELDAN: All right. I think it -- I don't know how much more clearly it can be stated. As I said, it tracks exactly what 8.6 requires. Thank you.

THE COURT: All right. Before we hear from Mr. Klausner is there any other party that I have not heard from that wishes to be heard on the Court's tentative? All right.

Oh, I'm sorry. Yes.

MR. PRESTEGARD: Good morning, Your Honor. Kirk Prestegard again on behalf of United Nurses Association of California. Mr. Shinderman regularly excluded UNAC from the parties that did object to this, but for the avoidance of doubt as we did file the paper stating our position with respect to the motion, I just want to make it clear that UNAC also does not object to the AG order.

THE COURT: Thank you for that clarification.

MR. PRESTEGARD: Thank you.

MS. MOYRON: Your Honor, we wanted to also thank UNAC for making that statement and I became so excited about the Federal Rules earlier I completely skipped over your question to us in terms of future litigation. But now that UNAC has said it won't appeal and we know the AG won't appeal, I think the likelihood in terms of litigation is at least -- is minimal as the debtors can hope and I wanted to thank, on the record as well, the SEIU for withdrawing its objection and not appealing any order entered by the court.

THE COURT: Very well. Thank you.

All right. Mr. Klausner and then we'll move on

to our other matters.

MR. KLAUSNER: And, Your Honor, there -- sort of getting down to maybe three principal issues, the issue of findings, the issue of solely and exclusively the terms "free and clear" and what it's -- whether it should be -- it should include the language that we have included in our proposed order. With regard to -- let me get my order in front of me -- the language that you focused on in your question that we added to our order was:

> "The sale is free and clear of and shall not be subject to or conditioned upon SGM's performance of compliance with or adherence to any of the additional conditions as set forth in the SGM APA and in the motion pursuant to Bankruptcy Code Sections 363(b), (f)(1) at 405 and otherwise as provided in the sale order."

Now, Mr. Eldan's responses were entirely lacking in being able to explain to you the AG's aversion to that language and insistence that it not be -- that those -- that that verbiage not be included to the point of essentially putting a gun to all of our head and saying, I get my language or I appeal. That's not a response to your question.

THE COURT: I don't believe that was the response. I think the response was --

MR. KLAUSNER: Well --

THE COURT: -- we just don't want to refer back to the findings and conclusions and we don't want them imported either (phonetic) true of that sentence.

MR. KLAUSNER: There's nothing in the sentence that refers back to findings and conclusions.

THE COURT: But I wouldn't make any sense unless it did refer back.

MR. KLAUSNER: I don't know where the reference is. The words -- SGM's performance of compliance with or adherence to any of the additional --

THE COURT: That's okay, but it's pursuant to Bankruptcy Code Sections 363(b), (f)(1), (f)(4) and (f)(5). That would make it -- certainly the reference to (f)(4) and (f)(5) wouldn't make any sense unless you look back at the findings and conclusions.

MR. KLAUSNER: Well, that isn't -- what is that language wasn't here? I mean, that -- they're not suggesting that they would approve of the language -- let me just find. I'm sorry, I just want to find -- well, actually, I mean, in -- in their order -- their own order there is a reference to 363(f).

THE COURT: Yes.

MR. KLAUSNER: So I don't know exactly what we've done that makes this so difficult. It would seem to me

363(b) is not controversial. So in addition to their lan -- their use of 363(f) the reference to sub-references 1, 4 and 5 are what is at issue here? I just don't --

THE COURT: 1, 4 and 5 I think that the issue becomes whether -- and also the -- I take it that's your version of the order would not require the Court from withdrawing its findings and conclusions.

MR. KLAUSNER: We haven't said that. I didn't address that, but I will.

THE COURT: All right.

MR. KLAUSNER: I didn't address that, but let me go on. There's no good reason -- the -- Mr. Eldan, with respect, seemed to think that we should be comfortable with his language, but I'm just not going to use him for the test case nor, as I said, is anybody else in this courtroom going to protect my client when the time comes. But the language shall not be subject to or conditioned upon SGM's performance of compliance with or adherence to. He gave you no good reason why that language should not be here. That's customary.

Now, he also is objecting to a reference of the sale order. Although you may recall that Mr. Shinderman thought that we should be comfortable because we have a sale order. So what is the -- I don't understand. What is the basis for the AG's refusal to the point of putting a

gun to our head for making reference to the sale order which does contain a fairly broad and expansive language about what is meant by "free and clear" which will be of comfort to us. Why is that improper? Why is that unacceptable? You didn't get an answer.

What you've been hearing is that we should be satisfied with this, that if we took the exact verbiage out of 8.6 which wasn't meant to be the verbiage of a court order -- I guess in hindsight I'll know from my next deal that we should actually draft the court order that we will condition our acceptance on. Didn't seem necessary at the time. Nobody intended that you could take the words "can be sold" out of the agreement and then turn it into a court order and we should be satisfied.

But getting back to Mr. Eldan's comments he really couldn't answer your question as to why it would be unacceptable to the AG to the point of blowing off this compromise to simply say "free and clear of -- not subject to SGM's performance of compliance with or adherence to the additional conditions," which does give us comfort to which I think we are entitled.

The solely and exclusive issue, Your Honor, you didn't really -- I didn't think you got a meaningful answer from him. I like Mr. Maizel a lot, but I'm not going to take his view as to what possible basis there might be to

have litigation with a successor party to my client and tell him to rely on that. Nobody -- and nobody is giving my client a legal opinion. Nobody is giving my client an indemnity. The only protection we're getting is from this order. I don't think there's anything that we have requested in this order which is inconsistent with the relief sought in the motion.

So in terms of the issue of the memorandum of decision and findings, the fact is that whether or not there is an appeal there could certainly be the need for what you described earlier which is the court having some findings to explain its rationale for its ruling. It doesn't have to be 24 pages long. It could be three or four sentences, but there's no question that would be meaningful to our client to have some exposition from the Court as to the basis upon which its making the ruling.

Now, it is true that there is a record consisting of a motion and declarations, probably hundreds if not a thousand pages. There's a lengthy report from the Attorney General. There's opposition and opposition declarations. I gather if there's some controversy at some point over this transaction and over the AG's authority we could gather together a bunch of binders and hand it up to some court and ask them to try to figure out what you meant.

On the other hand, we could have one page of

findings, which I would be happy to start putting together and circulate that would explain what the Court did and why it did it. So we're really being corralled here -- corralled by the Attorney General whose goal is to both minimize the use of your decision as precedent, but also in our view to create enough ambiguity in this order that it will be subject to some dispute at a later date that we're going to have to litigate, which we want to avoid.

I don't think you got an answer to your question about the solely and exclusively issue. The fact that that verbiage is broken into two sentences in my view makes it more complicated and more difficult to understand than it was before. I still don't know what it is the Attorney General has in mind, but I am concerned in a subsequent transaction that there will be some assertion of successor liability or some claim against a purchaser or a lender.

So none of this is satisfactory to us in the fact that all these lawyers think it should be is really meaningless. It's going to come down to what's satisfactory to our client.

Finally, there have been a lot of points made during this argument about state law, state procedure, appellate procedure, standing to appeal, aggrieved parties, what should happen at closing. The fact that I haven't addressed every single argument that everyone has made

should by no means constitute any sort of a waiver or concession or consent or estoppel that we don't dispute some point someone has made. I don't think it's necessary to go into detail.

The one subject that I do want to re-emphasize because I really don't know where Mr. Shinderman is coming from, the process in Section 8.6 is very clear. Once you enter an order there is a period during which my client gets to evaluate that order and determine in its reasonable business judgment whether our client is satisfied with it. At the end of that valuation period we notify the debtor and if we have a controversy we'll come back to you in an adversary proceeding. We're certainly not waiving any of our rights under what is in 8.6.

THE COURT: All right.

MR. KLAUSNER: Thank you, Your Honor.

THE COURT: Very well. The matter is -- having been argued, I'll rule at this point for the convenience of the parties so that they have something to take back with them.

The -- I'm going to adopt the language submitted by the debtor and the Attorney General as amended on the record here and I do so for a couple of reasons. First, overall I don't find that it is the purpose of the order or any order issued by the Court to give a bulletproof comfort

to a purchaser because the Court can't do that. There are many creative attorneys, counsel that could come up with some argument that would poke a hole into just about any order that the court would enter and I can't be thinking that creatively to try and plug up all of those holes. It seems to me that the language as submitted by the Attorney General and the debtor at paragraph 3 captures the essence of what the parties objecting to the agreement here wanted, which was the additional conditions are not being imposed. And it also allows the sale free and clear of those additional conditions. That's paragraph 3. That's how I read paragraph 3.

Paragraph 4, again this court retains jurisdiction with respect to the conditions that are contained in the agreement, but doesn't necessarily -- and I'll explain that in just a second -- necessarily take -- exercise jurisdiction at this point over objections that may be raised with respect to any of the other additional conditions -- any additional conditions. Not other.

So somebody can raise those issues in state court. Somebody could move to transfer those actions to federal court, to the Bankruptcy Court. They can do all sorts of things, but as I've indicated this court has jurisdiction -- all -- every court does to determine its own jurisdiction. And so if there was some dispute that

one part says is covered by this order and another party says it is not and then come to this Court, the Court is in an obligation to exercise some jurisdiction in order to render a determination as to that argument.

With respect to the withdrawal of the findings and conclusions that were previously entered, first of all I have to note that this is a trial court. It's a Bankruptcy Court. Those findings and conclusions have no precedential effect whatsoever. It's simply as -- with respect to the parties here. And so I'm going to withdraw those findings and conclusions. Have to find a mechanism to do that. I probably will just issue a further order that says that that memorandum of decision at docket 3446 is vacated and withdrawn. So that's of record. And I'll do so at the conclusion of this hearing.

So that's not going to be available as precedent to the extent that any court wanted to, of course, as far as its reason is concerned. They -- other courts might adopt it, might not. I'm sure courts will undertake their own consideration of the issues as they come up. But I think it's appropriate within the context of this order here. So that's what I intend to do.

Now, I'm going to close this hearing, but I really do hope that we do not arrive at a situation where the Court has to make a determination that the purchaser is

not required to close. I think that this agreement and the Attorney General concessions, which I think are great under the circumstances mediate in favor of getting this matter closed. I know that Mr. Klausner's client wants to have a bulletproofed order, but I've never seen one that has been bulletproof. So we do the best we can and I think under the circumstances this is quite along in that process. So I hope that to the extent that we have people here who want to accept the recommendation of the Court, it is to move on from this matter.

All right. So that is the conclusion of this matter and if nothing further, then we'll move on to our 11 o'clock calendar. Thank you very much.

ATTORNEYS: Thank you, Your Honor.

MR. SHINDERMAN: (Inaudible -- away from microphone) for of order (indiscernible)?

THE COURT: Yes, why don't we have the debtor do that and we'll go forward with that.

ATTORNEYS: Thank you, Your Honor.

THE COURT: Thank you.

(End at 12:10 p.m.)

* * * * * * *

I certify that the foregoing is a correct transcript from the electronic sound recording of the proceedings in the above-entitled matter.

_____ Date: 11/15/2019

RUTH ANN HAGER, C.E.T.**D-641